

# **The Current and Future Impacts of the Recession during 2007-2009 on the Festival and Event Industry**

## **ABSTRACT**

**Purpose:** The purpose of this study is to understand the impact of the global financial crisis during 2007-2009 on the festival and event industry and to identify strategies to help it to move forward.

**Design/methodology/approach:** Festival and event industry professionals were asked to answer questions about their business performance during the current global recession and about potential strategies to weather it in the short term and long term.

**Findings:** This study found that about the half of respondents' organizations' profit margins decreased. The respondents indicated that primary factors that impacted the decrease were decreased sponsorship and the general effects of economic recession on all revenue sources. The festival and event professionals expected the industry to grow and perform at a very conservative pace over the two years following the recession (2011 and 2012). The strategies that the festival and event professionals intended to use to build successful businesses following the recession were "increase marketing efforts," "work to reduce expenses overall," and "increase the use of technology."

**Research limitations/implications:** Due to limited responses from international festival and event professionals, the findings of this study solely reflect the U.S. festival and event industry.

Practical implications: The significant contribution of this study is not only measuring the direct impact of the recent recession on the festival and event industry, but also providing in-depth knowledge of changes made by the industry in response to the recession.

Originality/value: This is the first study of its kind to measure the direct impact of the global recession on the festival and event industry. The findings provide a guide to assist festival and event leaders to make better decisions to deal with both the current recession and future downturns. It also serves as a foundation to measure the performance of the festival and event industry in various economic environments.

Keywords: festivals, events, recession, trends, state of the industry

Paper type: Research paper

## INTRODUCTION

Festivals and events have received growing attention as a contributing source of positive economic revenue, as well as a force of enhancing destination image for host cities, regions, and countries (Hede & Jago, 2005; Kim & Morrison, 2005; Lee & Taylor, 2005). Starting from December of 2007, the world **experienced** the worst economic time since the Great Depression and many industry professionals believe the global economy is still recovering (*Wall Street Journal*, 2010). Few businesses and industries have not been affected, the festival and event industry included. During such difficult times, people and communities are forced to make some **difficult** lifestyle and budget choices and festivals and events often find themselves high on the list of potential sacrifices. For example, numerous festivals and events have been scaled back or even cancelled as government officials seek to balance their budget. In addition, corporate sponsors are wary of appearing to support external marketing program budgets while simultaneously reducing their staff budgets. The festival and event industry figures reflect this contraction. According to *Special Event Magazine*, event professionals indicated “reduced budgets to work with” as their number one challenge in 2010. The same group responded to a question “How the number of events was changed compared to last year?” A total of 47% (in 2008 and only 20% in 2009 responded that the number would increase. There was a slight bounce back to 32% in 2010, however those figures are still far behind from that of years before the global recession hit the event industry (Hurley, 2011).

Festival and event professionals are searching for solutions to not only survive but also thrive, despite a continuing economic downturn. Understanding that even in challenging times, the best thing that leaders may do is to use the lessons learned from the past to prepare for the

future. One way to improve decisions making is to gain a better understanding of how experienced professionals prepared and executed similar challenges, and more specifically, what factors influenced industry business practices.

Due to its significant impact to the host, the majority of research has focused on measuring the economic and socio-cultural impact by festivals and events and identifying the factors influencing the outcomes of positive and negative impacts. Although the festival and event industry are significantly influenced by the changes in economy as other businesses are, little research has examined the impact of economy, specifically recession, to the festival and event industry. As the festival and event industry is maneuvering through one of the worst global downturns, it is not clear if the findings from previous studies on the impact of economy on the industry can be applied to the current business setting.

Therefore, the purpose of this study is two-fold: 1) to analyze the impact of the recent recession on the festival and event industry from the perspective of festival and event professionals; and 2) to identify the principal challenges that festival and event professionals expect and strategies that they will use to overcome a future economic recession. For the purposes of this study, the researchers sought to find out:

- 1) What were the principal challenges and changes identified by festival and event professionals during the recession?
- 2) How will the recession affect the industry in the future and what strategies will festival and event professionals use to build successful businesses in the future?

The results of this study may help festivals and events leaders and others to better understand the impact of the current global recession on the festival and event industry, how to

better prepare for future economic challenges, and how to best navigate the current path to an economic recovery within the industry.

## **LITERATURE REVIEWS**

### Recessions and Economic Theories

In the United States, the National Bureau of Economic Research (NBER) defines when a given recession starts and ends. The NBER looks at real personal income, industrial production, and wholesale and retail sales. In addition, the NBER also considers the gross domestic product (GDP), which is the figure most typically associated with recessions by the general public. The generally accepted definition of a recession is the reduction, in terms of GDP, of a country's production for two or more consecutive quarters. The NBER declared 12 recessions between 1945 and 2009 ([www.nber.org](http://www.nber.org)).

There are several economic theories that offer insights into how recessions occur and how to overcome them. Keynesian theory (Keynesianism) is named after John Maynard Keynes, who developed a theory to explain the Great Depression and to devise a cure. During the 1930s, the Federal Reserve's severely tightened the money supply, compelling people to reserve their money, and this is what many believe caused the Great Depression. Keynes suggests that the Federal Reserve should expand the money supply as a way of overcoming a recession. By putting more monetary sources into the economy, confidence in the economy would return and the circular flow of money would be reestablished. In a normal economy, there is a high level of employment, and everyone spends their earnings as usual, which creates a circular flow of money in the economy. When the economy enters a downturn, worried consumers lose

confidence and try to weather the upcoming economic hardship by saving money. As consumers hoard money, the circular flow of money is disrupted and the economy suffers. This theory also explains the specific reasons why people start reserving money. The reasons include a loss of confidence in the economy triggered by a visible event such as a stock market crash, a natural disaster, a sudden loss of jobs, or a weak sector of the economy. According to the theory, the Federal Reserve is a key player not only to expand money supply but also to contract it. To expand money supply, the Federal Reserve buy U.S debt from commercial banks and the money collected from the sales of these debts increase the amount the commercial banks can lend. Another way is to loosen credit requirements and to cut prime lending rate, which is the rate the Federal Reserve loans to commercial banks. To reduce money in the economy, the Federal Reserve commits all the opposite actions.

Economic Crisis and Crisis Theory, proposed by Paul Mattick (1974), argues that economic crises are inherent in capitalism and that neither the market nor Keynesianism can stop steady deterioration of economy. This theory is generally associated with Marxian economics. In this context, crisis refers to a sharp bust cycle of the regular boom and bust pattern of what Marxists term "chaotic" capitalist development. According to this theory, the "chaotic" development develops into a recession or depression if no countervailing action is taken. Marxists and Keynesians approach and apply the concept of economic crisis in distinct and opposite ways. The Keynesian approach attempts to stay strictly within the economic sphere and describes 'boom' and 'bust' cycles that balance out. Marxists, on the other hand, see economic crisis as part of the larger crisis of the social order they wish to supplant. Paul Mattick says that the recession is not just a financial crisis; it manifests a truth about the socioeconomic system in which we live (Mattick, 2010).

Another theory of recession is the Austrian Business Cycle Theory, which attempts to explain business cycles through a set of ideas held by the heterodox Austrian School of economics. The Austrian model argues that downturns are the result of unsustainable growth. It is also referred to as the "hangover theory" of the business cycle. According to this theory, the business cycle unfolds in the following way: low interest rates tend to stimulate borrowing from the banking system. This expansion of credit causes an expansion of the money supply that is not created by a fair market value and system. This leads to an unsustainable credit-sourced boom which is eventually corrected by a recession when exponential credit creation can no longer be sustained. The money supply suddenly and sharply contracts when markets finally settle, causing resources to be reallocated back towards more efficient uses. The recession is considered the corrective phase of the cycle. Thus the theory predicts that if market processes are not interfered with by government policies, the recession that follows the crisis will be sharp but short and will eliminate and correct the past errors and malinvestments.

#### Impact of Previous Recessions on the Tourism/Hospitality/Event industry

The previous two recessions (1990-1991 and 2000-2001) lasted eight months each, and only two of the ten previous post-Depression downturns lasted as long as a full year ([www.nber.org](http://www.nber.org)).

Since the 2001 U.S. recession, a series of events occurred that impacted the tourism/hospitality industry, including the following: the 9/11 terrorist attacks, the tsunami in Southeast Asia, the SARS outbreak, major earthquakes in Tahiti and Peru, and the volcanic eruption in Europe.

While the impact of these events was limited to the regions of occurrence for a relatively short period, the latest recession, starting from December 2007, lasted more than two years globally. It is widely accepted that the cause of this recession was the housing downturn which started in

2006 (www.money.cnn.com). The fall of housing prices from peak levels reached earlier this decade cut deeply into home building and home purchases. This also caused a sharp rise in mortgage foreclosures, which in turn resulted in losses of hundreds of billions of dollars among the nation's leading banks and a tightening of credit.

A number of studies have been focused on the economic impact of festivals and events on host communities (Kim & Uysal, 2003). They include studies conducted by industry trade associations, such as The Center for Exhibition Industry Research (CEIR) and the Convention Industry Council (CIC). While the economic and socio-cultural impact of festivals and events has been the focus of considerable research, there has been little research exploring the impact of a recession on the festival and event industry. Pine et. al (1998) studied the impact of the Asian economic downturn on the region's hospitality and tourism industry. They argued that the economic decline had a definite negative effect on intra-regional travel in the short term but a positive impact in removing the complacent attitude which was generated by years of continuous growth in the industry in the medium and long term. The study suggested that the industry should become more productive and more effective in their operations in order to compete well in a competitive future market. They also suggested that companies focus on developments in line with new needs and wants of customers, product differentiation, and distribution and promotion techniques in order to ensure continued growth. In addition, some trade journals, such as *Special Events*, conducted annual forecast studies of the industry with its subscribers. Their studies, however, were not designed to measure the direct impact of a recession, nor did they cover both the festival and then event industry. Furthermore, the World Trade Center disaster on September 11, 2001 drastically exacerbated the already declining economic conditions in the

festival and event industry; therefore many economic performance figures after 2001 were not solely a reflection of the direct impact of the last US recession.

Lee and Goldblatt (2001) conducted research with the partnership of International Special Events Society (ISES) and George Washington University (GWU) to determine the impact of the 2001 recession on the special event industry within the United States. While the study solely reflected the views and opinions of ISES members, the study was the first research effort to investigate how the 2001 recession impacted the event industry from the perspective of special events professionals. The study revealed that despite the challenging economic times, special event professionals continued to aggressively market their services and events. They were generally hopeful about the mid and long term prospects for their industry and were relying more and more on technology. The results revealed that the event professionals forecasted the number of special events to remain the same or increase, even during challenging times, while the size of their events would likely remain the same or decrease. The number one challenge that the participating professionals expected to face in the future was growing competition. Small companies, with less than four full-time employees, expected the most competition during the recession. Those companies felt that they needed to identify their own niche market and provide more personalized services to compete with larger companies. The respondents also believed that increased marketing efforts could help reduce their financial exposure during an economic downturn. Sharpening negotiation skills and increased use of technology were other tools that they planned to use. Some key cross-tabulation revealed that special event professionals with less than two years of experience expressed much larger concerns regarding their job security.

Nevertheless, it is uncertain whether the findings from the previous studies can be directly applied to the current festival and event industry, as the latest recession has been longer, more severe and wider in its impact than previous recessions.

## METHOD

This paper puts forward a methodology for analyzing the impact of the 2008 recession on business performance and providing forecasts of industry performance post-recession.

### Survey Development and Data Collection

19) The first section included questions that ask respondents' business performance during last two years and forecast for short/long term future using 5 point Likert scale. The second section included questions that ask reasons of the changes in their business performance and strategies for the future. The third section included general demographic questions regarding gender, age, education, years in the festival and event industry, and type of organization.

A total of 7,000 e-mails with online survey link were sent to festival and event professionals listed on the International Festival and Event Association (IFEA) member and potential member list in March, 2010. A total of 287 completed responses were entered to analyze. Because the global business experienced an economic recession since December, 2007, the results of our research are particularly useful in revealing how the industry professionals perceived the impact of recession.

## RESULTS

The analysis examines the key answers of the respondents regarding business performance during the latest recession and for the future. The descriptive analysis of results is presented in this section.

### Profile of the Respondents

The total number of respondents was 287. The respondents' gender ratio was very similar to that of event industry (Male: 40.8%, Female 59.8%). The study also requested the respondents to identify their education. The majority (74.6%) of the respondents has a four year college degree or higher. It must be noted that only nine percent of the respondents identified themselves as international and therefore, the results of this study is mainly reflective of the respondents from the U.S. Approximately 80% of the respondents' organizations have less than ten full-time employees while 12% of total respondents indicated that their festivals or events are run solely by volunteers. The types of festivals or events with which the respondents are most involved are: arts & culture events (48.1%), community & civic (47.4%), music & entertainment events (47.4%), and family-friendly events (42.9%). Almost 80% of festivals and events are held at outdoor public space/parks (78.2%) followed by city-wide/multiple facilities and venues (47.2%), down core (39.5%), outdoor private space/fairground/airfield (26.5%), and conference or convention centers (20.3%). Most festivals/events organizations' yearly revenue range was between \$250,000 and \$500,000, but it is not clear whether this is an accurate portrait of the industry as many respondents declined to provide exact dollar figures.

## The Impact of the Current Recession to the Festival and Event Industry

The respondents expected slower bounce back of the festival and event industry than the general economy. Almost 60% of respondents (58.9%) replied that the economy's rate of growth would increase in 2010 and 2011 while only 34.1% expected profit margin of their organization would increase for the same period.

Overall, 73.6% of respondents responded that their profit margin was decreased or remained the same during 2008 and 2009. The respondents expected number, average attendance, average revenue, and average expenses of festivals and events would be improved from the past two years. It is clear that the industry professionals expect more success in 2011 and 2012, but at a very conservative pace. Table 1 depicts the results of key economy and business performance for the past and future years.

Table 1 Comparison chart of key economy and business performance

Indicator	Time frame	Decrease	Slightly  decrease	Same	Slightly increase	Increase
Profit margin	past 2 years	15.8%	31.9%	25.9%	19.8%	6.6%
	next 2 years	8.7%	22.0%	35.3%	26.9%	7.2%
Number of festivals/events	past 2 years	7.2%	17.9%	48.4%	21.0%	5.5%
	next 2 years	4.9%	13.0%	48.7%	25.9%	7.5%
Average revenue	past 2 years	15.7%	32.5%	27.5%	20.6%	3.8%
	next 2 years	7.8%	26.0%	34.6%	26.2%	5.5%
Average expense	past 2 years	9.8%	21.1%	30.3%	31.2%	7.5%
	next 2 years	3.2%	21.0%	26.8%	40.6%	8.4%
Average attendance	past 2 years	6.6%	19.1%	30.3%	30.1%	13.9%
	next 2 years	4.3%	8.1%	31.1%	40.6%	15.9%

Table 2 shows the comparison of methods that respondents would use during the next two to five years after the recession to reduce their financial exposure. "Increase marketing efforts" was ranked top in both cases. It was followed by "work to reduce expenses overall,"

“increase the use of technology,” “work to increase non-sponsorship revenues,” and “work to diversify sponsor base” for the next two years. The response for the next five years was similar to that of the following two years besides “increase the use of technology” replaced second rank instead of “work to reduce expenses overall.” The respondents believed that the current global recession would also affect the industry in the long term (decade) as they answered the recession would results in a “new level of creativity” (71.9%), “permanent loss of some existing festivals and events” (67.8%), “cancellation/temporary loss of some existing festivals and events” (63.6%), “less corporate sponsorship available” (60.7%),” permanent decrease of free or discounted municipal support services” (47%), and “higher costs for many products/services” (45.3%).

Table 2 Comparison of methods to use to reduce financial exposure in the next two years and 5 years

Method*	In the next	
	2 years	5 years
Increase marketing efforts	72.7%	49.8%
Work to reduce expenses overall	69.2%	46.3%
Increase the use of technology	64.8%	47.0%
Work to increase non-sponsorship revenues	63.8%	44.1%
Work to diversify sponsor base	63.2%	46.0%
Work to secure more multi-year sponsorship agreements	61.0%	45.4%
Rely more on volunteer support	54.0%	34.9%
Explore successful options by networking with professional peers	48.9%	30.2%
Sharpen your negotiations with suppliers	43.8%	28.3%
Negotiate agreements with city officials for municipal services support	34.0%	24.1%

\*The respondents selected all that apply

“Increase the use of technology” was ranked high as a method to reduce their organization's future financial exposure. The types of technology that respondents currently use are; Internet/event website, desk top, lap top, mobile communication (e.g. cell phone/Blackberry/iPhone), and on-line social media/networking (Facebook, Myspace, Twitter,

LinkedIn, etc). There were notable trends regarding the types of technology to use for the next two and five years. Respectfully, on-line social media/networking topped the list of technology to use to reduce financial exposure for both terms and “electronic surveying of attendees and other groups” was ranked high along with lap top PC and Internet/event Website (see table3).

Table 3 Top five technologies to use: Current, in 2 years, 5 years

*Rank	Current	In 2 years	In 5 years
1	Internet/Event Website	On-Line Social Media/Networking	On-Line Social Media/Networking
2	Desktop PC	Electronic surveying	Lap top PC
3	Lap top PC	Lap top PC	Internet/Event Website
4	Mobile communication	Internet/Event Website	Electronic surveying
5	On-line Social media/networking	On-line volunteer program	Mobile communication (cell phone/Blackberry/iPhone)

\*The respondents checked all that apply

## CONCLUSION AND DISCUSSION

This study was conducted to analyze the impact of the latest recession of 2007-2009 on the festival and event industry and to identify the principal challenges that festival and event professionals expect and strategies that they will use to overcome a future economic recession. This study found that the recession impacted many aspects of the festival and event industry. The festival and event industry organizations that experienced a decrease in their profit margin indicated that the primary factors were decreased sponsorship, general effect of economic recession on all revenue sources, and increased product/service cost. The few who experienced an increase in their profit margin during 2008 and 2009 stated that the primary factor was sponsorship. The key strategies to use for successful business in the future were related to

increase sponsorship revenues and to diversify sponsor base. These results clearly argued that successful sponsorship activity was the most influencing factor in generating a profit margin in the festival and event businesses during the recession.

The comparative analysis of business performances of past two years (2008 and 2009) and future years (2011 and 2012) found that the industry professionals believe the business will be improved, but at a conservative pace. The majority of respondents expected the number and average attendance of festivals/events would remain the same or slightly increase in the future. Based on the results, any financial planning regarding revenue for future festivals and events should be conservative due to the continuing economic uncertainty as confirmed by the respondents' forecasts.

Review of economic theories of recession was undertaken to better understand the impact of the recession on the festival and event industry and how to overcome it. Consistent with the Austrian Business Cycle Theory, which explains a recession as a “hangover” of unhealthy economic boom caused by unqualified credit based loans, the major cause of latest recession was the collapse of unsustainable housing market boom generated by historically low interest rates and many unqualified credit based loans from the banking system. According to the theory, the impacts of such recession include strict regulation of loan qualification that lead sharply contracted monetary sources to businesses and individuals. When the unsustainable markets get settled, it causes resources to be reallocated back towards more efficient uses. The diminishing corporate sponsorship due to the contraction of money supply was well observed in the finding of this study as the main reason of the current struggle of the festival and event industry. Many corporate sponsors from the financial service, banking, and auto manufacturing industry had dropped their sponsorship from many festivals and events over the past two years to reallocate

their monetary source to more urgent matters. The findings identified that securing sponsorships and diversifying various revenue sources are what the festival and event business plan to utilize to overcome the challenging economy following the current recession. Therefore, it is critical that diversified sources of funding including earned income, philanthropy as well as diversified sponsorship may help mitigate any risk of severe budgetary challenges in a recessionary economic environment.

Such contractions are also observed and expected to happen more in government and municipal support. Government and local authorities had to reallocate their limited financial sources to urgent needs, such as creation of jobs and public infrastructure constructions resulting less funding for festivals and events during the recession and probably beyond it. Almost half of the responded festival and event professionals indicated a permanent decrease of free or discounted municipal support services in future. Therefore, developing strong political support for festivals and events as a public service to enhance the overall quality of life and place is also important in order for these organizations to survive from the expected diminishing benefits from municipal supports services.

Consistent with the findings by Lee and Goldblatt (2001), this study identified “increase marketing efforts” as the key factor of those who achieved success during the recession and a key strategy to use for successful business in the future. This finding is also consistent with that of Pine et al. (1998) as they argued that the industry would face a competitive market after the recession and increased marketing efforts in line with new needs and wants of customers would ensure survival and continued growth in such a competitive market.

In conjunction with the traditional marketing method (mails and e-mails), the increased use and popularity of social media was observed as a critical tool for successful marketing in the

festival and event industry. Social network marketing, now widely accepted as a new marketing channel, has identified as a new factor of increased profit margin in this study. The industry professionals also placed “on-line social media/networking” as the number one technology to use in the next two and five years. As Goldblatt and Supovits argued, festivals and events become low priority during challenging economic conditions as the individuals, who are the major event/festival goers, suffer the hardenshup of finance and have to give up going to events and festivals to support their urgent daily needs. *Therefore, consistent information sharing and building customer relationships by listening to their opinions and addressing their needs will be even more important. Social media is well recognized as a channel to achieve such goals with minimal cost with larger groups of customers. Therefore, it is critical to accept and adopt the changes in the marketing tools and develop strategic use of social media and other technology and adequate training for the industry professionals.*

Pine et al. (1998) argued that economic downturns provided positive impact in removing the complacent attitude which was generated by years of continuous growth in the industry in the medium and long term. The festival and event industry experienced years of success from 2001 till the recession started in 2008 and the results show that the industry professionals realized that the industry will face challenges in the long-term after the recession. The recession made the industry professionals realize that there will be permanent or temporary cancelation of existing festivals and events and a decrease in both corporate sponsorship and free or discounted municipal support. As the respondents acknowledged, a new level of creativity is required to be successful in a competitive future market.

The findings from this current study will provide the festival and event industry with critical information to make better-informed decisions despite a continuing economic downturn

and ultimately to create a sustainable financial future. This study also developed a research framework based on economic theories and suggests key areas to follow up for future studies. While Keynesian theory suggested expanded money supply from Federal Reserves as a cure for recession, there was an opposite move that was initiated by politicians during the recession. They discouraged and tried to ban business travel to attend meetings and events, which led to the meeting/event industry initiating a campaign called “Meetings mean Business,” emphasizing the significant importance of the travel, meeting and event industry on employment and economy. It will be a meaningful study to investigate how the contracted money supply into the festival and event industry affected the industry short and long term. As the questionnaire of this study was adopted from the previous ISES/GWU study that measured the impact of the 2000 recession, a comparative analysis of the two studies may provide in-depth knowledge of not only the direct impacts of recessions, but also any change made to overcome the recessions within the festival and event industry over the time period. The findings of this suggested study can provide in-depth knowledge of the impact of recessions by comparing the figures during the past two recessions.

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