



Royal Albert Hall

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1. Introduction

This report will be analysing the Royal Albert Hall, a staple of the UK live music industry. I will be providing an overview of the venue's history, a quick analysis of its macro and microeconomic context by comparing it to its different competitors. I will then explore the Hall's various income streams using examples from their latest financial report. The Royal Albert Hall (RAH) is the world's busiest venue, reporting 391 events in the auditorium in 2019, but has had to shut its doors for the first time since WW2, due to the Covid-19 pandemic. Under these challenging circumstances, part of this report will also address how the RAH has navigated this unprecedented crisis, using information I gathered during my placement there as well as through a recent conversation with the Hall's Head of Finance, Colin Huntington.

2. The Hall of Arts and Sciences

"Our vision is to inspire artists and audiences worldwide with the magic of the iconic Royal Albert Hall, creating life-enriching, unforgettable experiences for everyone."

- Ian McCulloch, Report of the Council of the Corporation, 2019

2.1. Brief history of the Hall

The Hall of Arts and Sciences, also known as the Royal Albert Hall is a music venue located in South Kensington, in South-West London. It is operated by a charity called *the Corporation of the Hall of Arts and Sciences (The Corporation)*, whose aims are the preservation of the Grade 1 listed building and the promotion of the arts and sciences.

With 1.7m visitors in 2019 and hosting events like the Proms or the BAFTA awards, the RAH is a crucial actor of the UK's live music circuit.

Founded in 1871, the venue has since hosted iconic performances by major artists like Frank Sinatra, Adele, Elton John, Mariah Carey, Muse or even the Beach Boys. It has the largest pipe organ in Europe with a total amount of 9 999 pipes.

Listed since 1958, the building was also the scene for Albert Einstein's 1933 speech for global peace as well as 16 appearances by Sir Winston Churchill between 1911 and 1959.

The venue operates as a non-profit charity meaning that all income is reinvested into the building since its creation in 1871 by Prince Albert. Since the 16th of May 2019, the charity is chaired by Ian McCulloch and its Chief Executive is Craig Hassall. The charity is governed by 23 trustees and currently employs 454 people.

2.2. A business and a charity

The Hall operates as a charity, meaning it can not generate profit, only a financial surplus that is then reinjected into charitable causes, such as an Education and Outreach fund of £0.4m, external charities or other initiatives promoting the arts and sciences.

The Royal Albert Hall is held in trust by the government and therefore a public building under charitable governance. Despite this status, it is not eligible for any government funds or grants. The venue operates exclusively thanks to income from the events held in and out of the building, private donations or support from the different members. Due to the Covid-19 closure, the Corporation lost all of its income linked to events and has been relying on donations since March 2020, most donors have even pushed forward their donations in order to show their support to the venue.

The charitable nature of the Hall also means its day to day operations have to be run through subsidiary companies like Royal Albert Hall Developments Ltd and Royal Albert Hall Concerts Ltd in order to be able to generate income. The subsidiaries then donate their income to the parent charity. This allows to mitigate risk to the charity and also to clearly separate the non-charitable sources of income and the donations.

The Hall as a building is held in trust for the nation, however the Corporation doesn't receive any government funding. It functions exclusively on financial surplus generated by their commercial activity, bank interest, combined with philanthropy from different donors.

The corporation of the Hall of Arts and Sciences is the charity trusted with the missions of promoting the Arts and Sciences as well as the preservation of the building, its president is elected by members of the council each year. It is important to note that

none of the 23 trustees nor the president of the Corporation are being remunerated due to the charitable nature of the venue.

However a contradiction lies within this model: 19 of the 24 trustees are Members of the corporation, meaning they own at least one of 1268 privately-owned seats out of the 5,272 in the Hall. On the other hand, trustees can not benefit from the charity under the Royal Charter and charity law. This is a dichotomy that hasn't been addressed since the original charter from 1867.

The Royal Albert hall functions as a group, divided in multiple subsidiaries governed by the Corporation:

- The Royal Albert Hall Trust (charity number: 285111) is the organisation raising funds for the charity, which then donates those funds to the Corporation of the Hall of Arts and Sciences. Those may be restricted funds or unrestricted funds. In 2019, the Trust raised and donated £2.217m to the Corporation, a 50% drop compared to the 2018 figures.
- Royal Albert Hall Developments Limited (company number: 01539294) is a subsidiary responsible for generating income through peripheral activities such as licensing/hiring the space, catering, merchandising, tours or hospitality packages. Royal Albert Hall Developments Limited (RAHDL) is chaired by Leon Baroukh and Craig Hassall is one of the other five directors of the company.

- RAH Concerts Ltd (company number: 01539294) was incorporated on the 10th of March 2017. This Limited Company allows the Hall to produce self-promoted shows and licence the Royal Albert Hall to third parties. RAH Concerts is wholly owned by the Corporation, and a subsidiary of RAHDL¹.

Those different income streams will be explored later in this report, but first I will be putting the Hall in its macroeconomic context.

3. Economics

3.1. The Live Music industry

In 2019, the Live Music industry contributed £4.5bn to the UK economy - including peripheral revenue generated by venues, hospitality and music creators (Valuing Live Entertainment, Carey and Chambers, June 2020) and had a GVA of £1.3 bn (UK Music's Music by Numbers annual report). The latter figure only includes venues, promoters and festivals. This year however, according to a recent report by the Concert Promoters Association, its revenue has been close to 0 since March 2020 and will fall by 81% compared to 2019.

At the time of this report, in December 2020, the UK Government restrictions on collective gatherings and the two successive lockdowns due to the Covid-19 pandemic have crippled every music venues in the country and a significant amount of grassroots

venues will not be able to open their doors again, despite the £1.57bn government rescue package for the arts.

According to the same report, concert halls have lost an average of 74% of their revenue with 78.8% of their staff on furlough. An interview I conducted with the Hall's Head of Finance on the 24th of November 2020 revealed that 80% of their staff is currently on furlough, which is in the same range as similar venues surveyed by the Concert Promoters Association.

"Arenas are on their knees financially and sadly operators have had no other choice than to make redundancies because of the uncertainty ahead of us." says Lucy Noble, Chair of the National Arenas Association & Artistic and Commercial Director of the Royal Albert Hall.

In this challenging economic context, we will explore the measures taken by the Hall to navigate this crisis and operate on minimum overhead while the venue is being closed further in this report, but for now I will be providing some more information on the microeconomic context surrounding the RAH.

3.2. Target audience and current customer base

The venue's image is very much tied to the BBC Proms and its classical venue heritage, however those only represent less than a third of the events happening in the Hall. The other two thirds are a blend between contemporary music concerts, award ceremonies as well as unconventional events such as a recurring residency by Cirque du Soleil, boxing matches, wrestling or even

¹ Note the use of the Oxford comma

tennis galas. The Hall's variety of events makes it an even more unique place.

In its 2017-2021 five year plan, the Hall's senior management has emphasised the need to update the venue's image and broaden its customer base, as their current average client is a 40+ years old upper-middle demographic. The hall's audience is extremely faithful to the venue, its core audience is 85% the same Y/Y, however multiple initiatives have been put in place to expand the variety of the audience.

This initiative to reach out to a younger audience started in 2015 by revealing a new visual identity and logo, curated for the Hall by the Brand Pie agency but also by initiatives to incentivise a younger demographic to enter the Hall.

Behind the Mainstage is the venue's initiative to organise more affordable events outside of the main hall, it notably encompasses Late Night Jazz and Classical Coffee Mornings, which both happen in the Elgar room - a restaurant convertible in a spacious concert space - with tickets ranging from £5 for students to an average of £20 for general entry, while tickets in the main hall can be sold for figures above the three-figures mark.

3.3. Competition

With a capacity of 5,272 seats, the RAH is a rather small venue compared to concert arenas and stadiums - Wembley Stadium can host up to 90,000 audience members for shows - its direct competition lies in smaller size venues, like the Hammersmith

Apollo or the Brixton O2 Academy. According to Colin Huntington, the Hall's Head of Finance, "Artists play the Hall on their way up and on their way down", meaning this venue is ideal for up-and-coming artists (RyX, Kano, Snarky Puppy) or established "legends" of the likes of Eric Clapton or Take That.

Arguably, the Royal Albert Hall does not have any direct competitors, in the sense that no other venue of the same capacity offers the same premium-feeling environment, and very few venues of this capacity do attract headliners like the Hall does. It is a high-profile venue for artists and a literal monument of British culture. In terms of attendance however, according to Pollstar, the closest London-based venue would be the Eventim Apollo in Hammersmith.

The Eventim Apollo, formerly known as the Hammersmith Apollo, is one of the main entertainment venues in London. Similar to the RAH, it is a Grade-2 listed building and can host 5,039 standing audience members. Some iconic acts have performed at the Hammersmith venue, such as Kylie Minogue, Oasis, Pink Floyd, and Ella Fitzgerald, all of which have also performed at the RAH. Considered an intimate venue, the Apollo has a long history of music performances since it opened its doors in 1962.

The Apollo operates as a Limited company and grossed \$3,712,965 in 2019, which represents an eighth of the Hall's revenue, and has had many financial difficulties over the years and has known six different names due to successive sponsorships and changes of direction. The Apollo certainly is a very important venue and is in the

world top 150 venue of its size, however it is no direct competitor for the Royal Albert Hall.

The RAH is marketed as being the world's busiest venue, with 243,183 tickets sold over 391 events in 2019. However according to Pollstar, the SSE Arena in Glasgow sold over a million tickets in 2019 and is therefore the largest venue in the UK in terms of ticket sales, while still hosting less events than the RAH. The Hall's unique selling point is its rich history and its status as a premium venue, which also contributes to it not reaching its desired target audience. The hall's identity is so strong that it makes it difficult for the Corporation to shift their client base away from their traditional profile.

4. Finance

With over £40m of expenditure on charitable activities and £39m of income from commercial trading operations and donations, the Royal Albert Hall's still has a c/f of £56,557,000 on the 31st of December 2019. If it were a company, it would be a highly profitable business as the hall has gained a high status and is a crucial venue to play for artists. The Hall is currently financially secure enough to be able to refuse bookings. Grossing £35.3 in commercial activities and steadily growing year on year, this venue is one of the most successful in Europe and is the 27th highest grossing theatre in the world (Top 200 theatre venues by ticket sales, Pollstar).

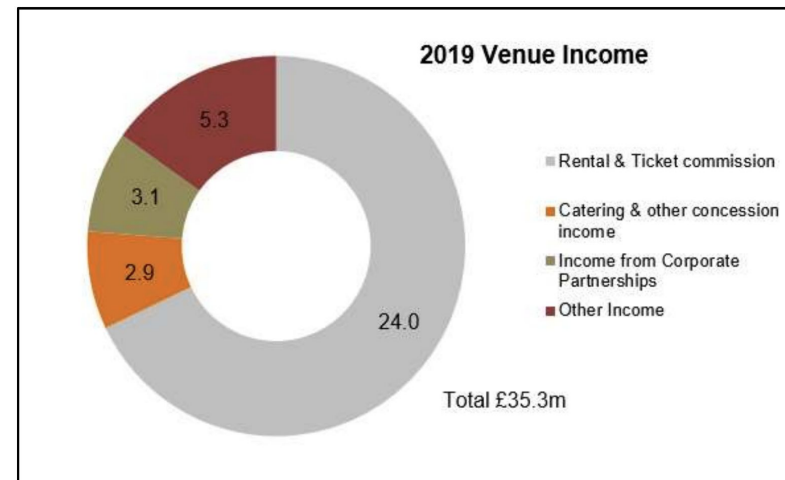
We will now attempt to understand the Royal Albert Hall's business model and put it in the context of the Covid-19 pandemic.

4.1. The Hall's business model

The Hall's business model is very similar to a standard music venue even though its legal structure is out of the ordinary.

The RAH has multiple income streams, the primary one being the licence of the space to promoters and its commission on tickets - £24m, secondary income streams include Catering and Concession income, Corporate Partnerships as well as interests on the corporation's investments.

Fig. 1: RAH 2019 Venue Income in £m



Royal Albert Hall Developments Ltd, whose main activities are the profit generation for the corporation generated a total turnover of £23.3m in 2019, compensated by a cost of sales of £17m. Certain

Its subsidiary, RAH Concerts Ltd had a turnover of £917,000 in 2019, including £72,000 in rental and £844,000 through ticket sales and commission. After deducting all operating costs, the company achieved an overall operating profit of £245,000. All these monies have then been reinvested in the parent charity in the form of a Deed of Covenant. Equally, thanks to their profit-generating activities RAHDL's deed of Covenant to the Corporation amounted to £12,380,000, as shown in the 2019 statement of comprehensive income.

As part of their mission to enjoy the Grade-1 listed building and make it accessible to all, the RAH also offers daytime tours to members of the public. The resulting income in 2019 was £2.9m, which have been reinvested in the Education and Outreach program as well as in wages for the staff.

The Corporation's Members or 'Seatholders' also represent a non negligible stream of income for the Hall. Each year, the members vote on a seat rate, which is an annual voluntary contribution to the Hall's charity. At the 2019 assembly, the seatholders agreed on a rate of £1384 per seat. This generated a £1.8m income as 1268 seats are privately owned in the RAH.

Because of its charitable nature, the Hall exclusively relies on cash investments in order to minimise risk and encourage philanthropy. This shows a very conservative investment policy. In 2019, the Corporation earned £290k from interests for those cash investments (held at amortised cost). This overall conservative and risk-free approach can explain the small amount of reserve funds compared to venues of the same size and reputation.

On 31 December 2019, the reserves of the Hall amounted to a total of £57.3m of which £0.8m were restricted funds. The corporation therefore had access to £56.5m. However one can foresee a significant drop of this fund as 91% of the Venue's reserve funds have been allocated as designated funds in order to maintain the charity while it can't host any performances and fund crucial initiatives such as the Education and Outreach programme or the Plant and Fabric Sinking Fund. For instance through the furlough scheme, the venue has to pay for 80% of the salary of their staff, without any income.

Based on the staffing costs from 2019, this represents a loss of £12.76 without accounting for the fact that the 20% of the staff still employed must be in the highest tier of employees (the Hall has 21 employees earning more than £60k per annum, including 6 above the £100k mark). It is fair to assume that the real staffing costs of the furlough of 80% of the employees and the full salary of the remaining 20% must be over £14m per year

The £24m venue income comprises £10.9m from commission on ticket sales, £5.5m of venue rental as well as £4.7m from various sources which include the newly established Restoration Levy.

This is a £1.5 contribution per ticket that is a restricted fund for the preservation of the building. It increased income by £900,000 in this financial year.

Unfortunately, the financial records published in 2019 do not explain what the source of the remaining £2.9m is in regards to venue income.

Through RAHCL, the hall is able to produce and promote their own shows, without the involvement of an external promoter. The opportunity cost of doing so is quite high: The Hall is fully liable if the show doesn't sell well, has to hire more staff, which represents a greater financial risk but this risk is also very rewarding as the hall is entitled to 100% of the ticket sales for its self promoted shows while they only take a commission on externally promoted ventures.

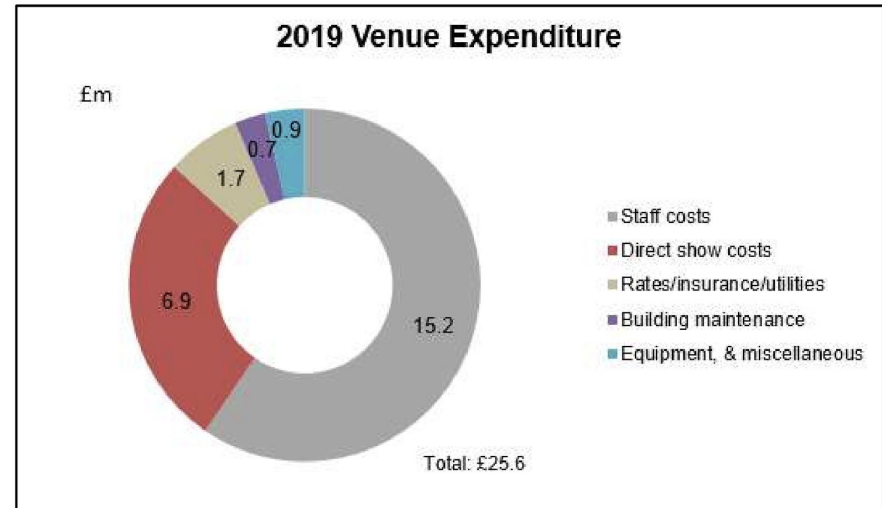
The venue also made £2.9m from hospitality and catering. Through their partner, Rhubarb, the hall offers a wide array of hospitality packages for their events either in the boxes or the different restaurants and bars within the circular building.

Being a charity, the Hall's income is also supplemented by donations from the Members, Friends and Patrons of the venue. This generated £2.5m of income according to the 2019 Charity Review. The general public's donations added an additional £90,000 to the Hall's funding.

Brand partnerships and sponsorships is also a noteworthy income stream, as the Corporation is leasing space in the Hall to brands such as Perrier, Stella Artois, Asahi etc. this represents £2.3m of income for the Hall in 2019.

Since 1996, Cirque du Soleil has been one of the best selling recurring shows at the Hall, renting the space every beginning of the year for a minimum of a month. However, the Montreal-based entertainment company laid off 95% of its employees, suspended all its shows, and filed for bankruptcy in June 2020 due to the Covid-19 restrictions on public performances. I will expand on the other consequences of this pandemic for the Hall later in this report.

Fig. 2: RAH 2019 Venue Expenditure in £m



The Venue expenditure for the financial year 2019 represents a total of £25.6m, 60% of which is staff costs. The Venue expenditure is part of the second mission of the Corporation which is the promotion of the arts and sciences, which is demonstrated in Fig. 3, the consolidated accounts of the group.

Most of the Corporation's expenditure revolves around staffing costs and maintenance of the building as can be shown in Fig. 5.

Fig. 3 - consolidated accounts of the group

	Notes	Unrestricted funds £'000	Restricted funds £'000	2019 Total funds £'000	2018 Total funds £'000
Income:					
Donations and legacies	1	-	1,709	1,709	2,641
<i>Income from charitable activities:</i>					
Operation of Hall	2	12,825	301	13,126	11,205
Investment income and interest		290	14	304	260
<i>Income from other activities:</i>					
Commercial trading operations	3	24,203	-	24,203	22,627
Total income		37,318	2,024	39,342	36,733
Expenditure:					
<i>Costs of raising funds:</i>		540	1	541	446
<i>Expenditure on charitable activities:</i>					
Maintaining and developing the Hall	4	13,749	-	13,749	9,989
Promoting the arts and sciences	4	26,376	305	26,681	24,471
Total expenditure		40,665	306	40,971	34,906
Net income/(expenditure)		(3,347)	1,718	(1,629)	1,827
Transfer between restricted and unrestricted funds	19/20	1,913	(1,913)	-	-
Net income/(expenditure) after transfers between restricted and unrestricted funds		(1,434)	(195)	(1,629)	1,827
Actuarial gains/(losses) on defined benefit pension scheme	21	-	-	-	(99)
Net movement in funds		(1,434)	(195)	(1,629)	1,728
Fund balances brought forward at 1 January 2019		57,991	950	58,941	57,213
Fund balances carried forward at 31 December 2019		56,557	755	57,312	58,941

Fig. 4 - balanced sheets of the Corporation and the Group

	Notes	Corporation 2019 £'000	Group 2019 £'000
Fixed assets			
Tangible assets	11	43,724	43,724
Intangible assets	12	1,064	1,064
Heritage assets	13	-	-
Investments	14	3,262	3,269
Investment in subsidiary	15	25	-
		48,075	48,057
Current assets			
Debtors	16	3,270	5,752
Investments	14	15,740	22,732
Cash at bank and in hand		10,027	10,646
		29,037	39,130
Liabilities			
Creditors: amounts falling due within one year	17	20,562	29,876
Net current assets		8,475	9,255
Total net assets		56,550	57,312
Represented by			
Funds and reserves			
<i>Income funds:</i>			
Restricted funds	19	-	755
Unrestricted funds			
. Designated funds	20	52,689	52,689
. General funds			
. Free reserves	20	3,861	3,868
. Pension reserves	21	-	-
		56,550	57,312

Fig. 5 - expenditure and support costs

4 Analysis of expenditure on charitable activities

	Maintaining and developing the Hall £'000	Promoting the arts and sciences £'000	2019 Total £'000	2018 Total £'000
Building maintenance	1,688	-	1,688	1,782
Building refurbishment and improvements	8,380	-	8,380	4,643
Security and housekeeping	1,783	1,346	3,129	2,983
Archives	167	-	167	143
Ticketing	-	2,477	2,477	2,333
Show management and production	-	8,844	8,844	7,554
Front of house services	-	3,686	3,686	3,341
Programming, marketing and PR	-	1,757	1,757	1,717
Education activities	-	566	566	443
Miscellaneous	-	1,252	1,252	1,675
Support costs (see note 5)	1,731	6,753	8,484	7,742
	13,749	26,681	40,430	34,356

5 Support costs

	Maintaining and developing the Hall £'000	Promoting the arts and sciences £'000	2019 Total £'000	2018 Total £'000
Finance and information systems	374	1,685	2,059	1,512
Administration and human resources	335	1,698	2,033	2,207
Overheads and insurance	513	703	1,216	1,105
Utilities	144	936	1,080	830
Depreciation and amortisation	126	1,731	1,857	1,840
Governance costs (note 6)	239	-	239	248

4.2. 2020 and Covid 19

In an interview in June 2012, James Ainscough Director of Finance and Administration at the RAH said that “Premium brands survive recession” however, in light of the current situation, this prediction was too optimistic.

All the 2019 financial statements of the Corporation and its subsidiaries cite the Covid-19 pandemic as the principal risk to their activity and the Hall has resorted to different measures in order to remain in business by the time the entertainment industry gets back to normal. Q2 and Q3 are traditionally the strongest months for the music industry, generating 70% of their yearly income over those 6 months, however this year’s Q2 and Q3 revenue is close to zero.

Just like most of the music industry, the RAH did not account for a pandemic or any sort of closure as a risk in their business plan for the past years, therefore the business is currently operating on its reserves, however this isn't a sustainable solution according to Colin Huntington.

The very nature of the Hall not seeking profit can be seen as one of the reasons why the corporation is currently experiencing extreme financial difficulties. A stronger investment policy would have allowed for a larger reserve fund and therefore might have secured the venue during the Coronavirus outbreak without the need of government help. For the first time since its creation, the Corporation is applying for a government loan of £20m. Indeed,

the Hall reported a loss of £18m in income since March 2020 and was ineligible for the government grant as they are not a portfolio of nationally spread sites as opposed to competitors like the O2 and considered too big to need the grant.

According to the latest statement in date, “The fund is set at a level equivalent to three months of operating expenditure and this is considered by the Trustees to be sufficient based on our current organisational risk assessment where policies are in place to mitigate as much business risk as possible. In 2019 three months of operating expenditure was equivalent to £5m, and the fund balance at the year end was £3.8m. The Hall will be working to increase the level of the free reserves through operating surpluses over the next two years.”. Arguably it is now too late for the corporation, as the fund is slowly but surely being exhausted, the risk assessment policy was not conservative enough.

Being under the same regulations as a company, if the loan isn't accepted, the iconic venue might have to file for bankruptcy and the building could be placed under the care of the government, under a new committee of trustees or held in trust by another charity.

In case the loan is accepted, the trajectory of the Hall would be to produce more self promoted shows, however the pricing of the tickets should remain in the same range, according to demand, but might be adjusted if the venue were to operate at reduced capacity.

In the words of the Head of Finance, the charity's current strategy is "to hibernate and survive"

4.3. The next steps for the Hall and the Lean business model

The current trajectory of the music industry has forced the Royal Albert Hall to adopt a lean business model, reducing their overheads and running costs as much as possible while their activity is limited by those external circumstances.

The Hall is allowed to open its doors to 50% capacity this December and will be hosting shows with a one meter social distancing between the seats. Those would be the first shows there since March 2020. However this model is far from sustainable as the shows hosted in this venue can require up to 90% capacity before breaking even, according to Dave Gamble, one of the Hall's Programming Managers. This initiative allows the Hall to engage their staff and resume some sort of activity, which I believe is also a PR maneuver in order to encourage donations.

The venue is currently in discussion with many promoters, betting on a return to normal by Q2 2021, selling tickets for shows programmed in March and April 2021 as well as exclusive presales for Friends and Patrons to Christmas shows in winter 2021.

In its 2019 consolidated financial report, the Hall states that “We have reviewed our operating budgets in detail and reduced them to minimum levels of essential expenditure only”. This is the

indication that this multi-billion pound operation is currently transitioning to a lean business model.

Lean is a methodology by which businesses reduce their operating costs to the minimum in order to deliver an optimal level of quality while increasing the sustainability of the operation. Its aim is to increase customer value by reducing the amount of steps required to achieve the goal or by eliminating waste, either figuratively or literally, as explained in *The Lean Startup* by Eric Ries (Ries, 2011)

The Lean methodology is articulated around seven types of waste, namely transportation, stock, motion, waiting, processing, overproduction and defects and the different ways to reduce those.

Arguably, The Royal Albert Hall is not running on a lean business model as the building itself represents a tremendous expenditure and requires constant repairs, maintenance and refurbishment.

However the new tendency to encourage self promoted shows is very much in the lineage of the Lean model as it reduces the amount of intermediaries and changes the Hall's service from B2B to a direct-to-customer model.

The way the Hall approaches fundraising is also in line with the Lean methodology. The corporation doesn't rely on any external organisations to raise funds, but have an in-house team of 9 specialists. One could say that the Hall excels at reducing non-utilised talent as a lot of their current management joined the company as stewards.

In order to keep their process as streamlined as possible, after each show the event manager has to fill a report about the night, stating the real times of arrival, soundcheck, intermission and also reporting anything specific that might have happened. This gives senior management a considerable amount of data that they can then use to keep improving the operative system of the venue.

In the future, to supplement their self promoted shows, the Royal Albert Hall will be relying on the survival of external promoters who are their main clients for hiring the venue. Additionally to the repercussions of the Covid-19 lockdown, the Corporation will also have to navigate the consequences of Brexit in 2021. It is still uncertain how the music industry will be impacted but one can assume it will be much more difficult for international acts to perform in the UK, which will also create a gap in the venue's income.

5. Conclusion

The Royal Albert Hall has been a venue on the rise since the 90's and was, for the past five years, experiencing a shift in mindset meant to widen the scope of their audience and clientele, by making its brand evolve towards a younger demographic and building initiatives to incentivise various demographics to enter the building. Since it's listing as a Grade-1 building in 1958, the Hall is at the forefront of the UK music industry, being the highest grossing theatre and the most active music venue in the country, without any equal competition in this part of the market.

Despite its worldwide popularity and status, the Royal Albert Hall is enduring the Covid-19 lockdown just like any other business. Due to a combination of admittedly extremely conservative investment policies and a rather small reserve fund compared to the running costs of the organisation, the iconic venue might be facing bankruptcy in 2021, unless it is bailed out by the government. This is a prime example of the reality of 2020 for the entertainment industry, no matter how big or small, every member of the industry is severely impacted by this crisis and can only hope for a return to normal to be able to safely carry on with their business.

In the 2020 report *Music in the Air*, Goldman Sachs Global Investment Research estimates that 79% of fans should return to live events once the Covid-19 restrictions are lifted, the Royal Albert Hall needs to make sure their target audience is included in those 79%, and perhaps this will be the perfect opportunity for it to reopen its doors to a the audience the Corporation is looking for.

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