

INNOVATION

BROADWAY
REACHES FOR
THE STARS

JULIÁN VILLANUEVA
Professor of Marketing,
IESE Business School



JORGE GONZÁLEZ
Professor of Marketing,
IESE Business School

Broadway has managed to hold its own despite the chill winds that have been blowing in these difficult economic times. IESE Profs. Julián Villanueva and Jorge González unveil the secrets of Broadway's success in this article, which draws on their recent case study, "E Schubert Organization: The Show Must Go On."

ENTREPRENEURSHIP • DECISIONS ANALYSIS •
INNOVATION AND CHANGE

Bearing in mind that the average price of a Broadway musical is \$70 and that few have fared well on Wall St. over the last two years, many feel that the sector has done an excellent job of making the period from May 2008 to May 2009 its highest-earning season in history.

The area of Manhattan that falls between 8th Avenue and Broadway and 41st and 53rd Streets is home to the densest concentration of theaters on the planet. Every day of the year, the theater district attracts an average of almost 34,000 people eager to pay a total of more than \$2.5 million in tickets and dining, turning Times Square into a giant human anthill under the bright lights of its huge billboards.

However, this was not always the case. In 1993, the same theaters that are now playing to healthy houses were attracting audiences that were 38 percent smaller. Bearing in mind that prices are now 81 percent higher than they were 15 years ago, this means that Broadway has practically tripled its turnover without increasing its capacity. Not bad, huh? What can we learn from this industry during its period of constant growth?

And what challenges does it currently face?

NEW PRODUCTS FOR NEW AUDIENCES

● Innovation: The Show Must Go On

While the financial crisis has threatened almost all industrial sectors, the inability to innovate has proven an even greater threat. Broadway, however, has shown over the last decade that it can launch around 35 new shows a year. There is always a fresh offering. So the show must go on. And it must go on with receipts that are high enough to pay the lease, wages and promotional costs while hoping that something better isn't waiting around the corner. When audiences dwindle, so does the producer's confidence in the show.

Broadway is a Darwinian environment; at least that's what most theater producers will tell you, given that more than 60 percent of their investments lose money. The stakes involved can range from \$2 million to produce a new stage play to the \$20 million it costs to put on a show like *Shrek: The Musical*.

Reaching a Wider Audience: Long Live The Lion King!

● In 1993, Broadway's tills were
● yet again ringing to tunes from

two successful musicals imported from London's West End: *The Phantom of the Opera*, with the eponymous hero's tortured love for Christine, and *Miss Saigon*, a musical inspired by Puccini's *Madame Butterfly*. Fifteen years on we find that the most popular shows are *Wicked*, a Universal Pictures production that recounts a story parallel to the one told in *The Wizard of Oz*, and the Walt Disney musical *The Lion King*, with songs by Sir **Elton John**.

This comparison shows how the development of a product aimed at more family-based audiences has reaped financial rewards for the industry. The Walt Disney Company, whose three Broadway shows brought in receipts of \$153 million in 2008, provides the clearest example of this.

Apart from bringing a new audience to Broadway, Walt Disney's success has attracted other entertainment giants such as Universal, Sony and Dreamworks.

Broadway now offers a wider range of shows than it did 15 years ago. A resident New Yorker from the Upper West Side who goes to an average of 12 shows a year will be more interested in buying a ticket for *Race*, the latest play by **David Mamet**, while a family with children who come to the Big Apple for a weekend will take the opportunity to see *Mary Poppins*.

Another way of bringing Broadway to a wider audience is to invite famous Hollywood actors to perform in a stage play for a few months. **Jude Law**, **Catherine Zeta-Jones**, **Daniel Craig**, **Sienna Miller** and **Hugh Jackman** are just some of the stars who trod the boards in 2009. In short, while some bemoan the over-proliferation of popular entertainment and the absence of more profound works, other industry players simply respond that "a ticket is a ticket."



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THE MARKETING CHALLENGE: A COMPLEX ENVIRONMENT

● Not long ago, there was a clear structure to the way a new Broadway show was marketed: ads in *The New York Times*, and perhaps some on the radio and TV. There was a public relations campaign and previews to allow the critics to have their say. People bought their tickets at the theater box office. They saw the show and told their friends about it. Word of mouth, discount coupons in Times Square and hotel concierges did the rest.

The current period of growth on Broadway has coincided with a multitude of changes in marketing. Adapting to this new environment is one of the greatest challenges that the theater industry has faced.

Managing sales channels and prices

● The three main theater owners (Shubert, Nederlander and Juja-mcyn), control 82 percent of all seats, along with a large part of the distribution network: the box offices at their own theaters and direct sales via Telecharge and Ticketmaster. However, if you search for “Broadway musicals” in Google, the first page that appears is Broadway.com, a company which, despite appearances, does not belong to these operators but is instead an independent broker that will sell you tickets at way above the list price. Nevertheless, many people buy their tickets here thinking that it is the main ticketing channel.

The role played by brokers and resellers is a controversial issue in the management of ticket sales. On the one hand, they buy a lot of tickets. On the other, they can generate considerable anger among theatergoers, as these resellers buy up tickets for the most popular shows and then re-sell them at higher prices. For example, the markup added by Broadway.com is around 30 percent.

Another important source is “tkts”, a channel that sells same-day tickets to under-subscribed shows

at discounts of up to 50 percent. Perhaps you have stood in line at the “tkts” stand in Times Square, thinking that this was the place to buy tickets, and were pleasantly surprised to find that the price was lower than you expected. Or perhaps you got to the head of the line only to discover that you could only buy tickets for that day and there were none left for the Broadway show you wanted to see.

How To Improve Channels and Promotional Activity?

● It’s true that a ticket is a ticket, but what if someone who only has \$100 to spend is faced with a price of \$120 on Broadway.com, doesn’t know that there are cheaper channels available and ends up not buying. And what about those people who are willing to pay higher prices but find themselves in the “tkts” line, disappointed with the long wait but ultimately perhaps happy with their 50 percent discount? In short, how can the design and management of distribution channels be matched to pricing policy?

Approximately one in four tickets are sold at a discount, and the average discount is between 35 and 40 percent. The industry uses “tkts” as the main channel for price reductions, but it also distributes coupons in the areas around Times Square, as well as circulating e-mail lists. Another creative approach is the “Kids Go Free” campaign, aimed at attracting families to see musicals. Nevertheless, list prices usually remain fixed, though there is of course some variation depending on where you are sitting (up to 5 different prices in a theater like the Majestic) or whether you go at the weekend.

However, the theater industry does not use techniques like yield management the way some hotels do, whereby different prices are charged depending on the season and how many days in advance you

buy your ticket. Both industries share two particular characteristics, though: high fixed costs and low variable costs.

Added to the confusion with the ticket distribution channels, the heavy promotional activity and the proliferation of websites that publish the various discount codes (such as *broadwaybox.com*), one could expect greater price sensitivity among consumers. But the fact is that the industry has been able to increase the average price of tickets in recent years despite a slight drop in audience numbers, something that would indicate that theater managers, or at least some of them, have been doing their homework.

Communication: Connecting to Fragmented Audiences

● To complicate things a bit further, ways of communicating with prospective audiences are changing radically. For example, during the 1980s, a TV commercial or an announcement in *The New York Times* could attract audiences to a particular musical, but these media no longer offer any guarantees. It's not enough to have a good product. You need a much more sophisticated communications strategy.

As **Nancy Coyne**, CEO of Serino Coyne, Broadway's leading advertising agency, observes, "When we launched Phantom, radio and TV worked instantaneously. Now everyone is creating a new world without advertising. The only thing that has not changed is street advertising [e.g. buses and billboards], which is exactly the same as it was before." The industry is now trying to launch shows using Facebook, Twitter, Google and other digital media. The role of public relations agencies is also changing. While mainstream media's opinions, particularly the critics', remain important, they are becoming increasingly less so, especially among younger audiences, and agencies are trying to strengthen the word-of-mouth effect via new social networks.

In Search of Lost Audiences

● Although there is no question-
● ing the theater industry's success in developing new audiences over the last decade, there is still work to do. For a start, there is a very low turnout among people between the ages of 18 and 34.

According to **Coyne**, "This age group is more interested in other forms of entertainment and they also don't have the money." Some time ago, however, many people were using similar arguments regarding under-18s, but Disney has demonstrated that you can extend the industry's reach with the right product and communications.

In addition, Broadway remains very expensive for the majority of the population. While it is true that a seat at the back of the dress circle can cost \$25 with the right discount, the average cost for two people can easily exceed \$200 if you are not savvy on ticket distribution channels and also dine out before the show. As a result, the majority of today's theater audiences are high-earning university graduates who are in New York City at 7 p.m.

Over recent years, Broadway has expanded to embrace new audiences by capitalizing on the constant flow of tourists to the Big Apple and generating a business centered around the theater district that is worth several billion dollars. Opening on Broadway still remains a dream for most people in the theater world.

This capacity to attract talent that is willing to innovate is the driving force that keeps the theaters alive, the old playhouses that take a break each morning to get ready for the moment when the lights go down and the actors take the stage. On the other side of the orchestra pit, an expectant audience awaits. As long as this still happens, Broadway will continue to breathe. Is this process becoming increasingly complicated? You bet it is!

CASE STUDY AT IESE PUBLISHING
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