

OLIVER WYMAN

June 12, 2008

Turning First-Timers into Life-Timers Addressing the true drivers of churn

Atlanta
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Contents

- Introduction to Oliver Wyman and project overview
- Phase I high-level insights: Customer behaviors and clustering
- Phase II high-level insights: Repurchase and satisfaction drivers
- Phase III high-level insights: Offer design and testing
- Integrated recommendations

Introduction to Oliver Wyman

Oliver Wyman was formed in 2007 when three fast-growing firms joined forces to create one of the world's leading management consultancies.

MERCER

Management Consulting

- 26 offices worldwide
- World leader in *general management consulting*

MERCER OLIVER WYMAN

- 29 offices worldwide
- World leader in *financial services consulting*

MERCER DELTA

Organizational Consulting

- 14 offices worldwide
- World leader in *organizational change consulting*

OLIVER WYMAN

- \$1.5BN in revenue
- 2,900 staff
- 40 offices
- Clients include 9 of the Fortune 10 and half of the Fortune 100

Situation, objectives, and guiding principles

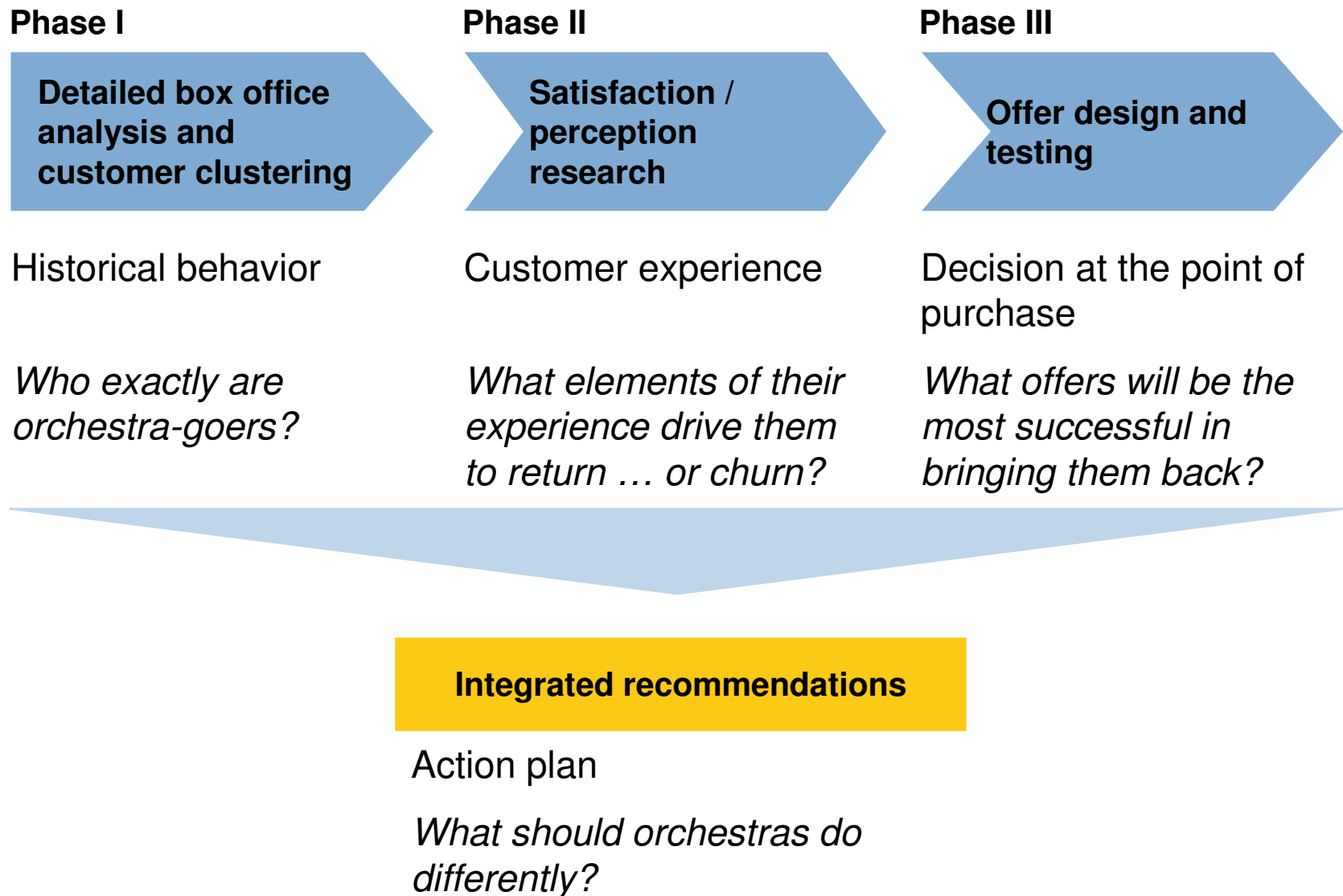
Oliver Wyman is collaborating with nine of the most prominent US orchestras to grow their audiences and reduce churn



- In 2007, the Senior Marketing Professionals Group, comprised of representatives from nine prominent US orchestras and facilitated by Engaged Audiences LLC, asked Oliver Wyman to help them understand the barriers to and motivators of repeat visitation, and to identify ways to stimulate repurchasing, increase frequency, and reduce churn
- Oliver Wyman undertook this pro bono initiative as an opportunity to help performing arts institutions by using its industry knowledge and its unique skills and expertise on customer-led, fact-based growth strategy
- The engagement was staffed with a dedicated team of top consultants led by the head of Oliver Wyman's global media and entertainment practice

Project overview – Analytical path

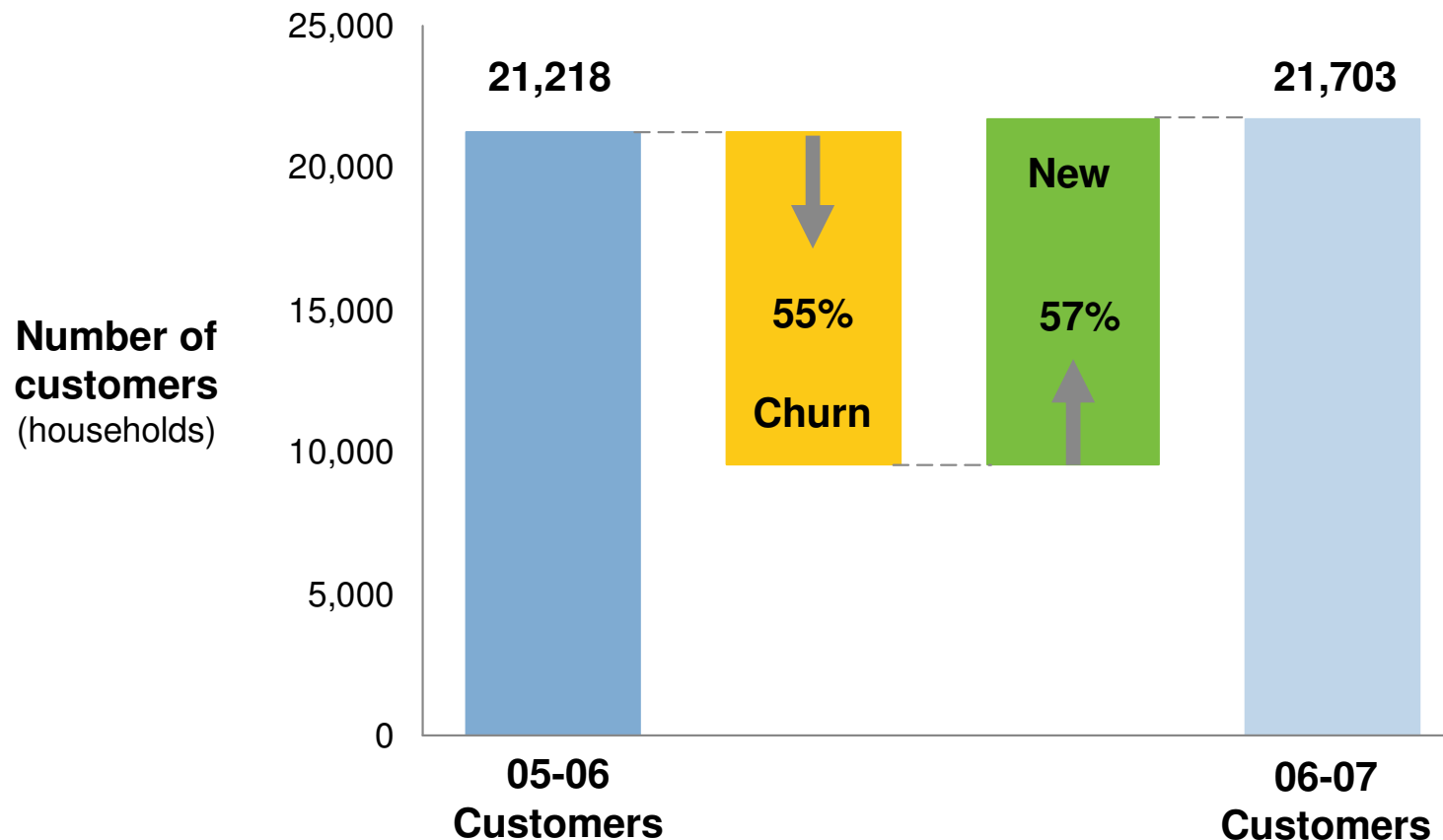
To reduce churn, it is essential to understand guests' behaviors, uncover the true drivers of those behaviors, and design the right offers



New customers and churn

Orchestras do a great job of bringing new people into their halls but have difficulty retaining them year on year

Evolution of attendance between 2005-06 season and 2006-07 season¹



Source: All orchestras box office data (2006), Oliver Wyman analysis

1. National average: volume-weighted average of the 9 participating orchestras

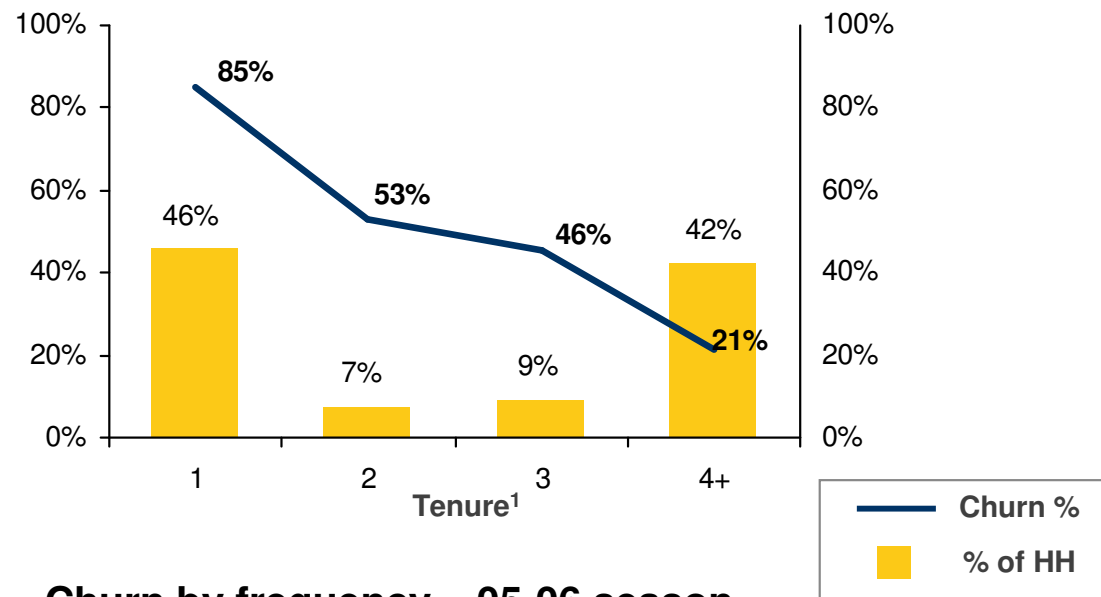
Predictors of churn

Frequency and tenure are the most significant predictors of churn

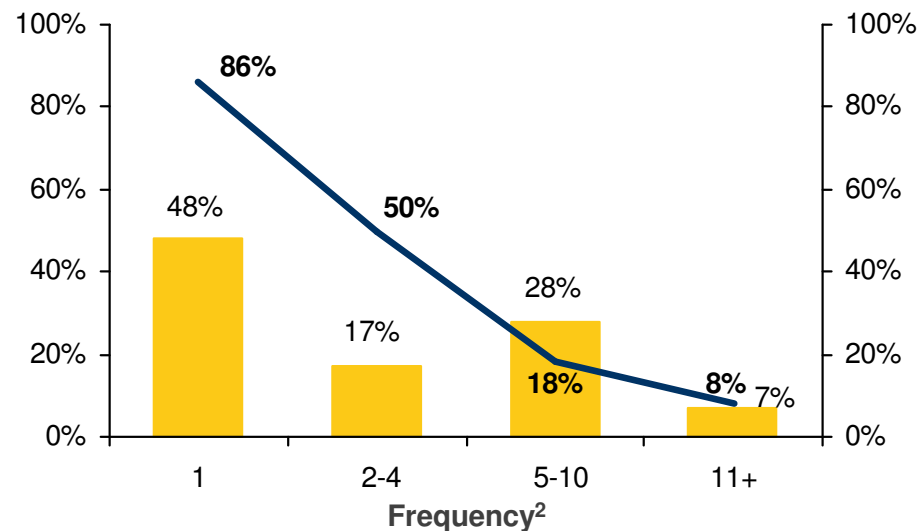
Hypothesized churn predictors explored

- Frequency
- Tenure
- Subscription vs. single ticket buyers
- Price
- Number of tickets bought
- Distance from concert hall
- Donor status
- Seasonality
- Day of the week
- Repertoire

Churn by tenure – 05-06 season



Churn by frequency – 05-06 season



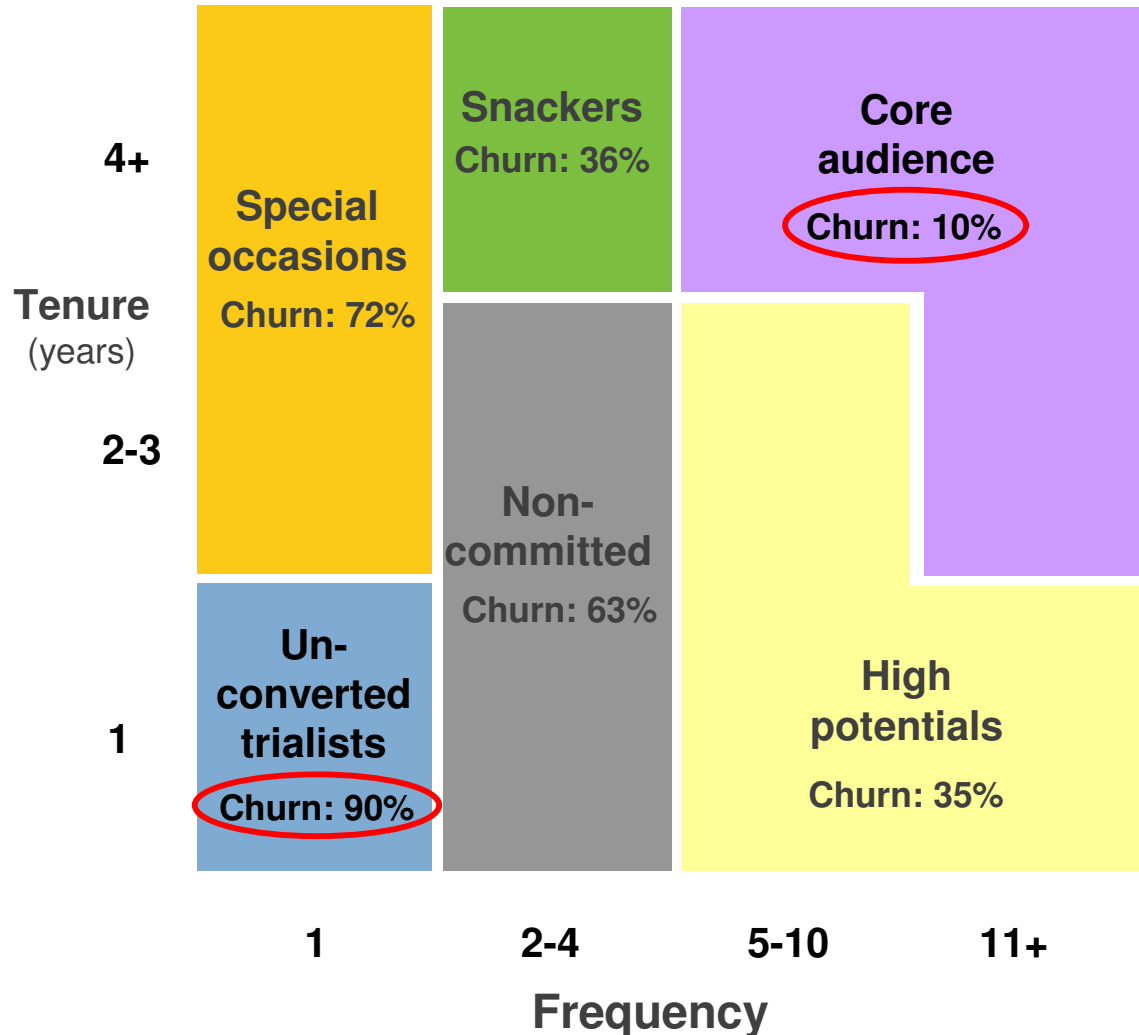
Source: All orchestras box office data (2006), Oliver Wyman analysis

1. Years since first concert attended

2. Number of concerts attended in 2005-06

Clustering of guests

We used frequency and tenure to define six clusters of guests with very different behaviors – but encouragingly similar DNA



- **Unconverted trialists:** First-timers who attend one concert and don't come back
- **Special occasions:** Customers who attend only one concert a year, but might attend for multiple years
- **Non-committed:** People who attend a couple of concerts a year but still churn at high rates
- **Snackers:** Subscribers who consistently attend smaller concert packages and are very loyal in attending concerts for many years
- **High potentials:** Those who attend a lot of concerts and are likely to purchase a subscription but are not yet long term converts
- **Core audience:** Patrons, almost all of whom are subscribers, who attend numerous concerts every year for many years

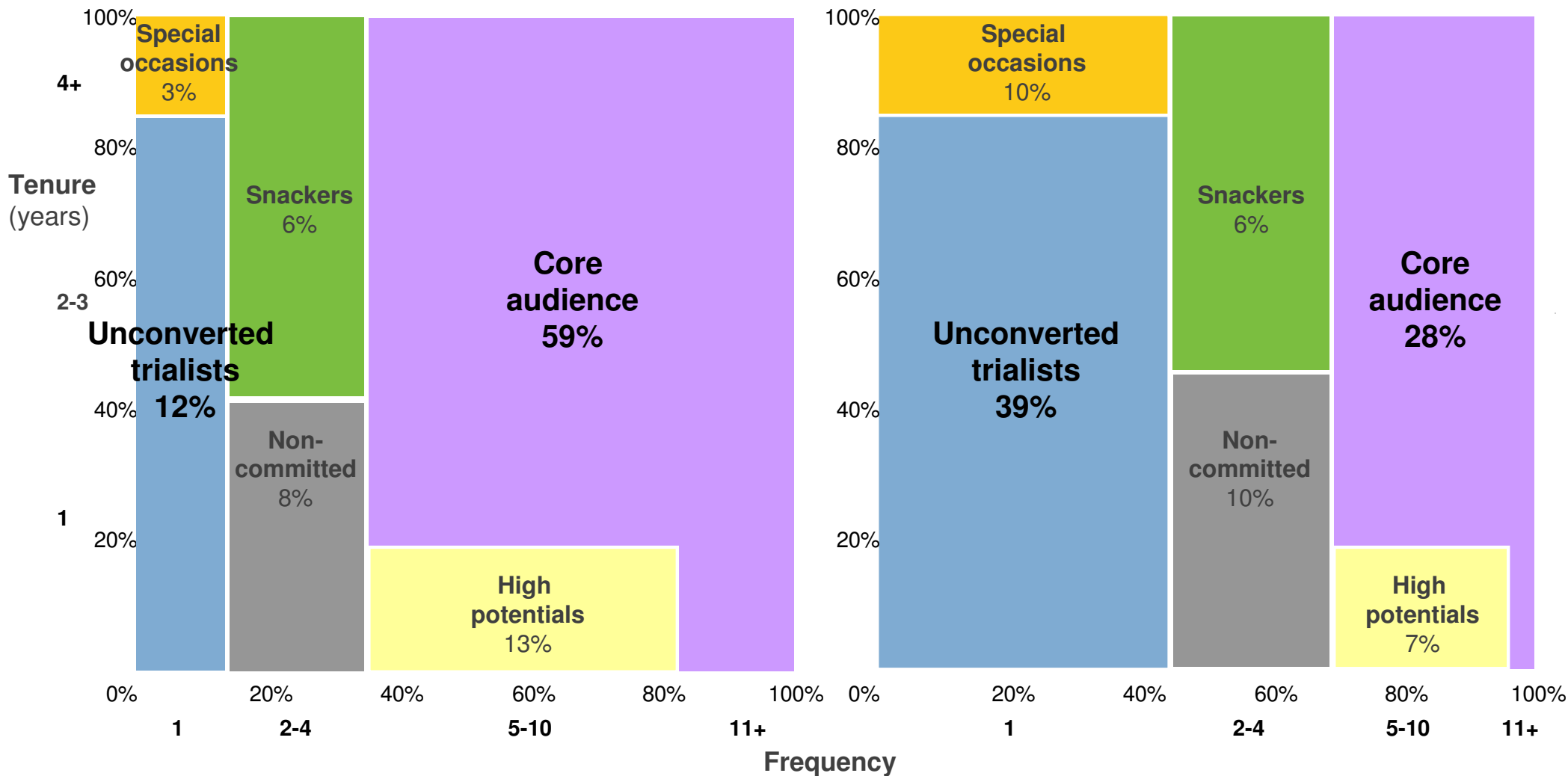
Source: All orchestras box office data (2006 national averages), Oliver Wyman analysis

Relative importance ... and potential

The unconverted trialists are not very visible at any particular concert, but they represent a huge portion of those touched during a year

Percent of seats

Percent of households



Source: All orchestras box office data (2006), Oliver Wyman analysis

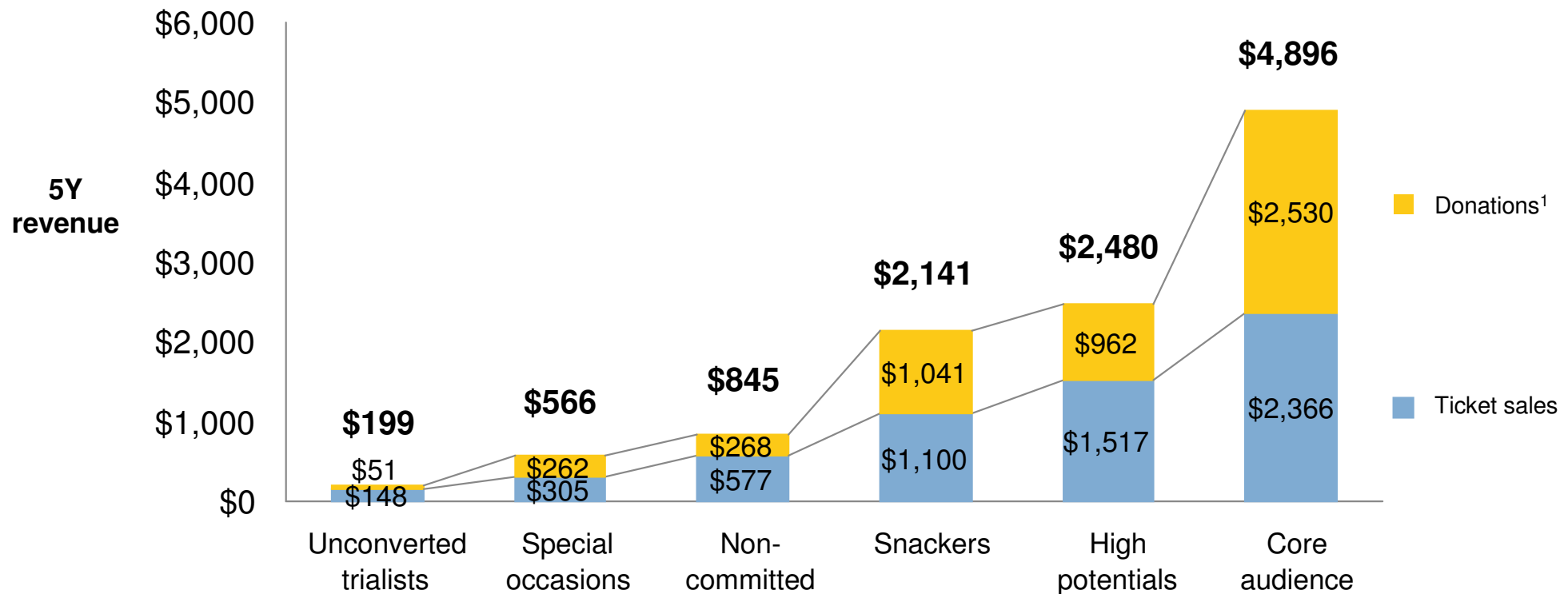
1. Average number of households across all orchestras: 21,218. Average number of total seats: 151,732

Long-term value of guests by cluster

Successfully graduating these unconverted trialists yields a very significant increase in long-term value

5-year value for one average household
(by cluster)

Average of 4 orchestras



Source: Atlanta Symphony Orchestra, The Cleveland Orchestra, New York Philharmonic, San Francisco Symphony box office data (06-07), Oliver Wyman analysis. Figures inclusive of donations

1. Donations are much more highly correlated with tenure than frequency

Phase I recommendations

BO analysis & clustering

Customer experience

Offer design & testing

High-level recommendation: Explicit and differentiated focus on unconverted trialists

Judy's orchestra experience

"This was my first time back to the orchestra since I was a kid, but it is likely to be my last"

Illustrative

I hadn't been to the Orchestra since I was a kid, so I bought 2 tickets for a Mozart concert.

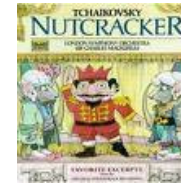
That day, work got completely crazy so I couldn't make it.



I tried calling the orchestra to exchange the tickets, but I was told my only option was to "donate" them!



I decided to give it another shot 3 months later when my favorite composer, Tchaikovsky, was playing



Parking was a nightmare. It took us 25 minutes to find a spot!



By then, it was too late to have dinner. I was starving at intermission but the bar was super crowded, didn't have any food, and a drink was \$12!



The musicians played very well but I knew nothing about two of the pieces played.



Imagine my surprise when 3 days later the orchestra called me to ask if I wanted to buy a subscription. I told them no and then 3 weeks later they called for a donation!

**Buy &
Donate
Now**

Although I don't think I'm ever going back, they continue to flood me with mail, phone calls and emails. What a drag!



Factor analysis

From the 78 attributes tested, we identified 16 as the most robust factors that influence customer behaviors

Core product

Repertoire

- During the season, the selection of works is appealing
- During any given performance, the selection of piece(s) is appealing
- The selection of performances within a subscription series is appealing

Hall

- The auditorium architecture and décor are appealing
- The lobby is attractive
- The auditorium acoustics are state of the art

Contemporary music

- I enjoy contemporary orchestral music
- I like the sound of contemporary orchestral music
- I understand contemporary orchestral music
- I am very interested in not so well-known composers

Enriching experience

- Attending a concert is stimulating
- Attending a concert is entertaining
- Attending a concert is always a special experience
- I can feel a connection between the artists and myself when they perform
- I feel a connection between myself and my fellow attendees

Orchestra prestige and quality

- The orchestra brings us famous guest conductors
- This orchestra is one of the nation's leading orchestras
- The orchestra brings us famous guest soloists
- The musicians' level of play is always outstanding

Music enhancement

Music information

- I look for information on the music before a concert

Live commentary

- Pre-concert discussions increase my enjoyment of the concert
- The conductor's personal comments enhance my enjoyment of the concert

Special effects

- Special lighting and / or visuals enhance the music

Hall access

Access

- The concert hall is easily accessible by public transportation
- The policy regarding latecomers is appropriate
- I feel safe in the hall's surroundings

Parking

- There are enough parking options near the hall
- Entering / exiting the parking lot is fast
- The hall is easily accessible by car

Ability to attend

- My health permits me to attend concerts whenever I want
- I never miss a concert I have tickets for

Social experience

Social outing

- I always find friends / family members to go with me
- I always top the concert with a nice dinner or drinks
- I don't mind going alone to a performance

Bar

- The orchestra's bar offers the refreshments that I want
- The service at the orchestra's bar is fast and friendly
- The orchestra's bar is good value for the money

"The orchestra club"

- Being able to talk about concerts give me some "prestige" at work / with friends
- I enjoy meeting other attendees during the orchestra's receptions
- I love events where I can meet the performers and the directors in person

Transactional

Planning and purchasing

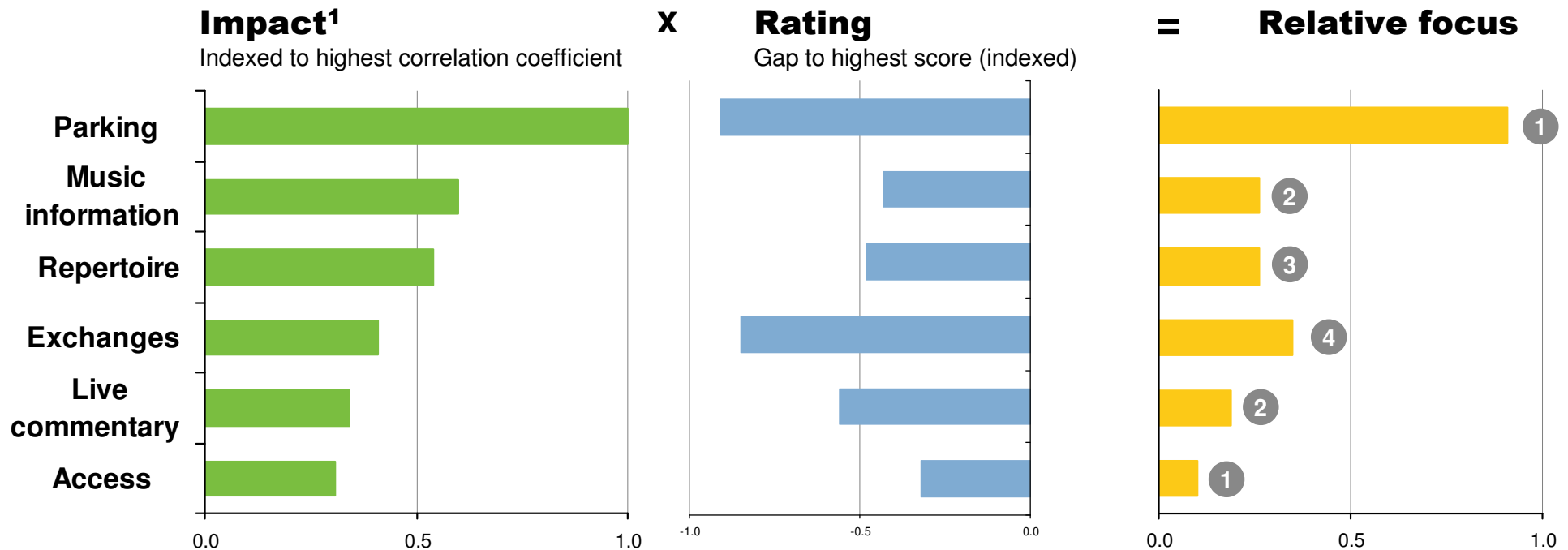
- I can easily get schedule / price information on the orchestra's website
- Purchasing tickets is easy

Exchanges

- Exchanging tickets is easy

Drivers of repurchase – Single visit patrons

We used a range of techniques to reveal the true drivers of revisitation ... in this case parking, repertoire, exchanges, and music enhancement



▪ **Other tested but not significant factors included:**

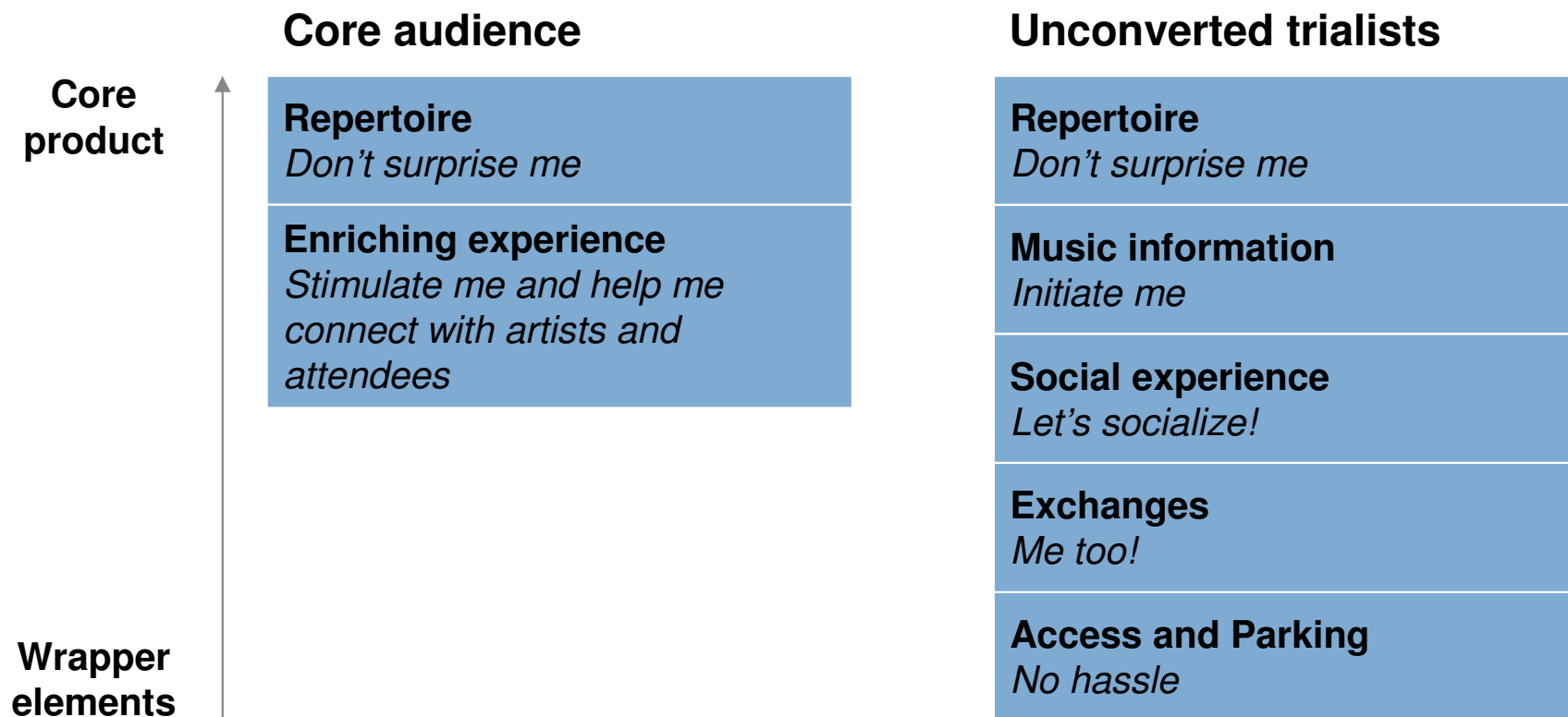
- Ability to attend
- Special effects
- Hall
- The orchestra club
- Enriching experience
- Social outing
- Planning and purchasing
- Contemporary music
- Bar
- Orchestra prestige and quality

Source: Oliver Wyman customer experience methodology, results from one individual participating orchestra

Areas of focus by cluster

Experience is tantamount for all; however, experience for core audience is the music, while for trialists it is a seamless end-to-end experience

Important elements of the customer experience



Note: Areas of focus can differ by orchestra, as their current performance should also be taken into account in the prioritization process. But the seeking of a holistic experience is consistent nationwide

John's great anniversary

It was such a special and festive night ...

Illustrative

I wanted to go to the Philharmonic with my wife on a Saturday close to our anniversary



*Fortunately, they had a **Beethoven (my favorite!) concert with a violin soloist** that month*



*It was so easy to purchase tickets online, I could even **pick the seats. Exchanges were free** – just in case we couldn't find a babysitter!*



*I was afraid of commuting, but I did **reserve and prepay a parking spot** near the concert hall when buying my tickets. The **confirmation email** even had the **directions!***



*I really liked the email we got a week before the concert with **comments from the conductor and a podcast.***

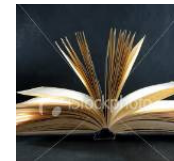
It got us really excited about the evening.



*We had dinner in a nice restaurant nearby that the orchestra recommended. They had a **pre-theater menu**, which was very good and served quickly*



*We arrived early at the hall, so we left our coats at the **complimentary coat check** and read the **playbill**. Turned out, the soloist was a famous guy from South America!*



*The **conductor shared a funny anecdote** and gave us something to listen to*



Continued ...

John's great anniversary

... we decided to do it again a month later

Illustrative

The music was great. I **wasn't expected anything less** from the Philharmonic!



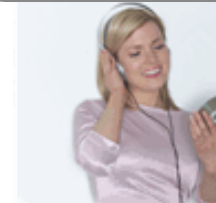
During intermission, we had a **glass of champagne** with my wife's favorite chocolate treat. We had enough **time to sit and chat at a table**.



Leaving the hall and the parking was **quick**.



The following week we **received a CD** of the performance we attended reminding us of the good time we had.



A week later we **received a brochure with 2 or 3 concert packages in the spring**. They offered **great discounts and free drinks** to the first concert



We bought a two-concert package



We're still wondering why we didn't do it earlier!

...



Phase II recommendations

BO analysis & clustering

Customer experience

Offer design & testing

High-level recommendation: Create a seamless and social end-to-end experience for unconverted trialists

Phase III overview – Simulating a future purchase decision

Understanding the trade-offs that guests would actually make enabled us to identify the offers that will bring them back

Q: Which of these offers would you have purchased had they been available this season?

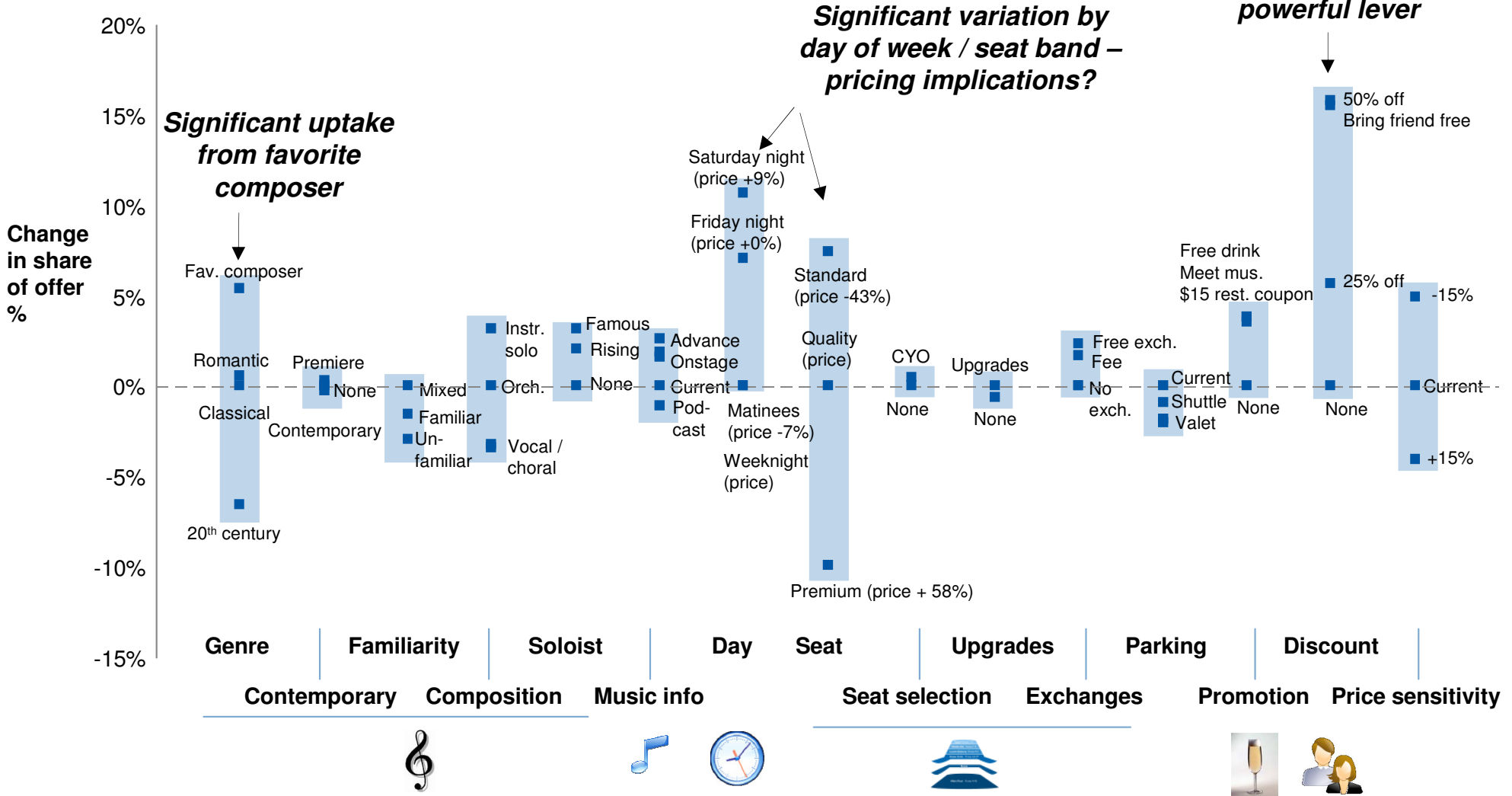
Click on menu item for description.	Single concerts		Subscriptions		Flex package	
Package & times 	1 concert Friday night No exchanges	1 concert Friday night Exchanges (for \$5 fee)	2 concerts Weeknight Exchanges (for \$5 fee)	9 concerts Weeknight No exchanges	6 concerts Friday night Exchanges (for \$5 fee)	
Program 	Romantic works 3 familiar & unfamiliar pieces Includes solos Up-and-coming	Romantic works 3 familiar pieces Includes solos Famous	20th century works +1 contemporary piece 3 familiar & unfamiliar pieces Includes vocal solos Famous	Classical works +1 contemporary piece 3 familiar & unfamiliar pieces Includes vocal solos Famous	Flexible Pick any 6 concerts of your choice	
Music info 	Brief onstage intro to less familiar pieces	Program notes on the website	Pre-concert talks on program	Program notes on the website	Program podcasts on the website	I would not take any of these offers
Seating 	Quality section Select your own seat 1 seat upgrade (subject to availability)	Quality section Best seat available	Quality section Select your seat	Quality section Select your seat 1 seat upgrade (subject to availability)	Quality section Select your seat 1 seat upgrade (subject to availability)	
Parking 	Free shuttle from lot	Valet service (available for \$30)	Valet service (available for \$30)	Spot within 5 min. walk (available for \$15)	Free shuttle from lot	
Promotion 1	Meet & greet the musicians	\$15 restaurant coupon	Meet & greet the musicians	Free drink	Not available	
Price per person	\$65	\$75	\$135	\$448	\$224	
Promotion 2	50% off listed price	25% off listed price	25% off listed price	50% off listed price	50% off listed price	
Grand total (for 2 people)	\$65 1 concert	\$112 1 concert	\$202 2 concerts	\$448 9 concerts	\$224 6 concerts	
Please select an offer	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Approach and insights

- Customers chose between various offers with different key elements
- Each of the 5,678 respondents made 12 offer choices, yielding over 68,000 purchase decisions
- Statistical modeling identified the individual utility of each offer element
- This allowed us to define optimal offers by customer group
 - Tested various combinations of offers to maximize the utility for a given cluster / group
 - Built orchestra-specific recommendations

Summary – Unconverted trialists (all orchestras)

Change in share of offer of single tickets All other attributes and offers held constant



Source: Oliver Wyman Strategic Choice Analysis® survey. Box office data for weighting of orchestra, cluster, and churn: unweighted N = 1,908

Summary – Unconverted trialists

Discounting is by far the greatest lever to increase share of single tickets for unconverted trialists

All orchestras, unconverted trialists

Attributes tested

- Genre
- Contemporary
- Familiarity
- Composition
- Soloist
- Music information
- Day of the week
- Seat
- Seat selection
- Upgrades
- Exchange
- Parking
- Promotion
- Discount
- Price sensitivity

Most impactful on purchase

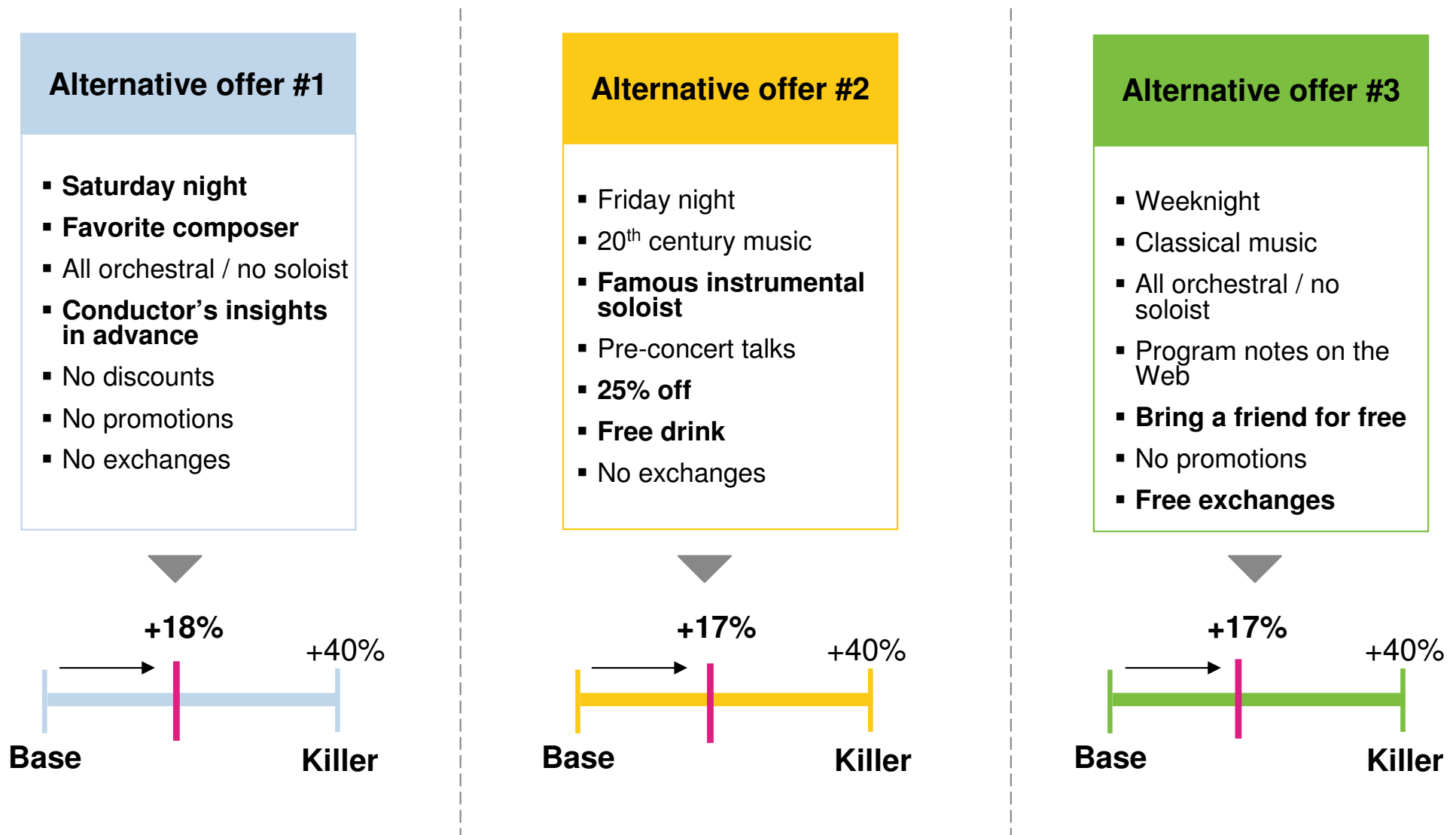
- Discount (esp. 50% off)
- Genre (favorite composer)
- Day of the week (Saturday)
- Seat (quality)
- Instrumental soloist



Source: Oliver Wyman Strategic Choice Analysis® survey. Box office data for weighting of orchestra, cluster, and churn: unweighted N = 1,908

Examples of alternative offers

More realistic offers reveal distinct tradeoffs between programming, logistics, and promotions in achieving the same share

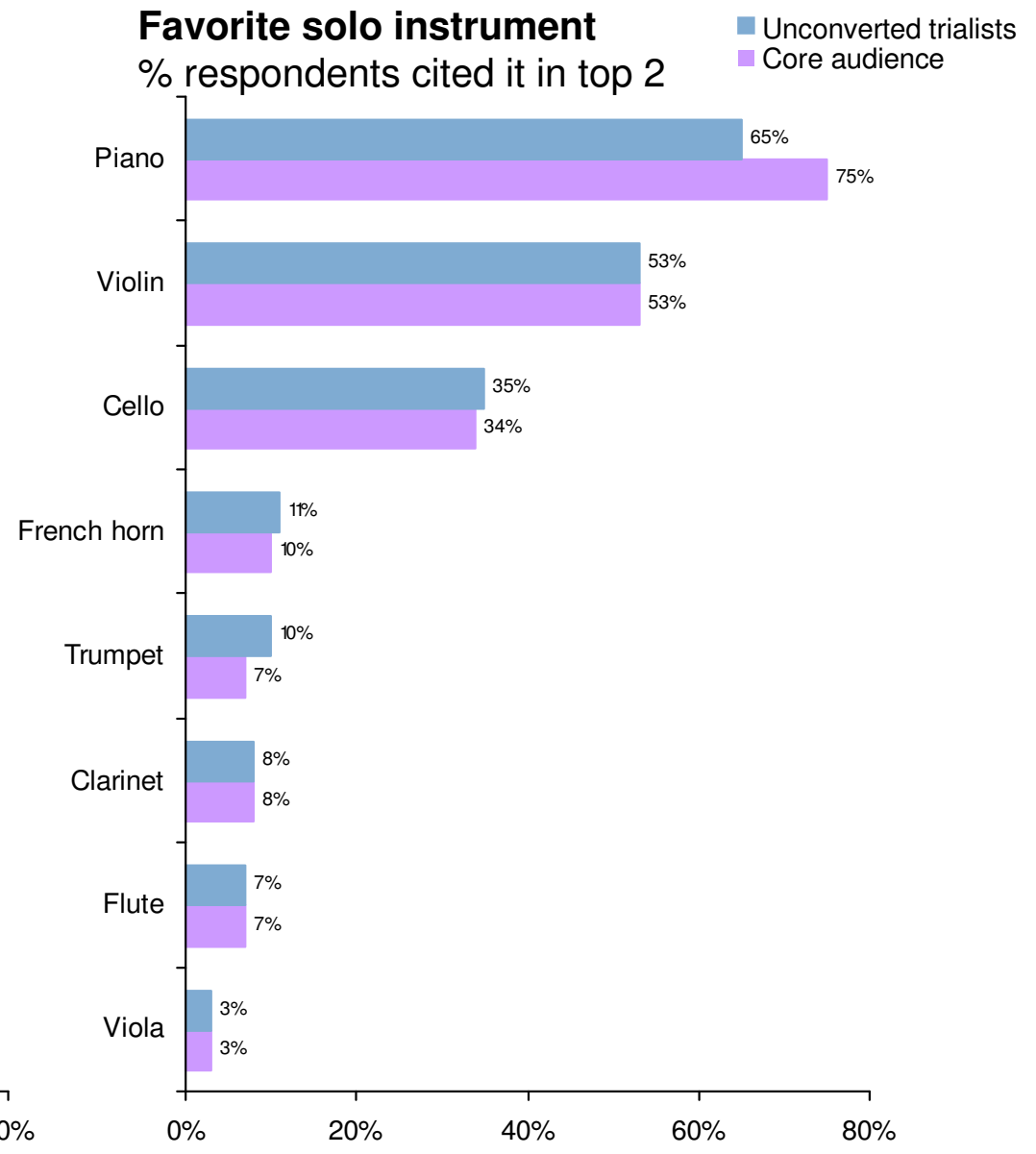
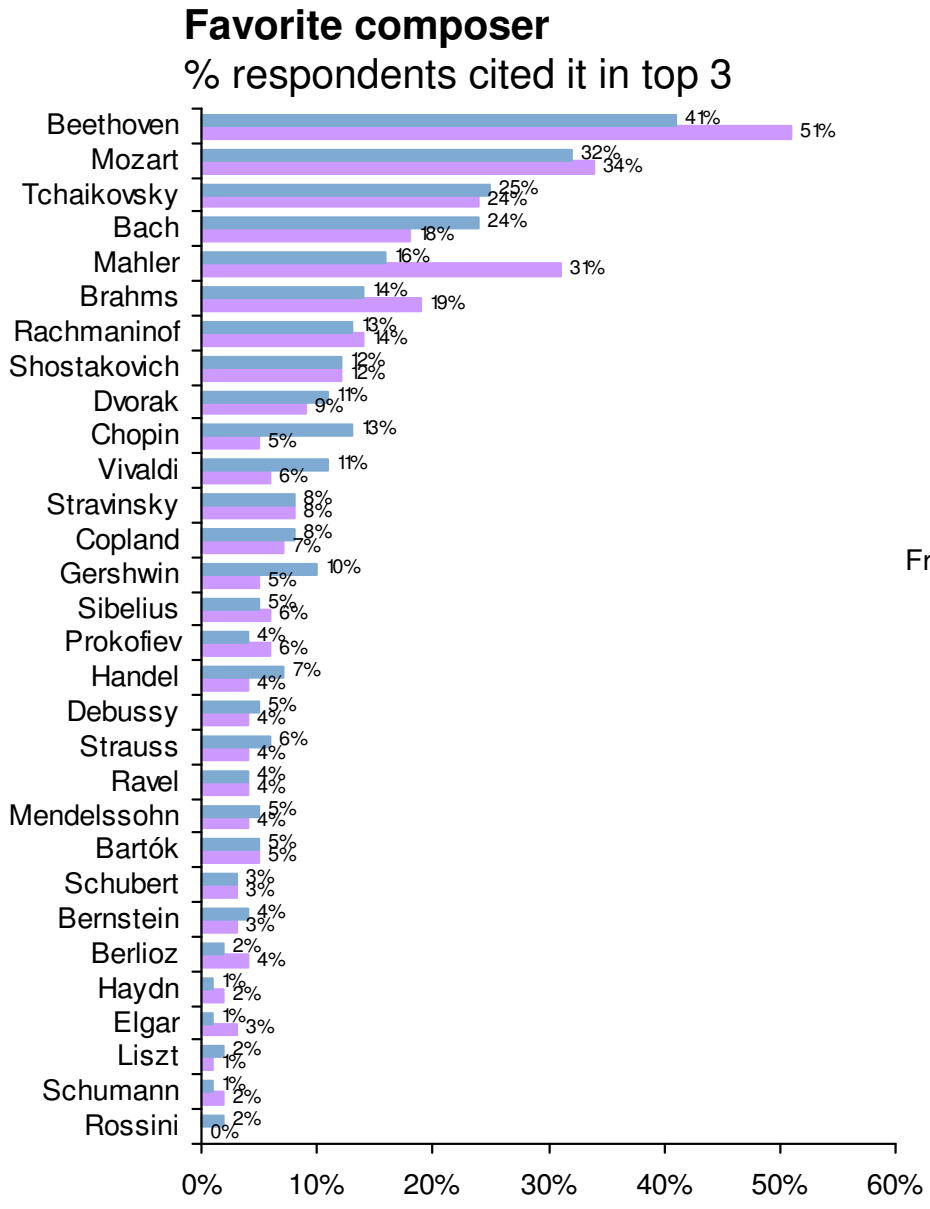


Source: Oliver Wyman Strategic Choice Analysis® survey. Box office data for weighting of orchestra, cluster, and churn: unweighted N = 1,908

Music – Favorite composers and solo instruments

Trialists and core audience share similar tastes

All orchestras: unconverted trialists and core audience



Source: Oliver Wyman Strategic Choice Analysis® survey. Box office data for weighting of orchestra, cluster, and churn: unweighted N = 1,908 for UC and 1,202 for CO

Impact of package size and single-ticket offers

Targeting trialists with single tickets first sells twice as many tickets over 2 years than trying to sell them subscriptions up-front

The few weeks following a first concert attended by unconverted trialists is an important time and opportunity to target them. Let's examine two options starting with 100 patrons:

	Option 1	Option 2
Offer	<ul style="list-style-type: none">Offer a killer¹ large subscription (5 concerts) for next season	<ul style="list-style-type: none">First offer a killer¹ package for one individual concert this seasonThen try to sell a killer¹ large subscription for next season
Results	<p>20 customers 152 tickets sold</p>	<p>30 customers 296 tickets sold</p>

Source: Oliver Wyman Strategic Choice Analysis® survey. Box office data for weighting of orchestra, cluster, and churn, unweighted N = 1,908

1. Killer offer includes 50%, free exchange, Saturday night concert with 3 familiar and unfamiliar pieces from customer's favorite composer, conductor's notes in advance, famous instrumental soloist, free drinks

Phase III recommendations

BO analysis
& clustering

Customer
experience

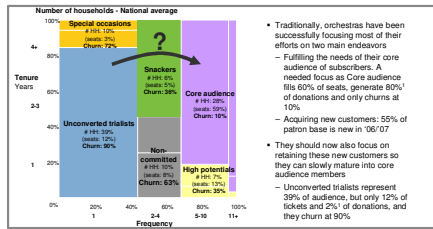
Offer design
& testing

High-level recommendation: Use tailored promotional offers to sell another single ticket or two to unconverted trialists before asking for a commitment

Integrated recommendations

Orchestras need to redefine their value proposition for unconverted trialists

1



Traditionally, orchestras have been successfully focusing most of their efforts on two main endeavors

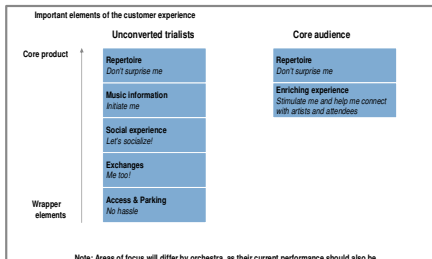
- Fulfilling the needs of their core audience of subscribers. A needed focus as Core audience fills 60% of seats, generate 60% of donations and only churn at 10%
- Acquiring new customers: 50% of patron base is new in '08-'07

They should now also focus on retaining these new customers so they can slowly mature into core audience members

Unconverted trialists represent 35% of audience, but only 12% of tickets and 2% of donations, and they churn at 80%

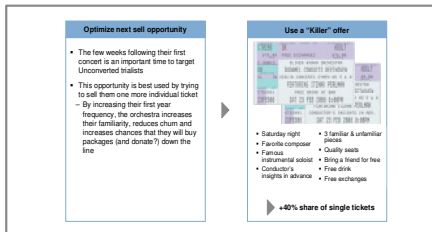
- Place an explicit and differentiated focus on unconverted trialists

2



- Create a seamless and social end-to-end experience for unconverted trialists

3



- Use tailored promotional offers to sell another single ticket or two to unconverted trialists before asking them for a commitment

Targeting unconverted trialists explicitly and defining a new and comprehensive value proposition for them

Defining a new and comprehensive value proposition for unconverted trialists

Repertoire



Don't surprise me: I want pieces that "ring a bell"

Enough familiar concerts to choose from during the season

Music information



Initiate me: Really? Interesting to know!

Enough background to enjoy the performance

Social experience



Let's socialize!: I want to have a good time with my friends

Enjoyable pre- (and post-) concert experience

Socializing opportunities at the concert

Exchanges



Me too!: I want flexibility

Easy to exchange tickets, even for single tickets

Access



No hassle: I just want to park and forget about my car

Easy to get to and park at the hall

Relationship building



Don't ask me to marry you after the first date: I don't want to commit yet

One step at a time

Compelling offers



Such a good deal: A no-brainer to go another time

Right discount / promotional offer combination

Orchestra Audience Growth Initiative – Participants

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Sandi Macdonald / Emily Grimes, The Cleveland Orchestra
Joan Cumming / Shana Mathur, Los Angeles Philharmonic
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