Working together to build financial resilience (1)
Five potential ways for a group of arts and cultural organisations to grow existing income streams and generate new sources of recurrent revenue

This document is the first of two which provides a case story drawn from a study that MMM undertook for a group of arts and cultural organisations, all based in one locality, which came together to explore bold new ways to finance their activities. All of them were looking for ways to diversify and grow their income and create a more financially resilient future.

This first paper discusses the five potential ways identified as potential sources of increased revenue. Part 2 presents the strategy proposed which would enable the group to begin building their capacity to develop these potential sources.

Introduction

What follows is an account of how this group collaborated in research and consultation with the aim of answering two fundamental questions:

- What can we do to strengthen our financial position by growing existing income streams and generating new sources of recurrent revenue?
- What support do we need to do it?

The group was made up of eleven members who originally joined forces in response to a large sub-regional regeneration initiative. The organisations varied in size and complexity but had from the outset several factors in common, as well as a track record of working together on the initiative. All of the organisations were building-based; that is, housed in a venue that they owned or rented. All had just completed major capital redevelopments of these spaces as part of the initiative. All were facing a changed future as a result of their redevelopment. These changes brought new opportunities (for generating funds, building audiences, engaging the community) as well as new responsibilities, risks and liabilities (increased running costs, insurance, filling the space). By the time they engaged in this consultation, the group's understanding of the financial challenges facing them had been honed by their experience of working together o the initiative. They were ready to consider the next step.

To answer the two key questions, we started with desk research into existing practice in the UK and abroad, especially the United States where there are many examples of innovative work being done around financing for the arts. We looked at schemes initiated by arts and cultural organisations as well as examples from the wider not for profit community. We also examined schemes initiated by funders. Additionally, we conducted interviews with key stakeholders from the organisations in the group, including chairs and CEOs, and talked to public and private funders in the locality and some overseas experts.

We reviewed and extended our preliminary findings with a project advisory group and then presented the results of the research with recommendations for action to a workshop with the full group of organisations involved. After further discussions with the advisory group, we presented final recommendations and a draft action plan at a further workshop including group members, funders and other key stakeholders.

Five potential ways for growing existing income streams and generating new sources of recurrent revenue

Together with the group we identified five potential ways which could provide future sources of revenue above and beyond that provided by traditional public grant funding sources. What follows is a review of these five areas, plus a brief analysis of the kind of support the group would need to benefit from them.

1. Collective Fundraising

The first strategy the group explored was collective fundraising. This means pooling resources and collaborating to raise a pot of money that is then distributed among group members.

A successful example of this strategy comes from the States where United Arts Funds (UAFs) manage annual appeals to raise money on behalf of three or more arts institutions in their community. Regionally based, each UAF is unique and tailors its efforts to meet local needs and make the most of local resources. While these campaigns traditionally focus on corporate, individual, and workplace giving, they also may include government support. Traditionally, distribution of the pooled funds has been for unrestricted operating support, but options for special projects and donor designated funding are increasingly being included.

UAFs are nationally scalable: those in the States form part of a larger network that shares information and provides support. The United Arts Funds Council, comprised of regional members, works with Americans for the Arts, a national arts nonprofit, to develop programmes, publications, and services for the nation's more than 70 UAFs. Council members also provide peer-to-peer assistance on the improvement of existing UAFs and the development of new ones.

There were differences in opinion among members of our group regarding the potential for further individual and corporate philanthropy in their region, but there was a broad consensus that the group could benefit from a joint approach to fundraising. To avoid cannibalizing their existing support base, the best approach might be to continue fundraising activities to known supporters (corporate sponsors, friends) while exploring broader collective marketing to new supporter groups.

What would be needed in order for this approach to be viable:

- Higher levels of public awareness and engagement with the work of the group to establish the climate for successful collective fundraising.
- Support for establishing the infrastructure and personnel to enable joint fundraising initiatives.
- Expertise in coordinated fundraising on a broader scale within each group member

2. Marketing content and intellectual property

All the members of this group of arts and cultural organisations possess considerable intellectual property. They may own commissioned work or may have marketable expertise, for instance in producing performances or curating exhibitions. Many agreed that if they can find the right customers and negotiate the right deals they could turn their intellectual property into additional sources of revenue.

The group looked at the example of 3-Legged Dog, a nonprofit theatre company in New York City. Their alternative business approach is specifically designed around technology-based art practice with an aim to "separate the money making from the art", in the words of their founder. He formed a for-profit subsidiary called The Shape of Time, wholly owned by 3-Legged Dog, to protect and market intellectual property developed at the theatre company. Their first project, Wet Electrics, developed a multi-media authoring system for stage use, patented it and raised venture capital. Dividends from this venture will be added to the funding stream for 3-Legged Dog.

Most of the members of the group were interested in the idea of digitizing their content — making it available online— but lacked expertise on how to set up schemes that would generate income. The arts sector is notoriously "leaky", meaning that it's difficult to control or charge for access to content. Many users expect content to be free. The low levels of technical expertise in arts and cultural organisations is another hurdle. Our research also suggests that some kinds of content digitization projects are more likely to generate income than others, for example those developed for education and training. Yet the potential is there.

More and more arts and cultural organisations are exploring commercial digitisation initiatives individually and collectively. Collective examples include Broadway Nottingham, Corner House Manchester, FACT Liverpool, Showroom Sheffield, Tyneside Cinema Newcastle and Watershed Bristol who have been looking into setting up a jointly owned digital distribution business. Its purpose is to bring contemporary British and foreign digital moving image content to UK audiences including feature films, festivals, shorts, installations and online artist's commissions. The group is planning to run it as a commercial operation or social enterprise from the start with part of the funding coming from cineastes invited to buy "shares" in the business. Other examples are also emerging such as Festivals Edinburgh's plan to develop a joint digitally enabled innovation platform for all twelve Edinburgh Festivals.

What would be needed in order for this approach to be viable:

- The cooperation of artists and other content providers.
- Appropriate rights to use and sell the work.
- Additional technical, marketing and creative advice to develop successful new products.

- Specialist legal advice for establishing companies that cross private and voluntary lines.
- Access to “soft” development capital for new ventures.

3. Generating income using buildings: I

All the arts and culture groups involved in the research were established in buildings and all had recently carried out significant development projects focused on improving these assets. Only two members of the group owned their buildings at the time the research went forward, although some others derived revenue from neighbouring spaces, such as car parks. Within the group, there were examples of now- familiar strategies for using venues to produce income by running cafes, shops and conference facilities. Over and above these trading activities, some groups control additional space in or close to their main venues, which they rent or sell to commercial tenants.

One member of the group used both techniques successfully. Gifted a building by the local development corporation, the organisation built its strategy for revenue generation in to its development plans from day one. In addition to establishing improved facilities for itself, it set aside space to rent out to public and private sector tenants. Owning a nearby car park produces another stream of revenue. The organisation also sold excess land to a hotel chain and invested the proceeds. The centre now takes in around £1 million annually from its property-related activities, about 25% of its total income.

Property ownership is not for every organisation, as our group’s experience demonstrated. Ownership carries risks as well as rewards: in our group, some organisations were facing huge maintenance and insurance costs and struggling under the extra burden of managing a substantial property. Arts and cultural organisations need expert guidance when considering the pros and cons of taking on property. Alternative strategies, including those in this report, should be explored as well.

What would be needed in order for this approach to be viable:

- Expert advice at the time they are establishing a property development strategy about the potential to shape it for future income generation.
- Specialist expertise in strategic planning for development.
- Access to capital.

4. Generating income using property: II

For organisations with no plans for redevelopment or those that have already completed works, the scope for initiating new revenue schemes from existing venues may be small. This doesn't necessarily mean that they can't find a way to increase revenue through property. The group considered examples of organisations that are expanding their activities beyond running venues and are investing in property for purely commercial purposes.

Steppenwolf, a prestigious Chicago-based theatre group, started out by renting office space in Yondorf Hall, a block away from its main venue. In a decision "that had almost nothing to do with art" it bought the top three floors of the building in 1988 and, in 2003, purchased the remaining two. The choice to buy that particular building was based on the potential value of its rents, the cost of alternative facilities elsewhere and the effect of any given tenant on the neighborhood where Steppenwolf has its main venue. Similarly, the decision to invest in a building several miles away to house its scene shop and the acquisition of a parking structure adjoining the theatre were both chiefly motivated by business considerations.

This method of using property to raise revenue is controversial in arts and cultural organisations: it was among this regional group. Obviously, it raises questions about mission and challenges the definition of philanthropic activity many hold central to work in the arts. Even setting these concerns aside, this approach posed a number of financial challenges for the group of organisations in question as it might do for any similar regional group.

First, how would the arts organisations raise the capital to buy the property? Public funding might be one way. But the public budget for funding new property acquisitions is limited. The councils in the region are prohibited from giving building sites away at below market value without a special dispensation from the Secretary of State based on "a clear and positive purpose". Community asset transfer powers are sometimes available, but these are generally used for small grassroots facilities such as community or leisure centres. Even these modest projects have proved financially unsustainable in some cases and have had to ask for more funding. And though councils could raise money by selling land, they already have many existing calls on that cash, so the case for further arts funding would have to be exceptionally strong.

If there were a strong business case for a particular development, not for profit arts and cultural organisations might be able to borrow the money themselves either from commercial lenders (banks), from local authorities or from a lender who specializes in financing third sector organisations. Several of these have emerged recently and are beginning to make a difference. See our document of Specialist Financial Providers for more.

What would be needed in order for this approach to be viable:

- Expert advice about how to invest in property and the risks of investment.
- Support in developing plans that have a convincing business case.
- Funders and lenders that understand the financial needs of arts and culture organisation and tailor services to meet them.
- Access to capital.

5. Collaborative working

The funders we interviewed backed up the anecdotal evidence we found during our research: all agree that collaboration between group members has the potential to save money and also generate income. Collaborating members could pool resources and spread costs as well as working together to create new products and build audiences. There are already a number of joint project proposals in the pipeline but more could be done.

Funders can be instrumental in encouraging collaboration, as the example of the Lodestar Foundation demonstrates. Lodestar is an American organisation dedicated to supporting the growth and impact of philanthropy by effectively leveraging philanthropic resources. It recently launched a prize to recognise nonprofit collaborations. Designed to inspire cooperation, the prize is awarded to one collaboration that "demonstrates through quantifiable evidence that it has achieved exceptional impact and significantly eliminated the duplication of efforts through programmatic collaborations, administrative consolidation or other joint activities". The collaboration must be between two or more organisations that would otherwise compete for clients, financial resources and staff.

There appears to be potential for collaboration beyond the arts and cultural sector, too.

Group members expressed interest in forming partnerships with the education sector and a number have already co-designed and co-delivered courses with higher education colleges in the region.

What would be needed in order for this approach to be viable:

- Recognition of the advantages of collaboration
- Opportunities for organisations to evaluate the possibilities for collaboration.
- A significant investment of time, goodwill and energy by managers at the outset.
- Funders and sector bodies supporting and facilitating collaboration.

You can now read Part 2, which provides information about the strategy that the group developed as a result of this work.