

North American Festivals

November 2017

Routes to Success in an Evolving Market



Developed in partnership with:

AMRinternational. **XLIVE**

AMR International and XLIVE are delighted to have partnered in producing this whitepaper on the state of the dynamic North American festivals market.

This whitepaper aims to:

- 1) Clearly define what constitutes a “festival” in the fragmented and complex North American festivals market
- 2) Analyze the major trends, challenges and opportunities prevalent in today’s market
- 3) Provide a clear breakdown of the critical success factors of a profitable festival
- 4) Conclude by providing a view on the market’s outlook.

In the face of increasing competition and a crowded market, festival organizers must seek to differentiate themselves and expand their revenue streams to grow, maintain financial stability and ultimately succeed in the long term.

AMRinternational.

AMR International is the world leader in strategy consulting for the events industry. This incredibly diverse and highly profitable industry is facing unprecedented change, as attendees expect a more connected and compelling experience. AMR’s role is to create lasting value for its clients, while guiding the transformation of the industry. AMR supports every aspect of event and organizer transformation, from group and market entry strategy, acquisition search, commercial due diligence and performance improvement through to pricing, digital strategy and data analytics.

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XLIVE is transforming the way live events share expertise, learn and revolutionize experience. XLIVE convenes industry leaders at the intersection of music, sports, film, culinary, beverage, eSports, technology, brands and the experiences that culminate at festivals and live events. Driven by a thirst to provide unique, memorable and life changing experiences, the live entertainment industry represents a dynamic and influential community valued over \$100 billion.

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Background

The diverse North American festivals market is composed of a wide variety of events ranging from small, gourmet food festivals to large-scale music festivals. The market has enjoyed strong growth over the past ten years as new festivals have been launched to capture increased visitor demand for multifaceted experiences. This has been driven by millennials, who place a greater emphasis on experiences than on acquiring material goods, and who are attracted to the unique and interactive experiences that festivals can offer.

However, the proliferation of events that has driven market growth has also led to market saturation in some segments and geographies. This, combined with increasing content homogenization, has led to intensified competition. Ticket price pressure, and increasing content and operational costs have squeezed

profit margins. One-off security and weather shocks can drive up costs very quickly, while evolving visitor tastes can contribute to rapidly diminishing income.

The largest and most profitable organizers, such as AEG and Live Nation, have improved the attractiveness of their events by effectively leveraging their diverse festival portfolios to cross-pollinate ideas and invest in content and format innovation. Further, these leading organizers have engaged in M&A activity to bolster their portfolios, spreading risk and driving economies of scale. The most forward-looking organizers have also been at the forefront of event technology, for example introducing RFID wristbands to streamline event experiences while collecting data on their audience, and investing in ticketing platforms that allow them to extract revenue from the wider event market.

Festivals Definition

The term “festival” is commonly used to describe a wide variety of events, and is in some cases applied to marketing initiatives as well. However, there does not appear to be an industry standard definition of what constitutes a festival. AMR has defined a festival as a gathering of people around a theme for entertainment purposes. More specifically, an event can be considered a festival if it shares the following characteristics (though not limited to):

- Event’s primary purpose is for entertainment
- Event often has multiple performances and attractions, sometimes spread over several days
- Event involves multiple dimensions from different genres, often blending food with entertainment and art installations for example; active attendee participation is highly encouraged
- Event is highly experiential and largely face-to-face
- Event tends to be recurring
- Ticket sales are the primary revenue source
- Ticket prices are often segmented (i.e. general admission vs. VIP)

- Financial burden / up-front risk primarily falls on the event organizer rather than on artists and vendors.

It is important to note that the above criteria may apply to a variety of events that are not strictly defined as being festivals (e.g. professional sporting events, concerts and B2C conventions). There is undoubtedly a degree of “festivalization” that is occurring across the events industry as organizers look to improve their visitor experiences; it is therefore likely that the definition of a festival will continue to evolve and blur in the near future.

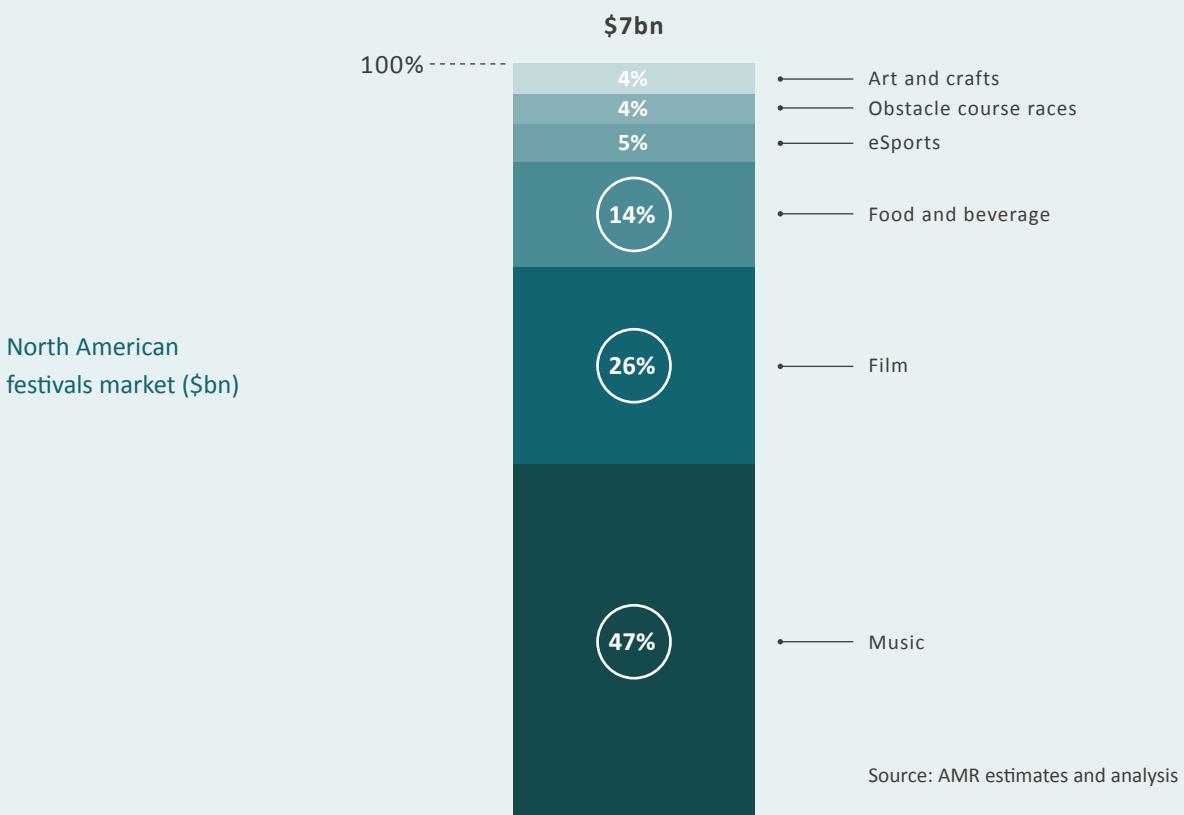
For market sizing purposes and to de-compose revenue and cost dynamics, we have segmented the festivals market as follows:

Tier 1	>50,000 attendees
Tier 2	5,000–50,000 attendees
Tier 3	<5,000 attendees

North American festivals market

The North American festivals market is composed of both mature (e.g. music, film) and growing (e.g. eSport, obstacle course race) segments. Despite the maturity of many segments, market documentation is scarce, partly due to a very long tail of small tier 3 events.

Based on a sample of 331 festivals in music, film, food and beverage and arts and crafts, and on industry reports on eSports and obstacle course races, AMR estimates the total North American festivals market to be worth ~\$7bn. The wider market however encompasses other segments including cultural, ethnic, and religious festivals. The six most prominent segments are outlined below:



Arts and crafts showcases a wide range of art forms including visual art (e.g. paintings, ceramics) as well as performing art (e.g. drama) – Art Miami, The Armory Show.

Obstacle course races primarily athletic challenge events, though some are held as sports competitions, with other entertainment options at the end of the course. The largest and most interesting sports-related segment – Warrior Dash, Tough Mudder.

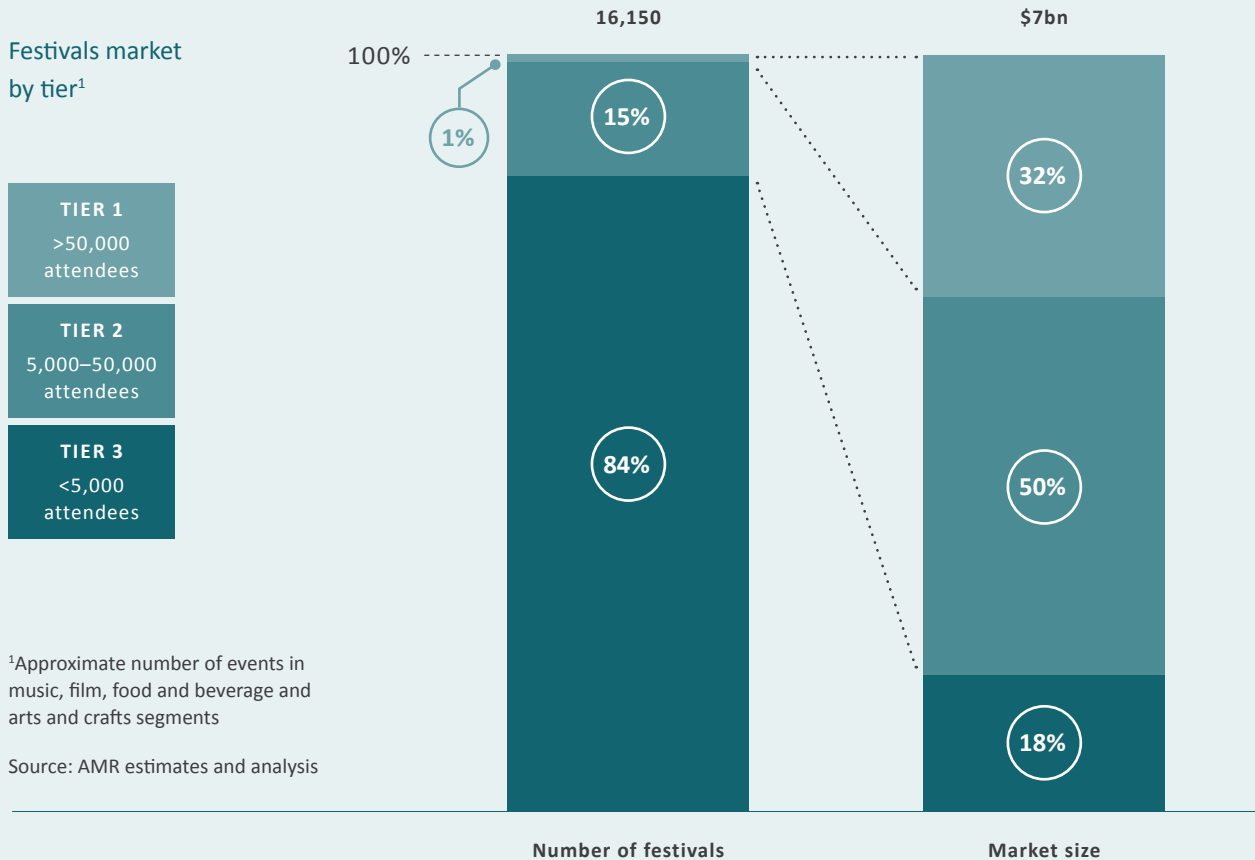
eSports events where an audience watches highly-skilled video game players compete in tournaments – Apex, League of Legends Championship Series.

Food and beverage varies in size, with many larger events showcasing national or regional food types/styles as well as smaller, specialized gourmet events. Includes tastings and educational seminars – New York Wine and Food Festival, New Jersey Beer Festival.

Film primarily showcases independent or artistic films and often includes discussions with directors – Telluride, Sundance.

Music multi-day events featuring a variety of musical performances. Attendees typically camp overnight for the duration of the festival – Coachella, Firefly.

AMR has estimated the North American festivals market size by sampling a variety of festivals in each segment and tier. Ticket revenue was calculated from reported visitor numbers and prices for the most recent edition of each event. Overall revenue was inferred from ticket revenue based on generic revenue structures for each event type and size (i.e. ticket sales as a % of total revenue). Revenue and pricing structures as well as the number of events for each segment and tier were based on expert interviews, company financials and other sources.



Business model insights

Ticket sales represent the bulk of a festival’s revenue; general admissions tickets can be relatively price elastic

Ticket sales represent the primary revenue source for festivals, typically accounting for 50-80% of total revenue. Historically, optimization of this revenue stream has been an organizer’s main focus, with complex pricing structures becoming increasingly common; tickets are offered for all days/events or for single days/events with a wide variety of VIP packages and add-ons available. Accommodation fees can range from very basic spaces for tents to air-conditioned tents.

There is evidence that ticket prices, especially general admissions tickets, can be somewhat price elastic in certain segments. Bonnaroo suffered a reduction in attendance of 28,000 visitors between 2015 and 2016, a 38% reduction, and a 45% drop from a historical peak in 2011. Part of this is due to continual ticket price increases, which grew from \$209.50 for the cheapest general admissions pass in 2011, to \$299.50 in 2016 for the same ticket. A newly introduced fee of \$60 to camp with a car may have also played a part.

Festivals are ideal platforms for sponsorship sales as visitors are a captive audience

The festival format, especially multi-day festivals, represents a unique and high-value platform for sponsorship sales; sponsors are realizing the value of experiential marketing and are shifting some spending from digital budgets. Festivals are well-placed to tap into this growth with their captive audiences. Sponsorship of live music (festivals, concerts and venues) has grown steadily in recent years, growing to \$1.47bn in 2017, up 5.6% over the previous year. Beverage companies are the most active of all sponsor categories; Anheuser-Busch, PepsiCo and the Coca-Cola sponsor between 20 and 30% of all live music events in the US.

Festival visitors invest significant time and money. As such, their behavior is a stronger indicator of demographics, lifestyle, and taste than other platforms such as social media. Additionally, millennial visitors generate millions of hours of footage and photos during festivals, extending a sponsor's exposure outside of the festival itself.

In some cases, sponsors have embraced the festival concept such that they have invested in launching their own branded festivals. The Airbnb Open is an annual festival organized by the technology firm that not only facilitates host learning through workshops and presentations, improving Airbnb's customer experience, but also acts as a powerful marketing platform where the brand does not have to compete with other sponsors.

Grant and donation funding act as important supplementary sources of revenue, especially for non-profit events

Festivals generate enormous economic benefit to their local economies. Hotels, restaurants and tourist attractions benefit from the enormous influx of visitors, and local governments can benefit from boosted tax receipts through occupancy taxes. Coachella and Stagecoach's 225,000 visitors in 2012 generated an estimated economic impact of \$254m for example. As a result, local governments often provide grant funding to help sustain festivals; OVO Fest and the TD Toronto Jazz Festival each received CAN \$300,000 and \$282,825 from Ontario's Ministry of Tourism, Culture and Sport in 2014. Non-profit festivals also receive donations and membership fees which can be significant revenue

drivers; the Toronto International Film Festival derives 10% of its revenue from such sources.

While significant revenue can be generated in advance of an event, large upfront costs such as artist fees must also be incurred

Revenue from both ticket sales and sponsorship is generated in advance of an event, however, significant fixed costs must be incurred up-front as well. These can include venue and infrastructure costs, in addition to artist fees for music festivals.

Music festival artist fees have risen rapidly in recent years. The proliferation of festivals has combined with a limited pool of headline talent raising the bargaining positions of leading artists. Some artists can command fees of up to \$4m. These fees have increased consistently year-on-year and therefore represent enormous up-front costs. Further, artists are beginning to demand a higher share of their total payment earlier in advance. This can contribute to a cycle whereby the increased financial burden of footing such bills can increase the risk of event failure, further incentivizing agents to demand full payment up-front.

“ *The music management world is a small one and whether it's Beyoncé or Chance the Rapper, they know what festivals are paying other artists...this leads to a bidding war which is becoming an issue as some of these appearance fees are becoming astronomical which is making it harder and harder to be competitive and profitable.*

– Managing Director, New York City Wine and Food Festival

Economies of scale can be enjoyed by the largest organizers, contributing to industry consolidation

The North American festivals market is highly fragmented, with thousands of organizers running individual festivals. However, some organizers have succeeded in growing beyond single events, with the largest four (AEG, Live Nation, Another Planet and Superfly) owning 90% of tier 1 music festivals. More specifically, AEG organizes roughly 30 such festivals across the US, with Live Nation organizing approximately 40 distinct music festivals in the U.S. and Canada. The festivals business model lends itself to scale advantages, with larger organizers enjoying greater purchasing power over suppliers, ability to cross-sell sponsorships and tickets across multiple events (including selling sponsorship packages across the festival portfolio), and centralization of back-office functions such as sponsorship sales to minimize cost. The largest organizers have also vertically integrated, for example Live Nation merging with Ticketmaster in 2010, allowing the organizer to effectively tap into the wider festivals market through ticket service charges.

“ If you only own one festival, your negotiation position won't be very strong... with LiveNation and AEG owning so many festivals, they've got considerable market power.

– Co-Founder,
Everfest

Festivals are susceptible to weather and security incidents, leading to substantial financial shocks

Organization of outdoor festivals carries an inherent risk due to susceptibility to adverse weather conditions. This can either heavily impact the visitor experience, or, in the most severe cases, require festivals to be canceled and ticket sales refunded. In 2015, TomorrowWorld was severely affected by rainfall and had to be closed to vehicle traffic; many visitors were left stranded and only those already on-site were

allowed to attend the final day, many tickets had to be refunded.

Additionally, festival failures and cancellations can have negative spillover effects on their peers. Pemberton Music Festival cancelled its July 2017 edition because the two organizing companies had gone bankrupt. Additionally, Pemberton did not issue refunds to its ticket-holders, inciting negative media coverage. This can lead to increased scrutiny for any possibility of fraud or failure, especially on smaller and independent festival promoters.

Likewise, Fyre Festival, which was promoted by various celebrities on social media including Kendall Jenner, and promised to provide a luxurious environment, became an unmitigated disaster. The dramatic failure of Fyre Festival has also severely hurt the reputation of many third-party festival organizers.

Security is a growing concern among organizers, increasing operational costs and insurance premiums. These risks can be mitigated by festival organizers diversifying revenue streams and, for larger organizers, spreading risk over multiple events.

Profitability is a function of size and festival segment

Profitability of festival organizers varies substantially across segments. Many large-scale music festivals are highly profitable; Coachella and Bonnaroo, according to AMR estimates, enjoyed margins of 20% and 15% respectively in 2013, whereas even the most successful of film festivals often struggle to make a profit. In 2015, the Toronto International Film Festival, a gold standard of North American film festivals, had profits of only \$711,020, equating to an overall profit margin of less than 2%, while suffering net losses between 2008 and 2011. Overall, the film industry researcher Stephen Follows estimates that only 3% of all film festivals are able to maintain stable profits.

This substantial difference in profitability can be explained by fundamental differences in the two festival markets. Music festivals can afford to charge high ticket prices due to the unique experiences they offer. This is in contrast to film festivals, which are in close competition with much cheaper substitutes such as cinema tickets.

In addition to inter-segment differences in profitability, there is also significant variation in profitability within individual segments. Some large music festivals earn

tens of millions of dollars in profit, while others are much less profitable, with many operating at a loss. Diversification, from both a portfolio and revenue stream perspective, combined with smart segmentation of visitor pricing and efficient back-office functions is

crucial for success in this market. This favors larger players who have the sophistication to develop smart business models and the scale to absorb revenue and cost shocks.

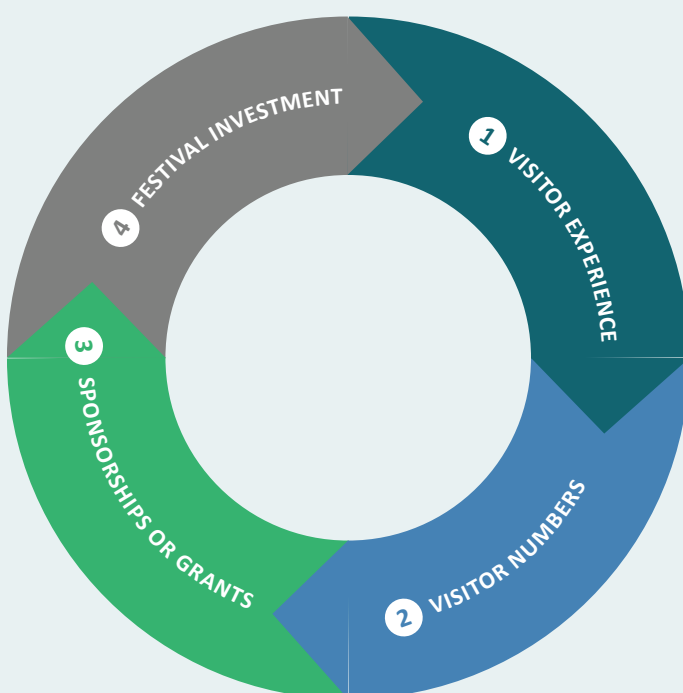
Routes to success

Offering a unique and enhanced visitor experience is the cornerstone to an organizer’s commercial success, helping festivals differentiate themselves in an increasingly crowded market. A unique offering will attract a wider audience, positioning the festival as a high-value marketing platform. This can drive ticket sales and sponsorship revenue. The increased funds can be reinvested back into the festival to further improve the visitor experience and help establish the event as “must-attend.”

Revenue diversification is critical for festival profitability, growth and survival. Sponsorship represents the main non-ticket revenue source, but to attract sponsors a festival must first provide a high value marketing proposition, both in terms of visitor number and experience quality. Once sold, sponsors can in turn drive engagement and enhance the experience. Glad introduced free tents at SXSW that double up as trash bags, not only providing the sponsor with a highly experiential marketing initiative but also facilitating trash collection.

“If you’ve got a model that’s overly reliant on one source of funding, that’s not really sustainable... organizers have to be really careful that they have a profitable, sustainable model, with diverse revenue streams.

– General Manager, Association of Independent festivals



- 1 Providing a high quality and differentiated visitor experience is crucial to attracting visitors in a crowded market.
- 2 Growing visitor numbers not only drive higher ticket revenues but also increases the festival’s attractiveness to sponsors.
- 3 Sponsorship provides an additional revenue stream which helps drive the profitability of a festival. Grants can help smaller events remain viable.
- 4 Continual investment into the festival experience is key in gaining or maintaining a competitive advantage.

Source: AMR research and analysis

Optimizing the visitor experience

Historically, festival organizers have kept to a particular genre in a given segment. In the quest to stand out, many organizers are now crossing inter-segment boundaries by adding elements of different festival types. This can take the form of adding live music to a food festival, or film screenings to a music festival for example. AEG has experimented widely with the food at their festivals, upgrading offerings by adding kale salad and sushi bars at Coachella, to seated four-course meals at Desert Trip; while visitors were hesitant in the first year of introduction, these have since risen to become bestsellers. This cross-pollination of festival genres widens the range of activities on offer, in turn attracting a wider audience demographic.

Unique venues and formats can provide memorable experiences that stimulate social media sharing. Electric Forest is an EDM festival that takes place in Sherwood Forest in Michigan, while Burning Man uses the Black Rock Desert in Nevada for its setting. Such venues also help organizers tap into specific communities and philosophies; one of Burning Man's principles is that of "self-reliance", embodied by its bleak and barren desert landscape.

In addition to new venues and content, technology can be leveraged to optimize visitor experiences. Investment can streamline payments, reduce waiting times, and provide organizers with crucial insights needed to curate content in line with evolving customer trends (e.g. online polls on music festival lineups). Increasing technology usage chimes particularly well with tech-savvy millennials, a major audience demographic.

A wide range of technology is already available to improve the visitor experience, such as augmented reality, cashless payments, and mobile apps. This surge in technological innovation is spearheaded by the largest organizers with the necessary capital to experiment with various technologies and hire technical staff, contributing to forecast growth of 9% CAGR to 2020 of the \$6bn global event management software market. For example, AEG's Coachella was the first festival to introduce RFID bracelets, an innovation which other festivals have subsequently adopted. Technology-adopting festivals quickly see financial benefits; after introducing RFID payments, CMA Fest saw beer sales grow by 126% as a result of increased transaction frequency. Technologies also frequently

have the knock-on effect of lowering cost and improving operational efficiency by reducing reliance on support staff for example. Technology's impact is not solely on logistical improvements, but can also directly enhance event content by improving traditional AV elements or adding new ones such as holograms. Coachella made headlines in 2012 by showcasing a hologram of the deceased rapper Tupac Shakur, performing on stage alongside Snoop Dogg.

In some cases, technology can facilitate blurring of genres. In 2016, experiential agency META.is partnered with HP and the Verge to produce "The Lab" at the Panorama music festival in New York City. The installation included an art exhibition, a façade with an ultra HD video projection mapped onto it, and a fully immersive 360-degree virtual reality theater blending art and technology, while providing a unique visitor experience in a music festival context.

“ We want people to come for the food and stay for the entertainment. We feel like we have saturated the hardcore foodie in the five boroughs and so in order to survive and grow in this competitive landscape it is important for us to diversify and make sure we have offerings that attract a younger demographic... if we can attract a younger consumer now, in five years' time when they've matured into the heart of our demo, the hope is we've developed a deep relationship with some new, engaging and hungry fans!

– Managing Director, New York City Wine and Food Festival

“ There’s definitely convergence of genres in response to plateauing and homogenization of the largest festivals...in order to compete you need to innovate and one way to do so is to blur the lines between genres, which I think is a healthy thing.

– Co-Founder,
Everfest



Firefly Music Festival has enjoyed rapid growth – it tripled its attendance from 30,000 visitors in 2012 to 90,000 visitors in 2015 – by focusing on enhancing the visitor experience. It has embedded several elements from various segments by prominently featuring many popular non-music forms of entertainment such as air-conditioned vintage arcades (pictured, above), a coffee house featuring board games, and by offering activities such as volleyball tournaments (pictured, left), and morning yoga sessions.

Images courtesy of Firefly

Implementation of new technologies and diversification of festival genres that enhance the visitor experience can also act as gateways to revenue growth.

1. Increased monetization of existing channels

Festivals can also continue to segment the visitor base and charge for premium experiences (e.g. private cabanas, air-conditioned tents and VIP lounges). Doing so allows organizers to extract additional value by ensuring visitors who are willing to pay for enhanced experiences actually do so, boosting margins and funding re-investment back into the wider experience. This is particularly important where limited pricing headroom for general admissions tickets exists. Further, such segmentation also enables a festival to widen its audience (i.e., attract more high-end / wealthy customers) and lure new high-end sponsor segments (e.g. luxury cars and watches).

Engaging with visitors before and after the festival, and ideally year-round, through social media posts and pushing of content (both from an organizer and artist/vendor perspective) can not only improve a festival's experience but may also drive higher visitor retention rates. This can increase sponsorship monetization by positioning the festival as a high-value marketing platform for sponsors looking for long-term brand exposure. By expanding online engagement, organizers can tap into sponsors' larger digital marketing budgets.

2. Opening of additional revenue streams

Cross-pollination of festival types can open new revenue streams. For example, music festivals may charge pop-up restaurants an exhibitor fee or agree upon a revenue sharing arrangement widening sponsorship opportunities.

Similarly, investment in technology opens new advertising opportunities through selling of banner ads on festival websites and mobile apps for example. RFID wristbands and beacon technology capture visitor movement and concessions purchases, generating vast volumes of data on preferences which can be packaged and sold to sponsors.

“Knowing where fans are actually spending money in real-time allows us to develop marketing campaigns for brands. We can sell the data to our sponsors and say whether a fan who went to buy a beer then went to a particular stand for a certain period of time and then went to see a specific act...this creates a fan profile which the brand can use for marketing purposes.

– Director, Digital Strategy, Country Music Association

Outlook

Polarization of the market is likely to increase in the near term as the gap between large, stable, and growing tier 1 festival organizers and the long tail of smaller, riskier organizers widens. Larger organizers can further strengthen their positions by growing and diversifying; they can afford to invest in technology, content and format innovation, and expand through acquisition. Their size allows them to benefit from economies of scale and invest in new revenue streams, boosting margins, while also being able to spread risk and fixed costs across multiple festivals.

Smaller festival organizers will find it harder to do the same. They are significantly more dependent on ticket revenues than larger festivals, as the smaller festivals' limited visitor bases are less attractive to sponsors. As a result, they are inherently riskier than larger counterparts as they find it harder to endure and manage evolving consumer tastes, security threats, and poor weather conditions. Smaller festivals that fail to differentiate themselves or diversify their revenue streams may be forced to exit the market if they face revenue or cost shocks. This exodus of failing smaller festivals will in part be balanced out by new entrants in specialized / localized niches, or multifaceted events in more heterogeneous destinations. However, many new entrants will struggle in the face of inherent risks and high setup costs, meaning a degree of churn is likely to continue among these smaller festivals.

Future growth will likely be a function of segment and genre maturity, in addition to evolving visitor taste. The nascent global market for eSports festivals has grown at 46% CAGR between 2015-17 and growth is projected to continue at 29% CAGR between 2017-20. Obstacle course races have also experienced strong growth of approximately 20% CAGR between 2013-15, but this is expected to level off as the segment matures. Music is a more nuanced picture; while ticket and sponsorship sales growth is strong, the latter growing as fast as 15% year-on-year for the largest events, success varies by genre. Electronic dance music has experienced rapid sales growth in recent years of over 50% between 2013 and 2016, though growth is beginning to plateau at approximately 4% due to market saturation.

Sources of continued success

Tier 1 organizers should continue diversifying their revenue streams and portfolios. They should be at the forefront of technological innovation while also pushing the boundaries of traditional festival definitions. Venue, formats and content innovation and enhancement will continue to set industry leaders apart from the pack; effective segmentation of the visitor base through differentiated experiences and pricing will drive profitability. Evolving festivals from an annual event to a year-round platform for visitor engagement will help extract additional value from existing sponsors, while vertical integration by offering ticketing or catering services for example will allow organizers to capture growth in the wider festivals market.

Smaller organizers must innovate while taking advantage of limited scale to offer either localized, high-touch events that tap into specific genres or communities, or diverse, multifaceted events where the local visitor base is sufficiently heterogeneous. As revenue diversification will be critical in ensuring long-term sustainability, tier 2 and 3 organizers should re-double grant petitioning efforts where available, and, if in a suitable location and demographic, position themselves in a niche which will be attractive to high-value sponsors. Organizers which can effectively attract the right visitor mix will boost sponsorship ROI and will be rewarded with sponsorship headroom. Lastly, while smaller organizers may not have the necessary funds to experiment with the latest technologies, judicious investment in low cost tried-and-tested technology will help minimize operational costs while improving the overall experience.

Face-to-face interactions and celebrations of human connection are just as sought after in this new digital age. In an increasingly tough and crowded festivals market, organizers can flourish and deliver unforgettable experiences by balancing creativity and imagination with business savvy.

For more information please contact:

AMR International



Denzil Rankine
Executive Chairman
Denzil.Rankine@amrinternational.com
+ 44 20 7534 3601 / +1 646 465 5971



Florent Jarry
Head of Global Events Practice
Florent.Jarry@amrinternational.com
+44 20 7534 3609 / +33 6 2880 6509



David Lindsay
Senior Consultant
David.Lindsay@amrinternational.com
+1 646 465 5974

XLIVE



Waco Hoover
CEO & Co-Founder
whoover@xlivecon.com
+1 917 655 0818