

THE IMPACT OF THE CORONAVIRUS ON THE SERVICE INDUSTRY - A CASE STUDY IS THROUGH ON THE EXAMPLE OF A HUNGARIAN BAND

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Abstract: *The dominance of the service sector is now unquestionable worldwide. In developed regions, its share in gross domestic product (GDP) and employment is around 70%. According to the European Central Bank, its share in the euro area in 2018 was 73.9%, in US was 80,2% and in EU-28 was 70,4% (ECB, EUROSTAT, 2020). The rise of services goes hand in hand with economic development (Szalavetz, 2008). Regarding the Hungarian data, in 2019 services accounted for 55% of GDP (including trade, vehicle repair, accommodation services and hospitality, totaling 11.3% last year) and received 65% of employment. The 5.1% increase in GDP last year was driven by the 3.5% increase in services, of which trade, accommodation and food service activities (11%) saw the largest growth (KSH, 2020). Due to the coronavirus, economic growth will decline in 2020, but the rate of decline is not predictable yet. Due to the limitation of personal contacts, the first affected group is service providers, which is why this study examines this sector, including one of the important segments of services, the music industry. In our study, the economic impact of the coronavirus is presented through the example of a Hungarian club band.*

Keywords: *service sector; coronavirus; music industry; case study.*

JEL Classification: M21.

1. Background

1.1. Music industry

The music industry is perhaps the most significant sector within the creative and arts industries, and it is still growing on a global and domestic scale. Examining the size of the sector, we can see that it plays a significant role both in terms of revenue and employment: in 2015, the light music industry generated total revenues of around 15 billion USD (i.e. 13,5 billion EUR) globally (Mahasz, 2016). Hungarian data show that in 2018 the total revenue of the music industry in Hungary was almost 20 billion HUF, i.e. 63,5 milion EUR (ProArt, 2019). In the entertainment industry is the most difficult to avoid human contact. Isolating people and canceling events mainly affects companies working in the service industry, causing a serious loss of revenue, so COVID-19 could easily jeopardize the survival of a service company. In the music industry it is not just talking about musicians or managers, but all the professionals working in the background, be it sound engineer, lighting technician, road, club owner, concert organizer, driver, chef, dancer but also related retail and wholesale suppliers, marketing companies or creative companies, as well.

1.2. Features of the services

Services, the consumption of services, have several characteristics that distinguish them from goods. One of the most significant specific in the present case is its perishability. Perishability reflects the challenge that services cannot be saved, their unused capacity cannot be reserved, and they cannot be inventoried. Unlike goods that can be stored and sold at a later date, services that are not sold when they become available cease to exist. For example, hotel rooms that go unoccupied for the evening cannot be stored and used at a later date. For a band as a service provider this means that on days when they don't have a concert, revenue is lost. The other peculiarity in terms of marketing is advertising, in the case of services the most important advertising is word of mouth. Consumers of services often rely on personal sources (e.g., friends, family, co-workers) of information more than nonpersonal sources (e.g., mass media) to reduce the risk associated with a purchase. Given the importance of nonpersonal sources, communications should be developed that facilitate the development of a word-of-mouth network (Hoffman – Bateson, 2010). Third, many service industries are often characterized by a high fixed cost to variable cost ratio. This can cause a significant problem of revenue loss due to missing services.

1.3. Economic characteristic of a band

It's worth reviewing what revenue and expenses a band can typically expect.

1.3.1. Costs:

Material costs: smaller consumables such as guitar string, pick, drum beat, but also larger equipment and machinery. In the life of a band, this usually applies to musical instruments and other technical equipment, stage elements, sets. Material costs are relatively high relative to revenue.

Services: These include, for example, a guest's performance fee, rehearsal room rental, consulting, accounting fees, or communication costs.

Personnel costs (wage and its contributions): staff members and musicians can usually count on an occasional but pre-determined salary, which they typically receive at the event.

1.3.2. Revenues:

Income from service: it means the concert itself. This is the main source of income for the bands

Sale of tangible assets: Mostly merchandise products, which are clothes, accessories or any kind of creative products made by a band, but nowadays physical sound carriers are also increasingly included here.

Performer royalties: In Hungary, Artisjus, Mahasz and EJI manage the post-performance royalty management and payment.

Aid, grants: The tenders announced by the National Cultural Fund of Hungary help light music performers the most but some other grant and aid are available in national and international sources.

Sponsorship: From external organizations

Online sales: Revenues from listening on digital and streaming sites. Its significant is growing. (own data collection, 2020). Driven by fans' engagement with streaming – especially paid subscription audio streaming – digital revenues now account for more than half (58.9%) of the global recorded music market. Total streaming revenues increased by 34.0%. By the end of 2018, there were 255 million users of paid subscription accounts globally (IFPI, 2020). The Figure 1. shows the Revenue Distribution of the Recording Industry in 2019.

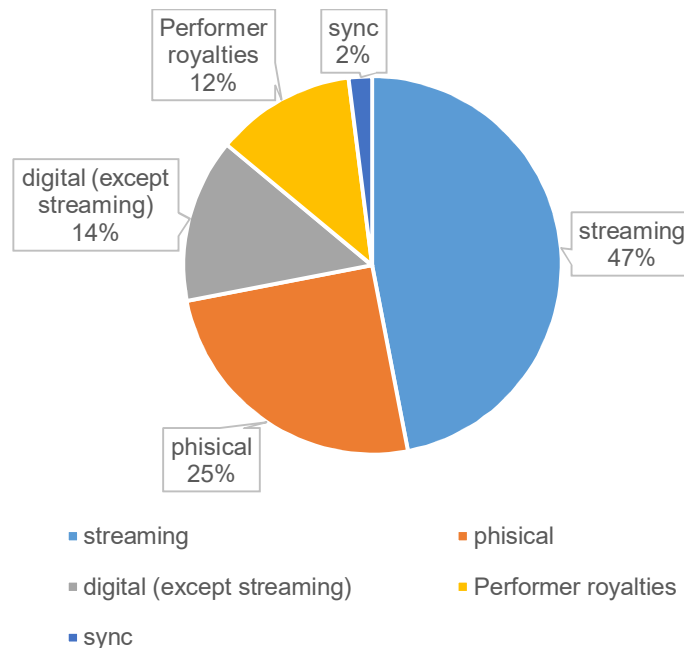


Figure 1: Revenue Distribution of the Recording Industry (2019)
Source: own editing by IFTI data 2020

2. Material and method

In this article, we examine the situation of the Hungarian service sector in the light of the measures and restrictions caused by the coronavirus. Within the service industry, we focus primarily on those “small” service providers that were primarily affected by the restrictions, as illustrated through a case study by a band.

By collecting the band's revenues and costs, we make a cost-income calculation for the last normal year, 2019, and then, taking into account the 2020 outlook, we prepare three scenarios that could be the band's results this year. Following this, we formulate proposals for the relevant service layer based on the examination of the effects of the 2008 global economic crisis.

3. Results

Review of case: The band from Debrecen is a young, emerging band who play music while studying / working. The goal is to gain national recognition and become a professional band, ie to expand the orchestral activity as the main source of income. The band's main source of revenue comes from concerts, of which there were 34 in 2019. By the end of the year, its production value was 4760 EUR, of which 85.33% came from concert revenues. 14.67% of total income came from other related sources of income as royalties and the sale of goods. Regarding the main source of income, the concert, it is worth mentioning that they are not evenly distributed throughout the year, but following a seasonal trend. The main season runs from March to roughly November. In line with this, 60% of the concerts of the band were in the summer, during the festival season, in the period considered. This is important because the measures taken to control the coronavirus in 2020 should also cover the summer.

Most of the costs are the service costs, which accounts for almost 60% of the total costs, followed by the fixed cost, which in this case is the rent, this is 13% of the costs, and then the other direct costs, with a share of 12%.

Taking these into account, the band realized a positive income. The cost-income ratio was 20% in this period, ie 20 EUR income per 100 EUR cost (Table1).

Table 1: cost-revenue calculation

Cost-income calculation (EUR)	2019
Production Value	5063
Revenue	4320
Other income	743
Production Costs	4218
Direct costs	3653
Material costs	152
Personnel Costs	262
Depriciation	234
Service costs	2453
Other direct costs	551
Indirect costs	565
Net income (PV-PC)	845

Source: own data collection and calculation, 2020

Taking into account the possible scenarios for the year 2020, three scenarios were examined. Among these, only the number of concerts, which account for the largest

share of the revenue, and the related variable costs were changed *ceteris paribus*, so costs other than the available grants were not taken into account. As a result, the following:

1, Pessimistic scenario:

In the case of a pessimistic scenario, there will be no opportunity or social need to hold group events in 2020. In this case, the number of concerts of the band remain the 8 concerts held until March 2020.

2, Optimistic scenario:

According to the optimistic scenario, the restrictions and the epidemic will end by the start of summer festival season, so the band can close the year with 40 concerts according to the preliminary growth rate.

3, Realist scenario

Based on the effects of the 2008 global economic crisis, a 25-30% decline in consumption can be expected, in which case 30 concerts can be expected by 2020. Figure 2 shows the calculated results of the scenario analysis.

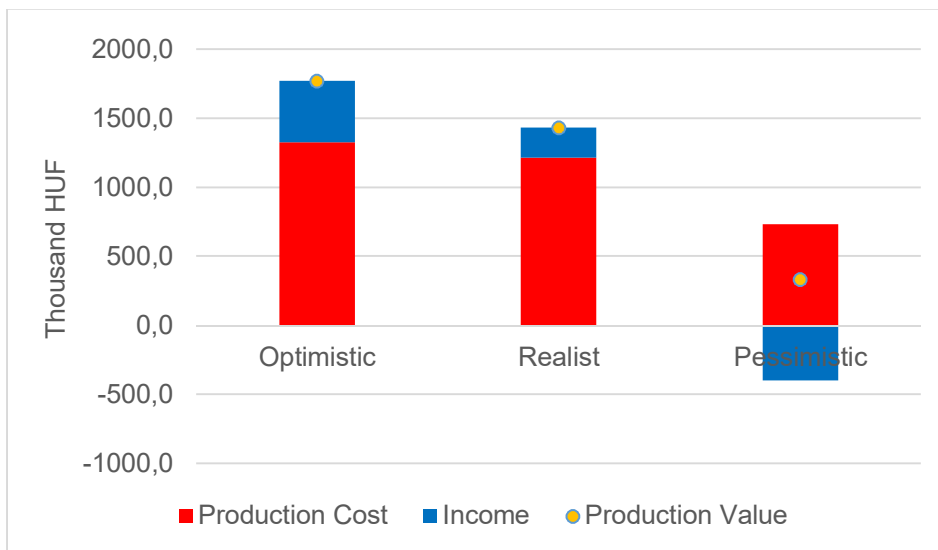


Figure 2: Results of scenario analysis

Source: own calculation, 2020

As shown in the Figure2, in an optimistic scenario, an income of 443 thousand HUF (1400 EUR) would be achieved, ie the income would increase by 63% compared to the base year. The cost-effectiveness in this case would be 33%.

In the realistic case, the year would still be closed with a positive result, but the income would decrease compared to the base year, it will be around 215 thousand HUF (682 EUR), which means a profitability of 17%.

According to the pessimistic scenario, the band would close the year with a significant deficit, which in this case would approach 400 thousand HUF (1270 EUR)

which is equal to the income of 2 years according to both the base year and the realistic version.

A critical quantity of breakeven was also calculated, showing how many concerts would meet the the band's fixed cost.

In the case of the optimistic version, the band could cover its fixed costs from 16 performances, but according to a realistic and pessimistic scenario, their fixed costs would not be recovered.

4. Conclusions

After a brief assessment of the situation, it can be stated that the examined service provider would be in a favourable position due to the coronavirus only if the restrictions on virus protection were restored by a very short deadline, by the end of May. period. The chances of this are low, so the results of the 2 other, realistic and pessimistic scenarios are likely to occur. In this case, the band must come up with alternative sources of revenue from which to reduce their losses. Our proposal is to strengthen the online platform of the service; accordingly, the band would receive revenue as a result of listening to music online.

Another proposal is the sale of a "support ticket", two alternatives of which we have identified. In the first case, when buying a ticket, the buyer redeems his ticket for a later concert. This would improve the band's liquidity. In another case, the ticket is linked to an online concert, which in turn would increase revenue.

Another solution to improve production value is to apply for available subsidies and aid. As well as the use of subsidies and benefits provided by the government to alleviate economic damage. However, these two solutions are an independent factor for the company and are therefore uncertain.

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