

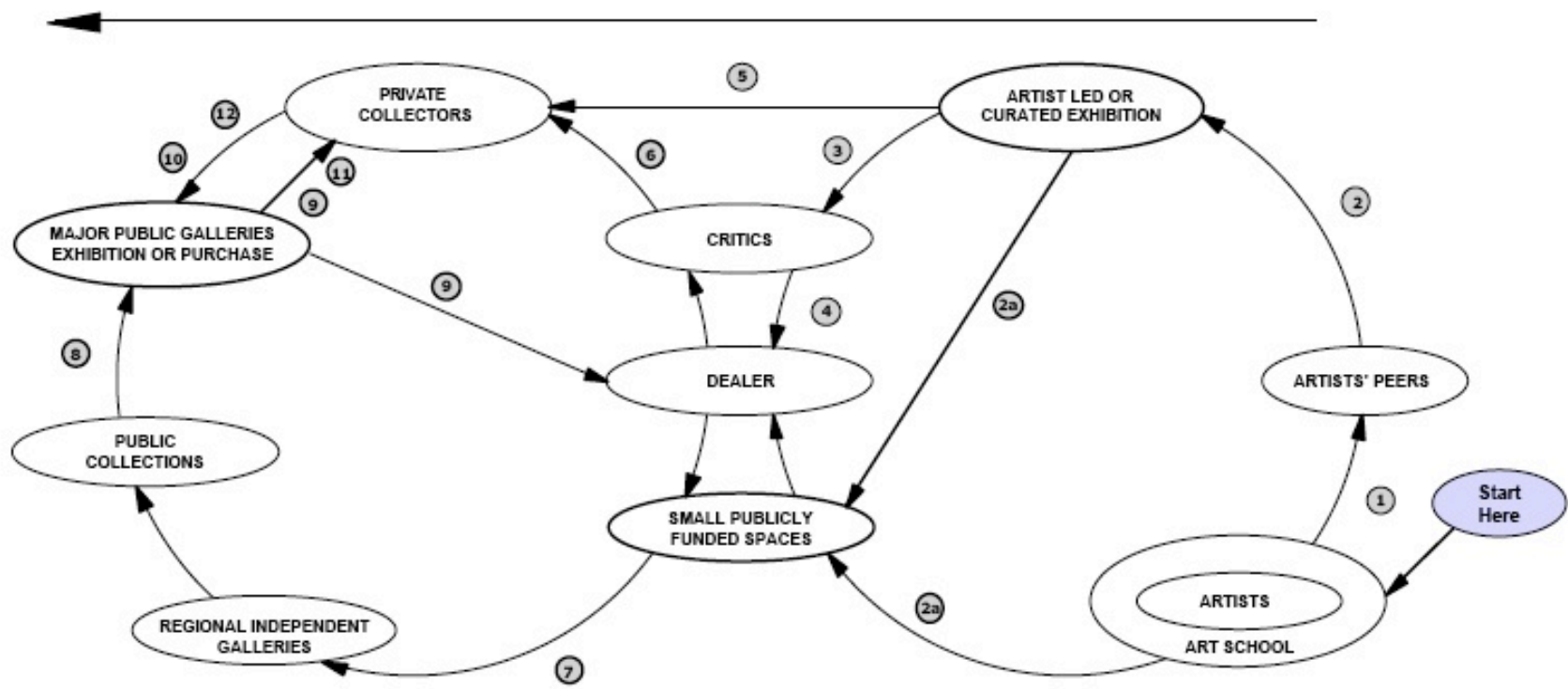
Size Matters ...

...prepare to be amazed at just how different the income models are for small vs. large organisations

Overview

- Couple of key models for context
- Two types of activity
- Key points of difference
- Two types of assets
- Supply side & demand side income types
- The key ideas in Size Matters
- Implications of these
- 1. Large vs. Small
- 2. Challenge of Monetising
- 3. Implications of Deferred Value
- What is comparative & collective data good for?
- What benefits are accruing to those who DO benchmark?

The Art Eco-System Model



- ① Artists attract recognition of peers
- ② Exhibition curated by artists or freelance curator
- ②a Representation in a small publicly funded gallery
- ③ Activity attracts critical attention
- ④ Attracts attention of dealer
- ⑤ Attracts private collectors
- ⑥ Dealers build artists' reputation through sales including international art fairs
- ⑦ Dealer builds critical endorsement through exhibitions/sales in small publicly funded/regional independent galleries
- ⑧ Purchase or exhibition in major public gallery
- ⑨ Legitimation adds value and status to collector and profit to dealer and artist
- ⑩ Collector lends to public gallery
- ⑪ Collectors' discernment is endorsed - invited onto Boards of Galleries
- ⑫ Collectors bequest collection to galleries

innovative



Emerging

Mid-career

local

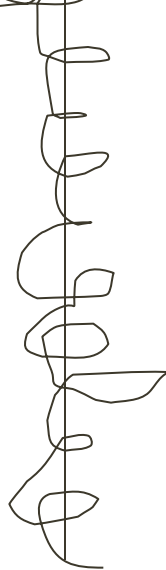


international



Retail

Established



traditional

Two types of activity

First order:

- The creative core
- Grant funded
- Not expected to generate a financial return
- Delivers a cultural & social return
- Intrinsically connected to the expert labour force in the organisation

- Eg - exhibition

Second order:

- Takes assets accrued in first order
- Seeks to develop them into products & services that have a commercial value
- Disconnects from labour costs and is therefore more scalable

- Eg - merchandise

The trouble is ...

- The pot of funding to pay for first order activities is decreasing
 - Less gov't money
 - Private Foundations endowments are worth less
- But even in good times it was hard to add value to supply side cash
 - You only get X% of the cost of delivery
 - No (profit) margin so don't have spare to pay for new & speculative

Two key points of difference

First order

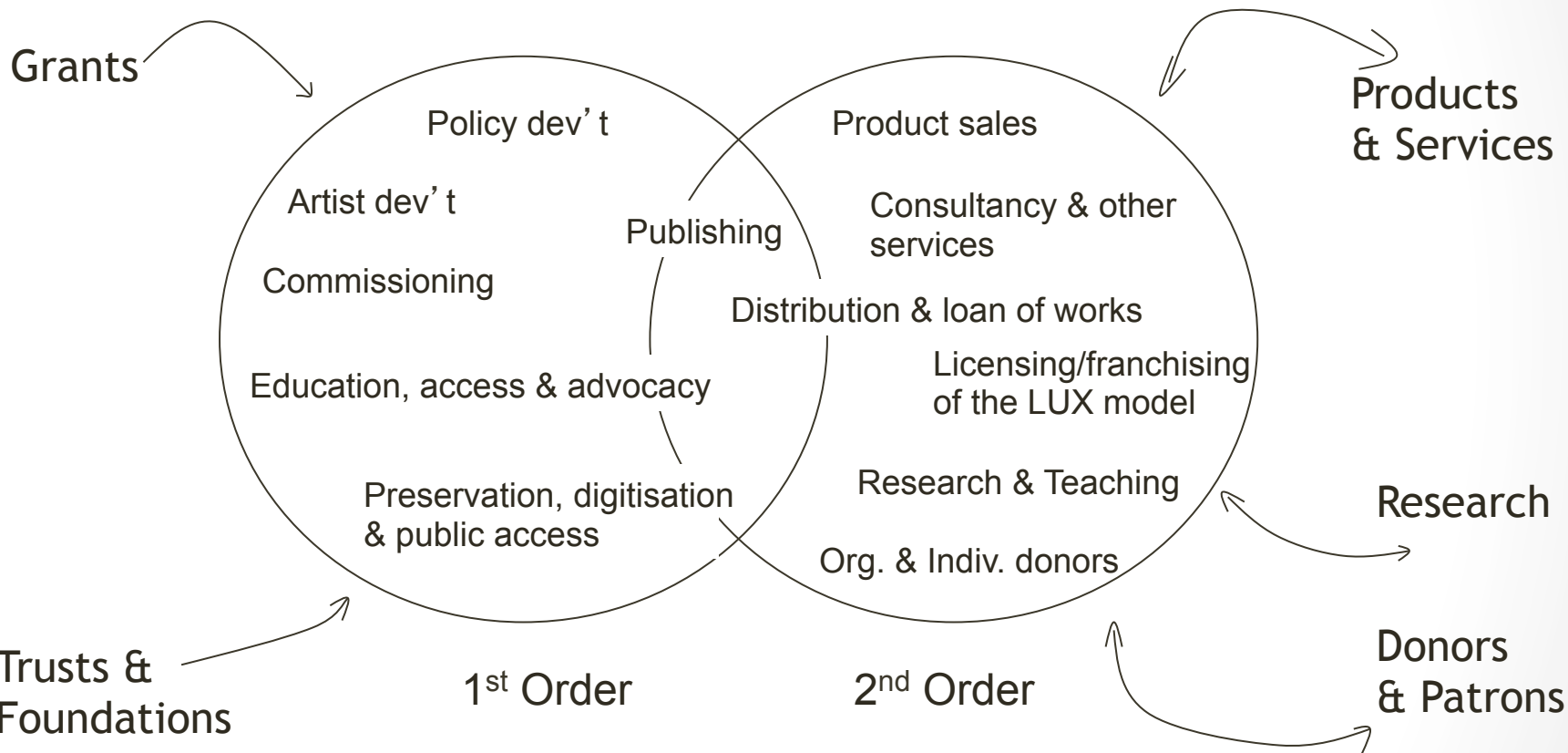
1. Revenue connected to cost of production as intrinsically linked to labour costs
2. Grant funding means limited by supply side economic factors

Second order

1. Revenue linked to market demand
2. Market models means driven by demand side economics

Acknowledgements: Proboscis, SCAN, Blast Theory

The LUX mix



How do I ...

- Determine which second order activities are right for my organisation?
- Avoid second order activities being seen as a financial wart on the creative face of the organisation?

What are my tangible & intangible assets?

Tangible Assets:

- Buildings
- Archives
- Collections

Intangible Assets:

- Individual & organisational expertise & experience
- Reputation, brand & goodwill
- Intellectual property
- Research skills
- Audience & customer base
- Education reputation & resource
- Methods & processes

What income can you derive from Tangible assets?

- Buildings
 - Café & catering
 - Shop & retailing (incl. online)
 - Tickets & events
 - Space hire
- Archives & collections
 - Products & merchandise - dvd's, books, reproductions, posters etc
 - Lending fees

What income can you derive from Intangible assets

- Staff sector knowledge
 - Consultancy
 - Contracts (public & private sector)
 - Products eg publications, films etc
 - Research (academic & private)
- Intellectual property
 - Licensing the use of the IP
 - Sale of the IP
 - Spin out of commercial products & services

What income can you derive from Intangible assets

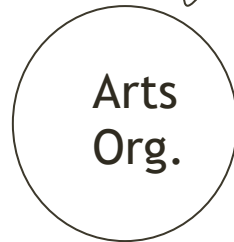
- Research
 - Subcontractor fees from HEI based research projects
 - Share of IP generated
- Audience & customer base
 - A USP that HEI's value re research
 - Donors & members
- Education reputation & resource
 - Public sector contracts
 - Sales of products & services
- Brand
 - Sponsorship & partnership

Supply Side

- Grant Based:
- Gov' t & LA
 - Trusts & Foundations
 - EU

Demand Side

- Tangible Asset Based:
- Tickets
 - Collection Loans
 - Retailing
 - Café & Catering
 - Space Hire



- Intangible Asset Based:
- Products & Services
 - Research
 - Partnership & Sponsorship
 - Contracts
 - Donors & Patrons

Arts Income Types

Key ideas so far

- First vs. second order
- Tangible vs. intangible assets
- Earned income from intangible assets
- Venue vs. non-venue based organisations

Size Matters - key ideas

- Deferred Value creation
- Lifetime Investment vs. Annual Subsidy
- More appropriate metrics

Questions following on from these:

1. What is the role of small vs. large organisations in the contemporary art ecosystem?
2. How can we monetise intangible assets w/o prostituting the organisation?
3. What are the implications of deferred value on the contemporary art supply chain?

1. Small vs. Large - how different?

- Flexibility vs. silos
- Early works & mentoring
- Fully resolved vs. first showing
- Commissioning vs. exhibiting
- Process vs. output focussed
- What grow up to become?
- Investment lifecycle vs. annual subsidy
- Live for ever?
- % dependence on grant funding

2. Challenge of monetising

- How far go?
- Not financial wart on creative face ... how achieve proper integration?
- Digital - content vs. art form
- Long term sustainability
- Pump priming funding
- Mechanisms for keeping integrated

3. Implications of deferred value

- More than recoupment
- Space in the sales ratios
- Equity stake in the work
- Brand recognition from commissions
 - Getting larger orgs to include
 - Getting artists to remember
- Contracts
- Main work vs. editions
- Other types of value - social, artistic, cultural

What is comparative & collective data good for?

Internal goal setting:

- Seeing where you are strong (vs. your peers)
- Seeing what needs improvement
- Diversifying income and/or managing cost
- Setting targets that are more than 'plus a bit/minus a bit'

To investors & other stakeholders

- Stronger business plans
- Stronger investment propositions
- Help achieve more buy-in from your bank

What is comparative & collective data good for?

With trade bodies and professional organisations:

- Identifying areas where support or development is required
- Monitoring trends and the impact of sector development activities

For the sector as a whole:

- Communication of the overall contribution to GDP (or it would be if we had a total for the turnover of the sector)
- Lobbying to the Treasury by DCMS and others

What benefits are accruing to those who DO benchmark?

- Pragmatic and realistic goal setting for new areas of income development
- Greater clarity on how a business model may change as an organisation grows e.g. changes from <£200k to £750k to £2m
- More detailed understanding of how the 'best in class' achieve their successes
- Succinct summary of greatest weaknesses and risks
- Development of key comparison points for their organisation so that staff, board and investors can track these regularly
- Seen as leaders who are using all the resources available to them to continue to develop their business in a tough climate

Size Matters ...

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Sliced by turnover - grant income

Income as a % of turnover	<£200k	£200-750k	£750k - £2m	£2-10m	>£10m
RFO	46.2	46.9	35.8	26.8	30.3
Other Arts Council	25.1	12.3	9.5	6.8	1.6
Trusts & Foundations	20.7	14.7	11.4	7.9	4.4
L.A.	19.7	14	12.2	11.0	11.4
Lottery Funds	22.9	8.6	8.5	2.8	1.5
Grant in Aid	0	0	0	49.2	17.2
Total grant funding	61.4	70.8	49.2	45.9	34.5

If we set up ranges and show % income we can compare small to large organisations meaningfully

Sliced by turnover - grant income

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As organisations get bigger so their dependence on ACE core funding reduces

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Small organisations also rely more heavily on Trusts & Foundations & Local Authorities

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This higher level of grant dependence is justifiable if the organisation is a Deferred Value Creator (DVC)

AND ...venue vs non-venue £

	<£200k	£200-750k	£750k - £2m	£2-10m	>£10m
Ticket Sales	35.7	11.6	15.0	27.4	35.1
Shop & Retail	5.5	5.5	5.5	7.1	6.3
Cafe	0	5.3	7.0	7.5	7.5
Space Hire	20.3	8	13.1	7.7	4.5
Total Venue based income	41.1	15	24.7	35.5	33.5
Total non-venue based income	26.4	23.4	33.0	21.7	41.9

First, have a public venue

Second, develop your venue based income

Thankyou

sarah@mycake.org