

The Current and Future Impacts of the Global Financial Crisis Upon Festivals and Events:

Seungwon "Shawn" Lee, Ph.D.
George Mason University, USA

Joe Goldblatt, Ed.D, CSEP, Queen
Margaret University
Edinburgh, Scotland



In 2001, the International Special Events Society (ISES) conducted a study to determine the impacts of the economic recession upon the special events industry within the United States. This study revealed that despite the challenging economic times, event planners who continued to aggressively market their services and events, were relying more and more on technology and were generally hopeful about the mid and long term prospects for their industry.

In 2010, the International Festivals & Events Association (IFEA) conducted a study of the global financial crisis of 2008 and 2009 and discovered responses were similar, yet also significantly different to that of the 2001 study. As a result of the current and continuing global financial crisis, IFEA event professionals expressed concerns about the future of their industry and indicated they are now using new approaches to help them move forward.

What is the way forward, according to IFEA members, in order to not only survive but also thrive, despite a continuing economic downturn? What lessons may be learned from this economic crisis that may help IFEA members better prepare for future dramatic economic fluctuations? As you will find within this article, IFEA members portray a unique and conservative approach to creating a sustainable financial future for the festivals and events industry.

The Five Big Questions

For the purposes of this landmark study, the researchers sought to find out:

- How the current global economic recession has and will affect the festivals and events industry.
- Identify the principle challenges for festival and event professionals in an economic recession.
- Will/has the number of attendees and average budget of participating festivals and events increase(d) or decrease(d) for the current year and subsequent years?
- Is there any difference in the understanding of, and response to, the current recession based upon work experience in the festivals and events industry and the size of organization (e.g., number of full time employees)?
- What strategies will festival and event professionals use to build successful businesses to move forward?

Defining the Economic Recession

The generally accepted definition of a recession in the field of formal, neoclassical microeconomics is:

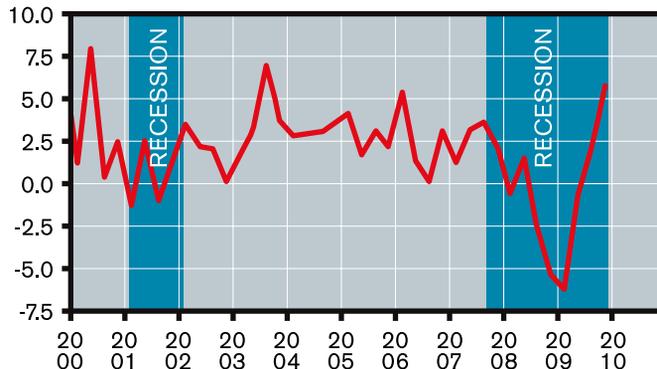
"The reduction, in terms of GDP, of a country's production for two or more consecutive quarters."

In the United States, the National Bureau of Economic Research (NBER) defines when a given recession starts and ends based on the identification of 11 recessions between 1945 and 2007 (Source: National Bureau of Economic Research).

The last recession prior to the current recession, started the first quarter of 2001 and continued until the end of the fourth quarter of 2001. Since the 2001 U.S recession, a series of significant events occurred that had a tremendous impact on the tourism & hospitality industry in addition to the festivals & events industry, including: the 9/11 terrorist attack (which occurred during the last recession), the tsunami in Thailand, SARS, major earthquakes in Tahiti and Peru, and the Volcano eruption in Iceland affecting

travel across Europe and beyond. While the last recession lasted for a year according to the NBER's definition, the current recession, which started from the third quarter of year 2007, has lasted more than 2 years globally. (See Chart One).

CHART 1: GDP PERCENT CHANGE FROM PRECEDING PERIOD BETWEEN 2000 AND 2010 WITH RECESSION INDICATED

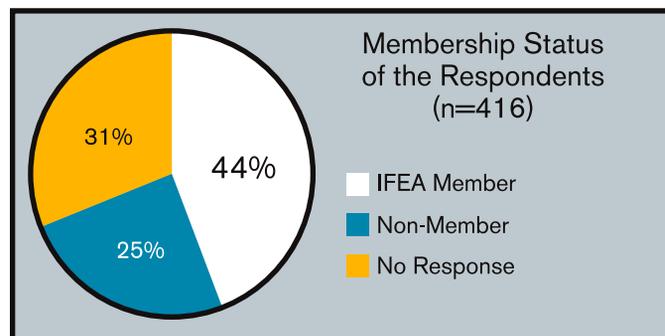


Source: National Bureau of Economic Research

The 2010 IFEA Study

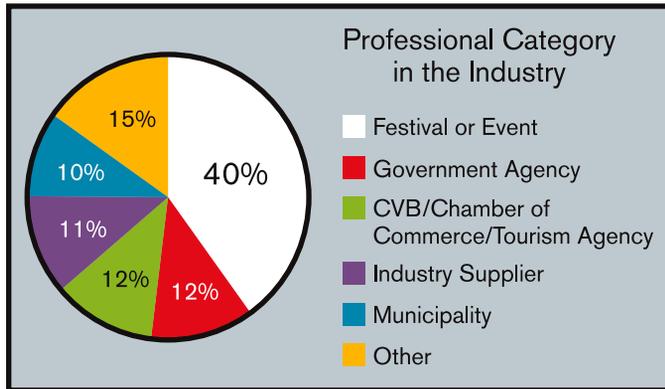
A total of 416 festival and event professionals responded to the on-line survey conducted by the International Festivals and Events Association. However, only 288 people of the 416 people who started the survey actually completed the entire survey (69.2% research completion rate). This should be noted and requires a careful analysis of some responses in the later part of the survey for in-depth understanding. The authors included all answers to capture the most of respondents opinion no matter if they completed the entire questionnaire or not. The total number of responses on each question are listed in each chart. Chart Two depicts the profiles of the study respondents.

CHART 2: PROFILE OF IFEA RESPONDENTS



Among the IFEA members who responded to this survey, 75% of them were full-time employees, which was higher than that of non-members (60%). About 31% of the respondents answered that their work status was either as a volunteer or another similar status.

CHART 3: PROFESSIONAL CATEGORY



It must be noted that only nine percent of the respondents identified themselves as international and therefore, the results of this study is mainly a reflection of respondents from the United States.

TABLE 1: DEMOGRAPHIC INFORMATION OF RESPONDENTS

| Characteristics | Number | Percent |
|--|--------|---------|
| Gender (n = 287) | | |
| Male | 117 | 40.8% |
| Female | 170 | 59.2% |
| Education (n = 287) | | |
| High school | 30 | 10.5% |
| Associate degree (2 year college) | 43 | 15.0% |
| 4 year college | 148 | 51.6% |
| Master | 56 | 19.5% |
| Doctor | 10 | 3.5% |
| Years in the industry (n = 285) | | |
| Less than 1 year | 5 | 1.8% |
| 1-2 years | 9 | 3.2% |
| 2-5 years | 38 | 13.3% |
| 5-10 years | 66 | 23.2% |
| 10-20 years | 91 | 31.9% |
| 20-30 years | 54 | 18.9% |
| Over 30 years | 22 | 7.7% |
| Age (n=287) | | |
| 18-24 | 3 | 1.0% |
| 25-34 | 45 | 15.7% |
| 35-44 | 58 | 20.2% |
| 45-54 | 103 | 35.9% |
| 55-64 | 67 | 23.3% |
| Over 65 | 11 | 3.8% |

Profit Margin Over the Last 2 Years

When asked how their event organization’s profit margin had changed over the last 2 years, the response was as follows:

- Decreased (15.8%)
- Slightly decreased (31.9%)
- Remained the same (25.9%)
- Slightly increased (19.8%)
- Increased (6.6%)

Overall, 73.6% of respondents expressed that their profit margin did not increase over the past 2 years while 47.7 % of them actually expressed set back in their profit margin.

Throughout this article, the results of the 2010 IFEA Study have been compared to that of the 2001 Economic Impact Study of U.S. members of the International Special Events Society. This study was also conducted by the same researchers of the current 2010 IFEA study. Compared to the 2001 study in which a total of 78.% of respondents stated their gross income in the past year (2000) increased; only 26.4% of the 2010 respondents noted an increase in profit margin. Therefore, it is highly indicative and clearly evident that the current global recession has severely impacted the festival & event industry and is more serious than that of 2001.

Factors Which Influenced Profit Margins

Participants who experienced an increase or slight increase of their profit margin over the past 2 years stated that the primary factors which impacted these results were:

- Sponsorship (35.8%)
- Expense Budget Cut/Adjustment (27.5%)
- Increased Marketing Efforts (24.5%)
- Ticket Sales (22%)
- F&B Sales (20.3%)

Social network marketing, now widely accepted as a new marketing channel, has risen as a new factor of such increased profit margin in this study. If “Social Media Marketing” is combined with the response: “Increased Marketing Efforts,” the total responses (87) would surpass that of the number one contributed factor, “Sponsorship”(81). Alternatively, those who experienced a decrease or slight decrease of their profit margin, indicated that the primary factors which impacted such results were:

- Decreased Sponsorship (49.1%)
- General Effect of Economic Recession on All Revenue Sources (40.0%)
- Increased Product/Service Cost (26%).

Future Festival and Event Business Forecast

Almost 60% of respondents (58.9%) replied that they thought the economy’s rate of growth will slightly increase or increase, while 41.2% of respondents expect it would remain the same or decrease in the next 2 years. In regards to the expected profit margin of their organization for the next 2 years, only 34.1% expected that it would increase. Compared to the noted 58.9% regarding economy’s growth rate, it is determined the respondents of this survey expect a slower bounce back of the festival & event industry than the general economy.

Charts Four through Eight depict the previous and projected business performance by the festival & event organizations during the past and next two years.

CHART 4: ORGANIZATION'S PROFIT MARGIN PAST 2 YEARS VS. NEXT 2 YEARS (N=350)

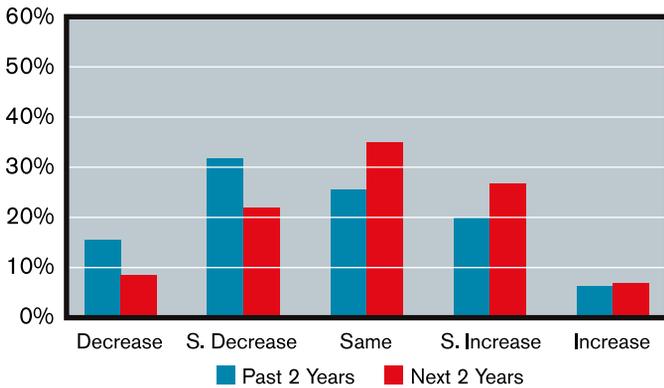


CHART 5: AVERAGE REVENUE EXPENSES (N=351)

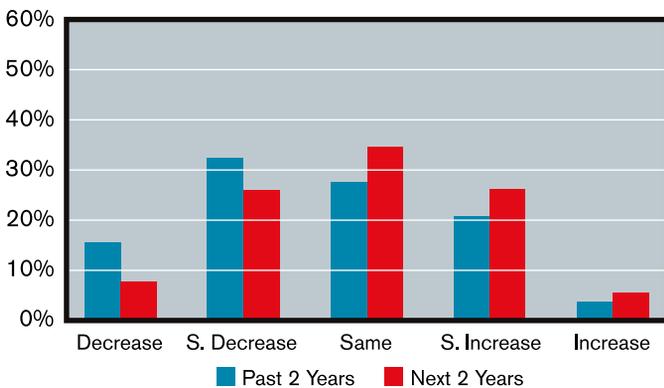


CHART 6: AVERAGE EXPENSE BUDGET (N=351)

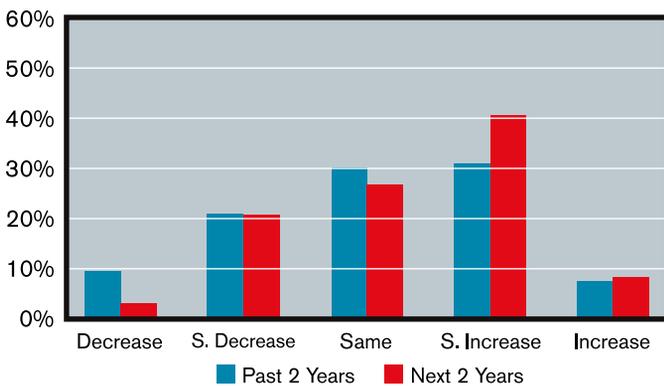


CHART 7: NUMBER OF FESTIVALS/EVENTS (N=351)

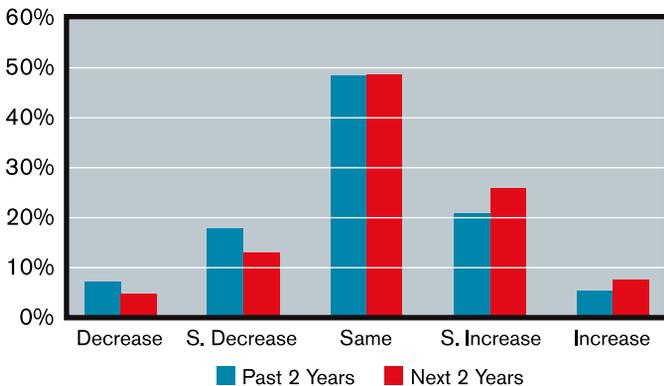
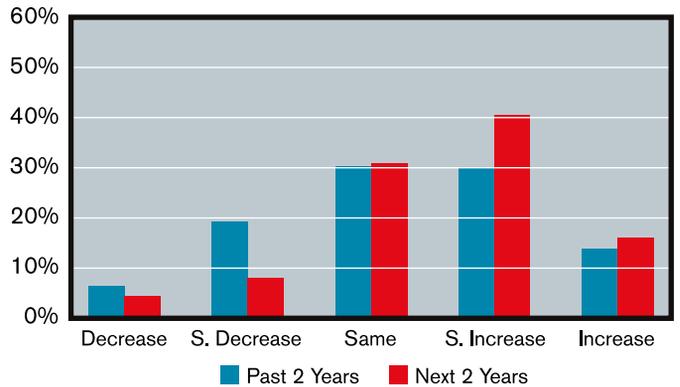


CHART 8: AVERAGE NUMBER OF ATTENDANCE (N=351)



Based on the comparison charts of the past 2 years and the next 2 years, it is clear that industry professionals view the next 2 years more optimistically but at a very conservative pace.

The Long Term View

According to the survey respondents, they believe the current global recession will also affect the industry in the long term (decade). When asked if the recession will have an effect on certain areas of the industry, they responded the recession would result in:

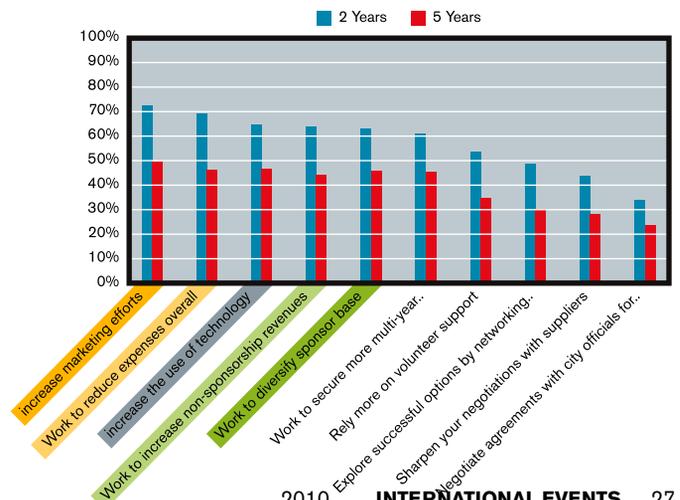
- A new level of creativity (71.9%)
- A permanent loss of some existing festivals and events (67.8%)
- Cancellation and/or temporary loss of some existing festivals and events (63.6%)
- Less corporate sponsorship available (60.7%)
- A permanent decrease of free or discounted municipal support services (47%)
- Higher costs for many products/services (45.3%)
- Increased focus on and use of economic impact studies to justify festival/event value (41.1%).

Developing strong political support for festival and events as a public service to enhance the overall quality of life is also important in order for these organizations to survive the expected diminishing benefits from municipal supports services.

How to Reduce Your Future Financial Exposure and Risk

As noted in Chart Nine, methods that festival and event professionals will use during the next two to five years to reduce their financial exposure are compared.

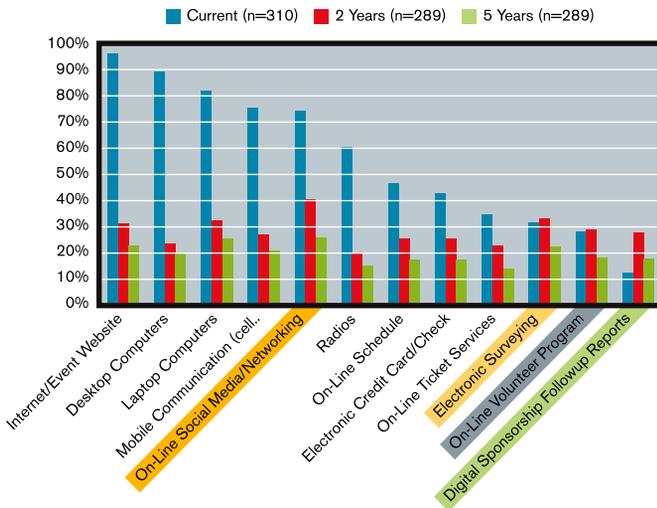
CHART 9: METHODS TO REDUCE FUTURE FINANCIAL EXPOSURE.



The Critical Importance of New and Immerging Technologies

Chart Ten illustrates the specific technological tools festival and event professionals currently are using and will use in the future to manage and market their businesses, in addition to highlighting the top technologies being used to advance the industry. The use of social media to promote, survey and distribute tickets is expected to grow significantly during the next two to five year period.

CHART 10: THE ROLE OF CURRENT AND FUTURE TECHNOLOGY IN FESTIVALS AND EVENTS



Experience Matters

Individuals with five to ten years experience, (See Chart Eleven), appear to have greater confidence in the future profit margins within the festivals & events industry. Similarly, Chart Twelve depicts those with more industry experience, have a more positive view of the overall future performance of the festivals & events sector.

CHART 11: YEARS IN THE INDUSTRY VS. PROFIT MARGIN FORECAST (N=285)

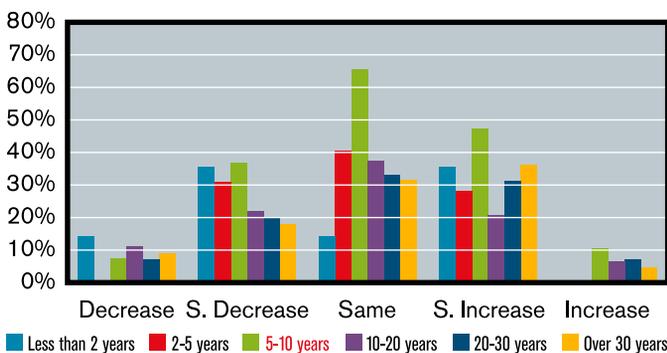
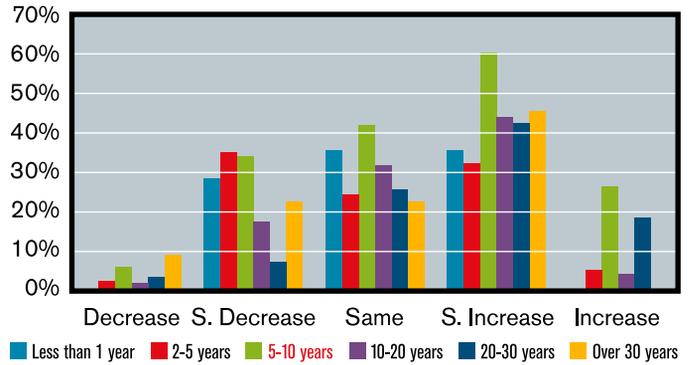


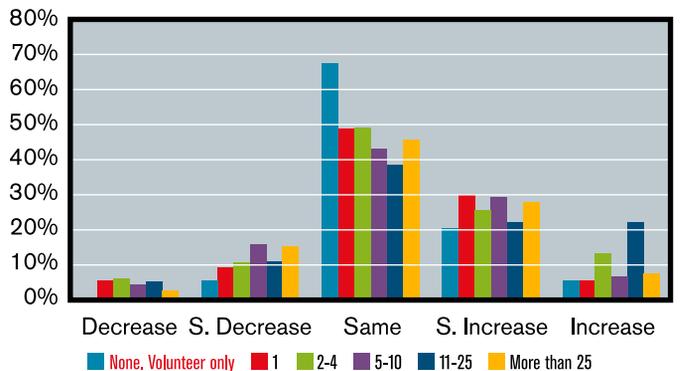
CHART 12: YEARS IN THE INDUSTRY VS. EXPENSE BUDGET (N=285)



Number of Full-Time Employees

Among the respondents, 64.2% answered that their organization has less than 4 full-time employees. About 80% of the respondents work for an organization that has less than 10 full-time employees. There was no significant difference in average revenue budget and the forecast of average number of attendance in the next 2 years among the groups with different number of full-time employees. Chart Thirteen demonstrates there may be a great reliance by festival and event organizations upon volunteer labor.

CHART 13: NUMBER OF FULL-TIME EMPLOYEES VS. NUMBER OF EVENTS/FESTIVALS IN THE NEXT 2 YEARS



Significant Change in the Past Decade

Table Two depicts the key changes between the 2001 and the 2010 festivals and events economic forecast and trends studies. The responses of "increase" to the most economy and business related questions (economy's rate of growth; revenue; number of events; average size of events) were higher in the 2001 study than those of the 2010 study.

TABLE 2: SIGNIFICANT CHANGES BETWEEN 2001 AND 2010.

| | | Decrease | Slightly Decrease | Remain the same | Slightly Increases | Increase |
|---|------|----------|-------------------|-----------------|--------------------|----------|
| The economy's rate of growth in the next two years | 2001 | 7.1% | 20.7% | 9.3% | 38.6% | 16.4% |
| | 2010 | 4.6% | 10.9% | 25.7% | 50.9% | 8.0% |
| Revenue for the next two years | 2001 | 0.7% | 7.1% | 12.9% | 32.9% | 46.4% |
| | 2010 | 7.8% | 25.9% | 34.6% | 26.2% | 5.5% |
| The number of your events in the next two years | 2001 | 0.7% | 6.4% | 13.6% | 28.6% | 50.0% |
| | 2010 | 4.9% | 13.0% | 48.7% | 25.9% | 7.5% |
| The average size of your events in the next two years (number of attendance in 2010 survey) | 2001 | 1.4% | 5.7% | 35.7% | 29.3% | 26.4% |
| | 2010 | 4.3% | 8.1% | 31.1% | 40.6% | 15.9% |

A total of 94.1% of the respondents in the 2001 study said they would remain at the same level or increase the use of technologies in an economic downturn. Special event professionals considered Internet and Web marketing/websites as the primary factor that have increased their revenues in 2000. The comparison shows that technology has become much more important to current business today. In addition, sponsorship and diversifying various revenue sources play a major role in helping festivals & event businesses get through the tough economy following the recession.

Table Three depicts the key changes in the use of technology between the 2001 and the 2010 festivals and events studies. The top ranked technologies were similar in both studies, such as laptop, desktop, internet, website, and mobile communication (cell phone). However, the use of social media to promote, survey and distribute tickets is expected to grow significantly during the next two to five year period.

TABLE 3: COMPARISON OF TYPE OF TECHNOLOGY USED/USING BETWEEN 2001 AND 2010 STUDY.

| Rank | 2001 Study | 2010 Study | | |
|------|-------------------------|---------------------------------|---------------------------------|---|
| | Current | Current | In 2 years | In 5 years |
| 1 | Internet Website | Internet/Event Media/Networking | On-Line Social Media/Networking | On-Line Social |
| 2 | Cellular phone | Desk top PC | Electronic Surveying | Lap top PC |
| 3 | Desk top PC | Lap top PC | Lap top PC | Internet/Event Website |
| 4 | Data Base communication | Mobile Website | Internet/Event Surveying | Electronic |
| 5 | CD-ROM | Media/Networking On-Line Social | On-Line Volunteer | Mobile communication (cell phone/Blackberry/iPhone) |

Conclusions and the Possible Way Forward

The top strategies festival and event professionals indicated they are using to build a successful business moving forward was to:

- Increase marketing efforts
- Work to reduce expenses overall
- Increase the use of technology
- Increase non-sponsorship revenues
- Diversify sponsor base
- Secure more multi-year sponsorship agreements.

Based on these results:

- Financial planning regarding revenue for future festivals and events should be conservative due to the continuing economic uncertainty as confirmed by the respondents' forecasts.
- Technology was strongly measured as a very important method to reduce future financial exposure of the respondents' organizations as compared to the 2001 ISES study.
- On-line social media/networking (Facebook, MySpace, Twitter, LinkedIn, etc.) and electronic surveying of attendees and other groups in addition to the usual business technology (computer, internet, mobile communication) were valued as important tools. (It should be noted that online social media/networking sites and electronic surveying of attendees and other groups are new additions in the 2010 study that reflect the change of technology in the business.)
- Increased adoption of social media/network websites for businesses is clearly expected to happen in the event/festival industry along with greater use of the internet and website.

Seungwon "Shawn" Lee, Ph.D. is an assistant professor in the School of Recreation, Health, and Tourism at George Mason University in Fairfax, Virginia. Professor Lee's professional work and research focuses on meeting & event management and the impact of technology on the meeting & event industry. Dr. Lee is also a former meeting coordinator and director of special events for various organizations in the U.S.

Professor Joe Goldblatt, CSEP is the executive director of the International Centre for the Study of Planned Events in the School of Business, Enterprise and Management at Queen Margaret University in Edinburgh, Scotland. His twenty-first book, "Special Events: A New Frontier for the Next Generation" was published by John Wiley & Sons, Inc. in 2010. He is the author and editor of a total of twenty-one books in the field of planned events. He was inducted into the IFEA Hall of Fame in 2008.

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