Financial Sustainability

"Being good in business is the most fascinating kind of art, making money is art and working is art and good business is the best art."

ANDY WARHOL

- What is financial sustainability?
- Public Funding
- TEH Creative Business Models Survey
- The four pillars of financial sustainability
- The Pareto principle
- First steps to developing a financial sustainable strategy

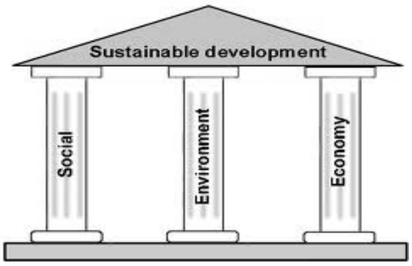
Sustainable Development

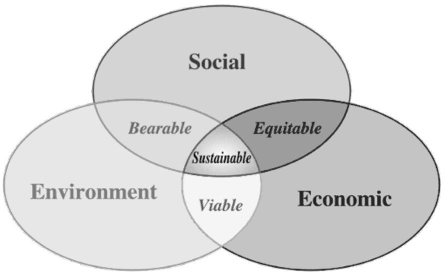
- In 1987, the United Nations released the Brundtland Report, which defines sustainable development as:

'development which meets the needs of the present without compromising the ability of future generations to meet their own needs.'

The three pillars emerge…

- The United Nations 2005 World Summit Outcome Document refers to the "**interdependent and mutually reinforcing pillars**" of sustainable development as:
- **economic development**
- **social development**,
- **environmental protection**.





Culture: The Fourth Pillar of Sustainability

What is Financial Sustainability?

- There is no agreed definition about what financial sustainability is
- But it is about being around for your beneficiaries for the long-term
- And it is the opposite of having to stop your activities because you run out of money!

Financial Sustainability

A not-for-profit organisation is financially sustainable if its core work will not collapse, even if its external funding is withdrawn

The 2008 Financial Crisis

Public funding in Europe

- while there was a quantitative increase in funds in Europe up to 2008, there was not a proportionate quantitative increase in funding sources.
- the number of funding sources has not increased at the same rate as the needs, or as the number of organisations.

What do organisations usually do to cover costs that exceed funds received?

- they increase the workload of existing staff in order to save on hiring new personnel
- they incur a deficit; and/or
- they try to identify additional funding sources, usually after the fact.
- Leading to…….

  a continuous circle of crisis management

Sustainability in the arts sector:

"Sustainable arts organisations are those which are artistically outstanding, serve their diverse communities with imagination and verve and are, at the end of the day, financially solvent"

Adrian Ellis, Director Lincoln Centre, New York

Arts organisations & financial sustainability

- the percentage of arts organisations that achieve financial sustainability across Europe remains very low.
- this is due not to a lack of creativity or commitment, but rather to the fact that many organisations continue to have a funding-dependent culture and vision.
- it is also due to a lack of finance + business skills & knowledge together with little or no investment in people and organisations.

Funding Dependancy

- Are too many arts organisations overly dependent on public funding?
- Can too much funding can lead to a culture of dependency, laziness and antipathy to change?
- Can it also lead to poor artistic quality, acceptance of low audiences, and elitism?

Arts organisations, investment and reserves

- most arts organistions do not invest in themselves.
- if they receive a grant or excess income they spend it all on the project or event.
- no income is usually kept to invest in their people, infrastructure, physical resources, R&D or to keep as reserves.

Profit - The ‘dirty word’

- In our sector across most of Europe, many still refuse to use the terms ‘profit’ and ‘loss’, ‘business’, ‘customers’, ‘commercial’ and ‘marketing’.
- There is nothing wrong with making a profit, as long as how you make it and what you do with it is compatible with your values, vision and mission.

Learning from Others

- parts of the corporate sector offers the most successful business models, not to be copied, but to be adapted to our reality.
- but we often reject and dismiss the corporate, ‘for-profit’ sector as being not relevant, ‘commercial’ and not something that we could learn from.

Gore

- WL Gore founded in 1958 by Bill Gore
- 9,000 employees in 30 countries
- revenues of $2.5 billion
- best know for GORE-TEX fabrics
- privately owned
- continually voted best place to work for

The Gore Culture

- a team-based, flat lattice organisation. (150 rule)
- no chains of command, no predetermined channels of communication and no organisational charts – so no managers!
- ‘Associates’ are hired for general work areas, then commit to projects that match their skills – they have no offices.
- leaders emerge naturally by demonstrating special knowledge, skill, or experience that advances a business objective.

The four pillars of financial sustainability

- STRATEGIC PLANNING
- INCOME DIVERSIFICATION
- SOUND ADMINISTRATION AND FINANCE
- OWN INCOME GENERATION

1st pillar of financial sustainability **strategic planning**

- strategic planning is the mechanism to help clarify an organisation's vision, values and objectives as well as prioritise the actions needed to accomplish them.
- why do you exist? what are your values? how do you create value? where do you want to be in the future? how will you get there? what is your route map? who is going with you?

Business models

- understanding and being able clearly to express our business model is essential
- developing our financial model and our way of doing business is required in order for us to thrive, be sustainable and to create value.
- an assessment of the full financial impact of our work lets us test our business model and how we produce, provide and present our work.

Budgeting Models

Method A: "Oliver Twist"
- Direct Activities Costs

Plus
- Overhead costs

Minus
- Earned income

Equals
- **grants or other contributed income required**

"please sir can I have some more"

Method B: "The Bus Driver"
- Overhead costs + reserves + capital costs

Minus
- Any known grants or other contributed income

Equals
- **PROFIT required from activities**
- Equals
- PROFIT required per cost centre (activity area) plus targets for contributed income (grants)

‘Cost Centre’ Budgeting

- high levels of income for an area of activities does not necessarily mean a high profit
- You need to know what it is really costing to deliver each activity area/product & know the profit or loss
- To do this you need to include all variable costs including marketing and staff salaries in each areas and activities costs
- Then you can vary pricing, attendance, activity volume and costs to find the optimum ‘activities mix’ to meet your budget objective and targets

NIE Budget 2014-2015 Date Produced: 07.05.2014 COST CENTRE BUDGET	BUDGET Original Feb-14 2014/2015
Direct Income	
80 Days	5,000
Education	2,000
Museum Tour (3 wks)	14,000
IWBE	4,000
New project developments	0
North North North (3wks)	12,000
H&G Norway (Alex)	4,000
H&G Royalties	5,000
Pim & Theo	0
Sub-total Direct Income	**46,000**
Contributed Income	
80 Days	25,000
Education	0
Museum Tour (3 wks)	12,800
IWBE	14,483
New project developments	0
North North North (3wks)	0
H&G Norway (Alex)	0
H&G Royalties	0
Pim & Theo	0
Sub-total Contributed Income	**52,283**
Total Income	**98,283**
Direct Costs	
80 Days	-64,241
Education	-500
Museum Tour (3 wks)	-36,452
IWBE	-47,000
New project developments	-2,000
North North North (3wks)	-16,000
H&G Norway (Alex)	0
H&G Royalties	0
Pim & Theo	0
Total Direct Costs	**-166,193**
Cost Centre Profit / Loss	
80 Days	-34,241
Education	1,500
Museum Tour (3 wks)	-9,652
IWBE	-28,517
New project developments	-2,000
North North North (3wks)	-4,000
H&G Norway (Alex)	4,000
H&G Royalties	5,000
Pim & Theo	0
Total Profit / Loss	**-67,910**

Strategic financial planning

- identify the true costs of all of your plans
- include all activities and new developments
- identify the level of reserves you need
- identify your capital costs
- identify your research & development costs
- identify the major financial risks & how you will mitigate against them. Have a plan B (and C!)
- prioritise all of your financial objectives & plans
- develop a 3-5 year financial plan with key targets, milestones, roles and responsibilities

2nd pillar: income diversification

- the number and type of income sources that provide your total income.
- at least 60% of an organisations total income should come from at least three different sources.
- five income sources each at 20% is ideal.

alternative income streams

- training/services for the private/public sector
- intellectual property income
- income from partnerships with other NGO sectors
- establishing subsidiary (for profit) business's
- investments – property: residential/commercial, art
- cultural tourism initiatives
- membership / friends schemes
- private donations / crowd funding / legacy giving
- space, costume and equipment hire
- publishing
- co-producing partnerships

The income spectrum: template

	Donations	Funding	Social Investor	Purchaser	Consumer
	Philanthropic	**Grants**	**Loans&investment**	**Structured market**	**Open market**
Typical forms	• Trusts & Foundations • Individual Giving • Crowdfunding • Legacies	• Public sector grants • European, National, Regional, Local • Cash or in-kind such as rent subsidy • Revenue or Project funding	• Loans • Endowments • Patient capital • Venture capital/philanthropy • Social investment grants	• Service Level Agreements • Public Service Contracts • Sponsorship • Crowdfunding	• Tickets • Bar/catering • Space rental • Shop/retail/merchandising • Office rental • Consultancy • Training/education • Publications • Project management • Intellectual Property
Description	• Mission-related funding • Restricted or unrestricted	• Mission-related funding • Usually restricted • Requiring specific outputs and/or outcomes • Close monitoring and accountability	• Provides alternative sources for organisations who are largely reliant on grant funding • Or do not have a large base of individual donors • Or who are looking at ways of financing new initiatives • Can provide invaluable unrestricted income to cover core costs.	• Payment for goods and services according to the terms set out in a contract between an organisation and a third party purchaser • Client can be from public, private or voluntary sector	• Range of services and goods than can be sold is potentially endless • Some types of trading are undertaken purely to generate profit • Other channels can contribute to the delivery of an organisation's mission • Unrestricted
Source %					
nual income					

ASKING — CAPITALISING — EARNING

3rd Pillar: sound administration and finance

- knowing how to manage our resources is as essential to achieving financial sustainability as knowing how to generate income.
- accounting-administrative procedures must fit the organisation's needs.
- these procedures must record the organisation's transactions to enable us to visualise the organisation as a whole.
- We need to be clever and creative about managing our costs

Finance & Management Resources

- accountancy software
- box-office software
- event management software
- catering sales & stock take systems
- purchase and sales procedures
- project management web based tools
- latest versions of spreadsheet software

Key finance statements – for control and decision-making

• budgets	annual & project reviewed quarterly
• management accounts	monthly
• balance sheet	updated monthly
• cash flow	year in advance, updated monthly

zero base v incremental budgeting

incremental budgeting

- each year's new budget is based on last year's with an incremental increase in both income and costs

zero base budgeting

- at the start of the budgeting process all budget headings have a value of zero
- all activities are reevaluated every time a budget is set

4th Pillar: own income generation

- private fundraising
- sale of goods
- sale of services
- commercial businesses
- sale or rental of spaces
- partnerships and alliances
- Intellectual property

Increasing our own income generation

- We need to develop creative ideas about how to generate new revenue.
- We must fully understand our audiences and find new ways to capture and increase them.
- We must first examine, understand and then develop both our primary and supporting income streams.

Cash-cows

- a cash-cow is something that produces you lots of, and most of your income.
- cash-cows are great as long as they keep on producing milk.
- cash-cows are often taken for granted and not nurtured or developed.
- Its preferable to spread your financial risk by developing a 'herd' of cows.

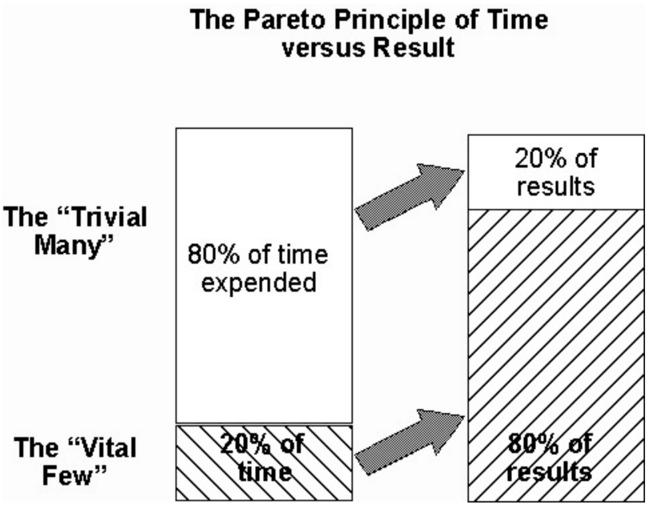
The Audience earned income spectrum: template

	Tickets & Fees	Catering	Space Rental	Retail Merchandising	Private Fund Raising
Typical forms	• Ticket sales • Performance Fees • Workshop / education • Training • Royalties / copyright • Commissions • Co-production income • Festivals	• Drinks • Food • Bar • Café • Restaurant • Private event catering	• Corporate events • Conferences/seminars • Private partys • Accommodation • Office rental	• Books • CDs • DVDs • Merchandise • Ticket agency • Art sales • Cloakroom	• Membership scheme • Crowdfunding • Patrons • Legacy giving • Fundraising events • Individual donations • Sponsorship
Annual audience no.					
Annual income					
Percentage of total income %					
Income per customer ZL					

the pareto principle

- 80% of outputs result from 20% of inputs
- 80% of consequences flow from 20% of causes
- 80% of results come from 20% of effort

the pareto principle is an observation, not a law of nature



examples of the pareto principle

- 80% of any project consumes 20% of your time
- 20% of your customers generate 80% of your sales
- 80% of your decisions come from 20% of your meeting time
- 20% of your advertising attract 80% of your audience
- 80% of your website is from 20% of your pages
- 20% of your staff cause 80% of your problems
- **20% of your income produces 80% of your surplus**

Summary & Conclusions

Developing a sustainable strategy - first steps

- agree on your purpose, vision, values and long-term goals. Know where you are going and how you are going to get there.
- define what you mean by sustainability
- create a long-term strategy – 5 years min
- understand and then develop your business model & produce a plan that supports the implementation of your vision and long-term strategy.

Financial planning - first steps

- work to long-term financial planning cycles not just year-by-year
- consider what budget model will work best
- ensure you have the financial information you need in the format you need it, when you need it
- consider all forms and sources of income/ finance
- **become as creative & flexible with your finances as you are with your art**

Income diversification - first steps

- how many main sources of income do you have?
- have you fully considered all forms of income?
- what are the perceived barriers for not entering a particular income type? Human resources, cost, time, lack of skills/knowledge?
- how can you begin the process of diversifying your income? how will you develop new ideas? Who will do this?
- **Pilot new ideas to minimise costs and risk amd do not worry about failure!**

Financial management - first steps

- invest in having the right people with the right skills and experience
- invest in the best possible financial / IT resources you can afford
- regularly monitor and revise budgets
- communicate & explain financial targets to all of your team
- **establish an effective financial review system of your performance, situation and financial health**

Increasing earned income - first steps

- Ensure all of your current activities are producing the right levels of income and profit
- consider cost centre budgeting - understand the true cost and profit of all your activities
- adjust your pricing and volume of activities based on your financial targets
- find a cash-cow, preferably more than one
- spend 80% of your time and energy on the activities that produce 80% of your income
- **try to increase income before cutting costs**

Characteristics of a financially sustainable arts organisation

- it has a shared vision, purpose and core values
- it knows where it is going and how it will get there
- it invests in itself and its people and has reserves
- it works in partnership and builds strong relationships
- it has business / finance skills, resources & knowledge and knows how to assess and manage risks
- it has a diverse financial model and does not over rely on any single income source
- it is open to and embraces change & learning
- it has the right people who are skilled & self-motivated
- it knows how to communicate and how to listen
- It strategically manages and finances its overheads
- **it has more income than costs**

a final bedtime thought….

“not-for-profit” does not mean “for losses.”