Strategic Planning in the Arts:
A Practical Guide

Michael M. Kaiser

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Author s Note

This book is intended to serve as a guide to those members of the staffs and Boards of not-for-profit arts organizations responsible for developing, evaluating or implementing plans. After years of research and practice, it has become clear to me that most arts organizations would benefit from more and better planning. While planning has been accepted as a routine part of for-profit corporations' activities, not-for-profit organizations have been less anxious to devote time and resources to long-range planning. "After all," arts professionals often argue, "strategic planning is profit-oriented and our goal is to produce a fine artistic product, not a profit."

No one can dispute the claim that not-for-profit organizations, by definition, are not financially motivated. A sad fact of life, however, is that arts organizations operating in the United States today (and, increasingly, those in the rest of the world as well) face even more difficult resource acquisition and allocation problems than the giants of the steel and automotive industries. A coherent approach to these issues is essential if an arts organization is going to offer a "fine artistic product" for any consistent period of time.

While an arts organization is not a for-profit business, arts administrators and corporate executives must handle many of the same problems; many management tools used in the for-profit sector can be employed to great advantage in the arts. The application of these tools does not rest solely with the business side of an arts organization. The benefits of strategic analysis for artistic decisions are numerous. Without a long-term plan that integrates business and artistic strategies, the ability of any organization to sustain a high level of artistry is doubtful. Many artists fear the regimentation of planning and, in fact, may feel that their artistic prerogative is being usurped by such a process.

I believe that artistic decisions belong in the hands of the artists and artistic directors. The planning process, however, will reveal the implications of these artistic decisions, implications that must be reviewed, analyzed and contemplated in a mature, objective manner. In the end, any consistently successful arts administrator and artistic director must recognize the symbiotic nature of their relationship.

Developing these plans is not simple. As a result, many arts organizations that do attempt to develop strategic plans waste many hours because the planning processes they employ are not rigorous enough, are not well designed, or are poorly implemented. Just as success for an arts organization depends on a mix of creative vision and administrative expertise, so too does strategic planning depend on a mix of art and science. While creativity and insight are irreplaceable, the techniques of planning are designed to facilitate the development of insight. As in any discipline, when technique is ignored, creativity becomes difficult to channel.

Strategy development, however, is not a step-by-step process. While this book presents a sequential approach to planning, there is rarely one "correct" strategy that emerges from the planning process. The best planning processes allow for the iterations necessary for the best solutions "to hatch." In other words, while this book describes a practical approach to developing a strategy, it cannot teach how to think or to create.

Michael M. Kaiser

Introduction

It is presumptuous, perhaps, to write a book about planning in the arts. The scarcity of talent and money has forced many arts executives to plan effectively and well in advance. The nature of arts planning, however, has traditionally been operational, focusing on such questions as "who will be performing what role in which work directed by whom." What has been missing from planning in the arts is a strategic perspective: the development of an explicit mission for the organization, the analysis of the external and internal factors that affect the achievement of this mission, and the formulation of the direction that should, therefore, be pursued.

Strategic planning places operational decisions in a broader context. While operational planning determines who will sing the role of Aida, strategic analysis suggests the long-term implications of that casting decision for the organization. Will the hiring of a "name" singer sell more tickets? Will the audience come to expect famous singers? Will funders be impressed? Will your institution become more visible?

A direct result of this lack of strategic focus has been the rapid erosion in the financial bases of many arts organizations. Fiscal instability virtually always leads to reduced artistic programming. This, in turn, leads to deterioration in visibility, thereby limiting earned and contributed income. The resulting financial crisis consumes both the Board and staff, further restricting revenue and artistic flexibility. This vicious circle leaves artistic directors feeling frustrated, Board members upset with the ever-increasing pressure to give and get more, and administrative staff feeling powerless to handle mounting cash flow problems.

While the serious lack of funding that triggers this chain reaction is frequently blamed on "the economy," it results more directly from a failure to recognize and react to changes in the environment. As the environment in which arts organizations have been operating has become far more challenging, the arts organizations that will survive, and even thrive, in this environment are doing more than complaining.

Virtually all major for-profit corporations, threatened with rapid technological change and mounting international competition, develop strategic plans. These corporations have realized that "working harder" is not enough to ensure future success. A review of the environment in which the business operates, coupled with an objective review of its own internal strengths and weaknesses, has proven to be essential to determining the most effective way to achieve corporate goals. In this respect, the needs of an arts organization are no different from those of a for-profit corporation. While the mission of an arts organization (or any not-for-profit organization) is more difficult to formulate, the benefits of developing a mission, analyzing the environment and determining a strategy in response are identical. Organizations that do so find they have an easier time meeting their long-term objectives, fostering communication between their staffs and Boards and convincing patrons of their viability.

In specifying the plans and the planning process, it is essential to remember that even the largest arts organizations in the United States are small businesses. The Metropolitan Opera and the Metropolitan Museum of Art, the largest independent arts organizations in the country, would still not rank among the largest corporations in the United States. While small companies need planning as much if not more than large corporations (they can't afford, after all, to waste anything), their approach to planning must accommodate their size: even small deviations from expected results can have major repercussions for small businesses.

As a result, arts organizations that find planning most useful are those that maintain an entrepreneurial perspective on planning and management - a willingness to make changes in course as experience and results dictate. Maintaining this entrepreneurial perspective is difficult since there is an inherent tension between planners and entrepreneurs: planners expect fidelity to a predetermined course of action while entrepreneurs demand the flexibility to change. A deeper understanding of the planning process reveals this tension to be superficial. Good planners expect and react promptly to changes in the environment. Conversely, the best entrepreneurs maintain a firm core vision; specific operational steps might change, major strategic direction does not. While "entrepreneurial planning" is not easy, making the effort to develop a flexible, hence useable, plan is essential. The sad, but true, experience of many organizations, for-profit or not, that have tried planning is that bad planning costs more and returns less than no planning at all. A badly crafted plan leads either to the pursuit of the wrong path or, more frequently, to the discarding of the plan entirely. Either way, "planning backlash" - the feeling that planning is a waste of time - is the result.

Equally important to avoiding planning backlash is the development of a sensible planning process. When people are asked to spend hours and hours in unstructured, unproductive meetings, the perceived importance of planning begins to wane. Yet many successful, perceptive people endure these inefficient marathon sessions because they haven't experienced an efficient planning process and believe that planning is "good for them." When the resulting plan is discarded, frequently in short order, planning backlash emerges with full force.

In an effort to support planning in arts organizations, while avoiding planning backlash, this book addresses two major topics. The first part of the book reviews the content of a strategic plan. It proposes an approach to developing strategic plans with three distinct phases:

1. **Setting Up**
   Adopting the strategic framework that will guide the planning process and drafting a mission statement that motivates the entire plan.

2. **Analyzing**
   Collecting the data and performing the external and internal analyses that reveal the key strategic issues that must be addressed in the plan.

3. **Strategizing**
   Developing the artistic, administrative and financial strategies that have the highest likelihood of achieving the organization's mission.

The book concludes with a discussion of the process of developing a strategic plan, reviewing the steps that should be taken, the people who should be involved and the formulation of a planning calendar. In short, the book begins by revealing what is in a plan and ends by suggesting the way the plan should be put together.

While many readers may feel inclined to turn to this second section first, one must caution that the key to a good planning process, like the key to good art, is a firm commitment to superior content. A rigorous planning process that does not produce a rich, comprehensive, useable plan will certainly result in planning backlash.

Setting Up

Chapter One: A Framework for Strategy Development

Building on the Mission

A clear framework is essential to the development of a coherent, integrated plan. Following a specific framework will help focus discussions and maximize efficiency. Defining the mission, analyzing external environment and available resources, designing an implementation plan, and following through with an appropriate financial plan make the overwhelming task of strategic planning more accessible by breaking down the process into manageable components.

Strategizing is a creative process that cannot be performed simply by filling out forms. However, putting people in a room and asking them to think creatively about the future can yield very little and can waste a great deal of time. These sessions frequently devote too much time to the interests of a vocal minority, usually omitting discussions on many substantial issues and always prohibiting the development of a coherent, integrated plan.

Any planning process is made more efficient when it employs a structure, or framework, as a guide. This chapter introduces a framework that underlies one effective approach to planning. This approach is a generic one that has been used successfully by both for-profit and not-for-profit organizations. Just as this framework provides a guide for the planning process, it will also provide an outline for this book. In the following chapters, each element of the framework will be tailored specifically to the needs of arts organizations.

THE MISSION STATEMENT

The foundation of this framework, and the starting point of all strategic planning, is the mission statement. The mission statement describes the central goals of the organization and the scope of its operations. The goal of a corporation in the for-profit sector is easy to describe: maximize stock price by making as much money as possible for as long as possible. While the mission statements for profit-oriented companies may include some discussion of the product line, customer base or geographical scope, the central focus must be on profit. (Unfortunately, many for-profit organizations are not honest in their missions, emphasizing specific products or services rather than profit. This can lead to a great deal of confusion when product line changes are made through acquisition or divestiture.)

For arts organizations, and all not-for-profit organizations, the mission statement is more difficult to define. We know the company is not in business to make a profit; but why does it exist? To offer world-class performances or exhibitions? To educate? To sustain itself financially? To train young artists? To serve a specific region? To encourage the creation of new works of art? To preserve and present older masterworks? When one removes the overwhelming profit motive, the mission becomes more difficult and, therefore, more important to formulate. For although the specific wording of the mission statement is not of key importance (too many people spend too much time worrying about the semantics of the statement), the implications of the organization's mission are staggering. They guide the entire planning process and, more important, should influence all programmatic and administrative decisions.

Those organizations without explicit missions have a difficult time managing themselves. Individual members of the staff or Board may make decisions that they feel are best for the company but that counteract the actions of their peers; consistent progress in a mission-less organization, therefore, is a result of luck.

If a mission statement is to be an effective management tool, every person who influences the behavior of the organization must understand its implications. For example, a symphony Board that accepts world-class quality as an element of its mission must be willing to commit to raising the funds needed to achieve this ambition. Similarly, a regional theater company that aims to produce experimental works must be prepared to mount a more focused marketing effort than a counterpart producing light comedies and musicals.

While the mission clearly directs the remainder of the planning process, the final wording of the mission statement need not be drafted before planning commences. The planning process is an enlightening, iterative procedure that allows the participants to "fine tune" the mission statement as they reveal the full implication of each parameter of that statement. However, while the final wording of the mission does not have to be determined in advance, a broad outline of the company's goals must be developed before any effective strategizing can commence. For without a goal, a strategy is meaningless.

ENVIRONMENTAL ANALYSIS

While a strategy without a goal is meaningless, a goal without a strategy is a wish. For this reason, developing a mission statement is not enough: expressing one's goals does not guarantee attaining them. Yet many organizations' plans are little more than a mission statement followed by several affirmations that the mission will be accomplished. ("The company will build its audience by improving its marketing program.") Clearly this is not sufficient.

The first step in determining what the company's strategy should be is to review the environment in which the company operates. No arts organization operates in a vacuum, despite the level of isolation its Board and staff might feel. The success of a company depends, in great measure, on the way it understands the environment in which it operates and its ability to respond appropriately. There are two parts to an environmental analysis.

The first is an exploration of the "industry" in which the company operates - the museum industry, the theater industry, etc. While many arts professionals may be uncomfortable with the word "industry," it is appropriate. Each art form offers products and services and has customers, competitors for resources, and suppliers - the participants that define an industry. Industry analysis suggests constraints that the organization will face and paths of action that may overcome these constraints. In other words, industry analysis suggests those factors that are crucial to success.

In addition, this analysis will suggest how the industry is likely to change in the future. Understanding industry evolution in advance is a key to effective strategic planning because it gives the company time to decide on appropriate responses to expected environmental change.

The second step in environmental analysis is the review of peer organizations - those organizations that face similar opportunities and constraints and whose actions may affect one's own organization. For-profit companies study their competitors in order to predict how they will compete in the future. In the not-for-profit sector, competition is less direct. While the regional nature of the arts means that few arts organizations outside of major cities compete with other similar organizations for audience dollars or local contributions, they do compete with touring companies and for artists, gifts from national corporations and foundations, and grants from the National Endowment for the Arts, the National Endowment for the Humanities and other government agencies. (Of course, some cities do support multiple opera companies, symphonies, art museums, etc.; in these cities direct competition is a more important factor.)

In addition to forecasting future competitive actions, peer organization analysis allows one to learn from similar groups' successes and failures. A review of the financial performance of a group of peer companies also reveals benchmarks that are very useful in evaluating one's own performance.

The result of the integration of the industry and peer organization analyses is a firm understanding of the requirements for success in the art form - today and in the future.

INTERNAL ANALYSIS

Once an understanding of the industry structure and of the ways the peer organizations cope with this structure has been achieved, it is possible to evaluate the way one's own organization "fits" into the industry. This internal analysis is an integral part of the strategy development process. It suggests what the organization is doing well and what it is not doing well.

Internal analysis is difficult to perform because it demands objectivity in exploring areas of weakness and self-confidence in describing one's own strengths. By matching these internal characteristics with the industry success factors, one can identify those areas the organization must address in its strategic plan - both the strengths it can exploit and the weaknesses it must overcome.

STRATEGY DEVELOPMENT and IMPLEMENTATION PLANNING

An organization's strategies are simply a description of the way the organization expects to pursue its mission in light of industry requirements and their strengths and weaknesses. The truly successful strategic plans are those in which each strategy is derived from one, coherent strategic direction. If the strategic direction of the organization is clear, the specific operating strategies "fall out." It is not difficult, for example, to formulate the marketing, casting or development strategies for a theater company whose core strategy is to develop world-class productions in an effort to attract national audiences and funders. The specific operating strategies that must be developed will depend on the nature of the organization, as illustrated by the following list of headings in the strategy sections for two organizations in differing industries:

DANCE COMPANY	MUSEUM
• Artistic/Repertory	• Exhibitions
• Production	• Collection Development/Loans
• Touring	• Publications
• Education Programs	• Education Programs
• School	• Conservation
• Development	• Development
• Marketing	• Marketing
• Finance	• Finance
• Administration	• Administration
• Personnel	• Personnel
• Volunteers	• Volunteers
• Facilities	• Facilities
• Governance/Board	• Governance/Board

As this example suggests, virtually every organization, regardless of art form, will develop strategies for the same administrative functions; it is the programmatic functions that differ.

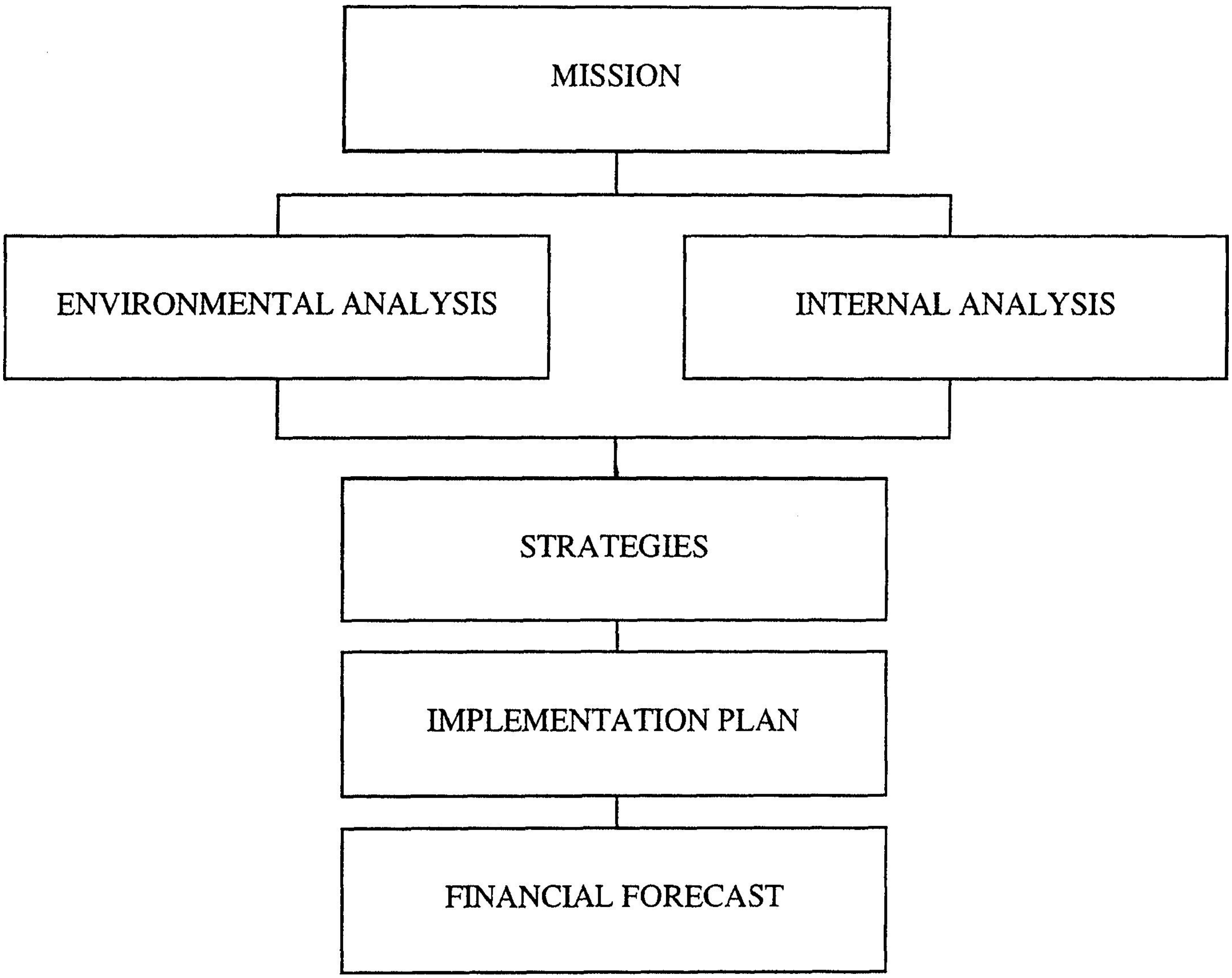
Once the major strategies of the organization have been developed, one can produce an implementation plan - a more detailed short-term agenda for the operations of the company. This plan will include details of the specific tasks to be accomplished, the staff members and others who will work on these tasks, and the time frame for completion.

FINANCIAL PROJECTIONS AND BUDGETS

A final step in the planning framework is to translate the strategies into measurable financial results. While it is impossible to project financial results with great certainty, an attempt should be made to quantify the financial implications of each operating strategy. After a complete projection is developed, one can determine whether the financial results are acceptable. If not, a second iteration of the strategy development process should be initiated to suggest ways to improve financial performance.

This framework for strategy development, which leads from a mission statement to a long-term financial plan, is little more than structured common sense. Experience suggests, however, that organizations that use this framework, or similar ones, for strategy development develop effective plans in a most efficient manner.

FRAMEWORK FOR STRATEGIC PLANNING



Chapter Two: Writing a Mission Statement

A clear, concise and complete mission statement is the foundation for any strategic plan. The mission should be aspirational. By answering the question "How does the organization define success," the mission optimizes the effectiveness of staff, donors and volunteers.

As overstated as it may seem, a concrete mission statement is the foundation for the entire strategic planning process. It sets the standard to which the organization aspires, now and in the future, and forces the Board members and staff to align themselves around a specific agenda. When the mission statement is crafted in a rigorous manner major disagreements can result, for this process entails making choices between: size and quality, recognition at home and national prominence, education and performance, art preservation and creation. There are no "correct" missions and simply creating a statement that embraces the whole world of possibilities may be comfortable, or politically expedient, but it doesn't contribute to the development of a clear path. In fact, many arts organizations only truly address their missions when they experience financial distress and are forced to cut back. The discussion concerning what to keep and what to discard at that moment is really a mission development exercise.

While drafting a mission statement can often be a frustrating exercise in semantics, the effort devoted to developing the specific wording should not obscure the importance of delineating explicitly the goals of the organization.

One efficient way of writing a mission statement is to ask the Board and senior staff members to make a list of all the potential elements of the mission. Parameters of the mission statement may include:

Product/Service

What product or service does the organization offer? While this may seem obvious at first, many arts organizations offer a diverse set of services. Opera companies may produce live performances, videos, lectures, publications, recordings and broadcasts. As electronic transmission of performances increases, the definition of the company's "product line" will become a more complex issue. The mission statement must include a reference to those services that are essential to the organization.

Quality

What level of performance is desired? This is a very important and difficult decision to make. While every arts organization aspires to high quality, it is unrealistic to expect a new contemporary art museum to build a world-class collection unless vast resources are available.

Audience

A substantial amount of effort must be devoted to determining the desired audience for each of the institution's services. Are the programs designed primarily for adults? for children? for a particular ethnic or religious group?

Geographic Scope

How much of the city/region/country/world does the organization hope to influence? The implications of this decision will have a tremendous impact on each element of the organization's operations. The mission statement should prioritize the importance of each relevant region. Remember that the organization need not serve every region in the same manner. The New York City Ballet offers regular live performances only in New York City and Saratoga Springs, yet serves the remainder of the country and the entire world with television broadcasts, videocassettes and occasional tours.

Repertory

The organization must decide whether there is a specific repertory from which it will choose the works it produces. The Ontological-Hysteric Theater, for example, presents a different repertory than the Hartford Stage Company. It is important to note that while critics may give kudos for adventuresome programming, neither the Ontological-Hysteric Theater nor the Hartford Stage is "wrong" when it comes to repertory. Each company has specific strengths and faces unique constraints that influence its choice of repertory. Similarly, a museum must decide if there are specific areas in which it wishes to collect and exhibit. There are clear differences between the collecting missions of the Whitney Museum of American Art and the Pierpont Morgan Library.

Education

How strong is the company's commitment to education? While this is a subset of the product/service decision, it deserves special mention. It is popular with many funders to stress a commitment to educate. However, one must honestly address the organization's commitment in this regard. Those companies with a true desire to educate must be willing to devote adequate resources and to identify the target recipients: The audience? Young artists? Children?

While the answers to these questions will guide the organization's entire planning process, the mission statement need not include references to all of the issues raised above. It should contain only the guiding principles of the organization. After creating the master list of possible mission elements, apply a simple test to each of them: ask whether the organization would be "satisfied" if it accomplished everything but that one element. If the answer is "yes," that element does not belong in the mission statement. If the company would not be fulfilled without accomplishing that one item, it belongs in the mission.

Despite differences in the substance of many mission statements, all superior mission statements should be:

- Clear: There should be little room for interpretation; everyone reading the mission statement should come away with the same sense of its meaning.

- Concise: A short mission statement is easily remembered by staff, Board, donors and the public. A lengthy statement is hard to remember and, therefore, hard to use.

- Complete: The mission should address all the programming of the institution. It is difficult to rationalize devoting scarce resources to

- Coherent: The mission must make sense and the various elements must be complementary. A theatre company that performs avant-garde works but hopes to be the largest theater organization in a region is probably not going to accomplish both elements.

For example, a regional theater company has developed the following mission:

> **To establish a national reputation as a leading repertory ensemble theater company that offers world-class theater productions and education programs.**

Notice that programs/services, educational programming and quality level are mentioned, while audience, fiscal performance, repertory and geography are not. This simple statement makes it clear what the organization is trying to accomplish in general terms. Other organizations develop much more substantial statements of mission. It is frequently helpful to expand on the mission by listing a series of objectives. For this theater company, these objectives might include:

- Increasing the number of productions offered;
- Developing new works;
- Producing a wide range of plays appealing to a variety of tastes;
- Exploiting all available performance formats including electronic media;
- Subsidizing ticket prices for certain audience members;
- Building a strong touring program;
- Creating a year-round company that permits artistic continuity and attracts the best talent;
- Improving and expanding the apprentice and intern programs;
- Attracting the best directors and designers; and
- Providing theater to the entire community including productions that appeal to specific age, racial and ethnic groups.

These goals provide a more concrete challenge to the Board of Directors and staff of the organization and establish a clear starting point for the planning process.

Analyzing

Chapter Three: Understanding the Environment

External Analysis

An external or industry analysis reviews the structure of the business environment in which an organization operates. Given the characteristics of success defined by the organization's mission, the external analysis answers the question "What does it take to be successful in this environment?". More than a catalog of descriptive data about the organization's business environment, the external analysis provides critical insights that guide the internal analysis.

Since the early 1970's, it has become very fashionable to use the modifier "strategic" whenever one discusses planning. While it may seem sophisticated to talk about "strategic" planning or "strategic" marketing, few people using the word know its meaning. What turns old-fashioned, "long-range" planning into "strategic" planning is the explicit analysis of the environment in which the organization operates. Strategic planning came late to the business community but has been a primary tool in other forms of competition for centuries. Who would consider developing a military or sports strategy without first analyzing the field of play and the strengths and weaknesses of the competition?

For an arts organization, a thorough review of the environment includes two distinct activities: analyzing the industry and analyzing peer organizations. Industry analysis reviews the structure of the field in which the organization operates and answers three important questions:

1. What are the constraints placed on the organization by its environment?
2. What are the requirements for "success" in the industry?
3. How is the industry evolving?

Peer analysis typically follows industry analysis. It allows the organization to learn from the behavior of other similar arts institutions and provides benchmarks against which one's own performance can be measured. An environmental analysis performed by the Detroit Institute of Art, for example, may include an analysis of the art museum industry and peer company analyses of the Los Angeles County Museum of Art, the Boston Museum of Fine Arts, and the Philadelphia Museum of Art.

INDUSTRY DEFINITION

Before proceeding with an industry analysis, one must answer one basic question: in which industry does the organization operate? Despite the simplistic example above, there is not one single arts industry, nor is there one "museum" industry, "opera" industry or "ballet" industry. An industry is a group of organizations offering a similar product or service to the same customer group and/or drawing from the same resource pool. By this definition, the Chicago Symphony is not in the same industry as the St. Joseph (Missouri) Symphony while American Ballet Theatre is in the same industry as the New York City Ballet. Determining the correct parameters of the industry is not simply an academic exercise. It defines the data that needs to be obtained for the planning process and, more important, ensures that the results of the analysis are pertinent to the organization. For example, the St. Joseph Symphony can probably learn very little from examining the Chicago Symphony. In fact, it is likely that improper implications can be drawn from such an analysis. The fund-raising and marketing methods that are successful for the larger orchestra will probably bear no fruit for the smaller one, for example. The New York City Ballet, however, must take American Ballet Theatre into consideration when it develops its plans, learning from its counterpart's successes and failures.

While it is dangerous to broaden the industry analysis to include organizations that face very different situations, one loses an important opportunity if one defines the industry too narrowly as well. Two major museums, opera companies or theater companies in different regions might not serve the same customers but they do draw from the same talent pool, compete for national funding and serve similar types of customers. The Seattle Repertory Theatre can learn a great deal from evaluating the Guthrie Theatre, and vice versa.

Although defining the industry is a crucial step in industry analysis, frequently the correct definition of the relevant industry will only emerge after some data collection and analysis has been initiated. Just as an organization's mission is fine-tuned throughout the planning process, so the definition of the correct industry boundaries becomes clearer throughout the environmental analysis process and after important strategic decisions are made. For example, if a regional ballet company decides to pursue an ambitious path to world-class quality, the relevant industry segment and peer companies will change. The Pacific Northwest Ballet in Seattle, which has become one of the country's leading companies, provides a good example of a company that must begin to broaden its industry definition. With frequent tours to major cities in this country and abroad, this dance company can no longer limit its analysis to other regional companies or those in its home territory.

INDUSTRY STRUCTURE

Industry analysis begins with a review of the structure of the industry - a systematic look at the key industry participants. The simplest way to reveal the structure of an industry is to use a model developed by Michael Porter of the Harvard Business School. This model has proven to be as relevant to arts industries as it is to the for-profit sector. It separates industry participants into five key categories, including:

Peer Companies Those organizations that offer the same level of product or service and therefore compete for resources, customers and patrons. The Chicago Lyric Opera and the San Francisco Opera are peer companies. The Amato Opera does not use the same level of singer, designer, orchestra, etc., and is not a peer company of either of these two larger companies.

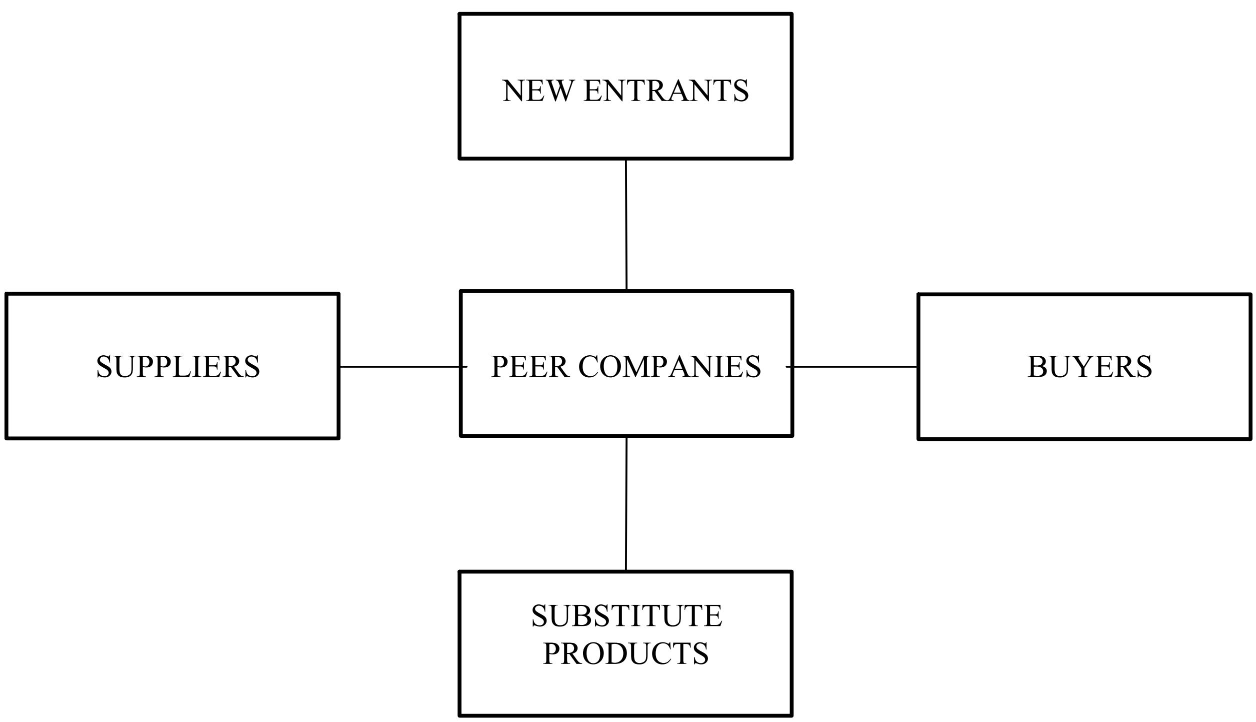
New Entrants New organizations that might become peer companies in the future. For example, several serious theater companies have started operations in Philadelphia over the past ten years. Their opening has had a major impact on the city's few major theater organizations, including the

Wilma Theatre, since the companies compete for many of the same donors, audience members, plays and artists.

Substitute Products Those products or services that offer an alternative to the customer. There are several levels of direct and indirect substitutes. Opera on videotape is a direct substitute for live opera. Movies are an indirect substitute for opera performances.

Buyers Most arts organizations must market to, and compete for, three kinds of "customers." Clearly, those people who buy tickets for performances, exhibitions, etc., are one important set of buyers. A second set of buyers is the presenters that engage performing arts organizations for tours, or museums that rent shows from other museums. A third group of buyers is contributors who support the activities of the organization. While their "purchases" are less concrete, contributors, like ticket buyers, give money to arts organizations and receive something in return.

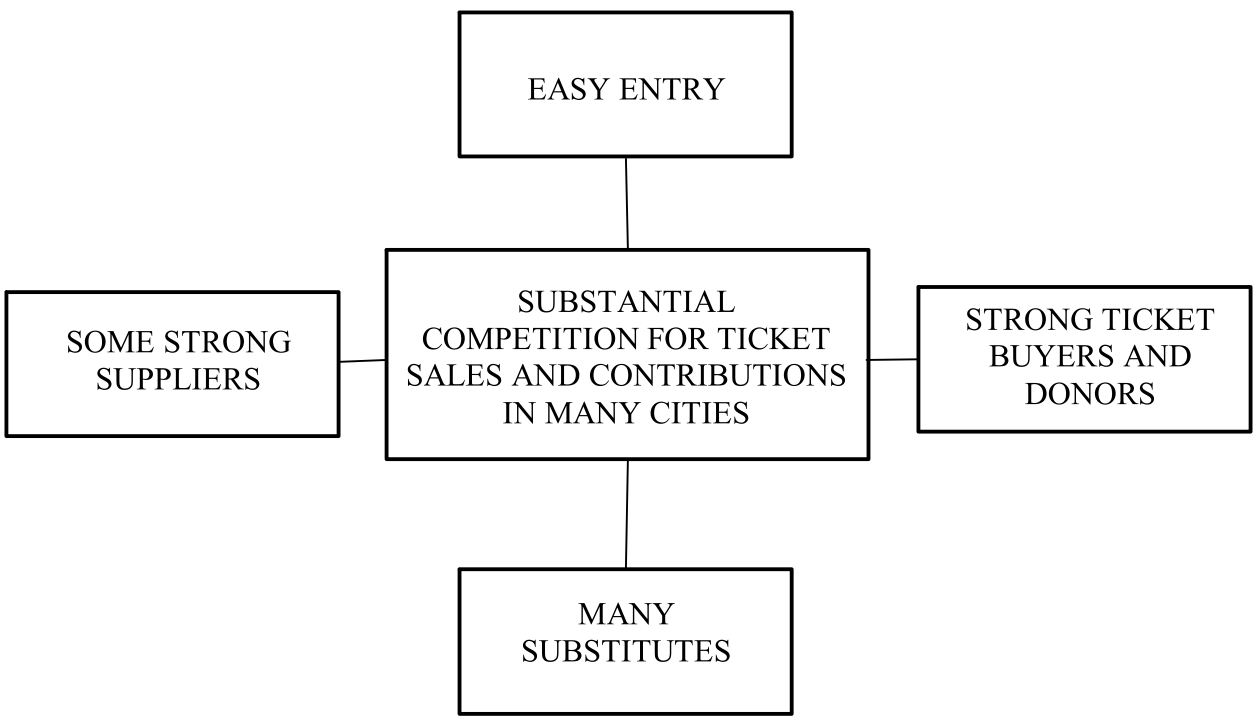
Suppliers The artists, technicians and other personnel who provide their services to an industry, as well as other suppliers of materials, venues, etc.



Each of these five groups of participants creates tension in an industry; the magnitude of these tensions will determine the difficulty of sustaining financial health and artistic performance in that industry. If there is a great deal of competition among peer companies, if the potential for new entrants is strong, if buyers and suppliers are powerful, and if substitutes are numerous, then industry participants are going to have a difficult time sustaining a high level of performance.

Most not-for-profit theater companies suffer from this difficult industry environment. Since creating a new theater company is relatively easy, there are many new companies formed each year. The large number of choices between theater company offerings and numerous substitute products (movies, television, DVD’s, Internet services, other performing arts, etc.) makes the ticket buyers extremely powerful and makes it difficult to attract substantial funds from contributors. While the oversupply of acting talent makes suppliers "weak", name performers have a great deal of clout and can create high costs for the theater company. This combination of easy entry, strong competition, buyers and suppliers, and numerous substitutes creates a terribly difficult environment in which to operate.

THE THEATER INDUSTRY



In most industries, the problems are not this severe but one or more of these factors do present a problem; isolating the factors that create the problem is crucial to identifying the solution. For this reason, it is productive to review each set of participants in some depth.

PEER INSTITUTIONS

If more than one organization offers a similar product to the same buyer group, the industry becomes substantially more "difficult." For this reason, it is important to understand those peer organizations that might influence your industry segment.

While the analysis of peer organizations can yield a significant amount of information for strategic analysis, peers only affect an industry structure to the extent that they provide direct competition for patrons, customers or suppliers. (In fact, in the for-profit sector, peer company analysis is termed "competitive analysis," a direct name that is considered inappropriate for the more harmonious arts community.) Most arts companies secure regional funding and sell to local audiences and, therefore, are not affected by most peer companies.

Even "national" organizations (e.g., New York Philharmonic, Chicago Symphony, etc.) do not compete directly for ticket sales. They do compete for some funding although most arts patrons tend to be regionally focused as well. (This trend is changing and is providing for increasing competition in many arts industries.) Thus, there is very little direct competition for income between the Chicago Symphony and the New York Philharmonic. There is substantial competition between these two organizations - and numerous other orchestras throughout the world - for the services of soloists and conductors, however. In most cities, with only one major participant in each art form, direct competition comes more from touring companies and from substitutes.

In cities with more than one major opera company, museum, etc., (e.g., New York City), the impact of peer organizations is greater than in cities with less "cultural density"; ticket sales will be harder won and fund-raising will be more competitive. This does not mean that analysis of peer companies is not useful for regional arts organizations. Instead, peer company analysis becomes more informational and less strategic, providing insight into the way a similar organization operates rather than how that organization's activities will affect one's own performance.

NEW ENTRANTS

If the number of peer organizations increases, the competition for artists, audiences and donors will similarly increase. For this reason, the number of new participants in an industry has a considerable impact. For example, as many new chamber music groups have been formed, it has been difficult for all of them to receive enough bookings to form a substantial tour, adequate fees for their performances, and significant funding.

In most arts disciplines, it is unlikely for a large number of new entrants to emerge owing to the high cost of establishing a presence. Opera companies, ballet companies, symphonies and museums tend to face few new entrants and, hence, less direct competition. In those art forms where costs are lower - modem dance, chamber music - one is more likely to see a significant number of new companies. It is very easy to establish a poetry reading organization; one only needs a public space. This has led to a high level of competition for a very small group of buyers, a very difficult environment for established literary organizations.

Those factors that make it expensive or difficult for a new organization to perform successfully are termed "barriers to entry." For example, the time and cost required to establish a unified ensemble quality in ballet and symphonic music serve as substantial barriers to entry. Similarly, the cost of mounting grand opera prevents the establishment of new companies. (Not surprisingly, many new concert opera groups, that offer "unstaged" - therefore, less costly - versions of operas, have been established in recent years.) And the high cost of building both an important collection and a suitable facility makes it extremely expensive to establish a major new museum.

This does not imply that museums, opera companies and ballet companies, etc. are "protected" from all new entrants. New "competitors" may be formed, but substantial resources will be necessary. Frequently, national companies on tour pose the biggest threat of entry to regional performing arts organizations. While these may not represent new organizations, they may be new to the region. Although touring companies do not often compete directly for contributions, they do compete for ticket sales. And, in most cases, a local presenting organization does compete for funding with those local organizations that self-produce. The Metropolitan Opera used to present an annual spring tour following its New York season. This tour represented the biggest competitive threat to many regional opera companies. Since the tour has been canceled, these local companies have had an opportunity to solicit the local ticket buyers and funders of the tour.

SUBSTITUTES

Ballet companies do not compete only with other ballet companies, nor do opera companies compete only with opera companies. Art forms compete with each other and with other forms of entertainment and leisure time activities for ticket buyers and for patrons. The presence of substitute products affects arts organizations as much as the sale of tea affects coffee merchants.

Companies face both direct and indirect substitutes. Ballet, symphonic music, opera, etc. are direct substitutes for each other. There are many similarities among these types of performances and among the people who attend them. Indirect substitutes include other forms of entertainment: television, radio, sports, etc. It is essential to identify those substitutes that provide the greatest challenge before one can create a strategy to overcome them.

A new form of substitute, and an increasingly important one, is electronically-distributed performance and education programs. Symphonies have had to compete with recordings for decades; now other performing arts companies are facing competition from cable television programming, DVD’s, satellite distribution, internet programming and iPods. The difference between watching live performances and taped performances is substantial. However, the cost of video performances is falling so dramatically, and the cost of live performances and the ancillary expenses of attending a live performance - babysitters, parking, etc. - are rising so rapidly, that many people may decide to "attend" the opera in their homes. (This could be a particular problem in those cities where the local arts companies do not employ the "name" performers typically featured in electronic performances.)

Whether, in the end, electronic performances help to build an audience by exposing more people to an art form or cannibalize a limited audience has yet to be determined. But it is important to note that a DVD of world class caliber can be purchased for less than one ticket to a ballet or opera performance.

While electronic media will not eliminate the demand for live performances, the need to improve quality and the pressure to keep a rein on price inflation will build for all arts organizations as world class videos produce a wide-spread standard for performances. To date, video technology has not yet become a substitute for museums, although CD-ROM technology is now being used to distribute images of collection items into private homes and video technology is employed in many museums themselves.

BUYERS

As mentioned above, arts organizations serve three kinds of buyers: purchasers of tickets, presenters of touring groups or exhibitions, and contributors. Ticket purchasers traditionally form the largest group of buyers. As one evaluates the strength of these buyers, one must determine the choices available to them, their dedication to the art form, and their sensitivity to price increases. Each of these factors will have a major impact on the industry.

A simple audience survey can be most helpful in addressing these issues. In addition to revealing the demographics of the ticket buyers and the best ways to market to them, surveys help to determine the value buyers place on the repertory chosen, the importance of recognizable performers, the importance of high production values, and the need for amenities (parking, restaurants, etc.).

The results of an audience survey must be used carefully. In many arts organizations great tension arises from the dichotomy between artistic priorities and the audiences' tastes. Marketers/administrators will often encourage programming of well-known, accessible works (with a famous guest star) while the artistic staff wants to try something new and experimental. (This is a particular problem in smaller cities where the audience for experimental works may be small and dispersed.)

No arts organization should change its mission solely because of its audience's interests. An organization aiming to produce experimental theater but selling to ticket buyers who want musicals is either marketing improperly or needs to pursue a major educational effort, or both. However, it is equally important for the artistic and administrative leadership of an organization to understand the interests of its audience, and to be realistic about the potential for survival if the mission and audience tastes are hopelessly divergent. The most congenial situation, of course, is when the mission of the organization is consonant with the desires of its audience.

Audience surveys will also indicate the level of price sensitivity of the ticket buyers, giving a first approximation of the amount of business an organization may lose if it raises ticket prices.

Typically, since very few arts organizations market to homogeneous groups, there will not be one simple answer to any survey question; buyers will tend to be grouped by type. It is important to understand the needs and desires of each buyer grouping, or niche. Sometimes, individual marketing strategies can be developed that address the needs of a particular market niche without adversely affecting other buyers. For example, many performing arts groups have experimented with "singles' nights" that offer unmarried adults the chance to attend performances and post-performance parties with their peers. This has built larger audiences without affecting the programming prerogatives of the artistic staff.

Institutions - presenters who "purchase" a company for one or more performances, one museum contracting to mount an exhibition produced by another museum, etc - are a second buyer type. Since their purchases are so large, these buyers are more powerful than individual ticket buyers, and consequently have a greater ability to influence repertory and to demand reduced fees, The extent to which any buyer, individual or institutional, has power will depend substantially on the popularity of the organization'. When the Bolshoi Ballet tours, they can demand and receive complete artistic control and substantial fees and still repeatedly perform to sold out houses. A small regional ballet company typically does not have this freedom.

A third set of "buyers" is the contributors to the organization. Just as it is important to determine what ticket buyers value, it is vital to understand why donors support the institutions in the industry and the level of their commitment. Each of the key contributor groups should be reviewed including government, foundation, corporate and individual donors. Trends in contributions and key donor priorities should be evaluated.

In the museum industry, for example, support from individual and corporate donors has grown far more rapidly than support from government agencies over the past decade. Not surprisingly, museums have become more responsive to the wishes of these donor groups. The importance corporate donors place on visibility has been a major reason for the increasing importance of "blockbuster" exhibitions - large-scale exhibitions that guarantee substantial attendance because of the popularity of the subject matter.

SUPPLIERS

While buyers are responsible for industry income, suppliers are responsible for industry costs. Many companies are faced with direct competition from peer companies (and indirect competition from film companies, recording companies, etc.) for their performers. This is especially problematic in the opera industry where the number of singers with a major reputation is quite small and fees, therefore, can be staggering.

The problems of the opera industry were traditionally exacerbated by the alternative sources of employment for opera singers, especially recordings. In recent years, the decline of the recording industry has reduced the ‘power’ of star singers; this alternative form of employment is now harder to come by and the missing marketing clout of the recording industry means fewer opera singers develop huge reputations. Not surprisingly, ballet dancers have tended to earn substantially less than opera singers since alternative forms of employment are less readily available. Ballet dancers' bargaining power is further reduced since they tend to commit themselves to one company, and one dance technique, for an extended period of time. As a result, even principal dancers with major companies do not get to re-negotiate their fees with the same freedom as opera singers who may perform with many companies in one season. therefore, more bargaining power.

Of course there are many other suppliers to each art form, including stage labor, set designers, costumers, curators, administrators, venues, etc. Each of the major suppliers to an industry must be reviewed to determine whether they present a problem to the organizations in the industry.

SUCCESS FACTORS

An integrated analysis of the five sets of participants in the Porter model reveals the pressures that will influence the way industry participants function. An industry characterized by few peer companies, weak suppliers and buyers, no substitutes and few new entrants will be an "easy" one in which to prosper. Few arts organizations enjoy this advantageous environment.

In addition to suggesting the problems that will face an arts organization, industry structure analysis reveals those characteristics that will be required for an organization in that industry to succeed. Isolating these success factors is crucial to the entire planning process. If we know what an opera company must have to be successful, we can focus our planning on developing that asset. For example, an analysis of corporate donors suggests that visibility is becoming increasingly important. In the current cost-competitive environment, most corporations can no longer afford to give away money simply to be good citizens; increasingly, the marketing departments of corporations are becoming involved in giving decisions. For this reason, many arts organizations are challenged to enhance public awareness of their programs and services.

If new entrants are establishing themselves, this will increase "competition" among peer companies for ticket sales and contributions. This increased competition will require more expenditures on making the company seem different from others - a sophisticated marketing program supporting a strong artistic vision will be increasingly important in the future.

If a substitute technology is becoming more of a factor, one must decide whether the industry should embrace the new technology. The Metropolitan Opera has had great success adapting to technological advances: first with its radio broadcast, followed by television, video cassettes, DVD’s and, finally, supertitles. This "beat 'em or join 'em" decision requires a great deal of careful thinking. The industrial world is littered with failed companies that made the wrong decision.

If suppliers are a problem, one must decide whether to accept the restrictions or find substitutes. Obviously, if the key suppliers are the artists, only a change in artistic vision will accommodate a change of suppliers, and the vision should never change solely on the basis of a planning analysis! However, if the problem is the supplier of other materials or services, frequently a change in suppliers will not affect the product.

Industry analysis does not reveal the optimal strategy, but it efficiently isolates the area that needs to be addressed. For planning to be effective, and for the industry analysis process to be more than an exercise, it is essential that the data described above are used to generate insights.

These insights will relate to the challenges facing the organization and the requirements for success.

THE CURRENT ARTS ENVIRONMENT

At present, many of the challenges facing arts organizations stem from the high rate of growth of their services and quality, and, hence, cost structures, over the 1990's. Revenue growth, however, has not matched this cost inflation. Difficult economic conditions, changing tax laws and limited government funding have led to increased competition for both earned income (from ticket sales, tour fees and tuition) and contributions. Arts organizations now work harder, and often with less success, to balance their budgets.

Audiences' inability to pay increased ticket prices and arts organizations' inability to build new audiences rapidly enough have all conspired to limit earned income. As arts institutions struggle to build earned income, their attempts to grab "a larger piece of a shrinking pie" has created substantial competition for local audiences and tour dates. Competition for audiences is intensified by the rising indirect costs of attending performances and exhibitions. Transportation, parking and dining costs have all risen substantially over the past decade.

In addition, non-live presentations of performances via television, movies, video discs and the Internet are now widely available. The effect of these media on attendance at live performances has yet to be measured. While some observers expect the number of people interested in the arts to increase owing to exposure to "electronic performances" others believe that audience members may limit the number of times they attend live performances.

Increased pressure to mount highly popular works, frequently with famous guest artists, often results. While major productions of tremendous appeal certainly help attendance and, hence, earned income, they should not dominate the performance calendar of any company unless they also fit within the objectives of the artistic director. (Tour presenters, who typically have less interest in the artistic direction of the company than on their ticket sales, are particularly, and understandably, insistent on "popular" repertory.)

Fortunately, high levels of attendance are not solely dependent on the nature of the production. Experience also suggests a strong correlation between public relations, marketing and advertising expenditures and attendance. (However, some productions are so esoteric that even substantial marketing efforts will not attract large crowds.) Attracting sponsors willing to underwrite investments in marketing has become an increasingly important element of an arts organization's strategy.

Of course, the need to advertise depends upon the location of the performances. Institutions in New York City face more competition from their peers than do their counterparts in other less culturally-dense locales. This means that both the blockbuster syndrome and the need for sophisticated marketing approaches are especially significant there.

Enhanced marketing efforts can be pursued on two tracks: individual marketing of specific programs and institutional marketing of the entire organization. Individual marketing, the more traditional approach, builds an audience for a specific production, subscription series, etc. While the short-term benefits of this kind of promotion are clear, the longer-term benefits are marginal unless the institution does a superior job of on-site re-marketing. Institutional marketing educates the public about the organization's mission and builds an underlying base of knowledge. This may reduce the amount of individual marketing required for any given program.

Not only must arts institutions compete for audience in an effort to build earned income, they must also build attendance to please potential funders. Institutions that successfully attract large numbers of visitors will achieve the level of earned and contributed income they need to fund growth in the future. Those institutions that are unsuccessful at building visibility will not succeed on either count, placing their long-term success in jeopardy. This analysis suggests that the gap between the "haves" and the "have-nots" will continue to widen in the future.

Substantial efforts to upgrade the professionalism and scope of fund-raising activities have been pursued by most kinds of arts organizations. As all arts organizations expand development activities, they compete more directly with each other. No longer can "traditional" donors, even in the largest cities, be expected to underwrite completely the activities of resident arts organizations. Arts institutions are now actively soliciting the donors of other arts organizations, even those from other cities and states. The competition for federal and state funds has similarly intensified. As a result, all arts organizations have now become part of a national "arts industry." This has significant implications for the way they must operate in the future.

Whereas traditionally the majority of support for arts organizations came from a small group of wealthy individuals, over the past twenty years a growing portion of funds have come from a new donor pool of national funding sources: major corporations, national foundations and the newly wealthy.

These new funders are demanding changes in the operations of the institutions they support. Major corporate givers are looking for exposure; they want as many people as possible to be informed of their association with high quality "products." Government agencies are looking for a different form of exposure; they want a large number of people to be exposed to programs with significant educational content. (It is essential to note here that government agencies are, in general, looking for a level of educational content that is accessible to a broad spectrum of visitors.)

One final source of revenue that is becoming increasingly important is endowment income. This reflects the desire for a base level of "guaranteed income" as well as the experience that it is more efficient to solicit large, one-time gifts for endowment capital than to mount an ever-larger funding drive each year as expenses grow.

While inflation has a major impact on all expense categories, one must expect expenditures for development and marketing initiatives to rise most quickly. Salary levels are not likely to escalate as quickly as in other sectors of the economy since the demand for specialized personnel is moderate at best.

This brief analysis of the current environment has several implications for the formulation of a long-term strategy for arts organizations:

- Long-term financial stability and consistent artistic achievement are inextricably linked. Institutions that do not recognize this fact will become increasingly weak.

- There are a growing number of opportunities for ticket buyers to see performances at home at a cost less than an evening at a live performance. These video performances, while not live, feature some of the world's greatest performers in the popular, standard repertory. As the availability of "electronic performances" increases, it will be incumbent on all companies to convince the public that live performances are worth the cost.

- Despite the need for earned income growth, the importance of a solid fund-raising effort will continue to increase.

- Competition for funding will continue to accelerate as more organizations attempt to expand the geographic scope of their development efforts.

- Those organizations that build relationships with the new donor pool are the most likely to succeed.

- Efforts to build visibility will be rewarded. Increased visibility demands performances that attract large numbers of people. In addition, the pursuit of strong, well-planned public relations programs will be a key success factor.

- Success begets success in attracting operating funds, endowment funds, audiences and students. Consistent public demonstration of current accomplishments is the surest way to guarantee future achievements.

- Newer donors, particularly government agencies, are looking for programs that serve a broad spectrum of the population. Organizations that depend on government financing must develop a range of educational offerings.

- Institutions that fail to build their level of service will weaken. Austerity is not the road to success in the arts; however, very careful allocation of resources will be essential for long-term success.

- The gap between the organizations that have sufficient funding and those that do not will continue to widen.

- No arts organization is going to have an easy time growing consistently. Costs are rising, ticket prices are already high, touring engagements are difficult to obtain, substitute products abound and funding will be competitive. In this difficult environment, development and implementation of a comprehensive long-range plan will be essential for success.

PEER COMPANY ANALYSIS

While industry analysis reveals the major issues facing all industry participants, peer company analysis suggests how individual organizations have addressed these issues.

There is a great deal to be learned from the experience of other, similar organizations about fund-raising sources, marketing techniques and staffing options. Simply reviewing the donor lists in a peer company's program will indicate who supports the art form, and in what amount. This can be helpful in expanding one's own development effort.

It is not necessary to study every peer company in equal depth; the New York City Ballet can learn from the San Francisco Ballet, but it needs more knowledge of American Ballet Theatre to develop its plans. For those organizations facing direct competitors (e.g., the New York City Ballet and ABT), peer company analysis is crucial. If peer company analysis suggests that a direct competitor is stronger than your organization, your strategic plan must reveal explicitly how you intend to bridge the gap unless your region can support two similar organizations of differing strengths.

Characteristics of peer companies that might be evaluated include:

- Artistic Profile
- Financial Profile
- Management Structure
- Board Capabilities
- Development Sources
- Marketing Strategies
- Production Methods

A "complete" peer company analysis is frequently not required. Rather than simply collecting large amounts of data on every peer company, the analysis should focus on the success factors revealed in the industry analysis. The aim is to generate insights about strategy formulation, not to develop a complete book of information. As in every step in the planning process, when in doubt, err in favor of creating insight at the expense of gathering data.

Collecting data need not be a cloak-and-dagger operation. Given the public nature of virtually every not-for-profit organization, the information needed to complete a peer company analysis is readily available from industry associations (Dance USA, Opera America, etc.), annual reports, audits, articles and marketing materials.

Armed with a clear understanding of their industries and a knowledge of the peer companies' strengths and weaknesses, planners have a substantial head start in constructing the optimal strategic path for their own organizations.

Chapter Four: Internal Analysis

The Management Audit

The internal analysis reveals an organization's most salient strengths and weaknesses. An honest appraisal, or "audit" of company operations, coupled with a revealing environmental analysis, provides a strong foundation for creative strategy development.

While the external analysis suggests the constraints and opportunities presented by the environment, the internal analysis reveals the strengths and weaknesses of a particular organization. Matching the results of the internal analysis with the requirements for success revealed in the industry analysis identifies those areas of strategic concern. If one key for success for a modern dance company, for example, is a strong touring program, a non-touring organization must address this shortcoming explicitly in its strategic plan. Conversely, a company with a thriving tour program should strategize to protect this important asset. This does not imply that every modern dance company should have the same strategy or should aim to operate in one prescribed manner. Rather, a modern dance company that cannot, or chooses not, to tour must accept the consequences of that decision.

As with peer company analysis, each element of the company's operations should be scrutinized. While it is obviously easier to obtain more data for internal analysis than for peer company analysis, it is far more difficult to interpret that data objectively. Some organizations rationalize away any negative reviews, fund-raising shortfalls, or earned income problems. Others are too critical of their own capabilities, believing that other organizations do everything better. An honest appraisal of weaknesses and strengths must be developed; nothing is gained from being overly generous with praise nor is there any point to self-flagellation.

The most effective way to perform an internal analysis is to conduct an "audit" of operations. This evaluation creates a profile that can be compared to that of a "typical" arts organization. While no two arts institutions mature in exactly the same manner, many develop in a similar series of stages:

STAGE ONE: THE DREAM

Virtually every arts organization begins as the dream of a visionary. The goal may be lofty ("providing access to great art to people of all backgrounds") or more personal ("providing an opportunity to show my work") or some combination of the two.

Artists who decide to leap into self-production will follow very different paths depending upon two vital characteristics: talent and money. Great artists, at least those who are perceived by the world as great artists, can build an earned income base and, eventually, a contributed income base as well. Those artists with sufficient financial backing can "buy" some measure of success. These lucky few (and they are getting fewer and fewer each year) can establish a Board of Directors, receive bookings, sell tickets and raise funds. If they approach these activities in an organized manner, they can mature in a rather painless fashion.

But most artists who launch organizations do not have this bounty and must start with little acclaim and less money. They will typically save up for one initial project, frequently with the support of family and friends. The project goes well, everyone offers positive feedback (except, perhaps, the critics, who may pay no attention whatsoever) and the artist is convinced that the applause will go on forever.

STAGE TWO: THE REALITY

Then reality sets in. All funds were used for the first project. No one is knocking down doors to offer bookings or money. And the thought of doing it all again is daunting.

Many artists stop at this point and return to employment with an established arts organization. Others persevere and enter a critical stage in the development of their companies: they come to appreciate the non-artistic elements of arts production. Marketing, fund-raising, tour booking, finance, Boards of Directors, and even planning become real and important.

How the artist copes with this set of issues will determine, in many respects, the way the company will develop. Creating a strong Board that can provide and solicit funding and can help address administrative requirements is crucial. Building an arts organization is expensive; without access to substantial resources of their own, artists must rely on others. Typically, artists will limp along from season to season, without significant growth in support, ticket sales or artistic scope. In fact, most start-up arts ventures become mired at this stage and then eventually evaporate from lack of funding or persistence.

The fortunate few who can attract a strong Board, who can make an impression on critics and audiences, who can begin to receive support from foundations or corporations (usually through Board contacts) and who can make it through this arid period with determination intact will enter the most exciting phase of their organizational careers.

STAGE THREE: GROWTH

After several years of presentations, a well-managed, successful arts project will enjoy a level of demand, a degree of visibility and a base of support that provide the seeds of a lasting organization. Typically, at this time, gifts from individuals grow substantially, foundation support and government grants commence, and touring opportunities increase. This confluence of visibility, institutional support and earned income growth allows the organization to flourish. The hard work of the Board begins to pay off, money flows more freely, the administrative infrastructure can be strengthened, and management looks like a group of heroes.

STAGE FOUR: STAGNATION / CRISIS

The euphoria of the growth period comes to a crashing halt when the company has maximized its income from funders, the Board members are no longer increasing their gifts to match the organization's budget growth and earned income hits its peak (especially if the artistic programming loses its "edge").

Suddenly, the rapid annual increases in expenses enjoyed during the growth phase are no longer matched by increments in revenue. Since this turn is rarely anticipated, arts organizations typically incur one to three years of deficits during this stage. If the deficits are large enough, they can erase all accumulated surpluses and even threaten the life of the organization. The lack of a financial cushion is perhaps now most evident; the organization is as famous as it ever was but it is in danger of extinction. Management invariably is blamed, the Board grows frustrated, the artistic mission is ignored and cash flow becomes the central topic of every conversation.

These problems call for substantial institutional change - improving development capability, building institutional visibility, strengthening the Board, etc. Organizations that recognize this are in a good position to move past the crisis point. Those who fail to see the need for change, or who believe they can grow stronger by continuing to reduce budgets, tend to wither away.

STAGE FIVE: THE INSTITUTION

Organizations that emerge from the crisis (and the rare few able to avoid it altogether) can become true institutions with the Board and staff needed to foster consistent artistic accomplishment and the earned and contributed income base needed to support program development.

These institutions are not immune to problems and must stay aware of environmental changes. But with the proper mix of artistic and administrative leadership, and the oversight of a strong, continuously evolving Board, these organizations have the potential to weather crises by building financial structures, including endowments, that provide long-term stability.

COMPARISON CHARTS

While each arts organization develops in its own unique way, this normative model provides a context for internal analysis. Indeed, by isolating ways in which an arts organization strays from this typical path, one can learn a great deal about its idiosyncrasies: both its peculiar strengths and weaknesses. These revelations form the heart of the internal analysis.

ORGANIZATIONAL STAGES OF DEVELOPMENT COMPARISON CHART

	STAGE ONE The Dream	STAGE TWO The Reality	STAGE THREE Growth	STAGE FOUR Stagnation / Crisis	STAGE FIVE The Institution
PROGRAMMING	Self-Produced Single-Project Focus Artist-Driven	Self-Produced Single-Project Focus Artist-Driven Company Size Remains Small	Increased Touring High Production Values Increased Program Resources Earned Income Increases	Earned Income Levels Off "Fundable" Projects Developed Programs Retrenched	Vital / Well Rounded Programming High Production Quality
FUNDING	Personal Funds Friends / Family Minimal Fees From Presenters	Limited Foundation Funding Small Gifts from Individuals Corporate Matching Gifts	Large Individual Gifts Initial Government Funding New / Larger Foundation Support Corporate Gifts Membership Drive	Institutional Sources Maximized Board Unable to Increase Personal Gifts	Stronger Support From Individuals Planned Giving Programs Multi-Year Institutional Gifts Access to Corporate Underwriting
MARKETING	Word of Mouth Cards / Posters Modest Ads if Any	Word of Mouth Cards / Posters Modest Ads if Any	Advertising Program Initiated Group Sales Subscription Program	Marketing Program Cut to Reduce Budget	Institutional Visibility Required Better Packaged "Product"
FINANCE	Cash-Driven	Bookkeeping Required Need to "Manage" Cash Annual Budgets	Careful Budget Preparation & Monitoring Financial Reporting Improved	Expenses Greater Than Revenues Substantial Payables Accrued Board / Bank Loans to Meet Cash Flow Needs Financial Analysis Refined	Stabilization Tools Required - Cash Reserves - Endowments - Real Estate
BOARD	Small Friends of Artistic Director Serve Legal Needs Volunteer Staff Some Financial Support	Small Friends of Artistic Director Serve Legal Needs Volunteer Staff Some Financial Support	More Financial Support Effort to Identify Funding Prospects Committees Formed	Financially "Tapped Out" Inadequate Access to Gifts Demand Cutting Costs Board Feels Ineffective	Maturing / Improving Organized Committees Accepts Fundraising Responsibility Monitors Financial Performance Closely "Experienced" Board Members
STAFF	No Administrative Staff Artists / Board Do Everything	No Administrative Staff Artists / Board Do Everything Some Staff May Be Required	Staff Departments Formed Greater Staff-Board Activity	Staff/ Board Tensions Survival an Issue Again Morale Problems	Formal Management Structures

Another method of isolating differences is to produce an analysis that reveals how one's own organization and one's peers differ from industry norms for selected important parameters. Each industry association (e.g., American Symphony Orchestra League, Association of Art Museum Directors, etc.) publishes substantial data for the industry and for individual organizations. This data can be used to compare financial performance, allocation of resources, staffing levels, funding sources and the size of endowments and other long-term assets.

The parameters selected to compare should depend, in great measure, on the results of the environmental analysis (e.g., Is an endowment crucial in this industry? Is developing a base of corporate support important?).

For example, in 1993, the Museum for African Art in New York had an income distribution that differed markedly from other art museums:

THE MUSEUM FOR AFRICAN ART COMPARED TO OTHER ART MUSEUMS SOURCES OF INCOME (1993)

ART MUSEUMS		**MUSEUM FOR AFRICAN ART**
18%	**Endowment Income**	**-**
22%	**Earned Income**	**43%**
6	Admissions	5
1	Concerts / Lectures / Films	-
6	Store	9
1	Restaurant	-
1	Tuition	-
1	Participation Fees	25
2	Special Events	-
4	Other Earned	4
60%	**Contributed Income**	**57%**
18	Individuals	20
9	Corporations	1
9	Foundations	13
18	Government	24
6	Events	-
100%	**TOTAL**	**100%**

This analysis reveals the Museum for African Art's reliance on renting its exhibitions to other museums and on government funding. Given the precarious nature of government funding and the increasing competition for exhibition rentals, the Museum for African Art faced the challenge of building its contributed income base.

THE AUDIT

Having identified the key areas of concern, one can then proceed to gather the internal data that will prioritize these problems and will provide clues to the strategies needed to solve them. The list of generic questions provided below should serve as a useful guide in this process.

Programming

The mission of every arts organization focuses most closely on programs and services. It is essential that an honest appraisal of program quality and effectiveness lead off an internal analysis.

- What is the nature of the programs offered by the organization?
- Who is served by each program?
- How strong is each program?
- How well is the company received by its audience at home? On tour?
- How well is the company received by critics?
- How does this compare with the peer companies?
- How could each program be improved?
- How much does each program cost?
- How does this compare with the peer companies?
- How are these costs split between personnel and other categories?
- Who is the dominant artistic force?
- Is he/she satisfactory?
- What are the backgrounds of the artists/performers/curators?
- Is there a succession plan in place for artistic management?

Education/Outreach

As noted in the environmental analysis, the importance of education and outreach programming is growing. Many arts organizations have a true commitment to their communities; others are more concerned with their image with funders. It is becoming increasingly difficult to "fool" funders into believing that superficial efforts deserve serious funding.

- What educational programs are in place? How broad an audience is reached?
- Is there a specific outreach goal?
- Is there an explicit outreach strategy?
- What are the elements of the outreach activities?
- What internal or external expertise is drawn upon to guide the development of education and outreach programming?

Earned Income (For Performing Organizations)

Earned income, revenue derived from the organization's performances, schools and other programs, is a measure of the demand for its services. The portion of a budget covered by earned income differs substantially between art forms and between organizations within each area of the arts. While there is no specific target one can set for arts groups as a whole, comparing earned income to one's peer companies can be instructive.

- What percent of income is earned?
- How does this percent compare to industry average?
- Why does this difference occur?
- What percentage of capacity is filled?
- How does this compare with the peer companies?
- Has the company been building its subscription base?
- How does the percentage of seats sold on subscription differ from peer companies?
- How is the subscription renewal program managed?
- What percentage of subscribers renew their subscriptions?
- Has this changed over time?
- How do ticket sales vary with repertory selection?
- Who purchases subscriptions? single tickets? groups?
- What are the sources of non-performance earned income?
- How has non-performance earned income changed over time? Why?
- How important is touring revenue?
- How do touring expenses compare with touring revenue?
- How has the annual tour changed? Why?
- How has the quality of tour dates changed?

- How difficult is it to book tour dates?
- Who is responsible for tour booking?
- How do peer companies' touring programs compare?

Earned Income (For Non-Performing Organizations)

Arts organizations without performances - museums, galleries, associations, etc. - typically earn a far smaller portion of their budgets, placing great strains on fund-raising and heightening the importance of endowment income. This does not imply that earned income is unimportant for these organizations; in fact, many museums have been working diligently to increase store, restaurant and other earned revenue to support increasing costs.

- What percent of income is earned?
- What are the sources of earned income?
- How does this percent compare to industry average?
- Why does this difference occur?

Other Income

As increased attendance-related income becomes harder to achieve, many arts organizations are attempting to build other types of earned income. Many of these efforts are time-intensive but do not contribute substantially to total revenue. The time and effort devoted to these endeavors must be monitored to ensure that they do not dilute the more productive operations of the organization.

- Does the organization have sources of income other than ticket sales and fund-raising?
- Does the organization sell program advertising?
- Does the company rent its sets and/or costumes?
- Does the organization rent out space?
- Have these sources of income grown?
- How much time is devoted to these activities?
- What other sources of income can be cultivated?

Marketing

Environmental analysis suggests the importance of visibility for building earned income *and* contributed revenue. Inadequate earned income frequently results from a marketing problem. Cost can also be a determining factor. Several major dance companies, for example, have very high name recognition but low levels of earned income; the cost of presenting these companies outstrips the audience's ability to pay for them. Even "famous" organizations can have a visibility deficit. Visibility does not simply imply name recognition; visibility comes to those organizations that are doing exciting things and attract on-going attention. Understanding the resources that build visibility is central to a strong internal analysis.

- How visible is the organization? at home? regionally? nationally? internationally?
- Which approaches to marketing have been tried?
- Which of these have been the most effective?
- Which are the most cost effective?
- What percentage of earned income is spent on marketing?
- How does this compare with the peer companies?
- How strong is the marketing staff?
- How well do you understand the demographics of your audience?
- How have audience demographics changed?
- What is the size/characteristics of your potential audience?
- When was the last time the audience was surveyed?
- What does the audience want to see/hear?

Development

Few arts organizations are completely satisfied with their fund-raising activities; the feeling that there is always "more money out there," and a compelling need for that money, drives most organizations to evaluate their development efforts closely. In fact, most organizations devote more attention to their development efforts than to other operations when performing internal analysis.

Evaluating both the portion of the total budget covered by contributed income and the relative importance of each revenue source is an essential part of this analysis. Comparing these statistics to peer companies, and to the industry as a whole, can be very instructive.

Many organizations of color, for example, tend to receive a higher proportion of funding from government and foundations then from corporate and individual donors. While there is nothing "wrong" with this distribution, it does raise some important questions about the security of government funding, the ability to attract additional foundation funding, and the need for added visibility to build corporate and individual gifts.

- How has marketing strength/weakness affected the fund-raising effort?
- How are contributed funds distributed among individual, corporate, foundation and government donors?

- How do these percentages compare with peer companies?
- Why do these differences exist?
- How much revenue comes from support groups (e.g., guilds)?
- Which approaches to fund-raising have been tried?
- Which have proven to be effective?
- What percentage of revenue must come from development efforts?
- How has this percentage changed?
- How does this ratio compare with peer companies?
- How has the development effort grown?
- What is the dispersion of the gifts? (Starting with the largest donors, how many does it take to add up to 25% of total fund-raising? 50%? 75%?)
- Has a special capital campaign been mounted recently?
- How effective was it?
- How did the special campaign affect the annual campaign?
- How strong is the development staff?
- How active is the Board in fund-raising?
- How much does the Board contribute?

Board of Directors

For most organizations, the Board of Directors represents the most important fund-raising tool. An effective Board is a requirement for long-term, consistent success in the arts.

- Who is on the Board?
- What are their backgrounds?
- How strong is the Board?
- What skills are present on the Board?
- What skills are lacking on the Board?
- What are the requirements of Board membership?
- How does this compare with peer companies?
- Are all of the communities served represented?
- How does your Board compare with other Boards in your city?
- How involved is the Board in operations?

- How involved is the Board in fund-raising?
- How effective is the Board in fund-raising?
- What Board committees have been created?
- Do they meet?
- Are they effective?
- How important is the Executive Committee?
- How are members of the Executive Committee selected?
- Is there a succession plan in place?

Staffing

While the strength of the Board is a central determinant of any organization's success, it remains with professional staff for all but the smallest arts groups to implement major initiatives. A careful analysis of the staff size, structure and quality is a key element of any internal analysis.

- How large is the administrative staff?
- How does this compare with the peer companies?
- How do salary levels compare with industry averages?
- How is the staff organized?
- Are roles and responsibilities explicit?
- How rapid is turnover? Why?
- What is the total cost of administration?
- How does this compare with peer companies?
- What is the experience level of the staff?

Facility/Equipment

The development of many institutions is limited by the physical facilities available to them. A museum's exhibition space, a dance company's studios, all organizations' office space, etc. are central assets that, in many instances, define the boundaries of growth.

- Are the performance/exhibition/public programming facilities adequate?
- What needed facility is lacking?
- Is rehearsal space/collection storage space adequate?
- Does the physical facility limit achievement of the mission?

- Is office space satisfactory?
- How expensive is the facility to own/rent/maintain?
- Is office equipment/technology satisfactory?

Financial Performance

A substantial portion of the internal analysis should be devoted to understanding the financial structure and strength of the organization. Invariably, a considerable portion of the plan will deal with methods for building financial strength; a clear picture of the current position is essential. Financial analysis will also indicate how the organization's resources are used. Comparing this analysis to industry averages or to peer organizations will raise important questions regarding the appropriateness of current resource allocation decisions.

- Has the organization developed a financial profile?
- How does its fiscal strength compare with peer companies?
- In which areas does the organization over-spend?
- In which areas does it under-spend?
- How does revenue compare with expenses? How has this changed?
- Does the company have an endowment?
- Does the company have a working capital reserve?
- How liquid is the company?
- How much debt does the company carry?
- How has this level changed?
- Does the company have an accumulated deficit?
- How has it changed?
- Does the company have a cash balance?
- How large is the company's line of credit?
- At which times of the year is cash flow a major problem?
- Are these times predictable? manageable?

Support Groups/Volunteers

Many arts organizations have extra-Board groups of supporters who raise funds, volunteer their services and serve as champions for the organization. It is becoming increasingly difficult to find and motivate volunteers as more and more people work outside the home. Yet a strong volunteer corps can have a profound impact on the organization.

- Does the organization have a guild or other support group?
- What is its charter?
- How much money is raised by the group?
- How does this compare with peer companies?
- How much staff effort is required to manage the group?
- Does the company have an active corps of volunteers?
- How effective are these volunteers?
- Could additional volunteers be used effectively?
- How are volunteers solicited? managed? rewarded?

Summary

Once again, it is essential to stress that these questions are simply meant to guide the internal analysis process; they do not address every issue that will face every arts organization, especially those in unusual situations.

In fact, the answers to these and other questions do not comprise the internal analysis. Rather the insights gained from analyzing the answers should generate a list of strategic issues to address in the plan. In completing an internal analysis, it is important to prioritize these concerns. The key strategic issues will usually relate to the success factors in the industry. Office furnishings are rarely an industry success factor, thus they are not likely to be of strategic importance (although a lack of office space may be an important tactical issue.) However, the lack of strong fund-raising skills, inadequate attendance or an exceptionally high cost structure will be of strategic concern.

A list of major issues can direct the remainder of the planning process. Indeed, the strategizing process is simply a matter of "solving" the issues raised in the external and internal analyses in an integrated manner. This implies that the list must be complete, honest and accurate, or the entire plan will be less effective. If issues arise during the strategizing process that were not revealed during the external and internal analyses, these analyses were not completed in a comprehensive manner and must be revisited. A weak internal analysis threatens the integrity of the plan; a solid internal analysis, coupled with a revealing environmental analysis, provides a strong foundation for creative strategy development.

Strategizing

Chapter Five: Artistic Planning

Once the external and internal analyses are completed, there must be a discussion of future artistic programming. It is essential to understand the anticipated artistic initiatives well enough to be able to secure the appropriate resources needed to support the art.

The internal analysis reveals those areas of concern that must be addressed in the strategy section of the plan. In *every* plan for *every* arts organization there must be a discussion of future artistic programming and needs; this provides the motivation for the remaining sections of the plan.

While it is absurd to suggest that artists can and should know what the results of their creativity will be, it is nonetheless crucial that arts organizations plan their exhibitions and productions as explicitly and coherently as possible. No one can predict how a specific work of art will be realized, how a production of "Don Giovanni" will emerge or whether a new piece of choreography will remain in the repertory. This does not mean that one cannot develop guidelines for the number, size and nature of the productions and exhibitions to be undertaken.

By no means is this meant to limit artistic initiative. On the contrary, the goal is to understand the anticipated artistic initiatives well enough to be able to accrue the resources needed to support them. If an arts organization plans to mount expensive and esoteric productions, there are obvious marketing and funding implications: Will a unique marketing approach be needed? Must the organization expect to lose money? Is special underwriting required? Is it available? Are there identifiable donors who may be attracted to this work? The answers to these questions must be developed explicitly so that the organization is not left without the audience it hopes to reach and the funding it requires to continue to produce good work.

In developing an artistic plan, it is essential to understand the needs of the artists. This is not a simple task. When one asks creative people about their requirements, one frequently receives a very long list. Artists are visionaries and their visions are not constrained by budgets and cash flow considerations. The challenge to the planner is to work with the artists to prioritize their needs. It is not the role of the planner to second-guess the artists. They must simply understand the artists' requirements and develop alternative scenarios for meeting them. If a choreographer hopes to use more dancers, the plan must address this need, but in a time frame that allows the organization to function in a fiscally-responsible manner. Explaining to the choreographer the implications of the increased costs of adding dancers and identifying those projects that may have to be sacrificed to afford the additions help the artists set their own priorities. It is dangerous when administrators become the decision-makers on artistic matters.

A complete artistic plan addresses many issues including:

NUMBER OF PRODUCTIONS OR EXHIBITIONS

The number of annual productions or exhibitions has huge artistic and budgetary implications. The drive to express their vision with greater strength and clarity frequently has artistic directors pressing for more productions.

The cost of additional exhibitions or productions, however, can be immense. The impact on the budget depends on the quality of the planning that led to the programming decisions. If earned income from the new presentation plus the underwriting available are enough to cover the added costs, the growth in programming strengthens the artistic profile of the organization in the best way possible. If there is no realistic revenue plan, the fiscal health of the organization is jeopardized and future presentations are threatened.

The decisions regarding the number of productions and their budgets are some of the toughest issues that must be addressed in the plan. One does not want to commit to produce more art than the organization can afford. Yet too much conservatism can restrict artistic growth - the organization's very reason for being. This tension is never fully resolved even in the best arts organizations; the on-going pressure to produce more and better art spurs the development of stronger earned and contributed income streams.

REPERTORY SELECTION

The selection of repertory is solely the province of the artistic director although, once again, the implications for earned and contributed revenue must be discussed. The financial impact of repertory choices depends on the amount invested in any single exhibition or production and its earned income potential. While museums spend substantial sums on planning and mounting exhibitions, there is often little earned income potential. Funding possibilities are more important than attendance projections. Many opera companies also spend large sums on mounting new productions. Yet the earned income potential for an opera production is substantial and is a very important consideration when new works are added to the repertory. Modern dance companies tend to spend less on any one new work and typically do not rely on a single work to sell tickets. Large ballet companies, however, can and do spend major sums on the remounting of full-length story ballets; a poorly received new production of *Swan Lake*, for example, can be a very costly endeavor.

In many arts organizations, tension results when the artistic director wishes to mount a specific work that the administrative leadership feels is too expensive or will not attract funding or audiences. This tension can be reduced if the desired work is scheduled far enough in the future to give the staff and Board the time they need to find adequate resources. If the artistic director believes that a serious effort to fund the work will be mounted, the delay should not be a major issue. A trusting relationship between the artists and the administrators must be established for this reasonable approach to work.

The repertory selected tells the public a great deal about the artistic mission of the organization. Donors, audience members and critics look to the exhibition schedule or the performance repertory for clues about an organization's artistic vision. Yet many artistic directors select works on their own merits, failing to look at the pattern they establish. For this reason, it is helpful to look at repertory choices over a two or three year time period. The "shape" of each season should accurately convey the mission of the organization.

TALENT SELECTION

The nature of the artistic talent employed by the organization also reflects its artistic vision. Some arts organizations always employ star performers, others feature an ensemble. While the casting decisions (and the choice of directors, designers, etc.) are artistic ones, these decisions affect the entire organization. Stars can certainly help sell tickets and can play a major role in fund-raising. The development of a first-rate ensemble, however, can allow an organization greater flexibility and avoids the expenses and scheduling difficulties related to engaging celebrities.

Using a famous guest artist can actually hurt future ticket sales if enough of the audience decides to purchase tickets only when an artist of great fame is featured. This can result in many empty seats for some wonderful performances. One safe way of using guest artists is at benefit performances that are clearly of a special nature with premium ticket prices.

FACILITY

While most arts organizations treat their primary venue as a "given" during the planning process, some artists and administrators wish to change the venue for their performances and exhibitions. Constructing a new facility must be considered carefully, particularly given the high cost and the need to raise capital funds in advance.

Other artists rent facilities that are either too expensive or not sufficient. The decision to move must also be made with great forethought. A serious marketing effort aimed at educating audiences about the new location must precede the move, especially if the new facility is larger than the current one. If the new theater is empty, the audience will not enjoy the performance nor will the artists feel appreciated.

TOURING

Touring is a necessity for many types of arts organizations. For most dance companies, touring is essential since few companies can perform in their home theaters often enough to meet artistic and financial targets. A few theater companies tour although the availability of theater in most communities limits the interest in paying tour fees apart from the most popular Broadway musicals. Opera companies tour infrequently, given their high costs, although several major companies have established reduced-scale touring ensembles. Many symphony orchestras tour, yet the cost frequently exceeds revenue and major underwriting is essential.

Tour dates have become substantially more difficult to book since many subsidies have vanished and the presenters that engage arts groups have suffered from the same economic and funding difficulties as producing organizations. University presenters, important constituents of the presenting community, are under increasing pressure to reduce expenditures and to increase revenue as their parent institutions face budget cuts.

This forces presenters to reduce the number of performances and to book companies on the basis of financial returns. The most visible companies, especially those with lower fees, are a favorite since they will certainly sell well. The newest organizations may not sell many tickets, but the fees are small as well. Many mid-sized companies have suffered the most in this environment, with fees too high to justify given a modest reputation.

Museum exhibitions tour very frequently since the cost of creating an exhibition is so large relative to the cost of moving and re-mounting it. (Also, unlike in the performing arts, once an exhibition has been dismantled, there is virtually no opportunity to re-mount it. If a museum does not rent the exhibition to other venues, the full cost of creating the exhibition must be carried by the single showing.) The importance of tour revenue differs substantially between museums. The Museum for African Art, for example, has traditionally earned a substantial portion of its revenue from exhibition rentals. The growing interest in the subject matter and the limited number of institutions creating exhibitions on African art have produced a very fertile market.

PRODUCTION

The artistic plan must also address the needs of the production staff for performing arts organizations, and the curators, registrars, archivists and conservators in museums. Requirements for additional personnel, new equipment and new policies should be addressed.

Frequently, as an organization matures, the growth in production spending outpaces that of artistic expenditures. This growth, however, must be controlled, and the staff must set priorities carefully. Is the new lighting board more important than a new work? Should the cataloguing of a collection take priority over a special exhibition? The institutional planning process can only proceed when the artistic leadership has made these decisions.

MUSEUM PUBLICATIONS AND COLLECTIONS

Museums must also make explicit plans regarding catalogue publishing and collection development. Publishing is a major expense for many museums. Exhibition catalogues represent permanent documentation, preserving much of the scholarly thinking upon which the exhibition is based. The importance of this written record is unquestioned. The way the catalogue is produced, however, as well as the number of copies and the distribution channels employed must be carefully considered.

Plans for collection acquisitions must also be explicitly delineated. The priority given to building the collection will vary depending upon the organization's mission. The cost of acquiring today is so great that every collecting museum must develop clear priorities and a strategy for attracting gifts of collection items as well as purchase funds and endowments. The time and energy devoted to these activities will clearly compete with the efforts to raise operating funding and endowments. Whether this is a good trade-off or not will depend on the artistic vision and the fiscal situation of the institution.

Everyone reading an artistic plan must be prepared to see the specific elements of that plan change as new opportunities arise. The challenge of entrepreneurial planning, described in the introduction to this book, is nowhere as evident as in the artistic planning for an arts organization.

ARTISTIC PLANNING ISSUES

Each of the following issues should be addressed in the artistic plan:

- What productions (exhibitions) are planned over the next 5 years?
- How do these productions serve the mission of the organization?
- What message does the slate of productions convey to the public about the mission?
- To what extent will each production appeal to the public?
- To what extent will each production appeal to funders?
- What is the cost of each production?
- Will sufficient earned and unearned income be available to underwrite these costs?
- Where will the productions be mounted?
- Does any production have unusual technical or artistic requirements?
- Will any production feature guest artists of great celebrity?
- What impact will this have on cost? ticket prices? marketing strategy? fund-raising strategy?
- Will any production tour?
- Will the touring productions appeal to presenters?
- To what extent will earned income cover touring costs?
- Will additional funding be necessary to cover touring expenses?

Chapter Six: Educational Programming

When developing education and outreach plans, an organization must clarify its goals. Defining purpose, target audience, and method of delivery will direct the development of educational programs that are effective in practice - not just on grant applications.

Many arts organizations feel a deep commitment to building the next generation of art lovers and creative artists. Their mission statements clearly and explicitly attest to this commitment. Other arts organizations are feeling pressure from corporate, foundation and government funders to mount educational programming for underserved audiences and, to a lesser extent, to train talented young artists without the resources to pursue arts training on their own. For both types of organizations, there is an increasing focus on developing and implementing education and training programs.

When developing education and outreach plans, the organization must delineate its goals. Is the purpose to expose under-served audiences to the art form? to use the art form as a method of building character? to use the art form to reinforce academic subjects? to train young professionals? This decision will affect the design of the outreach programming.

EXPOSURE

Many arts organizations develop outreach programming meant to expose the uninitiated to the beauty of the art form. Of course, the first decision is to select the target of these outreach efforts. Some arts institutions focus exclusively on children, others to selected ethnic communities, senior citizens or even prisoners. This selection must depend on the mission of the organization and the availability of funding. These programs are crucial since many public school districts have been forced to abandon arts programming altogether.

Performing arts organizations that rely on touring are under increasing pressure to provide more outreach services while residing in tour cities. The local funders want to know that something was left behind when the company leaves for the next tour city. In-school programs and children's performances are becoming routine for many touring companies.

Ideally, the programs developed for this audience would be coordinated so that arts education would be pursued in some reasonable manner. At present, many students receive a mixed bag of programs that are not integrated into a meaningful curriculum.

One must question, for example, the lasting impact of the traditional method of exposing young people to the arts - the one hour assembly program. Repeated exposure for a limited number of students appears to be more effective than one lecture-demonstration for thousands.

BUILDING CHARACTER

With increasing frequency, arts organizations are developing sophisticated programs that use arts training to instill self-discipline and self-esteem. The joy of improving one's dancing (or painting or acting) skills and developing the discipline to excel in an art form are important life experiences. Requiring extended exposure, these programs can be quite costly to mount.

Funders have become more savvy in differentiating between outreach programs. Underwriting for serious efforts that affect young people is available; substantial funding is no longer available for superficial, poorly designed programs. Of course, receiving funding for any program will depend, in some measure, on the reputation the organization has developed for its education and training programs. The techniques for building visibility apply as much to an outreach program as to a performance or exhibition series.

REINFORCING ACADEMIC LESSONS

Curriculum-based arts-in-education programs use the arts to reinforce academic lessons. Rather than teaching dance for the love of movement, curriculum-based programs might use dance to teach mathematics (by focusing on counting), or use the fine arts to teach science (by using plants and animals as models).

Those organizations without substantial experience in this area need to access pedagogical expertise when developing their programs. Outside experts can also offer invaluable assistance by evaluating the effectiveness of the organization's programs. An independent evaluation that suggests ways of improving effectiveness is essential for new program development. Any serious funder will demand a strong evaluation process. The temptation to design one's own education and outreach programs without this feedback should be resisted. Without the expertise of a trained professional, many outreach programs are ineffective.

TRAINING YOUNG ARTISTS

Many arts organizations sponsor their own schools, especially regional dance companies and theater companies. These schools are intended to train amateur, pre-professional and professional artists, frequently of any age.

Any arts institution that chooses to create a school of music, dance, theater, or visual arts should do so simply because of its role in achieving the organization's mission. One corollary benefit these programs offer is the opportunity to employ retired artists as teachers. For many artists, especially dancers, the length of the performing career is short. Schools, and other education programs, allow retired artists to use their experience to help others while earning a living in the profession.

Few arts organizations actually earn a profit on their schools. Schools are expensive to operate and time consuming to manage. They require a substantial amount of staff, from registrars to teachers, business managers to guidance counselors. Schools, especially dance schools, also require a great deal of space. While schools can earn some income, many of the best students will be on scholarship. The challenge is to market the school well enough to attract those who can and should pay for their classes and to use some of this revenue to support the scholarship students.

The difficulty keeping company-sponsored schools solvent suggests that a detailed plan should be developed. The planning process can be based on the same framework described in this book:

- The school's mission must be formulated. Is the school trying to train pre-professional artists? to offer high quality training to young amateurs? to adult amateurs?
- An environmental analysis will describe the pressures facing arts academies today and in the future.
- An internal analysis will reveal the strengths and weaknesses of the school.
- A series of strategies addressing artistic plans, marketing and development efforts, staffing levels, etc. should be developed.
- A plan for implementing these strategies must be included.
- A forecast of projected financial results for the school should be completed.

If managed well, a school can provide important arts training while offering the potential for earned and contributed income and increased organizational visibility; if managed poorly, a school can be a major drain on resources.

Many arts institutions have designed educational programs that achieve substantial economies of scale. This allows the organization to lever its efforts and also gives a funder the benefit of affecting more people with one gift. For example, some organizations have embarked on teacher training, instructing public school educators in the methods for teaching art in their classrooms. One teacher training program can affect hundreds of students each year. Others have embraced satellite or online technology that bring education programming to many times the number of children and adults that traditional in-person programs can.

One method for accessing the funds needed to create larger educational programs is to collaborate with another cultural or educational institution. So many organizations are developing similar programs that combining resources can be a highly efficient approach.

Local public schools, colleges and family service agencies have resources cultural institutions do not have; collaborations can help meet both institutions' missions and financial objectives. Joint ventures also give the arts organization access to the Board and donors of another institution and the public endorsement of that institution.

While many organizations are introducing educational programming simply to please major funders, those organizations seriously committed to these endeavors are making a difference. Careful planning of all elements of these programs must be pursued to ensure that the programs are as effective as possible and that the funding covers costs. If arts organizations can find ways to coordinate their efforts, the future of arts attendance and performance will be assured.

EDUCATION AND OUTREACH PLANNING ISSUES

Each of the following issues should be addressed in the education and outreach plan:

- Do any education and outreach programs exist?
- How have they been successful?
- What areas are not reaching their potential?
- Can/should some programs be combined or eliminated?
- Which education and outreach programs are planned?
- What is the purpose of these programs? to expose under-served audiences to the art form? to use the art form as a method of building self-esteem? to use the art form to reinforce academic subjects? to train young professionals?
- How do these programs serve the organization's mission?
- How should this programming be managed and staffed?
- Does the organization have the necessary staff to implement these programs effectively?
- Is there an evaluation and assessment process specified for each program?
- Is each program likely to be attractive to funders?
- What is the possibility for establishing a joint venture with another organization? Would a joint venture enhance the program?
- How can these programs gain more visibility?
- How can technology be employed to increase coverage and reduce expenses?

Chapter Seven: Building Visibility

Marketing the Arts

In order to be successful, arts organizations must be visible. The most appropriate method for building visibility is to produce superior artist programming on a sustained basis. But this good art needs to be well marketed.

Environmental analysis reveals that many of the pressures facing arts organizations today result from relatively high rates of growth in expense budgets during the 1990's. This growth in expenses has not been met by an equal growth in earned income as arts purchasers (ticket buyers and presenters) were unable to increase expenditures. As a result, competition for *unearned income* (contributions) has increased considerably at a time when corporate and government grants are more difficult to obtain. This competition is not limited to companies in the same arts category or even to arts organizations in general, but between all not-for-profit organizations. The arts organizations that compete successfully for funding are those that produce great work and build the visibility for that work that is necessary to attract both earned and unearned income. All arts organizations must explicitly address the need to build visibility in their strategic plans.

The most appropriate method for building visibility is to produce superior artistic programming on a sustained basis. Arts organizations that consistently create exciting programming and that add interesting complementary events to their basic programs (e.g., symposia, lectures, master classes), are likely to develop strong institutional identities.

Yet in the current environment, high quality programming is not necessarily sufficient. Successful arts organizations will be those that create a marketing mechanism that promotes this programming.

This is dangerous territory. While the importance of building visibility is indisputable, priorities must be clear. The aim of any arts organization is to achieve its artistic and educational goals - not to be a profitable business. Building visibility should not require artistic directors to change their visions. Too many arts organizations (usually after substantial Board pressure has been brought to bear) are now planning their repertories simply to meet popular tastes. The best arts administrators will be guilty only of providing the maximum amount of media coverage for the work the artists wish to produce anyway. While artists must be free to create, administrators must work to build visibility for those creations.

What does visibility do? It creates an awareness of the organization and its programs, and endorses the organization's accomplishments and quality. This instills the desire to become involved by buying tickets, presenting the company on tour, contributing funds, enrolling in a school, volunteering time or joining the Board. Yet apart from business-as-usual ticket-selling techniques, too little time is typically spent by most arts executives planning a "visibility campaign." Every arts organization should plan to be visible to the community at least once a quarter (and once a month for very large organizations) through feature stories, major announcements and special events.

The most obvious result of building visibility is to increase earned income, primarily through ticket sales. But building visibility does more than sell tickets or attract tour dates. It also helps to attract donors and Board members.

Quite simply, strengthening one's Board is the single most productive way to expand one's development effort. Attracting those individuals with a commitment to the art form and the company, and with the means to give or raise funds is essential to building one's donor base in a meaningful way. How does one attract these strong Board members? Through a communications program aimed at building credibility and excitement. Successful people want to attach themselves to successful organizations. They also want to join Boards composed of individuals they want to know and with whom they want to be associated.

This approach works with one's donor base as well. Many donors want to associate themselves with successful organizations. While special appeals to stave off a financial crisis can be short-term stop-gap measures, no organization succeeds by constantly threatening bankruptcy. Donors get tired of bad news. Creating a good news scenario, while remaining realistic about one's problems, is the best approach to building a fertile fund-raising environment.

Arts organizations have only scratched the surface of potential earned and contributed revenue. There are many people who would enjoy the arts if they knew about them and many donors who would be interested in funding arts activities if they heard about them.

Building this visibility with patrons, presenters, ticket buyers, government agencies, foundations and corporations requires a comprehensive visibility plan.

The most easily controlled, but most expensive, way to build visibility is with company-sponsored advertising and other standard marketing tools. But simply building an expensive advertising or direct mail program is not enough. There is even greater power in public relations. When an outside party writes about an organization, they are endorsing it. Even a bad review shows that the organization is being treated seriously. Arts organizations must work diligently to get coverage. And this coverage should be from both local and national sources. Appearances on local television interview shows can be helpful. Corporate donors, in particular, are concerned about the exposure of the organizations they support. Get the local newspaper to do a story. Many radio stations are looking for people to interview. But be aware that no one article, interview or television appearance is enough to build visibility on its own. The impact of a single story is small; the effort to build a media profile must be consistent and aggressive.

There are other approaches that are more controllable than public relations and less expensive than advertising but can lead to a great deal of visibility, and do not require establishing the longest tap dance line in America!

Several arts organizations have mounted museum exhibitions that describe their histories and repertories. These exhibitions of costumes, set designs, photographs, posters and videos help create visibility while also serving as important educational vehicles. They can be of particular help to those organizations that have short home seasons and whose donors and prospective donors have little opportunity to see the company in action.

These exhibitions, frequently co-ventures with major museums or libraries, demonstrate another way arts organizations can build visibility - by associating themselves with other organizations having attractive constituencies. Both organizations can benefit from this collaboration. Find local colleges, other arts organizations or other community groups who can collaborate with you. Outreach programming provides a perfect opportunity for such ventures; projects one organization cannot afford alone can be jointly funded, frequently pleasing major donors interested in new funding methods.

Sometimes just linking to an important individual can help build visibility. Many celebrities are happy to participate in annual fund-raising events. Their presence is newsworthy and builds credibility for the organization. (It also helps sell tickets at prices substantially higher than normally charged by the organization.)

Of course, with limited people and money, arts organizations can't do everything and it is essential to focus the search for visibility. Doing a little of everything invariably ends up producing very little of anything. It is essential to determine where a visibility campaign should focus - on donors? on ticket buyers? One way to answer this question is to examine the earned income-to-unearned income ratio. If a very high proportion of the organization’s income is gained through ticket sales and tour fees, greater attention to building visibility with donors should pay off; conversely if earned income is low, building awareness among potential audience members could be helpful.

Creating visibility is achievable by all sizes and types of companies. Many executives of smaller arts organizations are skeptical about finding the funds required to build visibility and about the applicability of marketing techniques used by large institutions. But the power of visibility can be observed in the results of arts organizations of all sizes.

If arts executives work hard to convince donors and ticket buyers that their organizations are real, potent, creative entities, that they serve the community in many ways, that they are fun to work with, and that there is value to being associated with them, these organizations will be able not just to survive but to thrive. As these executives work to increase visibility the entire arts community benefits since all publicity for any arts organization helps every arts organization. Creating this heightened public appreciation for the arts will require a great deal of planning, it will require a great deal of discipline, and it will require a great deal of mutual respect between the artistic and administrative staffs of every arts organization.

MARKETING PLANNING ISSUES

Each of the following issues should be addressed in the marketing plan:

- Does the organization currently mount a visibility campaign?
- At whom should a visibility campaign be aimed? ticket buyers? donors?

- What are the current demographics of the organization's audience?
- How can the audience be expanded?
- What message does the organization wish to convey to its audience?
- What are the best methods for conveying the message?
- What is "newsworthy" about the organization?

Chapter Eight: Building Earned Income

Selling the Arts

Increasing earned income demands the development of a focused, multi-faceted marketing effort. Arts organizations with a healthy stream of earned income have multiple ticket purchase options for their customers that are marketed via a comprehensive annual plan.

The potential size and variability of earned income for a performing arts organization is great. (Museums typically have less potential for earned income.) Therefore, creating an effective sales campaign at a reasonable cost is a central challenge for most arts organizations since traditional marketing vehicles are increasingly expensive and the dilution of their message is great in a glut of arts and entertainment advertising. (Smaller companies in larger cities face the most difficult challenge; the costs are the highest and the dilution the greatest.)

Arts organizations can be remarkably effective at turning small marketing budgets into substantial levels of earned income. Indeed, while Board members frequently suggest bringing in expertise from the for-profit sector to assist with marketing efforts, arts professionals could teach a great deal to the giants of industry about marketing efficiency. Nevertheless, in the current competitive environment, all arts organizations must do a better job of targeting audiences and focusing marketing expenditures.

For example, during a recession, the ticket buyers still most likely to buy are those with the inclination to buy early - frequently by subscription. These are the people who have the disposable income, who can afford a ticket. They are frequently also the ones who hold the arts in the highest esteem and are least likely to give up on the arts during a recession. It is important, therefore, to maintain or increase the effort devoted to direct mail and advertising used to create pre-season sales during poor economic times.

But as one makes these moves in marketing strategy, one must also evaluate their political and social implications. If one only works for pre-season sales, one limits the audience to the relatively affluent. Houses might be full, but they might not comprise the entire spectrum of the community. So one must look for techniques to build visibility while selling tickets to a larger audience than pre-season advertising alone can reach.

Building earned income while diversifying one's audience requires the creation of a comprehensive marketing effort that comprises a set of ticket purchase options including:

1. SUBSCRIPTIONS

Those organizations that perform for a substantial length of time in any one city have the opportunity to develop subscription offers of two or more performances. While subscription rates are falling due to reduced levels of discretionary income and the complications of scheduling attendance in advance, many organizations have successfully built subscription efforts by offering discounts, great flexibility in selecting performances, and subscriber-only benefits.

A great effort is made to attract subscribers since they offer two important benefits to arts organizations in addition to providing multiple sales: they help cash flow by securing funds before the season and they allow the artistic team more flexibility in selecting repertory.

Just as magazine subscriptions allow the publisher the luxury of collecting revenue before the costs of publication are incurred, so too do subscriptions help arts organizations by producing cash prior to the start of a season. This is frequently the time when cash is most needed - production and marketing costs are being incurred but no other earned income is available. Many theater companies, for example, survive throughout the summer months on subscription revenue.

Perhaps more important, though more subtle, is the impact on artistic flexibility. When a theater, dance or opera company knows that its subscribers will purchase a substantial portion of its house, it has the option to offer more innovative or risky programming as part of the season because so many seats will be pre-sold to subscribers. When one relies very heavily on single ticket sales, esoteric repertory can be a bigger financial challenge.

Subscriptions also reduce the impact of negative reviews on ticket sales. Those arts organizations without major subscription efforts are vulnerable to poor critical response. Those with strong subscription efforts are protected to the extent that their seats are pre-sold.

It is difficult to sell subscriptions for arts organizations with short, compact seasons since most people will not attend the same type of performance more than once in a short time frame. (There are always some who are so devoted to an organization or an art form that they will return many times even in one week, but these people will find the performances anyway and do not require a great deal of marketing!)

The cost of renewing a subscriber is also substantially less than that of finding a new subscriber or of selling the equivalent number of single tickets. The greatest net cost of any marketing effort is the amount of money spent reaching those individuals who do not purchase tickets. The more one can focus marketing efforts, the more profitable the campaign. The most focused marketing effort possible is to those who have subscribed in the recent past. These are the people who already understand your offerings and have demonstrated the willingness to spend their money on tickets.

This does not mean that one should take subscribers for granted. Indeed, each subscriber is an important asset. Great care should be taken to maintain a "relationship" with each subscriber. Calling or writing to each one during the year to strengthen this relationship is a good way to increase the odds of a subscription renewal.

2. GROUP SALES

Group sales can be the best friends of those arts organizations with many empty seats. Unsold seats are the biggest earned income waste. Unlike in retail sales where old inventory can be sold, even if at discount prices, "dead wood" at a performance is a complete write-off. In addition to the financial consequences of unsold seats, the negative impact on those audience members in attendance and on performers can be immense. Arts events are more exciting if the house is full.

Numerous empty seats can give the impression that the performance is not a good one, that buying tickets in advance is not necessary and that other people think there are better things to do.

While the most devoted arts patrons will not rely on the judgment of others, the marginal audience member will. (Donors as well will be disappointed to see that the organization they support is not of interest to a larger portion of the community.) Empty houses are the worst enemies of re-marketing and must be avoided assiduously.

Group sales fill empty seats quickly. Community groups, congregations, corporate groups, etc. are likely candidates for discounted group tickets. Even deep discounts result in some income and help fill the house.

The power generated by filling empty seats is great. The first time an organization that traditionally suffers from poor attendance sells out, the entire community, including funders, takes notice and everyone is encouraged to buy tickets earlier the next season.

Building a group sales program requires artistic and administrative planning. Groups tend to buy well in advance and will frequently want to know the repertory they will see before committing to the purchase. Personnel must also be dedicated to the effort of creating appropriate direct mail pieces, following up with telephone calls, completing the sales contract and meeting the individual needs of each group. Many arts organizations have group sales staff; others use interns. In either case, sincere attention to each group will encourage them to return in the future - a very low cost re-sale.

One way to increase group sales is to ask corporations to purchase blocks of tickets for the benefit of other not-for-profit organizations they support. For example, tickets for a performance by a symphony could be purchased and contributed to a children's service agency. This way the corporation can contribute to two organizations at once. The agency benefits from the exposure the children get to the concert; the symphony benefits from increased earned income and the service to the community. This offers a good opportunity to build a relationship with a new corporate donor. By providing visibility for that corporation, through signage, program listing, or other methods, it is very possible that increased support may be forthcoming.

3. SINGLE TICKETS

Single ticket sales account for the majority of earned income for most performing arts organizations. Yet they are also the most expensive to market and are the least secure sales, affected by poor reviews and bad weather.

Organizations that sell a large quantity of single tickets must wait until the end of the season to know their earned income. This means that a substantial in-season marketing effort will be essential to ensure strong sales. (Organizations that have strong pre-season subscription, group and single ticket sales have the option of reducing the amount, and hence the cost, of the in-season campaign.)

The key determinants of the level of ticket sales are the quality and the accessibility of the art. There is no marketing program that can build *sustained* sales for poor performances or exhibitions. There are, however, many marketing tools that help sell subscriptions, groups and single tickets. Successful organizations create effective campaigns comprised of selected methods used in an organized, timely manner. They include:

4. DIRECT MAIL

Direct mail has traditionally been one central method for pre-selling a season to subscribers, groups and single ticket purchasers. Direct mail has the advantage of giving the marketer access to the home or office with the opportunity to convey a great deal of information at relatively low cost.

Yet the costs of printing and mailing are rising and marketers face the challenge of improving the focus of their direct mail campaigns. It is not unusual, in fact, for organizations to reduce the number of items mailed substantially while retaining the same level of revenue by focusing on mailing productivity. While the size of any direct mail effort will depend upon the size of the organization, its marketing budget, and its earned income potential, direct mail efforts must be focused. Too often, arts organizations fail to measure the net revenue (ticket sales minus marketing costs) of their marketing programs. For example, list purchasing, a common approach for building a mailing list, is not necessarily the most effective way to build net revenue. The costs of buying the lists, printing the additional brochures and mailing them may outweigh the marginal revenue earned. Coding the return labels is a simple method for tracking the value of a given list to determine whether it should be purchased again the following season. This type of analysis is essential for ensuring that marketing budgets are spent wisely.

The design of a direct mail piece is always the subject of endless discussions among executive directors, artistic directors, marketers and other interested personnel. Clearly any design of any organizational publication must be consistent with the artistic perspective of the organization. Yet when designing marketing materials, it is also essential to remember that they are meant to capture the marginal sale. The most loyal audience members will buy tickets anyway. These audience members simply need to know when and where the performances will be held and how to purchase tickets. This form of marketing, informational marketing, is easy and inexpensive.

To the marginal buyer, however, we must convey a reason for purchasing tickets. We must convince them that they want to buy tickets. This form of marketing, missionary marketing, is more difficult and must influence the design of all marketing materials, including direct mail pieces. Brochures and other mailers must capture the excitement and beauty of the work. Too often, organizations use images and designs that are beloved by insiders but not as interesting to the marginal buyer. By "preaching to the choir," we lose the opportunity for marginal sales.

The amount of information conveyed by the mailer should also depend on whether we are simply informing our audience that the organization is performing or are trying to convince new audiences that they really want to attend. For pre-sold performances, including annual *Nutcracker* performances by most ballet companies, one only need tell when and where.

Nutcracker needs little explanation. For less well-known repertory, it is better to do a stronger piece with a focused mailing list than to flood the market with an inadequate message.

2. POSTERS

Many arts organizations have relied upon posters as a major marketing vehicle. This is especially true of organizations with very limited budgets or those whose audiences are confined to a small geographic area (e.g., university campus).

Posters can be a support to an organized marketing effort and, in some communities, have become a primary vehicle for selling the arts. But posters have limited effectiveness for most large arts organizations and should be considered complements to other marketing initiatives. Posters are purely informational, offering very little opportunity for conveying any detailed messages. The name of the organization and the dates and location of the performances are virtually all that anyone can read and remember from a poster. This is typically not enough, even if the design is enticing, to convince a marginal buyer to purchase a ticket.

3. PRINT ADVERTISING

Print advertising has been the dominant single ticket marketing technique for many arts organizations. The effectiveness of print advertising in selling subscriptions, except for those organizations of the greatest visibility, however, is low.

Once a budget for a single ticket print campaign has been established, the central decision is size of advertisement versus frequency of placement. Some argue that large advertisements are essential to gain attention. Others suggest that running more, smaller advertisements has a greater impact than a few large ones. A mix of large and small is, perhaps, the most effective approach. Rather than alternating large and small advertisements, however, place the larger advertisements early in the season. This allows the reader to be informed at the beginning of the run. Not only does this missionary marketing gain marginal sales, it also helps to fill the first few houses - a central challenge for any marketer. Once the critics begin to review the performances and word of mouth becomes an asset, the advertisements can be substantially smaller, simply serving as a reminder that the season is of limited duration and reviewing the repertory.

4. ELECTRONIC ADVERTISING

Density of coverage is of particular concern when considering an electronic media strategy since each placement is very expensive. Yet running a radio advertisement only a few times is not likely to have much impact and hardly justifies the production costs. For this reason, broadcast media should only be considered for those organizations that have a substantial advertising budget and can support the purchase of a sizeable quantity of radio or television time. (Often radio time, either for advertisements or on-air promotions, can be traded for tickets to performances - a good way to stretch a marketing budget.)

5. TELEMARKETING

Telemarketing has been a very effective method of selling subscriptions and single tickets in numerous markets. Efforts to build telephone sales have been particularly profitable for organizations that are very visible and underwrite sizeable, professional telemarketing campaigns. Amateur efforts predictably do not work as well. Volunteer callers lose interest, the telemarketing scripts are not as effective, and the scale of the effort is too small to earn a substantial return. As with every element of a marketing campaign, it pays to work with talented experts. The costs of running advertisements, printing and mailing brochures, and implementing a telemarketing campaign are large; it is wise to spend some money to ensure that the design of these efforts justifies the implementation cost.

6. ON-SITE RE-MARKETING

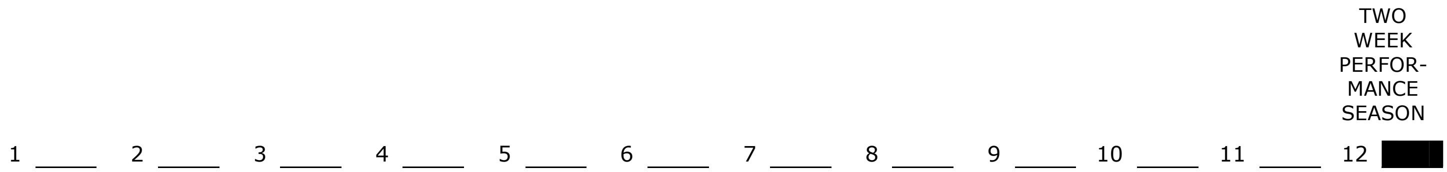
Too many arts organizations ignore the best opportunity for the most focused marketing possible - re-marketing to those attending the organization's productions. Whenever possible, marketing for the next season should begin during the current one. Advertisements in programs, signage and other promotional materials can be the most effective, least costly marketing vehicles.

ANNUAL CALENDAR

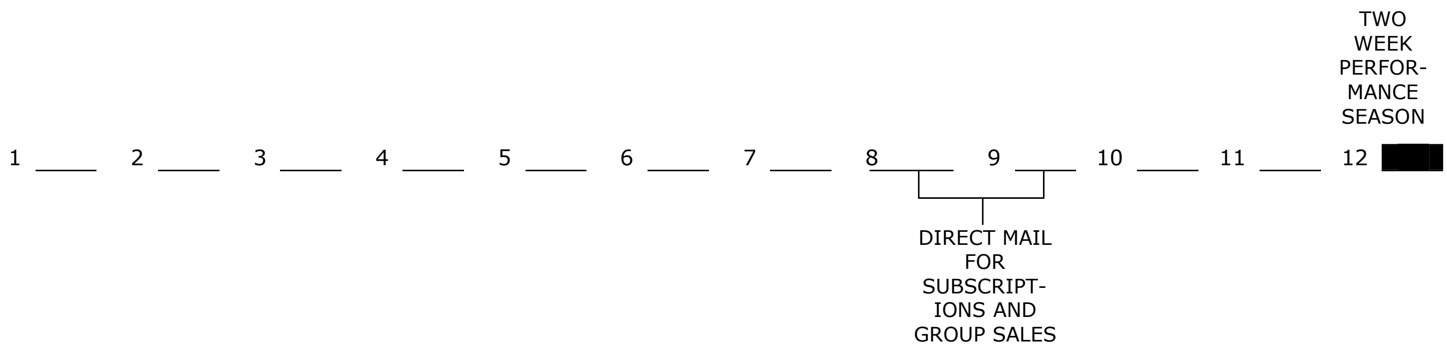
Each of the elements described above must be considered part of an integrated marketing strategy. In fact, creating an annual marketing calendar is an essential tool in planning an effective campaign. Since repeated exposure to an organization's message is vital, each marketing tool becomes more effective if it is complemented by other approaches including an aggressive public relations effort. The mix of company-sponsored promotions and third party endorsements (via public relations vehicles) is especially potent.

The marketing calendar begins on the day after the prior season ends and extends through the last performance of the current season. (On-site re-marketing actually begins *during* the prior season.) The complexity of the calendar will depend upon the number of times the company performs each year and the span of time in which these performances occur.

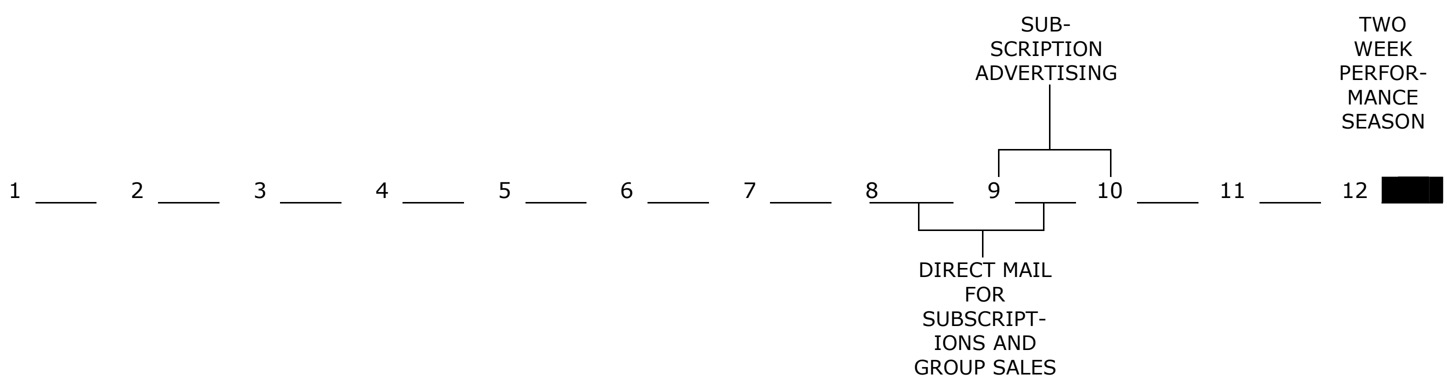
Annual Marketing Calendar



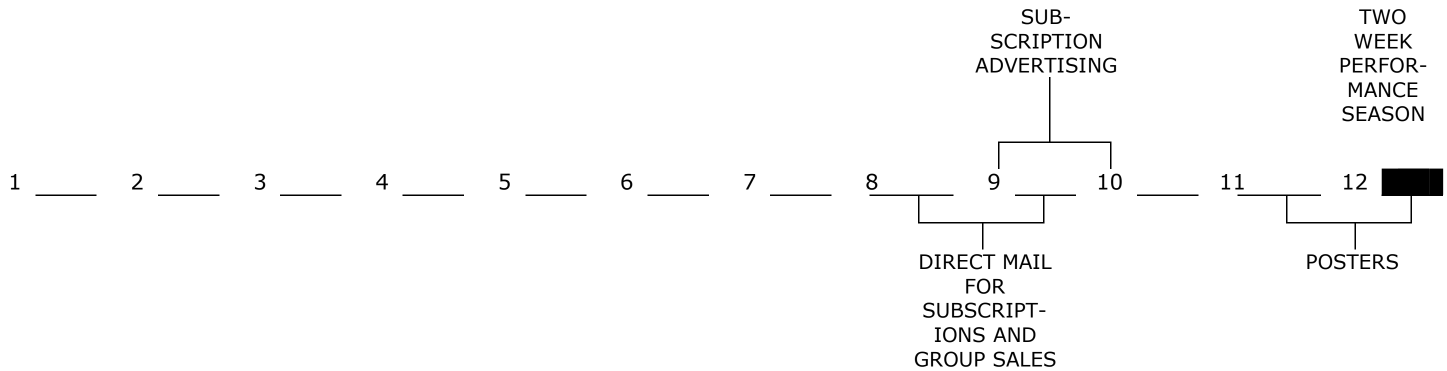
The direct mail pieces – for subscriptions and group sales – are typically mailed two to four months prior to the season.



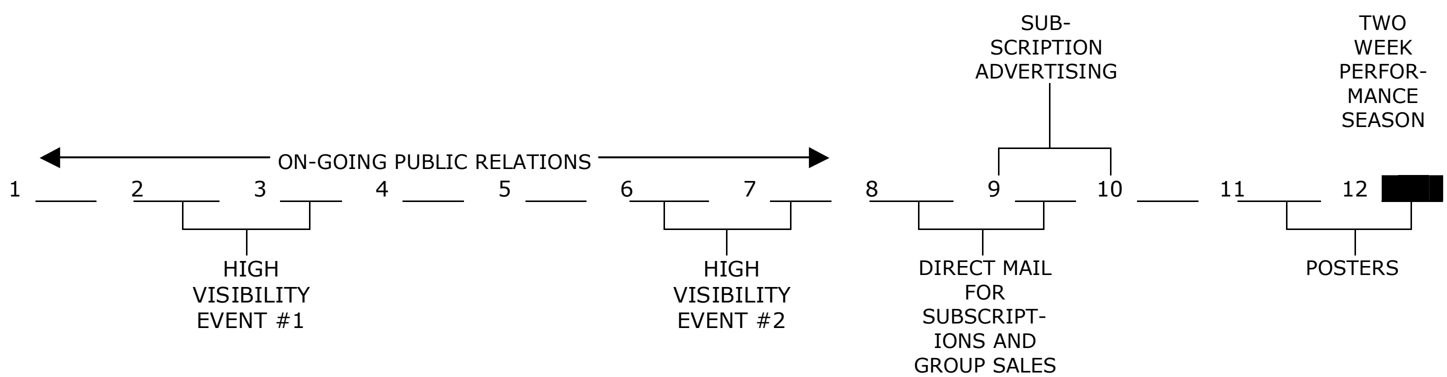
While subscription advertising may be initiated early in the year, the majority will be placed just prior to and during the season.



Posters will also be placed just prior to the season.

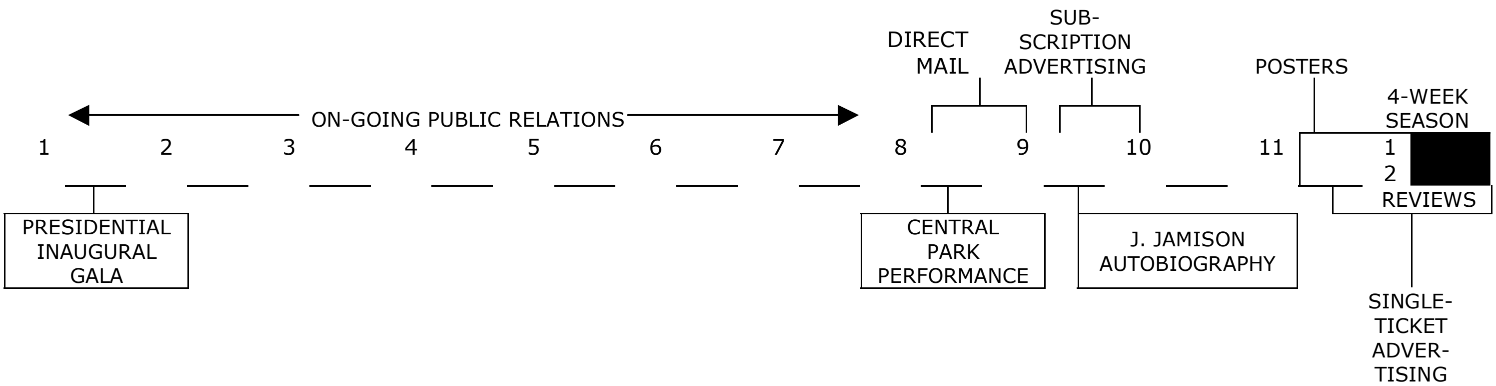


Since print and electronic advertising and direct mail programs are so expensive to implement, they must be carefully rationed. Public relations activities can and should be spread throughout the year to keep the organization in the minds of ticket purchasers and donors.



The challenge, therefore, is to develop a series of newsworthy events that can keep the company "hot." Special events should be scheduled at least once each quarter. In 1993, for example, the Alvin Ailey American Dance Theater performed at the Presidential Inaugural Gala in January (for 80 million television viewers), performed in New York's Central Park in July for 20,000 fans, publicized the publication of the autobiography of its Artistic Director and a book of company photographs in the autumn, and produced a star-studded 35th anniversary gala to kick off its New York season in December. These public relations opportunities and a direct mail, advertising and poster campaign (with provocative photographs by Annie Liebovitz) produced record box office *and* fund-raising revenues.

ALVIN AILEY AMERICAN DANCE THEATER
1993 MARKETING CALENDAR



While most organizations do not have the resources or the accessibility of the Ailey company, every arts organization has the ability to build a substantial marketing calendar. The nature of the campaign depends on the nature of the art. Accessible arts organizations can employ the broader scale marketing vehicles. More esoteric arts organizations must rely more on editorial copy than on paid advertising. Regardless of the nature of the art, however, a carefully conceived marketing strategy invariably increases earned income.

OTHER EARNED INCOME

Ticket sales and museum admissions comprise only one portion of earned income; tour fees for performances and museum exhibitions, merchandise sales, food concessions and space rental can all contribute considerably to earned revenue. For museums, in particular, these sources can be especially important given the relatively small contribution made by admissions.

Apart from tour fees for performances and exhibitions, most sources of earned income are attendance-related. If an organization can attract a large audience, food concession sales, merchandise sales, etc. should also be substantial. But there are specialized skills required to manage these activities. Many arts institutions successfully franchise them, reducing the risk and the management attention required.

Successful tours depend on the same factors that generate a large home attendance - high quality presentations and strong visibility. Some arts organizations have an easier time receiving tour dates in certain geographical areas (many modern dance companies, for example, have an easier time getting bookings in Europe than in the United States). Yet as a rule, those arts organizations that sell well at home will sell well on the road if public relations efforts are broadened to reach national and international media.

SALES PLANNING ISSUES

Each of the following issues should be addressed in the sales plan:

- What is the most effective way to attract an audience for each production/exhibition?
- What is the availability of subscription seating?
- How should the organization sell subscriptions?
- To whom should the subscription campaign be aimed?
- How should the performances be packaged?
- Should the organization offer a subscription discount?

- Should the organization offer subscription benefits?
- Who should the organization target for group sales?
- How many single tickets need to be sold?
- Which marketing methods will be most effective for selling single tickets?
- Is direct mail a cost effective option?
- How will the organization build a mailing list?
- Do the mailers accurately convey the organization's artistic perspective?
- How will the effectiveness of each mailing list be tracked?
- Would posters be effective?
- What information should the posters convey?
- When and where should the posters be hung?
- What is the budget for the print campaign?
- How important is the size of each advertisement?
- How often should advertisements be placed?
- Where should the advertisements be placed?
- Is electronic advertising appropriate for the organization?
- Can the organization afford electronic advertising?
- Is telemarketing an effective marketing method for the organization?
- Can the organization afford to implement a proper telemarketing campaign?
- Who is the target audience?
- Which marketing vehicles are going to be employed for the organization's on-site re-marketing?
- Has a public relations campaign been initiated?
- Have each of the organization's marketing elements been scheduled to achieve maximum effectiveness?

Chapter Nine: Development Planning

The Giving Cycle

Arts organizations must develop careful and coordinated plans for maximizing their contributed revenue from foundations, corporations, government agencies and individuals. To make the transition from small to large, arts organizations need to develop an individual giving program that will support their growth to the next level.

The impact of marketing techniques on fund-raising results can be remarkable. In fact, environmental analysis suggests that the techniques needed to support fund-raising efforts will become even more sophisticated in the future. With government funds subject to sudden, drastic cuts for economic and political reasons, foundation support limited by investment gains, corporate underwriting moving increasingly to one-time sponsorships, and the newly wealthy looking for increased visibility for their gifts, competition among arts organizations for support, even from the most loyal donors, will grow more intense.

The effect of this transition in giving philosophies by the four major types of donors - government agencies, foundations, corporations, and individuals - on an arts organization depends on its stage of development. The normative model of institutional growth holds important insight for the development plan.

Typically, when an arts organization is founded, it has the financial support of one or several individuals who care about the work of the artistic director. Frequently, artistic directors themselves, or their families, are the principal sponsors. This reliance on individual funders is not required for arts organizations that are founded by an arts superstar or by a high-powered Board. For most young artists, however, corporate, foundation and government funding is not available. In fact, most government agencies require at least three years of activity before an arts organization qualifies for a grant.

A start-up organization will usually rely on the initial circle of individual donors for several years; ideally, these charter patrons will recruit their friends and associates and the base of support will grow. As the organization builds a reputation for good work, foundation grants may begin to materialize, particularly if the individual donors, who typically form the organization's first Board of Directors, have any high-level contacts at appropriate foundations.

Corporate support, in small amounts, may also be received if the organization has access to corporate executives. Greater support may be available if the organization builds a reputation for excellence and addresses the audience that a corporation is interested in reaching. As noted in the preceding chapters, building visibility is a key to fund-raising success throughout the entire life cycle of the organization.

Eventually, government support will be available and when the company is four to ten years old all forms of giving are "kicking in" and the organization enjoys a rapid level of growth. During this period, earned income growth typically matches the expansion of the development effort.

At some point, however, growth invariably begins to slow. Many organizations continue to rely on the same individual and institutional donors who saw them through the growth phase. Frequently these donors, including the Board, begin to feel "tapped out" and frustrated: the growth of the organization frequently outpaces the growth in their giving, making each year's gift count less and less. If the artistic potential of the organization isn't great enough to support a larger organization and the administration is not strong enough to manage in the changing, higher stakes environment, further growth becomes substantially more difficult to achieve. (A very few arts organizations grow on the basis of unusual earned income potential. The Alvin Ailey organization, for example, earns over five million dollars each year, over seventy percent of its total budget. Yet even these organizations must build the level of contributed income to achieve consistent growth.)

Many organizations hit this "Bermuda triangle" somewhere between the one and three million dollar budget levels when funding from traditional sources begins to level off but the growth enjoyed in earlier years creates an inertial expansion of budgets. The ensuing fiscal problems demoralize the Board members who feel that their contributions are no longer adequate and dissuade them from involving their friends and associates in the organization, further sapping financial strength.

A few arts organizations emerge from this vicious spiral to reach the next level of budget size of five to ten million dollars, typically by focusing attention on individual donors. Few arts organizations are going to grow consistently based solely, or even primarily, on institutional support. At some point government grants hit a legislated limit, all relevant foundations have been approached, and increased corporate support becomes episodic at best. Individual giving, on the other hand, can always be increased.

Expanding the individual giving effort requires attracting donors who can give at higher levels than the organization has enjoyed in the past. Rather than soliciting gifts in the $1,000 to $5,000 range, these organizations attract individuals who give $10,000 and more each year.

Finding individuals capable of making such high-level gifts is primarily the responsibility of the Board. Attracting Board members with access to wealth, therefore, is an on-going requirement for virtually every arts organization. The best planners anticipate this need and work actively to strengthen the Board when it is the easiest to do so - when the company is growing and financially strong.

This is typically when performance quality, visibility and earned income are building and Board participation is exhilarating. Waiting until the fiscal crisis hits to strengthen the Board increases the difficulty of the task. (Yet few Boards want to add to their ranks when the organization is prospering. The impetus to "spread the wealth" is minimal for those not looking clearly into the future.)

The patterns described in this "fund-raising life cycle" are experienced by dance companies, theater companies, museums, presenting organizations, opera companies and symphonies. Every organization must be prepared to respond to them in their fundraising strategies. A careful plan for maximizing revenue from each type of donor must be developed.

FOUNDATIONS

There are many charitable foundations that give money to arts organizations. In many respects, raising funds from foundations is the most straightforward. A foundation's purpose is to make grants and it must do so by law; it might as well be to your organization.

Many foundations are regionally-focused, giving primarily to the arts organizations in their home territory. Others are national or even international, supporting important organizations regardless of geography. Making the leap from local to national foundation funding represents a milestone in the history of an arts organization. One of the key benefits of building a position as a leader in one's field is to become eligible for national foundation funding.

All foundations fall somewhere along a continuum from professionally-managed with established application procedures to family foundations that distribute money according to purely personal interests. Those foundations without professional staff that give according to the wishes of the family members should really be considered individual givers from a strategic perspective. They act like individual donors even if technically the money comes from a foundation.

Competing for grants from professionally-managed foundations has become increasingly competitive as arts organizations try to make up for the loss of government and corporate grants. Success requires the investment of time and effort. Any one development officer can only produce a limited number of superior grant applications in any given time period. Therefore, it is imperative to research each foundation carefully to develop a list of the most likely prospects. Giving guidelines will reveal whether your organization has a chance for funding. (When developing any solicitation list, it is helpful to research the donors who have given to your peers. While one always hopes to avoid competition for grants, one knows, at least, that these foundations do support the arts.)

When possible, a meeting with foundation personnel should precede a formal proposal. Fund-raising is really about developing relationships. It is far easier to receive funding when the donor knows you and your organization. (If one of your Board members knows and contacts a member of the foundation's Board, the chances of having a proposal taken seriously improve. Pass out a list of the Board members of the foundations you expect to solicit at your Board meetings to identify contacts of this nature.)

When meeting for the first time with foundation executives, *listen* for a description of their giving interests and concerns. This is the best aid you can have in writing a competitive proposal. Taking the time to draft a proposal that addresses the foundation's interests while meeting your organization's needs raises the odds of receiving funding substantially. Even if this proposal is not funded, a relationship with the foundation has been established and future funding is entirely possible, particularly if the foundation executives are impressed with your professionalism. In fact, frequently one may leave an initial meeting without finding an appropriate match between your needs and the foundation's interests. Rather than applying for something that does not fall within the guidelines, waiting for just the right project to materialize will impress the foundation personnel. Again, development means developing productive relationships over a period of time. Simply mailing out hundreds of boilerplate proposals is *not* development.

CORPORATIONS

Unlike foundations, corporations have no legal obligation to contribute to the arts. In fact, fewer corporations are giving for purely philanthropic reasons. Increasingly, gifts are tied to the visibility they can create for the corporation. Grants are now frequently made by the marketing staff rather than a contributions or community relations department.

The ability to generate visibility will depend on the importance and accessibility of the project to the audience the corporation is trying to reach. General operating support is not interesting or enticing; it is extremely difficult for most arts organizations to receive large operating gifts from corporations. (In some cities, the dominant corporations take a paternalistic attitude towards the local arts institutions and do provide substantial operating funding.)

A special project that creates press and community interest is much more likely to secure corporate underwriting. Therefore, a corporate support plan must include a list of appealing projects and a description of the way visibility will be created for them. The more ways one can build visibility without affecting the artistic product, the better. Signage, program listings, press releases, stage announcements, etc. have all been used to promote the sponsor's name.

In addition to the marketing impact of their gifts, many corporations are seeking other benefits from the organizations they support. Reduced price tickets for their employees, for example, are one way that corporations can justify their contributions. Others use performances as client entertainment opportunities.

Gaining access to corporate executives who develop their firms' marketing strategies is obviously vital to building support. Board members can be very helpful in this endeavor. Many arts organizations have created Corporate Committees composed of leading executives from the Board and the corporate community, each of whom is required to give a modest corporate contribution. More importantly, the members are asked to solicit underwriting from their own corporations and from their colleagues in other firms.

GOVERNMENT AGENCIES

The strategies employed to maximize government funding vary depending on the level of government. While national arts funding is not increasing, this does not mean that an organization that builds a strong record of artistic accomplishment cannot experience growth in funding from federal sources. As in all fund-raising, building relationships with staff of government funding agencies is a key to writing better and more effective proposals.

State and local government funding depends substantially on the local perspective on the arts. Many states and cities have arts councils that give money in a manner similar to federal agencies. Yet the realities of local politics and impact of the arts on local economies frequently leaves room for more effective lobbying than at the national level. Many arts organizations work diligently to establish strong relationships with local politicians; these organizations frequently benefit substantially from these relationships. Some arts organizations receive long-term substantial support through regional funding - a dedicated tax that supports local arts groups. But winning approval for this is a difficult task in the current anti-tax environment.

No arts organization can trust that the government funding it receives will be maintained or increased. The tremendous impact of state and local budget cuts in the early 2000's on hundreds of arts organizations is an example of the power of sudden and dramatic cuts in government funding. All arts organizations must work actively to prepare themselves for future cuts of this magnitude by building stronger corporate, foundation and individual fund-raising efforts and by creating new earned income opportunities.

INDIVIDUALS

The supply of potential individual donors is unlimited. The challenge is to isolate a group of potential donors and to work effectively to engage them in the activities of the organization. If one can get donors to believe that their happiness is tied to the success of your organization, these donors are likely to give generously.

Some individuals give because of the relationship they enjoy with the solicitor. If a friend, family member or business associate asks for a contribution, it is difficult to refuse. Still other individual donors believe that they can benefit from the reflected glory of the organization. Individual giving will range from low level memberships to major gifts of substantial size. Membership tends to include the largest number of donors but not the largest portion of contributed revenue. Since the average membership gift is small, arts organizations must be very careful to minimize expenditures on attracting and servicing members.

Many organizations unknowingly lose money on large segments of their membership activities. While the program, in total, may generate net revenue (because the larger membership gifts tend to be quite profitable), the solicitation, mailing, fulfillment and staff costs of the lower end of the program frequently exceed revenue. In particular, few direct mail membership campaigns are profitable when one adds in the cost of servicing the new members unless the prospect lists are very focused on the organization's friends. The losses incurred can only be justified if a significant effort to keep members and to move them into higher giving categories is pursued.

Mid-level individual givers, those who give from $500 to $5,000, represent a largely untapped source of revenue for many arts organizations. It is frequently easier and less costly to find one $1,000 donor than twenty $50 donors, yet too many organizations spend more effort on the lower dollar amount. Board members, guild members and other friends should be able to provide a substantial list of mid-level prospects; working in an organized fashion to cultivate these prospects can be very profitable. The strategies for approaching the largest individual donors must be similar to those for major corporate or foundation prospects.

Typically, access will come through Board contacts. Except in unusual circumstances, major donors will support a project that is of personal interest. A useful technique when soliciting a major donor is to be prepared with a menu of projects in need of underwriting. The key to successful fund-raising is to listen to the interests of the donor and then to match the donor to the appropriate project. Those solicitors who come to a donor with a sole project have no recourse if it is of no interest.

Culturally-specific arts organizations have had a difficult time finding major individual sponsors. The communities they serve have other giving priorities and limited funds; mainstream donors support mainstream organizations. Culturally-specific arts organizations, therefore, are particularly challenged in the current funding environment.

SPECIAL EVENTS

Special events provide a strong vehicle for attracting corporate and individual contributions. Corporations apply the same criteria used to evaluate other arts programming when considering events sponsorship: Will the event provide visibility with the right audience? Does the event provide an opportunity for client entertainment? If the event is well planned, both criteria are easily met. Individuals will frequently support a special event if a close associate asks them to help or if the event offers a special entertainment opportunity.

Therefore, the uniqueness of the event and the active participation of the Board and the Benefit Committee will determine success. Most prospects invited to a major special event receive many invitations to similar functions. To compete effectively, one must make an event unique and exciting to a jaded prospect pool.

Asking celebrities to participate can be extremely helpful. Many notables from the world of the arts, politics, entertainment and sports will participate willingly if they believe in the mission of the organization. Involving celebrities also attracts press interest. Creating visibility, even after the event is over, is useful. It helps sell the next year's event, it pleases corporate sponsors and it makes participants feel that they were part of something special and newsworthy. This helps sell tickets for future events.

Many arts organizations plan too many events in a given year. While the temptation to raise more is strong, too often an organization that mounts multiple events finds that each one is under-supported and that the total earned is less than the net for one effort that has the full backing of the entire organization.

For any event, however large, the focus must be on the bottom line. While one hopes all guests will have a wonderful time, costs must be controlled. For many donors, supporting an annual gala is the only way they will help the organization; if a large portion of the ticket price goes to defray the expenses, a great deal of effort results in very little net support.

Everyone on the staff and Board should be involved in some phase of fund-raising:

- Board members must give personally and solicit their friends, associates and employers.
- The artistic leadership must convey the vitality and quality of the artistic plans to major donors.
- The administrative leader must provide all participants the information they require to make appropriate solicitations.
- The development staff must coordinate all the efforts of the Board and staff, implementing a comprehensive fund-raising campaign.
- The remainder of the staff participates in ad hoc meetings with donors. For example, marketing and production staff will be involved in supporting corporate donors.
- Support groups (guilds, auxiliaries, etc.), with appropriate staff leadership, can raise funds from donors not otherwise reached by the organization's development efforts.

A carefully crafted development plan that focuses the efforts of all participants and supports an organized pursuit of each prospect invariably leads to substantial fund-raising success.

DEVELOPMENT PLANNING ISSUES

Each of the following issues should be addressed in the development plan:

- Does the organization convey the vitality and quality of its artistic programming to donors?
- Is the effort to solicit foundations adequate?
- Which foundations have given to peer organizations?
- Has each foundation been well-researched?
- How can a corporate gifts program be created?
- Has a list of projects likely to appeal to corporate funders been developed?

- Does the organization convey the way in which visibility will be created for the corporate donor?
- Has the organization developed benefits for corporate donors?
- How can positive relationships with local, state, and national government officials be developed?
- Has the organization identified a group of potential individual donors?
- How will the organization engage these individuals in the activities of the organization?
- How can membership be increased?
- Is a direct mail campaign the most efficient method for reaching your funding audience?
- Has the organization matched the interest of the donor with the appropriate project?
- Have benefit events been planned to maximize both income and visibility?
- How can the Board become more involved in fund-raising?
- Does the administrative leadership provide the development staff and Board with the information they need to make appropriate solicitations?
- Has the development staff coordinated efforts between Board and staff, implementing a comprehensive fund-raising campaign?
- How should the fund-raising program be managed?
- Does the organization require a capital campaign? For what purpose?
- Is the organization strong enough to mount a capital campaign?
- What steps are required to prepare for a campaign?

Chapter Ten: Focused Marketing

A focused marketing effort can add significantly to an arts organization's fund-raising capability in a short period of time with limited resources. Any successful focused marketing effort is centered on a realistic list of targets—people of means, corporate and foundation executives, opinion leaders and politicians—who can positively impact the organization's ability to achieve its mission.

Arts administrators frequently allude to the relationship between marketing and development. Indeed, the impact of increased visibility on fund-raising is so great that some organizations have one senior executive managing both activities. Yet the cost of building visibility can be high and the likely contributions generated by a classic visibility strategy are low. Advertising agencies have learned in the for-profit sector that *targeted* marketing strategies are essential for building *profitable* visibility at a reasonable cost.

The same concept applies in the arts. Targeting donors of major potential is a far more effective way of using visibility to build fund-raising than simply mounting a major public relations and advertising campaign.

This does not mean that broad-based, traditional public relations efforts are not important. Coverage by major newspapers, national magazines, and television and radio stations endorses an arts organization; it is a meaningful method for building credibility with both donors and ticket buyers. This coverage can also help achieve the mission of an arts institution that aims to reach a broad spectrum of the population.

Yet to add significantly to a fund-raising base in a short period of time with limited resources, a "focused marketing" effort is advisable. In focused marketing, the specific targets for the campaign are pre-selected. A list of potentially helpful individuals is compiled and a systematic approach to engaging these individuals is pursued.

Development professionals will call this approach "cultivation" and claim they have been doing this for years. But focused marketing is *organized, on-going* cultivation in a way that few arts organizations have pursued their donor prospects. Most organizations will cultivate major donors by inviting them to an event or two. If they do not respond in a limited period of time, the cultivation is typically abandoned and the next prospect is approached.

Focused marketing assumes that there are individuals whose financial means, access to resources or influence are so great that they should not be written off. For some organizations there are fifty such people, for others there are five hundred who should ultimately support the organization. This is a particularly important technique in smaller markets where there are only a relatively few, identifiable people with the resources and the interest to support the arts in a meaningful way.

The first step in creating a focused marketing effort is to develop a list of targets. These should be people of means, corporate and foundation executives, opinion leaders and politicians.

Creating a list is a simple matter of collecting names from one's Board members, staff and peer organizations' donor lists. Each organization must decide how many prospects it can properly service. There is no point to initiating a focused marketing effort that lapses in three months owing to an over-loaded staff. The initial list of prospects should be long enough to have an impact while short enough to be manageable. Clearly, preference should be given to those individuals known personally to the Board and staff. As the focused marketing campaign is successful, additional prospects can always be added.

Prospects should also be limited to those who may realistically support the organization. Institutions in the top tier of the region's arts organizations should be aiming at the highest level of community leadership. Smaller organizations in bigger cities will probably not have a great deal of success cultivating a random list of the region's elite. The prospects need never know that they have been targeted in this manner. In fact, most will only become subtly aware that they are more involved in the activities of the organization.

The goal, of course, is to encourage people to become more involved with the organization, as a donor, ticket purchaser or even Board member. To build involvement means that one has to do more than just send a series of newsletters and other mailings. These will invariably go unread unless they are connected to events that are more engaging. There are a number of more sophisticated cultivation tools available.

For example, invitations to a back stage tour or to the installation of a major exhibition can be very enticing. Most people appreciate unusual experiences. Bringing a prospective donor to a rehearsal can be more exciting than inviting them to a public performance.

A dinner or cocktail reception is an ideal forum for educating prospects about an organization. These need not be "hard sell" fund-raising events but rather enjoyable activities that introduce the prospects to other supporters of the organization. Inviting one or more celebrities (from the corporate, political, entertainment or arts world) will only help to encourage participation.

Remember, however, that one is hoping to find those individuals who will be interested in providing substantial support for the organization; this will usually only be successful if the art matters to the prospects on some level. For this reason, these social events should be linked to a performance, exhibition, lecture or other program.

Since most arts organizations do more than produce exhibitions and performances, one has the opportunity to interest those individuals who may care more about education and outreach than about art. Bringing prospective supporters to school programs, community outreach events or other social service programming can often attract individuals who might not otherwise have an interest.

These prospects should also receive systematic mailings of newsletters, articles and reviews. Upcoming programming should be marketed with special attention given to major events. The goal of this consistent infusion of information is to create the feeling that the organization is incredibly productive, successful and important.

For the best prospects, a Board or staff member should be assigned to monitor the relationship and to coordinate all contact. While the majority of the work of focused marketing will typically fall on the staff, in very small organizations, Board members should be asked to manage the entire process. Controlling the level of effort is best accomplished by developing an annual focused marketing calendar prior to the beginning of the season. The calendar would include performances or exhibitions (at least one per quarter), major mailings, educational activities and social events that will be used to cultivate the prospect list. Care should be taken to ensure that the sum of the events reflects accurately the scope of the organization.

If these activities are supported by a successful, traditional public relations effort in the major media, they have an even greater chance of being effective. Many prospects will eventually offer financial contributions, introductions to other donors, and to serve as volunteers or Board members.

A tracking system should be developed. Note the number of responses, the type of events that seem to be of major interest, and the Board or staff members who have made contact.

Over time, a profile of key interests and contacts will emerge. This information can only help in strengthening future fund-raising solicitations.

Prospects who show absolutely no interest in any activities over an entire season can be removed from the list. But do not remove a prospect too quickly; someone may not show personal interest but may have the power to affect corporate, foundation or government grants. Your campaign to involve that person may be working without your even knowing it!

Pursuing a successful focused marketing campaign requires strong coordination of the marketing and development departments. Typically, the development department will take responsibility for the activity. The marketing department must provide many of the materials and much of the information that will be provided to the prospects.

Pursued properly and in an organized fashion, focused marketing can have a major impact on the fiscal health of an organization without a significant investment of scarce resources.

FOCUSED MARKETING PLANNING ISSUES

Each of the following issues should be addressed in the focused marketing plan:

- Has the organization pursued an on-going effort to reach major potential donors?
- Is the organization's focused marketing campaign organized and consistent?
- Has the organization developed a list of solicitation targets?
- How many prospects can the organization effectively service?

- Are Board members actively involved in this effort?
- Which events would be effective for cultivation?
- Has a system been developed for tracking each prospect?
- Does the organization maintain a profile on each prospect's key interests and contacts?

Chapter Eleven: Special Campaigns

From time to time arts organizations will need to initiate special fundraising campaigns for physical expansion projects, organization stabilization (e.g., endowment, reducing accumulated deficit), or the launch of a new program. Knowing exactly how much money is needed to complete the special campaign and integrating the special campaign with the organization's annual fundraising campaign are essential for special campaign success.

Virtually every mature arts organization reaches a point in time when its strategic plan recommends a project that cannot be supported by the annual fund-raising drive. Physical expansion, stabilization (reducing the accumulated deficit or establishing or augmenting a working capital reserve or endowment fund), or the pursuit of a major new program will frequently demand more resources than the annual campaign can produce. An arts organization must then contemplate mounting a special campaign.

Before one can even begin to plan for a special campaign, it is essential to develop an absolutely explicit and comprehensive description of the need. Too many organizations conceive of and initiate a special campaign only to discover midway through the effort that major "hidden costs" were omitted and that the campaign target must be increased. When a physical expansion is planned, for example, organizations frequently omit or underestimate costs of closing during construction, the increased costs of operating the new facility, the cost of running the campaign or the costs of financing the expansion until pledge payments are received in full. Organizations that do a poor job of cost estimation will be evaluated poorly by major donors, at best, and can be financially crippled by a "successful" (but inadequate) campaign, at worst.

When an organization has decided that it needs to mount a campaign, it should consider the range of projects that should be included. Many organizations planning physical expansions, for example, also include operating endowments in the campaign goal. Arts organizations cannot mount special campaigns very frequently. After any successful campaign, the participants want to believe that they are "finished."

Frequently an ambitious effort will leave staff, Board and donors feeling spent. It is difficult enough to fight this post-campaign depression and to get everyone focused on the annual funding needs. If the campaign was inadequately specified, and substantially more money is required, the sense of frustration can be crippling. This is particularly true of organizations that erect new facilities only to find themselves in severe financial straits owing to poor campaign planning.

For this reason, all the special needs for the following five or more years should be considered. Broadening the scope of a campaign may also interest donors who are not engaged by the original limited purpose of the campaign.

Without a clear picture of the full cost of the project, it is also impossible to determine the feasibility of the fund-raising effort. Conducting a feasibility study lowers the chances of initiating an unsuccessful campaign. In addition to wasting time and money, unsuccessful campaigns create doubt in the minds of major donors and Board members about the management of an arts organization, thereby hampering future major projects. For this reason, it is essential to devote some resources to studying the organization's potential for a successful effort.

Feasibility studies can be completed by the organization itself or by a consultant. While internally-managed studies are undoubtedly less expensive, an outside consultant may be more objective and can frequently learn more from potential donors. Prospects may be less willing to reveal their true views and the level at which they might give in a meeting with a staff or Board member than in a confidential appointment with an independent consultant.

In fact, a superior feasibility study can frequently teach an organization a great amount about its strengths and weaknesses in dealing with donors, in creating an image of excellence and in managing its own affairs. These insights can inform the internal analysis in future plans and should be used to strengthen the organization's marketing and annual fund-raising efforts.

Frequently the decision to mount a campaign results from a planning process. One must be careful not to initiate a feasibility study prematurely if the plan also includes strategies for substantially strengthening visibility, the Board, donor relations, or other aspects of the organization that will affect the results of the study. It makes sense to delay the study until these other strategies are given a chance to have an impact. Too often, an organization which is planning a major campaign and a concurrent major change in strategy commences a feasibility study that does not accurately measure how donors will feel about the organization after the strategies have been implemented.

The feasibility study may reveal that enough support does exist to launch the campaign, it may indicate that certain changes are required before a campaign can be implemented successfully, or it may suggest that a campaign should be deferred or reduced in scope.

In addition to suggesting whether a campaign has a strong chance of success, a feasibility study will provide a list of initial campaign prospects that should be solicited immediately. Frequently a strong candidate to serve as the Campaign Chair will also emerge. The Chair will have a major impact on the campaign's success. The ideal Chair gives a leadership gift and has the connections and stature to encourage others to give generously.

The most successful campaigns have strong, committed leadership. The Chair should be supported by a committee of donors who will work diligently on behalf of the campaign. The committee need not only include Board members; in fact, broadening the membership to include corporate and civic leaders can be very effective.

The committee will work with the staff to develop the strategy for the campaign, including:

- The expected division of the campaign target into gift categories: Most campaigns receive a few very large or “leadership” gifts, more mid-sized gifts and even more smaller gifts.

- Prospect lists for each gift category: Supporting the projected number of gifts that should fall in each category will be a list of realistic prospects for each size gift.

- Solicitation strategies: Different donors will be approached in differing ways. The large potential donors may require a major presentation; this is obviously not justified for smaller donors.

- Named gift opportunities: Many donors will want to memorialize their gifts by naming a physical structure, endowment fund, staff position, or project for themselves or someone they wish to honor. Creating a strong list of naming opportunities is becoming increasingly important.

The committee will need a coherent statement of the campaign goals. This "case statement" justifies supporting the institution, relates the needs addressed by the campaign and reveals the named gift opportunities.

Unless the entire campaign goal is obtained from a very limited number of donors, an organization must be prepared to spend between three and five percent of the target on campaign expenses. This money is spent publishing the case statement, mounting cultivation events and hiring additional staff or fund-raising consultants. It is ideal if the organization's development staff, perhaps with some additional temporary employees, can manage the campaign effort. If the time or expertise required is not sufficient, consultants can be hired to manage the campaign. In any case, even if consultants are engaged, it is essential that the relationships formed with campaign prospects include the Board or staff of the organization. An opportunity for future solicitations is wasted if the organization's relationship with the donor ends when the consultants complete their work.

Except in unusual circumstances, donors to the campaign should also become top prospects for the annual campaign. These donors have invested in the future of the arts organization and will probably have a continuing interest in it.

Keeping in touch with campaign donors after the pledge has been received is essential; too many organizations ignore the donors who have already committed to the effort in favor of the next set of prospects. This is a sure method for disengaging their interest and losing the potential for future support. All campaign donors should be thanked on an on-going basis, involved in major events and treated as important prospects for future gifts.

Keeping campaign donors involved is also the best way to encourage them to involve their friends in the campaign. One of the best sources of campaign prospects should be the friends and associates of those already giving. Once someone has invested in the campaign, they should be asked to join the campaign committee and to solicit contributions from their personal lists.

Pursuing a major campaign requires considerable cultivation of new prospects. Few arts organizations can meet campaign goals solely by soliciting extra contributions from current donors. The focused marketing steps described in Chapter Ten: Focused Marketing are appropriate for cultivating donors prior to and during the campaign. Indeed, if an organization is even contemplating a special campaign, focused marketing techniques should be implemented.

Similarly, the efforts to generate visibility that enhance the effectiveness of the annual campaign should be pursued with extra vigor in support of special campaigns. The more attention the organization can attract, the greater the chances that donors will be willing to support its campaign.

Board members must be willing to commit their time and their money to the drive. While some organizations must pursue campaigns without the considerable financial support of their Boards, most must depend on them for a large portion of the campaign goal. If an organization cannot count on its Board to contribute at least one-third of the target, it must have access to major non-Board donors or it must strengthen its Board prior to publicizing the campaign. Board gifts are typically pledged before a campaign is formally announced. The reason to delay announcing a campaign until a substantial portion of the target has been pledged is to convince marginal donors that the effort has a high probability of succeeding.

The annual fund-raising campaign must be strong enough to bear the loss of some gifts during and immediately following the campaign. Invariably some donors to a special campaign will reduce their annual gifts while they are making their pledge payments. The organization must calculate an expected loss in the annual effort (the amount of the loss will depend on the overlap between annual donors and campaign donors) and charge this amount to the campaign as an added cost.

Cannibalization of the annual campaign is one reason why a serious effort should be made to encourage donors to schedule pledge payments over as short a time period as possible. Obviously short pay-out schedules also improve cash flow. In fact, when developing an initial campaign cash flow forecast, one must realistically expect that major pledges will only be paid out over a three to five year time frame, if not longer. This is an essential consideration since the cost of money can be quite high for an arts organization. If commitments to spend campaign revenue (on a new building, for example) substantially precede receipt of pledges, the cost to the organization can be significant. Failing to predict pledge payments accurately can result in a campaign target that is inadequate to meet the true project cost.

Arts organizations must also be careful to plan explicitly for the way they intend to inhabit their new facilities. Too many organizations design beautiful new buildings, raise the money needed to erect them and, less frequently, to operate them, without fully accepting the requirements of being a larger institution. The pressure to raise the levels of artistic accomplishment, visibility, financial performance, Board strength, staff productivity and customer service can be intense as an organization moves up one or more tiers. Too few organizations that expand rapidly seize the benefits available to institutions that claim leadership in their fields. Leaders have an easier time attracting press coverage, soliciting most major institutional donors and building audiences. But leadership must be planned for and claimed and many growing institutions fail to do so.

CAMPAIGN PLANNING ISSUES

Each of the following issues should be addressed in the campaign plan:

- Has the organization developed an explicit and comprehensive description of the need?

- Has the organization performed a feasibility study?
- Has a specific campaign target been specified?
- Have campaign costs and transition expenses been adequately budgeted?
- Does sufficient funding exist to meet the goals of the campaign?
- Has the impact of the campaign on the annual fund-raising effort been considered?
- Have prospect lists been created?
- Have solicitation strategies been developed?
- Has the organization created a set of named gift opportunities?
- Does the organization need to hire additional staff or fund-raising consultants?
- Has the organization created a cash-flow forecast for the campaign?

Chapter Twelve: Boards

In today's difficult arts funding environment, an arts organization's Board and staff must work together, yet the tension between Board and staff—even in successful organizations—is palpable. Effective board management can develop mutual respect between the Board and staff in a way that encourages Board members to contribute their time and resources generously.

The Board of Directors (or Trustees) of an arts organization is meant to be a leadership and support group that cares deeply for the institution and works diligently to find the resources required to achieve its mission.

Yet for many arts executives there is no area of operations that generates more controversy and anxiety than the Board. The tension results primarily from the potential of the Board, the frequency with which that potential is *not* fully realized, and the power resident in a lay group of volunteers.

While some Boards and arts executives enjoy strong working and personal relationships, few troubled arts organizations do not experience Board-staff conflict. The staff virtually always believes that its problems would be solved if the Board contributed more, and the Board frequently blames the institution's problems on staff errors. Even in many successful organizations, the conflict between staff and Board is palpable.

This tension can be crippling. In today's difficult arts funding environment, the Board and staff must work together; failure to do so inevitably results in the loss of the best Board and staff members, substantially reducing the odds of establishing or maintaining organizational health.

The strategic plan, therefore, must clearly delineate the roles of the Board and must reveal an approach to maximizing its effectiveness while minimizing the potential for conflict with the staff.

Boards serve both legal and non-legal functions. Legally, the Board is responsible for financial oversight, for hiring and firing artistic and administrative leadership, and for setting major policies. The Board should also serve, de facto, as cheerleaders in the community, as contributors and solicitors of funds and other resources, and as champions of fund-raising events. The Board is *not* responsible for making specific operational or artistic decisions. If the Board, as a unit, is unhappy with the administrative or artistic direction of the organization, it can remove the artistic or administrative director. Acting on their own, discontented Board members can "vote with their feet," choosing to resign from the Board and withholding financial support.

The line between active participation and interference is a fine one, particularly with Board members who are extremely generous with their time and money. If major donors insist on "poaching," it is difficult and risky to try to rein them in. These powerful contributors must be accommodated and "worked around" as one copes with any other major operational constraint.

In fact, one wants to encourage the interest of Board members while still discouraging unhelpful behavior. Creating "engagement" on the part of Board members is a goal of all arts executives and Board leaders. When Board members are engaged, they are the most likely to be generous and to work on the organization's behalf.

Since Boards are agglomerations of personalities, no two are exactly alike. Nor does the Board's profile remain unchanged over time. In fact, the nature and roles of the Board frequently change in predictable ways as the organization matures.

During the institution's formative years, the Board tends to be composed of friends of the artistic founder. They are called upon to offer much moral and some financial support. Frequently, these initial Directors also act like quasi-staff, helping with numerous staff functions: accounting, legal work, marketing, fund-raising and even sewing costumes on occasion.

As the organization matures, however, the demands placed on the Board change as well. Typically, operating functions become the province of professional staff, thereby reducing the need for Board involvement. As the budget and funding requirements grow, Board members are called upon to increase their own contributions and to play more active roles in the development campaign. Those individuals who may have balanced the books or sewn beautiful costumes may not be in a position to give more money or to solicit more from friends.

This dichotomy between the requirements and the capabilities of the Board frequently results in a substantial transition period during which older Board members are replaced by newer ones. This can be a most painful period in the institution's history. Those Board members who find themselves losing a role in the organization frequently resent the way their past contributions have become overlooked. While the restructuring must be handled tactfully and thoughtfully, the survival and development of many arts organizations depend, in great measure, on the willingness of the Board to re-invent itself.

Those Boards with active Nominating or Trusteeship Committees - that evaluate the organization's Board needs, evaluate the current members, and identify and nominate new members - are the most likely to handle restructuring effectively.

Indeed, evaluating and revitalizing a Board should not be a one-time project nor should it wait for a crisis. The executive staff and Board leadership should be working on an on-going basis to find new Board members and to remove those who would better serve the organization in other capacities.

There is no magic formula for finding new Board members. The first step is to define clearly the expectations for new members. Is there a requirement for giving or soliciting a specific level of funding? Must members attend Board meetings on a regular basis? Is each member expected to serve on a committee? A clear, specific set of guidelines helps potential new Board members decide whether they can be successful; it also helps existing members determine whether they should remain on the Board. Setting a required level of Board giving is a difficult process. Too high a target may result in a very small Board; too low a target may dissuade individual members from making major gifts. The correct level depends on the nature of the Board, its historic role in supplying funding and the needs of the institution.

If the Board needs strengthening, these requirements should be broadcast to everyone associated with the organization. Corporate and foundation funders, local politicians, old and new Board members, major patrons, etc. will all have ideas for appropriate Board candidates. Create a comprehensive list of candidates, and have Board and staff leadership visit each candidate ready to explain the organization's needs, its view of Board participation and its plans for the future.

One caveat: There are very few perfect Board members with a complete set of required skills, talents and resources. It is important to develop a Board that, as a group, has the requisite assets. Not every member must be wealthy, must fund-raise, must understand the operations of a not-for-profit arts group or must have a passion for the art form. Some members may be added for their expertise, others for their resources, others for their link to a community one wishes to serve. The Nominating or Trusteeship Committee must evaluate the current Board "portfolio" of skills and add to it appropriately.

A consistent, coordinated effort to identify and solicit new members invariably results in a systematic improvement in Board productivity. While this process should be on-going, Boards that require major overhauls should not add new members one-by-one. It is far more effective to add new members in bunches. New Board members typically learn "expected" behavior from the more senior members. If the entire Board gives in small increments, is uninvolved in fund-raising and has a tendency to micro-manage the staff, a new Board member, despite tremendous potential, will learn to mimic this behavior. Adding several new members at one time will increase the chances that the new recruits will bring an energy and a sense of purpose of their own to the Board, thereby helping the body to change more rapidly.

In creating a Board, or in re-inventing one, it is imperative to remember that the real work typically occurs outside of Board meetings. If a Board member is willing to allot four hours a month to an organization, and three of them are spent in meetings, there is little time remaining for fund-raising, soliciting new Board members, etc. If an organization has too many Board meetings, attendance begins to falter; continuity becomes virtually impossible to achieve. Three to five meetings a year should suffice for most organizations. This allows Board members more time to find resources for the institution or to serve on active Board committees.

Committees can attack an issue in greater depth than can the full Board, yielding more effective solutions in a more time-efficient manner. Full Board meetings can become more efficient if they are characterized by well thought out communications by Board committees and staff. Even during periods of crisis, when the full Board must tackle a major issue, pre-meeting discussions between key Board and staff should result in proposals for full-Board consideration.

In addition to the Trusteeship or Nominating Committee discussed above, virtually every arts organization should have an Executive Committee that acts in place of the full Board. The Executive Committee will frequently meet in months when the full Board does not. The Committee will be composed of the most important contributors, the most knowledgeable Board members and the chairs of the standing committees. Despite the obvious importance of this group, it is vital that the remainder of the Board not feel disenfranchised by the unity and power of the Executive Committee. This is a sure way of eliminating the engagement of the majority of the group.

Every organization also needs a Finance Committee that is charged with analyzing financial reports, budgets and audits on behalf of the full Board. The Finance Committee serves as in-house controllers, alerting the full Board of impending crises and working with the staff to solve pressing problems. Boards must also have Audit Committees that function independently of the Finance Committee to ensure proper accountability.

The formation of other committees will differ by institution. Many Boards will have a Development Committee. It can be dangerous to form a Development Committee if those Board members *not* serving on this Committee believe that they are not required to participate in the fund-raising activity. The Development Committee should be charged with organizing the Board's fund-raising efforts, not implementing them. Virtually every Board member should participate, in some measure, in accessing resources for the institution.

Other organizations will have a Marketing Committee. This can also pose problems if the Committee's charter is not clearly specified. Too often, Board members from the corporate sector believe that the marketing techniques that work for their businesses will be equally successful in the arts. More often than not, this is not true. Corporations spend so much on marketing that they can afford to support speculative programs. As long as the marketing efforts *in total* are successful, it is possible for corporations to take great risks. Arts organizations do not have this luxury. Most allocate small portions of their budgets to marketing but expect a big impact, supporting both earned and unearned income generation. It is dangerous for arts organizations to divert funds from proven marketing methods to new, risky ventures. If a Board Marketing Committee can help to improve existing marketing initiatives or can find additional resources to support new initiatives, they can be very helpful. If they insist that "they can do for the arts organization what they did for their own corporation," they invariably fail.

Indeed Marketing Committees, Development Committees and all Board members must appreciate the craft of arts management and the knowledge base and experience of the staff. While there are certainly staff members who do not have the breadth of vision to appreciate some excellent ideas presented by Board members, there are many more who can differentiate between a potentially valuable proposal and an inevitably wasteful one. Board members must either trust their senior executives when they reject a Board proposal or they must replace them.

When the Board and staff have mutual respect, when the staff works hard to engage the Board members in the activities of the organization and the Board members contribute their time and resources generously, there is little that cannot be accomplished.

BOARD PLANNING ISSUES

Each of the following issues should be addressed in the plan for the Board:

- What are the current needs of the Board?
- How can these needs be met?
- How should the Board be managed?

- How can Board members become more engaged in the activities of the organization?
- Does the organization have appropriate Board committees?
- Have the responsibilities for Board members been clearly defined and communicated?
- Is there a minimum Board requirement for giving or getting gifts?

Chapter Thirteen: Organizational Structure

There is powerful relationship between organizational structure and strategies developed to help the organization reach its mission. While there is no one correct organizational structure, early consideration of how an organization will grow administratively can increase the likelihood of mission success.

The adage that structure should follow strategy applies to the organizational structure of an arts organization as well. Indeed, the last element of the strategy that should be developed is the way the staff should be organized to accomplish the proposed operating strategies.

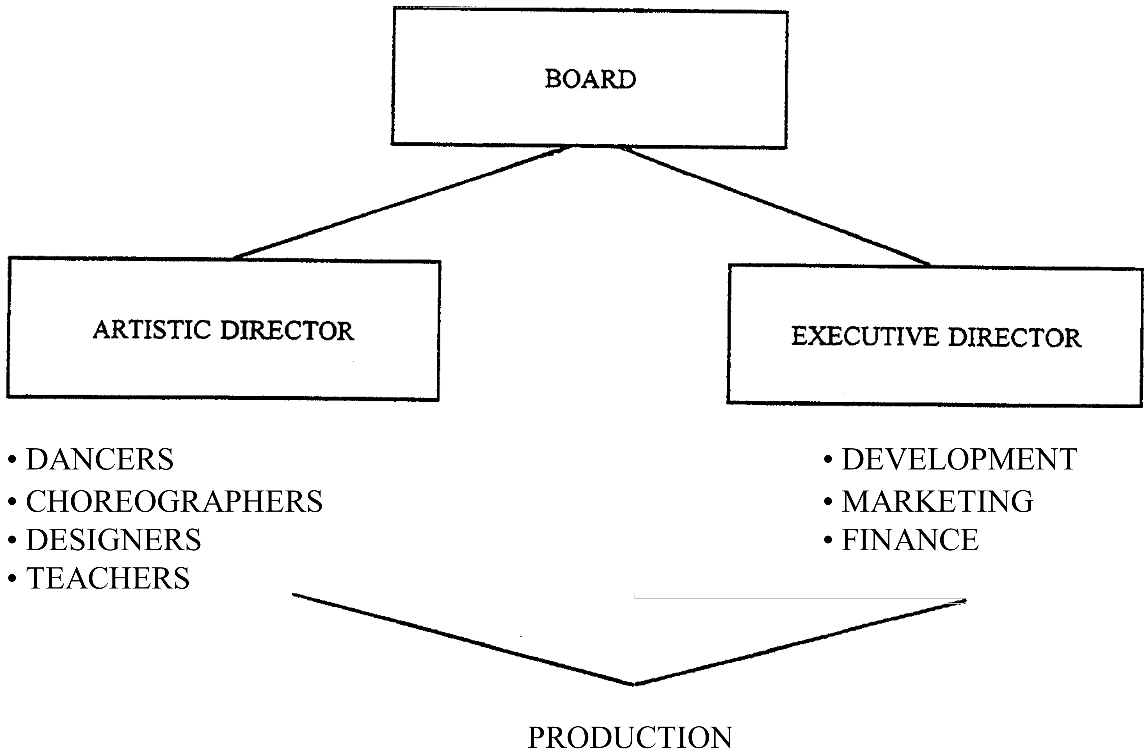
If the structure is allowed to determine the strategy, as it does in many institutions, the organization can do little more than maintain its current status. In many instances, unless the structure is changed, the ability of the proposed strategies to create change is severely limited.

This does not mean that the current organization and staffing should be ignored when developing a strategic plan, nor that one has absolute flexibility in altering an organization structure. The institution's historical relationship to particular staff members, union requirements and other intangible factors will all affect the flexibility the planner has to alter the organizational structure. However, it is frequently true that as strategies are altered, the organizational structure, job descriptions and even personnel selected to fill important positions must change as well.

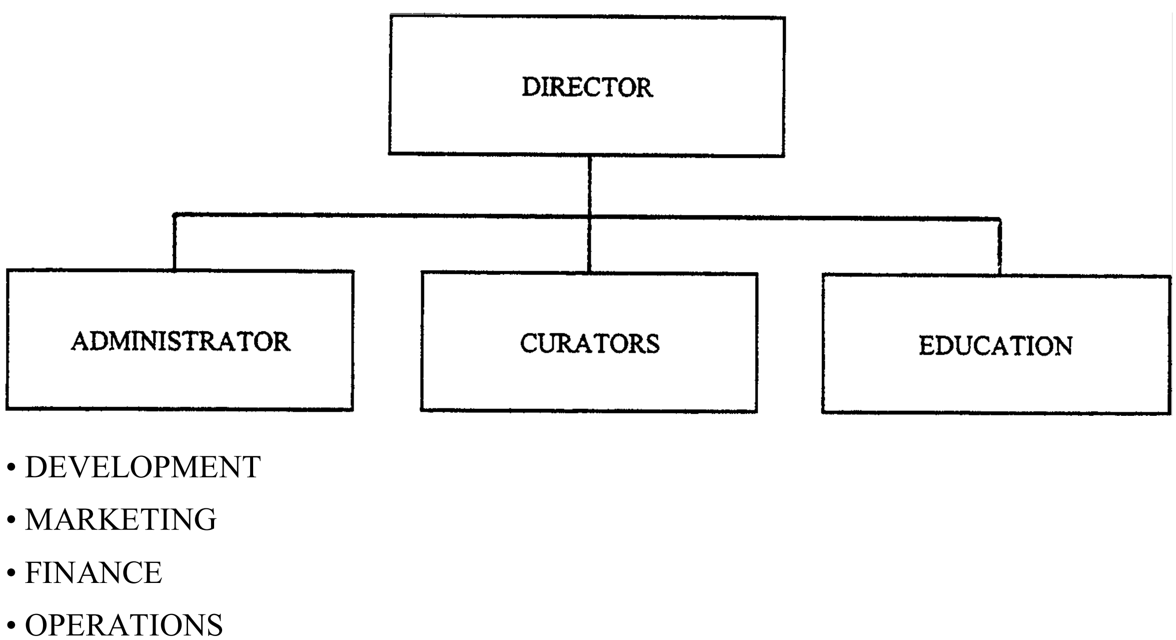
There is not one correct organizational structure. As dance companies mature, they typically have two leaders - one artistic and one administrative. The artistic leader of a dance company tends to spend so much time in the dance studio that it is essential to have a co-equal partner managing the company.

Symphony orchestras tend also to have two leaders although for major ensembles, the music director is frequently out of town on guest conducting assignments leaving the executive director with greater day-to-day authority than in a dance company. Traditionally, museums and opera companies have had one director who manages both the artistic and administrative sides of the organization, but who comes from an arts background. The director is usually supported by a strong administrator.

"TYPICAL" DANCE COMPANY ORGANIZATIONAL STRUCTURE



"TYPICAL" MUSEUM ORGANIZATIONAL STRUCTURE



As the level of sophistication required to market and support any large arts institution has increased, more organizations are experimenting with the model embraced by dance companies and symphony orchestras.

Yet many Boards and staff members of museums and opera companies are skeptical that a dual leadership plan can be effective. They fear that the art will "take a back seat" to the financial status of the organization despite the fact that this structure has worked well in many dance companies, symphonies and theater companies, ensuring strong advocates for both artistic mission and fiscal viability. This structure is not without risk since it requires a true partnership between the two leaders who must respect the talents and responsibilities of the other. While it would be ideal to find one individual with a perfect match of artistic vision and administrative skill, such individuals are rare. A partnership model allows the organization to benefit from the best of both worlds.

This suggestion that a new model of management be considered is not a prescription. Many opera companies, museums and other types of arts organizations will do well with one leader. Nor is it meant to suggest that administrative issues are more important than artistic concerns. Too often, when an arts institution has fiscal problems, the Board will decide that the artists are wasteful and that a strong administrator is needed to run the entire organization. The real problem in most of these organizations is not wasteful artists (some of whom do exist) but poor revenue generation capability, stemming from inadequate marketing and development activities. The problem may call for the addition of a top-level administrative leader, or for bolstering certain staff departments, but it rarely calls for the demotion of the chief artistic personnel.

Indeed in any management structure, the leadership must be supported by a strong set of functional managers. The number and size of each department will depend upon the size of the organization, what it can afford and the complexity of its operations.

Most arts organizations have a marketing director and a development director although some institutions place both functions under the leadership of one individual (e.g., Director of Public Affairs). This logical organizational relationship is also a potentially dangerous one. Too frequently, the need for contributions is so great that the Director of Public Affairs becomes a super-development executive and the marketing function is left without a top-level advocate. In the end, this model can result in reduced marketing strength rather than the substantial interplay of marketing and development that was its objective.

The structure of the remaining staff departments depends on the organization. Whether the staff is organized by function (finance, production, etc.), by program or in some matrix structure should depend on the strategies of the institution and the most effective way to implement them. While most organizations are structured by functional area, many have specific programs that are so discrete that they benefit from separate organizational identities.

The appropriate size of each department also differs by organization. It is helpful to compare the size of one's own departments with those of peer organizations. If similar organizations have three or four development or marketing staff and your organization has only one, you are likely to be at a serious disadvantage. If you have twice the number as your peers, one must question staff productivity and cost effectiveness. How much money is raised on average by each development staff member for your organization versus your peers? What is the earned income per marketing staff? What are marketing expenditures per staff member?

Too many institutions react to financial crises by automatically reducing the size of all staff departments. If fund-raising and marketing staff are working effectively, it is counter-productive to reduce their size. In fact, it is frequently necessary to *increase* staff size in these departments during fiscal crises. It is hard to find situations where the addition of strong development personnel did not result in substantially more revenue than expense.

Of course, not all staff members are equally strong and every arts organization must develop a staff evaluation process of some kind. Without a personnel review program, it is difficult to ensure that all staff is being given appropriate feedback on performance, and that a proper paper trail has been established for those personnel who should be dismissed. The size and complexity of this system will vary; installing a highly structured process can frequently result in "evaluation backlash," with few personnel actively participating in the system.

Ideally, the evaluation process affects salary decisions. Better employees should be rewarded with better salaries. Yet the level of salaries in virtually every arts organization is so low, and the budget available for raises so small, that it is difficult to reward the best employees in any meaningful way. One solution is to plan multi-year raises for the best employees. If the funds are not available to give an appropriate raise this year, spread the raise over two or three years, giving the special employees an understanding of their value to the organization and the benefit to them of remaining with the organization.

Finding these special employees is exceedingly difficult, particularly for the most senior positions in an arts organization. Many institutions have turned to executive search firms to fill senior positions, others have created Board-managed search committees. In either case, a clear understanding of the needs of the institution, an important element of a carefully constructed plan, is an essential prerequisite to initiating a successful search.

Indeed the focus of all personnel and organizational planning must be on attracting the best arts administrators possible. While one can discuss planning methodologies for days, the truth is that without the right team of implementers, no plan will be effective. And a strong entrepreneurial manager, of whom there are far too few, will out-perform a poorly managed institution with a comprehensive plan. The combination of a strong plan and a strong team of managers properly organized is, of course, ideal.

ORGANIZATION PLANNING ISSUES

Each of the following issues should be addressed in the organizational plan for the Board:

- How can staff creativity be fostered?
- How can inter-departmental communications be maximized?
- Should the culture of the organization be changed to allow for growth?

- Does the organization have a personnel review policy?

Chapter Fourteen: Implementation Planning

The Rubber Meets the Road

Once an organization develops its implementation plan, a financial plan must be created. Financial plans are a series of projections that reveal the expected fiscal impact of pursuing organizational strategies in the manner described in the organization's implementation plan. While implementation plans answer the questions of what will be done, by whom and when, financial plans answer the questions, "At what expense?" and "Where and when will income be generated?"

An implementation plan represents the distillation of the entire strategic planning effort. Many plans lack a clear description of the way each strategy will be put into action. This leaves so many questions unanswered that it is unlikely that many, if any, of the strategies will be pursued. The implementation plan answers three central questions for each strategy:

1. What are the specific steps required to implement the strategy?
2. Who is responsible for implementing the strategy?
3. When will the strategy be implemented?

In a well-designed planning process, one begins to address implementation issues during the strategy development phase.

While creating a realistic implementation plan must be approached with great care, no "surprises" should emerge in the process. Certainly not every strategy can, or should, be implemented immediately. Yet if one or several strategies cannot be implemented at all, owing to a lack of funds, expertise or time, errors were made in developing the external analysis, internal analysis or strategies.

There are two central elements in an implementation plan: a list of short-term priorities and a complete discussion of the proposed action steps.

The first task in completing an implementation plan is to identify the key strategies that must be pursued in the very near-term. This list will include the most urgent strategies, those that will set the stage for future strategy implementation or will allow the organization to survive. Since many arts organizations only approach planning in a serious way when they are in deep financial trouble, the short-term implementation plan frequently addresses approaches to finding cash immediately. It is important to note that the strategies selected for immediate implementation are not necessarily those that are the most important in the long-term. If the organization cannot survive the short-term, however, the long-term strategies have little meaning.

This short-term priorities list must be developed by consensus. The entire staff and Board must agree to the items on this list since most will be called upon to accomplish them. In short, this list represents the organization's work plan for the next six-to-twelve months.

The second element of the implementation plan is a report that details the steps required to pursue each strategy as well as the personnel responsible and expected completion date for each step. Each strategy in the short-term priorities list as well as all other strategies mentioned in the plan are included in this report.

Not every strategy can be pursued at the same time. Scarce personnel and financial resources limit the number of strategies that can be addressed at any one time. In addition, some can only be pursued after others have been implemented. For example, a capital campaign will be far more effective after the implementation of a serious marketing effort. An effort to build a high-level individual donor base must typically follow the strengthening of the Board so that sufficient prospects for this donor base can be identified.

Therefore, it is important to schedule each strategy in relation to the others and with consideration for the total resources available for strategic initiatives. Ideally, implementation plans are developed by the administrative leaders since they tend to have the best idea of the human and financial resources available and the other obligations of the organization.

It is helpful to schedule the major strategies first. For example, if the five major strategies for a small opera company are:

- Hiring a new Executive Director
- Developing high-impact community-based cultural projects
- Bringing fund-raising activities in-house
- Enhancing marketing and public relations activities
- Involving new Board members in fund-raising activities

Then the first-level implementation plan might include:

	FY95	FY96	FY97	FY98	FY99
A. Hire a New Executive Director	X				
B. Develop Community Projects	X	X			
C. Bring Fundraising In-House	X				
D. Initiate Marketing/PR Program	X	X			
E. Engage New Board Members	Ongoing------------------------->				

After the basic strategies have been arrayed, the operating steps required for pursuing each strategy can be developed. This list should be detailed enough to provide adequate direction to the implementers. If additional sub-steps are obvious, they need not be listed. For example, if an organization decides it must hire a new Executive Director it might create the following action steps:

	FY95	FY96	FY97	FY98	FY99
A. Hire a New Executive Director	X				
Develop Job Description	Jan				
Advertise Position	Jan				
Hold Preliminary Interviews	Jan				
Hold Final Interviews	Feb				
Introduce Finalist to Board/Staff	Feb				
Make Offer	Feb				

If another strategy is to develop the organization's community-based projects, the implementation steps might include:

	FY95	FY96	FY97	FY98	FY99
B. Develop Community Projects	X	X			
Define Project	May				
Identify Facility for Project	July				
Schedule Activities	Aug				
Notify Participants	Oct				
Conduct Program		Jan			

STRATEGY IMPLEMENTATION CHART
January - December Fiscal Year

PROGRAMS	STAFF	BOARD	FY95	FY96	FY87	FY98	FY99
A. Hire a New Executive Director	AD	SC	X				
Develop Job Description		SC	Jan				
Advertise Position	MD		Jan				
Hold Preliminary Interviews	AD	SC	Jan				
Hold Final Interviews	AD	SC	Feb				
Introduce Finalist to Board/Staff		D	Feb				
Make Offer		Chair	Feb				
B. Develop Community Projects	AD/ED		X	X			
Define Project	AD		May				
Identify Facility for Project	ED		Jul				
Schedule Activities	ED		Aug				
Notify Participants	AD		Oct				
Conduct Program	AD			Jan			
C. Bring Fundraising In-House	ED		X				
Hire Development Associate	AD/ED		Apr				
Move Files to Home Office	DD		Apr				
Seek Multi-Year Support for GOS	DD/ED		Ongoing-------------------------->				
Establish Corporate Committee	DD/ED	D	Jun				
Research Support for Audience Development		D	Ongoing-------------------------->				
Seek Funds from State/Local Representatives	ED/DD	D	Ongoing-------------------------->				
D. Initiate Marketing/PR Program	ED/DD		X	X			
Communicate Leadership in All Materials	ED		Ongoing-------------------------->				
Create Board Marketing Committee	ED/MD	D	Sep				
Target "Special" Individual Donors	ED/MD	D	Ongoing-------------------------->				
Provide National Press with Information	ED/MD		Ongoing-------------------------->				
Develop Design for all Print Materials	MD	MC	Oct				
Create In-Theatre Marketing Program	ED/MD		May				
Enhance Gala Benefits	ED/AD/MD	D	Ongoing-------------------------->				
E. Engage New Board Members	ED/AD	D	Ongoing-------------------------->				
Create Nominating Committee	ED/AD	D	May				
Identify Events for Cultivating Trustees	ED/AD	D/NC	Ongoing-------------------------->				
Add Contributing Board Members	ED	NC	Ongoing-------------------------->				
Develop Board Support Materials	DD	NC	Jun				
Annual Board Retreat	ED	D	Ongoing-------------------------->				
Implement Orientation Process	ED/AD	NC/D		Jan			
Remove Uninvolved Board Members	ED	NC/D	Ongoing-------------------------->				

STAFF		**BOARD**	
AD	Artistic Director	D	Directors
ED	Executive Director	NC	Nominating Committee
DD	Development Director	MC	Marketing Committee
MD	Marketing Director	SC	Search Committee

After the action steps have been developed, they can be scheduled as well. Please note that some strategies that may be fully implemented at a later date (e.g., mounting an additional production) may require some preparatory steps in the near-term (e.g., determining the subscribers' interest in an additional production).

The final element of the implementation plan is the assignment of responsibility for each operating step. The selection of the implementer will depend upon each candidate's expertise, availability and interest. An effort must be made to spread the implementation duties among the various staff departments and Board committees. If too many implementation steps are assigned to one person, it is unlikely that they will be pursued in a timely manner. If one staff member is assigned a disproportionate number of implementation steps this person is either not a good delegator or the remainder of the staff is not adequate, or both.

Frequently, readers of a detailed plan (including many Board members) will fear that the plan is too ambitious, attempting to accomplish too much too soon. A well-crafted implementation plan should allay this concern although many lay people would be astonished to learn how much each arts professional can accomplish with little support and fewer financial resources. In fact, a great deal must be accomplished, all at the same time. The links between marketing programs and fund-raising success, Board development and financial health, appropriate staffing and artistic quality, etc. are evident. No arts organization has the luxury of waiting for the implementation of any one strategy to be completed before the next is initiated. Arts administrators, like puppeteers, are challenged to handle many actions coincidentally, pulling the appropriate string at the strategic moment.

Chapter Fifteen: Financial Planning and Management

Once an organization develops its implementation plan, a financial plan must be created. Financial plans are a series of projections that reveal the expected fiscal impact of pursuing organizational strategies in the manner described in the organization's implementation plan. While implementation plans answer the questions of what will be done, by whom and when, financial plans answer the questions, "At what expense?" and "Will enough income be generated?"

While the missions of not-for-profit arts organizations focus on the quality of their artistic and educational offerings, it is a fact of life that these organizations must remain in long-term cash flow balance if they are to sustain their levels of performance.

Financial plans are a series of projections that reveal the expected fiscal implications of pursuing the strategies described in the plan. If an organization plans to mount an active national visibility campaign, the associated costs should be reflected in the projected marketing budgets. If strengthening the Board to increase contributions from individuals is a key strategy, support from individual donors will grow more rapidly than from other donor categories; fund-raising costs will probably increase as well.

While the financial plan, therefore, is a logical ending point for the strategic planning document, its placement does not mean that the goal of the plan for any arts organization is simply to produce a sound income statement or balance sheet. The goal of the plan is to help the organization achieve its mission; the financial plan indicates whether the organization will have the fiscal strength to pursue this mission in a consistent manner.

Two basic structures form the heart of a financial plan: income statements and balance sheets. These reveal the annual fiscal performance of the organization and the accumulated historical level of performance, respectively. The financial plan should project income statements and balance sheets for each year in the planning period.

The number of years in the planning period should depend on the nature of the organization, the challenges it faces and the stability of the environment. Most organizations project five years into the future when developing their plans. This is sufficient time to implement most strategies and to observe their financial impact. For very young organizations (which change too dramatically to project accurately too far into the future) or for those in a rapidly changing and unstable environment, a three year forecast may be more reasonable. An organization planning a large-scale ten-year physical expansion project, including a capital campaign, however, may need to extend the planning period.

THE INCOME STATEMENT

The income statement for any given year indicates how well the organization performed, on a financial basis, for that year alone. When developed with great care, a projected income statement can become the basis for the budgeting process. Developing these projected income statements requires a careful analysis of anticipated expenses, earned income and contributed income.

PROJECTED OPERATING RESULTS
($'000)

UNEARNED INCOME	Actual FYXO	Actual FYXI	Est. FYX2	Projected FYX3	Projected FYX4	Projected FYX5	Projected FYX6	Projected FYX7
Foundations	$409	$322	$573	$602	$635	$660	$680	$700
Corporations	61	56	70	82	95	105	110	120
Individuals	508	688	844	949	1,045	1,104	1,165	1,228
Federal - Operating/Challenge	124	340	167	177	47	48	48	49
State / County	20	29	30	32	33	33	34	35
Total Unearned Income	1,122	1,435	1,684	1,842	1,855	1,950	2,037	2,132
EARNED INCOME								
Box Office	494	587	719	900	945	983	1,012	1,043
Interest / Investments	41	64	124	127	132	137	142	147
Rentals / Ads / Other	46	149	47	77	87	97	102	113
Total Earned Income	581	800	890	1,104	1,164	1,217	1,256	1,303
TOTAL INCOME	$1,703	$2,235	$2,574	$2,946	$3,019	$3,167	$3,293	$3,435
EXPENSES								
Administrative Salaries	$303	$392	$417	$535	$552	$569	$587	$604
Artist / Technical Salaries	629	945	1,100	1,169	1,199	1,238	1,272	1,317
Employee Benefits	76	100	115	112	115	119	122	126
Production / Housing	280	484	566	631	661	686	723	761
Educational Program	14	13	27	30	33	37	42	48
Administrative Expenses	113	151	147	150	155	162	170	180
Marketing / PR	78	99	102	112	123	136	145	155
Fundraising Expenses	68	16	17	24	26	28	30	32
General Operating	132	138	178	183	187	192	202	212
TOTAL EXPENSES	$1,693	$2,338	$2,669	$2,946	$3,051	$3,167	$3,293	53,435
SURPLUS / (DEFICIT)	10	(103)	(95)	0	(32)	0	0	0

Projecting Expenses

Projecting expense growth (or reduction) in each budget category for each year of the planning period is a time-consuming activity. It is helpful to create a work sheet that shows the timing and cost of each strategic initiative. These costs are added to the base year budget (plus any expected inflation) to show the projected expense levels.

All anticipated changes in an organization's operations, whether or not they are a direct result of the planning process, must be reflected in these expense projections. This requires a good deal of thought. For example, if a new staff position is added to create an institutional marketing program, the estimated added salary expense should obviously be included in the appropriate budget category. Yet the addition of this position will also create ancillary costs raising printing, telephone, materials and other associated budgets.

EXPENSE PROJECTIONS
($'000)

MARKETING EXPENSES						
PERSONNEL:	Estimate FYXO	Projected FYX1	Projected FYX2	Projected FYX3	Projected FYX4	Projected FYX5
Base Staff Salaries	$415	$415	$457	$475	$509	$530
New Marketing Associate	0	25	0	15	0	0
Employee Benefits (20%)	83	88	91	98	102	106
Total Personnel Costs	**$498**	**$528**	**$548**	**S588**	**$611**	**$636**
MARKETING / P.R.:						
On-going Programs	$100	$104	$108	$112	$117	$122
Create New Press Materials	0	10	0	0	0	7
Expand Direct Mail	0	7	10	10	12	15
Hire Press Agent	0	0	10	15	18	20
Total Marketing / P.R. Costs	$100	$121	$128	$137	$147	$164
TOTAL MARKETING EXPENSES	$598	$649	$676	$725	$758	$800
CHANGE FROM PREVIOUS YEAR	NA	8.5%	4.2%	7.2%	4.5%	5.5%
AVERAGE ANNUAL INCREASE IN MARKETING EXPENSES			6.7%			

This means that the requirements for implementing each strategy must be carefully considered. The implementation chart described in the previous chapter is a useful tool for guiding this analysis.

Projecting Earned Income

Touring

Revenues from tour fees cannot be projected without considering the associated expenses. Many organizations lose money on tour since the direct touring expenses exceed fees. For these organizations, an increase in touring activity *reduces* net income unless the larger tour is a more rational one - reducing per performance costs by increasing efficiency. Other organizations simply break even on tour. For these organizations the projected level of touring does not affect net financial performance (apart from its impact on meeting union requirements for weeks of employment for the artists.) In this situation, the level of touring does have an impact on visibility - regional, national or international. Exploited appropriately, this visibility should translate into opportunities to increase fund-raising revenues.

Ticket Sales or Admissions

Growth in admissions and ticket sales is not simply a matter of luck, inflation or operating in a larger facility. Attendance increases when programming and marketing efforts justify larger attendance. The artistic and marketing plans should have an explicit impact on the forecast levels of earned revenue.

To determine the growth rate of earned income, one must evaluate current attendance levels, the capacity of the facility, the number of performances or exhibitions, the nature of the proposed repertory, the effectiveness of the current marketing effort and plans for changes in the effort, proposed changes in the cost of admission and the expected activities of peer companies competing for the same audience. Each of these factors will have a substantial impact on projected earned income levels; the challenge is to estimate the effect of each factor in a reasonable manner. Overly optimistic forecasts can place the future of the organization in jeopardy and certainly reduce the credibility of the entire plan. Overly conservative forecasts hamper the organization's ability to achieve its mission.

EARNED INCOME WORKSHEET

THEATER ONE	Actual FYX1	Est. FYX2	Project FYX3	Project FYX4	Project FYX5	Project FYX6	Project FYX7
Number of Performances	140	140	140	140	140	154	154
Number of Seats	1,200	1,200	1,200	1,200	1,200	1,200	1,200
Total Seating Capacity	168,000	168,000	168,000	168,000	168,000	184,800	184,800
Percentage of Capacity Sold	65%	65%	60%	64%	70%	70%	75%
Total Seats Sold	109,200	109,200	100,800	107,520	117,600	129,360	138,600
Average Ticket Price	20.00	21.00	21.00	21.50	22.00	23.00	23.00
Ticket Sales/Theater One	**2.18M**	**2.29M**	**2.12M**	**2.31M**	**2.59M**	**2.98M**	**3.19M**
Change from Previous Yr.	8%	5%	-8%	9%	12%	15%	7%
THEATER TWO							
Number of Performances	0	0	60	70	80	80	90
Number of Seats	0	0	200	200	200	200	200
Total Seating Capacity	0	0	12,000	14,000	16,000	16,000	18,000
Percentage of Capacity Sold	0%	0%	50%	55%	60%	65%	70%
Total Seats Sold	0	0	6,000	7,700	9,600	10,400	12,600
Average Ticket Price	0.00	0.00	9.50	10.00	10.50	11.00	11.50
Ticket Sales/Theater Two	**0**	**0**	**57,000**	**77,000**	**100,800**	**114,400**	**144,900**
Change from Previous Yr.	NA	NA	NA	35%	31%	13%	27%
RENTAL INCOME (Theater Two)							
Weeks Available to Rent	0	0	12	11	10	10	10
Weekly Rental Fees	0	0	10,000	10,500	11,000	11,500	12,000
Rental Income	**0**	**0**	**120,000**	**115,500**	**110,000**	**115,000**	**120,000**
Change from Previous Yr.	NA	NA	NA	-4%	-5%	5%	4%
TOTAL	**2.18M**	**2.29M**	**2.29M**	**2.50M**	**2.80M**	**3.21M**	**3.45M**
Change from Previous Yr.	8%	5%	0%	9%	12%	15%	8%

Interest Income

Projected changes in endowment levels and working capital reserve funds will affect projections for interest revenue. An appropriate interest rate forecast can be obtained from the organization's bank or from a Board member who works in the financial community.

The growth in the endowment and working capital reserve funds will depend on any plans for a capital campaign, projected annual operating surpluses (or deficits), and the use of income from these funds. Most organizations only take as operating income a set percent of the endowment fund each year, leaving any additional income in the fund to accommodate inflation. It is not uncommon to "take" 5% of the balance of the endowment fund at the start of the fiscal year as operating income, leaving the remaining realized income in the fund. (Some organizations use a three-year average of the starting endowment balance to calculate this income level to protect against sudden changes in the value of the endowment portfolio.)

ENDOWMENT FROM CAPITAL CAMPAIGN
$7.0 MILLION GOAL
($'000)

I. CAMPAIGN ENDOWMENT	Current FYXO	Budget FYXI	Projected FYX2	Projected FYX3	Projected FYX4	Projected FYX5
A. Endowment Principal Year Start	$2,366	$2,366	$4,890	$6,959	$8,118	$9,392
B. Additions From Campaign	0	2,500	2,000	1,000	----------	500
TOTAL ENDOWMENT PRINCIPAL	**2,366**	**4,866**	**6,890**	**7,959**	**9,118**	**9,892**
C. Projected Income	118	268	413	557	729	692
ENDOWMENT PRINCIPAL PLUS INCOME	**2,484**	**5,134**	**7,304**	**8,516**	**9,848**	**10,584**
D. Less: Income for Operations (5%)	-------	---------	--------	--------	--------	--------
ENDOWMENT PRINCIPAL AT YEAR END	**$2,366**	**$4,891**	**$6,959**	**$8,118**	**$9,392**	**$10,090**
PERCENTAGE CHANGE FROM PREVIOUS YEAR	**NA**	**107%**	**42%**	**17%**	**16%**	**7%**

Interest earned by the reserve fund should remain in that fund to compensate for inflation and for anticipated budget growth. This helps to maintain the reserve's effectiveness in the future.

Other Earned Income

The income earned on merchandise sales, food concessions, souvenir books, etc. is usually tied directly to attendance. The analysis underlying the forecasts of ticket sales and attendance fees should be used to generate other earned income projections.

Projecting Contributed Income

It is typically more difficult to forecast levels of contributed income since a few major gifts won or lost can have a substantial impact on total contributed revenue. A forecast that adds a base of "solid" grants to a reasonable level of unanticipated gifts (depending on the scope of the fund-raising strategies) is the most rational method for projecting unearned income. It is helpful to forecast contributions by category; this increases the chances that errors of optimism and pessimism will cancel each other.

Government Agencies

In general, projections for government funding should remain very conservative, frequently showing no growth at all. If the internal and external analyses suggest that the institution has been negligent in its fund-raising efforts (e.g., failing to apply for government grants for which they are eligible), projections from this source might include increases.

Foundations

Projections for changes in foundation giving will vary depending on the slate of projects contained in the plan and the level of effort devoted to foundation research and relationship development. Substantial educational and other program initiatives are the most likely to attract new foundation funding. In most regions, the number of relevant foundations is small enough that a forecast for each major foundation can be developed.

Corporations

The rate of funding growth projected from corporate donors will depend on the organization's visibility strategy, the accessibility of the artistic product, the uniqueness of planned programs and the strength of Board relationships with the corporate community. Organizations that plan to strengthen their Boards by adding corporate leaders can safely project increases.

Individuals

Unless an active program to increase gifts from individuals is pursued, the total value of these gifts will tend to grow rather slowly. If an organization's Board is strengthened and the Board members begin to play a more active role in the development effort, gifts from individuals can grow very quickly. The portion of the individual campaign coming from Board members should not be difficult to forecast; multiplying the number of Board members by the minimum level of Board gift, and adding in the extraordinary gifts one anticipates from selected Board members, should produce a sensible forecast.

Special Events

Anticipated revenue from special events will also depend on the size and stature of the Board, the visibility of the organization, and the nature of the planned events. Simply multiplying the projected number of tickets sold by the ticket price, adding anticipated underwriting and subtracting budgeted expenses yields a solid forecast of net income.

Capital Campaigns

Capital campaigns are almost always multi-year projects. Therefore, an extended budgeting format must be employed to ensure that cash will be available to cover all programmatic and campaign costs.

A practical, long-range projection for a capital campaign should include a revenue projection and an expenditure schedule. The projections for a capital campaign will depend largely on the results of a feasibility study. A carefully crafted feasibility study should indicate the timing and level of net campaign revenue (campaign revenue minus the costs of administering the campaign).

The capital campaign analysis must reveal accumulated cash on hand (or a shortfall of cash). This will help determine when and for how long a temporary excess of cash should be invested and when shortfalls will necessitate a bridge loan to complete the project.

CAPITAL CAMPAIGN SCHEDULE
$5.0 MILLION GOAL
($'000)

I. GIFTS & GRANTS	FY 19X1	FY 19X2	FY 19X3	FY 19X4	FY 19X5
A. Pledge Schedule	$2,500	$1,500	$750	$250	0
B. Pledge Receipts	800	2,200	1,000	700	300
II. USE OF PLEDGE RECEIPTS					
A. Reduce Cumulative Deficit	200	100	0	0	0
B. Cash Reserve	0	550	200	0	0
C. New/Upgraded Facility					
1. Purchase	250	1,450	0	0	0
2. Construction	0	0	750	700	300
3. Fees (Pre-Closing and Closing)	250	0	0	0	0
D. Campaign Expenses (5% of Total)	100	80	50	20	0
Total Use of Campaign Pledges	800	2,180	1,000	720	300
Remaining Campaign Funds - Cumulative	$0	$20	$20	$1	$2
Interest Revenue (7%)	0	0	1	1	0

THE BALANCE SHEET

Arts organizations frequently focus only on the income statement. In fact, most plans tend to omit balance sheet forecasts entirely, ignoring the impact of balance sheet accounts on the institution's long-term fiscal health. While income statement projections depict an organization's anticipated annual activity on a year-to-year basis, balance sheet projections forecast its progress in establishing financial stability. The process of developing balance sheet forecasts is very straightforward if income statement and capital campaign forecasts have been completed accordingly. For apart from these variables, balance sheet items tend to move in very predictable (or offsetting) ways: long-term debt is paid off according to schedule, depreciation is similarly scheduled, etc.

PRO FORMA BALANCE SHEET
OPERATING FUND PROJECTIONS
($'000)

ASSETS								
CURRENT ASSETS	Actual FYXO	Actual FYX1	Est. FYX2	Projected FYX3	Projected FYX4	Projected FYX5	Projected FYX6	Projected FYX7
Cash	$48	$69	$25	$80	$140	$114	$118	$112
Loans Receivable (S-T)	3	3	3	13	13	13	13	13
Accounts/Pledges Receivable	325	289	287	285	275	270	275	275
Grants Receivable	300	155	155	155	155	170	170	185
Prepaid Expenses	54	48	48	48	48	48	54	60
Total Current Assets	730	564	518	581	631	615	630	645
NON-CURRENT ASSETS								
Loans Receivable	9	6	6	6	6	6	6	6
Pledges Receivable	458	230	230	230	230	220	240	255
Grants Receivable	250	130	130	130	130	130	130	130
Due From Other Funds	87	75	75	50	0	0	0	0
Total Non-Current Assets	**804**	**441**	**441**	**416**	**366**	**356**	**376**	**391**
TOTAL ASSETS	**$1,534**	**$1,005**	**$959**	**$997**	**$997**	**$971**	**$1,006**	**$1,036**
LIABILITIES								
CURRENT LIABILITIES	Actual FYXO	Actual FYXI	Est. FYX2	Projected FYX3	Projected FYX4	Projected FYX5	Projected FYX6	Projected FYX7
Note Payable	$180	$81	$106	$40	$20	$0	$0	$0
Accounts Payable	48	45	90	26	46	40	40	40
Deferred Revenue	590	584	564	564	564	564	564	564
Total Current Liab's	**818**	**710**	**760**	**630**	**630**	**604**	**604**	**604**
L-T LIABILITIES								
Long-Term Debt	10	7	7	7	7	7	7	7
Deferred Revenues	696	360	360	360	360	360	395	425
Long-Term Liabilities	**706**	**367**	**367**	**367**	**367**	**367**	**402**	**432**
TOTAL LIABILITIES	**$1,524**	**$1,077**	**$1,127**	**$997**	**$997**	**$971**	**$1,006**	**$1,036**
FUND BALANCE	**10**	**(72)**	**(168)**	**0**	**0**	**0**	**0**	**0**
TOTAL LIABILITIES + FUND BALANCE	**$1,534**	**$1,005**	**$959**	**$997**	**$997**	**$971**	**$1,006**	**$1,036**

FINANCIAL ANALYSIS

For many readers of the plan, the income statement and balance sheet forecasts will not be meaningful. It is incumbent on the planner to produce measures and analyses derived from these forecasts that communicate their implications. Some clearly understood measures include:

Operating Fund Balance

Eliminating operating deficits is frequently an organizational priority. An operating surplus is an indication that an organization has taken responsibility for supporting its programs. It is also a sign to vendors, funders, banks, and potential Board members that the organization's staff and Board assume a businesslike approach to resource management.

Net Current Assets Position

Net Current Assets, calculated by subtracting current liabilities from current assets, is a basic indicator of the institution's ability to fund day-to-day operating requirements. Positive Net Current Assets indicates that the organization has more short-term assets than short-term debts; meeting current obligations should not be a problem. Many organizations have negative Net Current Assets, indicating that they do not have the resources to cover short-term commitments. In other words, these organizations are facing a cash flow crisis.

Working Capital Reserve Fund

Soon after achieving a balanced operating fund, the institution should consider establishing a Working Capital Reserve Fund that provides short-term loans to the institution as cash flow needs dictate. The organization must repay this internal loan by the end of the fiscal year to maintain the viability of this internal line of credit.

Endowment Fund

Endowments are particularly important to institutions that are limited in their ability to develop sufficient levels of earned or unearned income. For example, most museums cannot achieve substantial levels of earned income. This has encouraged museums to build large endowment funds. The advisability of creating an operating endowment for a performing arts organization is questionable. The amount of money that must be raised compared to the annual income resulting from the fund discourages many organizations from pursuing endowments actively. (Those organizations with an aging base of donors must consider the establishment of an endowment, possibly through planned giving.)

The way these financial measures are displayed will vary depending on the tastes of the Board and financial staff. The financial projections included in the strategic plan should be scrutinized by the Planning Committee, Executive Committee, Development Committee, Finance Committee, and Marketing Committee before being presented to the Board for final approval.

FINANCIAL MANAGEMENT

Just as strategies are only effective if they are well-implemented, financial forecasts are only relevant if the fiscal management of the organization is strong. The plan must address deficiencies in the budgeting and control mechanisms in addition to including the forecasts described above. While a financial system must be custom-made to suit the specific needs of the organization, all such systems share certain processes including budget preparation, performance monitoring, cash flow analysis and control.

Many arts institutions do not begin their annual budgeting processes early enough to affect many decisions that have a substantial financial impact. Too often, selection of repertory, for example, precedes budget development, reducing the ability of the budget process to ensure fiscal health.

Financial performance must be closely monitored to allow for mid-season changes in course. Monthly reporting is necessary. Senior staff members and the Board's Finance Committee should receive appropriate summary and detail reports and a narrative that describes unanticipated changes in revenue and expense projections. These monthly reports should also describe the difference between actual performance and the budgeted level. The narrative must explain why major variances occurred and their impact on projected year-end results. Organizations that experience wide swings in cash flow will need to budget on a monthly basis. Those that enjoy more even cash flows can avoid monthly budgets and can compare actual year-to-date results to a corresponding proportion of the annual budget.

Cash flow projections are a critical management tool, revealing when financial stress will be at its high and low ebb. For stable institutions, monthly cash flow projections are usually adequate. They suggest when excess cash might be available for investment. Organizations facing cash crises must work week-by-week. Discussions on payment deferrals with vendors, unions and banks must be supported by accurate cash flow projections.

In the short-term, the budget is the most important financial management tool since it is a direct expression of an organization's operational objectives. The budgeting process will often encourage healthy discussions regarding organizational priorities. Managing the annual budget process is usually the responsibility of the top administrative and financial staff.

The projected changes in year-end financial results should have an impact on current activities. If an organization expects to fall far short of revenue projections, earned or contributed, either expenditures must be cut or additional revenue generating programs must be implemented. Too many organizations simply report on the financial results without taking remedial action to address shortfalls.

Those organizations with strong fiscal management systems, with Boards that feel well-informed (and warned of impending crises), and with the ability to project financial performance with some degree of accuracy earn the respect of the entire community. This respect is an important asset, helping the organization attract new Board members, additional contributors, larger contributions from current donors and the assistance of vendors, donors, Board and staff during periods of crisis and in support of special campaigns. In short, those organizations that display a high level of fiscal responsibility are also the ones that will have the resources they need to achieve their missions well into the future.

FINANCIAL SUMMARY
($'000)

I. BALANCE SHEET								
Operating Fund	Actual FYXO	Actual FYXI	Est. FYX2	Projected FYX3	Projected FYX4	Projected FYX5	Projected FYX6	Projected FYX7
• Accumulated Deficit	10	(72)	(168)	0	0	0	0	0
• Net Current Position	(87)	(146)	(242)	(49)	1	11	26	41
Working Capital Reserve Fund	0	0	0	0	800	832	865	900
Endowment Fund	1,552	2,366	2,366	2,366	2,366	2,366	2,366	2,366
Plant Fund	5,140	5,406	5,135	4,878	5,135	4,878	6,034	7,732
II. OPERATINGACTIVITY								
Earned Income	580	800	890	1,104	1,164	1,217	1,257	1,302
Operating Expenses	1,693	2,338	2,669	2,945	3,051	3,167	3,294	3,433
Earnings Less Expenses	(1,113)	(1,538)	(1,779)	(1,841)	(1,887)	(1,950)	(2,037)	(2,131)
Grants and Gifts	1,123	1,435	1,683	1,841	1,855	1,950	2,037	2,131
Total Income	1,703	2,235	2,573	2,945	3,019	3,167	3,294	3,433
Net Income (loss)	10	(103)	(95)	0	(32)	0	0	0
III. PERCENTAGE OF OPERATING EXPENSES								
Earned Income	34.3%	34.2%	33.4%	37.5%	38.1%	38.4%	38.1%	37.9%
Expenses Over Earnings	65.7%	65.8%	66.6%	62.5%	61.9%	61.6%	61.9%	62.1%
Grants and Gifts	66.3%	61.4%	63.1%	62.5%	60.8%	61.6%	61.9%	62.1%
Total Income	100.6%	95.6%	96.4%	100.0%	99.0%	100.0%	100.0%	100.0%
Net Current Position	-5.2%	-6.2%	-9.1%	-1.7%		0.4%	0.8%	1.2%
Working Capital Reserve	0.0%	0.0%	0.0%	0.0%	26.2%	26.3%	26.3%	26.2%
Endowment Fund	91.7%	101.2%	88.7%	80.3%	77.6%	74.7%	71.8%	68.9%
Liquidity plus Endowment	86.5%	94.9%	79.6%	78.7%	103.8%	101.3%	98.4%	95.4%

BUDGET VARIANCE REPORT: VERSION 1
JANUARY-FEBRUARY
(Year-to-Date (YTD) Summary)

INCOME	YTD Actual	YTD Budget	YTD Variance	Month Actual	Month Budget	Month Variance
A. Earned Income	$68,570	$66,000	$2,570	$23,660	$32,250	($8,590)
B. Non-Government						
Corporate	12,500	14,000	(1,500)	6,000	5,000	1,000
Foundation	105,800	110,500	(4,700)	62,000	63,500	(1,500)
Individuals	32,700	50,000	(17,300)	8,900	12,000	(3,100)
Members/Other	46,710	43,300	3,410	18,050	2,300	15,750
Total Non-Government	**197,710**	**217,800**	**(20,090)**	**94,950**	**82,800**	**12,150**
C. Government						
Federal	68,700	68,700	0	68,700	68,700	0
State	2,500	0	2,500	0	0	0
City	3,000	3,500	(500)	3,000	3,500	(500)
Total Government Income	**74,200**	**72,200**	**2,000**	**71,700**	**72,200**	**(500)**
TOTAL INCOME	**340,480**	**356,000**	**(15,520)**	**190,310**	**187,250**	**3,060**
EXPENSES						
A. Staff Salaries	85,970	87,500	1,530	42,900	39,650	(3,250)
B. Seasonal Salaries	24,900	26,320	1,420	19,360	17,210	(2,150)
C. Personnel Costs	4,130	4,000	(130)	2,500	2,200	(300)
D. Employee Benefits	21,090	22,050	960	15,230	12,110	(3,120)
E. Other Expenses	94,080	101,330	7,250	62,860	55,230	(7,630)
TOTAL EXPENSES	**230,170**	**241,200**	**11,030**	**142,850**	**126,400**	**16,450**
SURPLUS (DEFICIT)	**$110,310**	**$114,800**	**($4,490)**	**$47,460**	**$60,850**	**($13,390)**

BUDGET VARIANCE REPORT: VERSION 2
JULY- OCTOBER
(Year-to-Date (YTD) Summary)

	------------- FY94 --------------			----------- FY95 --------------		
INCOME	Actual 7/1-10/31	YTD as % of Budget	Actual FY 1994	Actual 7/1-10/31	YTD as % of Budget	Budget FY 1995
A. Total Ticket Sales	**$89,670**	**20.6%**	**$430,690**	**$88,890**	**21.0%**	**$424,220**
B. Non-Government						
Corporate	34,920	30.7%	113,790	14,040	15.2%	92,100
Foundation	300,310	28.0%	1,073,530	425,030	36.3%	1,172,400
Individuals	11,500	13.2%	86,900	10,740	10.7%	100,500
Members/Other	123,800	50.6%	244,510	54,050	20.1%	268,700
Total Non-Government	**470,530**	**31.0%**	**1,518,730**	**503,860**	**30.8%**	**1,633,700**
C. Government						
Federal	177,700	94.0%	189,080	347,400	69.1%	502,700
State	2,000	1.2%	166,940	63,350	67.1%	94,460
Regional	0	0.0%	48,490	0	0.0%	5,010
City	0	NA	250	2,670	7.1%	37,360
Total Government Income	**179,700**	**44.4%**	**404,760**	**413,420**	**64.6%**	**639,530**
TOTAL INCOME	**739,900**	**31.4%**	**2,354,180**	**1,006,170**	**37.3%**	**2,697,450**
EXPENSES						
A. Personnel	212,320	31.4%	676,230	214,130	30.3%	706,200
B. Artist Fees	171,420	21.2%	709,670	320,560	36.0%	843,690
C. Other Fees	63,310	28.1%	225,520	64,200	26.1%	245,540
D. Equipment Purchase	5,520	44.5%	12,400	15,740	51.9%	30,340
E. Space Rental	53,700	36.1%	148,720	55,160	33.4%	165,070
F. Transportation	47,790	31.4%	152,240	39,780	22.6%	176,100
G. Advertising / Promotion	70,040	22.9%	305,260	75,730	24.7%	306,330
H. Fundraising Expense	3,360	9.5%	35,300	1,950	5.3%	36,400
I. Remaining Operating Exp.	81,290	41.7%	194,720	60,110	32.0%	187,780
TOTAL EXPENSES	**708,750**	**28.8%**	**2,460,060**	**847,360**	**31.4%**	**2,697,450**
SURPLUS (DEFICIT)	**$31,150**	**NA**	**($105,880)**	**$158,810**	**NA**	**$0**

Planning for Planning

Chapter Sixteen: A Plan for Planning

The Planning Process

The strategic planning process can be a powerful force in identifying institutional priorities and engaging organization stakeholders and influencers.

While it is essential to ensure that an arts organization's strategic plan has insightful, rich content, many planning efforts fail because the planning processes they employ are poorly designed. If important participants are left out of planning activities, if the planning process moves at a snail's pace, or if insufficient (or extravagant) resources are employed, an organization can easily begin to suffer from planning backlash, finding it is difficult to get *anyone* interested in creating, implementing, or even discussing the plan.

The previous chapters of this book focused on planning content; this chapter reviews planning process. In other words, while the focus to this point has been on developing effective plans, we now turn to the important issue of doing this in an efficient manner. A four-phase, eleven-step process is recommended:

PHASE I. SETTING UP

Step 1. Committing Resources

Step 2. Adopting a Framework

Step 3. Establishing a Planning Calendar

Step 4. Writing a Mission Statement

PHASE II. ANALYZING

Step 5. Collecting Data

Step 6. Performing External and Internal Analyses

PHASE III. STRATEGIZING

Step 7. Developing Strategies

Step 8. Creating an Implementation Plan

Step 9. Completing Financial Forecasts

PHASE IV. IMPLEMENTING

Step 10. Communicating the Plan

Step 11. Tracking and Revising

PHASE I. SETTING UP

Given the many people, data requirements and analyses needed to develop a comprehensive plan, it is essential to begin by creating a plan for planning. The discussions on participants, resources, calendars, etc. that preface the planning process set the stage for the entire process:

Step 1. Committing Resources

Although the decision to develop a strategic plan is often made without a great deal of forethought (but with the sense that planning is "good for you"), every organization must think carefully about the time and financial resources it is willing to commit.

While plans can be developed in many different ways, significant staff and Board time is required in any effective planning process. Ideally, one member of the Board or staff will have substantial planning experience and can guide the process. While a good plan will represent a consensus of staff and Board views, a strong leader is needed to ensure consistent progress towards developing that consensus. If no one on the staff or Board has the time or expertise required to lead the planning process, an outside consultant should be engaged. One caution about hiring consultants: while an experienced, sensitive consultant can be an invaluable aid, the staff and Board are responsible for implementing the plan, not the consultant. Therefore, while the consultant can be useful in guiding the process, collecting and analyzing data, helping to frame strategies and giving objective reaction to others' ideas, the resulting plan must not be considered the "consultant's strategy." If the organization feels no ownership of the plan, it will not get implemented. (A planning consultant need not be expensive. Many Board members will be affiliated with corporations boasting large planning staffs. Frequently a corporate planner will be willing and able to provide pro bono assistance. But this planner must be sensitive to the differences between for-profit and not-for-profit organizations, especially with respect to mission.) Apart from the hiring of a consultant, the out-of-pocket costs of developing a strategic plan should be minimal.

Ideally all staff department heads will be involved in the creation of the plan. Of course, the artistic and administrative leaders must also be actively involved. Participating in data collection, analysis, strategy sessions and review sessions can easily consume two working days per person. A similar amount of time should be committed by the sub-set of Board members who will be responsible for overseeing the development of the plan.

If the Board has an Executive Committee, this is the ideal group to participate in the planning process although some Boards will name a Planning Committee to serve this function. In either case, it is imperative that the Board members who participate in the planning process be the most respected and involved Board members, including the Board's officers. Plans developed by subordinates rarely, if ever, get implemented.

The decision to engage in a planning process should only be made after every participant has agreed to devote the time necessary to create a strong, implementable plan. Without these commitments, and a suitable planning coordinator, the resulting process will usually take too long and result in a meaningless plan.

Step 2. Adopting a Framework

This book has suggested one approach to planning that has been effective in many large corporations, small businesses and arts organizations. This framework is simply a road map that guides the planning activity. It suggests the analyses that should be performed, reveals the implications of these analyses, and describes how these implications can be used to develop effective strategies. While the framework described in this volume is not the only useful one, some structure must be employed to develop an effective plan in an efficient manner. (Ideally, the framework selected will be familiar to the person serving as planning coordinator.) While brilliant plans have been developed without the use of a framework, rarely, if ever, are these plans developed in an efficient or complete manner. The goal of the framework is to ensure that the plan is developed quickly, with a minimum of frustration and a good deal of rigor.

For the framework to be used effectively, it must be explained to all planning participants. A preliminary planning meeting that reviews the framework should mark the formal start of the planning process.

Step 3. Developing a Planning Calendar

While the framework details the conceptual flow of information and planning activities, the planning calendar describes the timing, desired output and accountable participants for each step. Apart from its importance as an organizational tool, the calendar serves as a contract, binding all participants to one work plan and schedule.

The specific calendar will differ by organization, depending on the participants, the framework, the availability of data, the depth of analysis, and the experience of the coordinator. However, as a rule of thumb, a good plan can typically be developed in a four-to-six month time period. If the framework presented in this book is employed, a planning calendar might resemble:

PLANNING CALENDAR

PLANNING STEP		ELAPSED TIME	PARTICIPANTS
1.	Solicit / Educate Participants	2 weeks	All Participants
2.	MEETING 1: Organizational		
3.	Write / Review Mission	2 weeks	All Participants
4.	MEETING 2: Mission Review		
5.	Collect Data	3 weeks	Coordinator
6.	Complete Environmental Analysis	2 weeks	Coordinator
7.	Review Environmental Analysis	1 week	All Participants
8.	Perform Internal Analysis	2 weeks	Coordinator
9.	Review Internal Analysis	1 week	All Participants
10.	MEETING 3: Environmental / Internal Review		
11.	Develop Proposed Strategies	3 weeks	Coordinator
12.	Review and Revise Strategies	2 weeks	All Participants
13.	MEETING 4: Strategy Development		
14.	Create Implementation Plan	1 week	Coordinator
15.	Create Financial Plan	1 week	Coordinator
16.	Write Draft of Plan	1 week	Coordinator
17.	Review and Revise Plan	2 weeks	All Participants
18.	MEETING 5: Final Strategy Review		
19.	Approval by Board		
20.	Communicate Plan	On-going	All Participants

In short, each of the steps discussed in this book must be included in the planning calendar. While sufficient time for each analysis must be allocated, the process should not be extended over a long period of time. Long, drawn-out planning processes tend to result in an unfocused effort, with participants forgetting the conclusions of past meetings and analyses.

It is particularly important that participants remain with the process from beginning to end. While some may "drop out" as the process progresses, it is disadvantageous to add people once planning has commenced. New participants who have not been through the initial stages will force the entire group to re-trace its steps, resulting in a loss of momentum. This is an additional reason to complete the plan in a reasonable time frame.

While there is value in developing plans rapidly, rushing the process can be harmful as well. Achieving consensus is essential for successful implementation; it is important that enough time is allowed for the entire planning group to feel ownership of the document. If the planning coordinator "forces" a plan on the participants, it is unlikely to be implemented successfully.

Step 4. Writing a Mission Statement

As discussed earlier, the mission statement guides the entire planning process; without it, there is no motivation for planning. While great care must be taken to ensure that the mission statement truly captures the purpose of the organization, it is equally important that writing the statement does not paralyze the planning effort.

Many organizations suffer so much over the drafting of the mission that when it is finally completed, there is little energy left for the remainder of the planning process. While the arguments over the substance of the mission are vital to resolve, the specific choice of words should not become the focus of lengthy discussions. The mission is not an advertising slogan that must be catchy, nor is it poetry that must be inspiring; it is a guiding statement whose *meaning* must be clear.

Each meeting of the Planning Committee should be motivated by a completed analysis that can provide the basis for discussion. Thoughtful preparation will eliminate many hours of unnecessary discussions. The formulation of the mission is no exception. The planning coordinator, or another member of the Planning Committee, should draft a proposed mission (or several alternatives) to be distributed prior to the first meeting. While it is unlikely that this statement will remain unchanged, it provides a starting point for discussion. Once the group has agreed on the substance of the mission, a Committee member should draft the working mission statement and distribute it to all planning participants. (The arguments over specific wording can then be negotiated between the coordinator and the other participants outside of formal meetings.) If substantive disagreements over the mission persist, a sub-committee of the group including the head of the Board and the artistic and administrative leadership of the staff should convene to develop the working mission statement. (Some organizations want the entire Board to be involved in drafting the mission statement; this can be rather cumbersome in organizations with sizeable Boards.)

It is essential that meetings on the mission statement involve both staff and Board members. While it is sometimes efficient to hold separate meetings when reviewing other portions of the plan (e.g., environmental analysis), it is potentially dangerous to hold separate staff discussions on the mission statement. If either the staff or the Board become wed to a mission that is not supported by the other group, serious Board/staff conflict is inevitable, with the staff leadership placed firmly in the middle.

In some instances the mission statement is not formally adopted until the planning process is completed. Frequently, the environmental and internal analyses will influence the specific elements. The working mission does not become final, therefore, until the planning participants are satisfied that it is appropriate and that the proposed strategic direction is consistent with the mission.

PHASE II: ANALYZING

The best plans are based on thoughtful analysis of key strategic issues; the best planning processes employ analytical tools that reveal these strategic issues in a most efficient manner.

Step 5. Collecting Data

The development of rigorous industry, peer company and internal analyses rests, in large measure, on the availability of good information. Frequently, organizations spend too little time on data collection because they believe, mistakenly, that all important information is already known. This is a dangerous assumption. Basing a plan on conventional wisdom rather than facts can lead to unrealistic, ineffective strategies.

In truth, collecting the data required for planning in the arts is easy compared to the same task in the for-profit sector. The lack of severe competition, the desire for publicity, the need to provide information to potential donors and the presence of industry organizations leads arts organizations to publish substantial amounts of information. Most important, the collegial spirit among arts organizations makes the data collection process much more open.

The data upon which planning analyses are based are described in previous chapters. The primary sources for this data include:

• Industry Associations

> There are major industry associations for virtually every art form. Opera America, Dance USA, Association of Art Museum Directors, etc. all collect information that is available to its members. This data frequently includes income statement and balance sheet items for industry participants as well as overall industry trends in major expense and income accounts. This information can provide the basis for industry and peer company analyses. The staffs of these associations frequently possess a great deal of knowledge and insight into their art forms. It is very useful to mine this source of information. Given their desire to be supportive, the industry associations may be willing to review and comment upon an environmental analysis.
>
> Frequently, the industry association will be able to identify other peer organizations that have been doing similar kinds of planning work; sharing insights with other

organizations, particularly on industry trends, can speed-up the data collection and analysis processes substantially.

• Newspapers and Magazines

A good base of knowledge can be obtained from published articles. The simplest way to get a list of available references is to perform a thorough literature search of the published articles that are relevant to the art form and the organization. Any good library (university libraries are usually available and very helpful) will offer computerized or reference book services that allow the researcher to find articles in major publications concerning developments in the art form, peer companies, new entrants, fund-raising trends, corporate, foundation and individual donor prospects, regional economic growth, etc. If a particular article is not available in the library or online, call the relevant publication and ask for its "morgue," the internal library that contains files of every article it published. (For very modest sums, most newspapers will send copies of every article contained in a morgue file.)

• Trade Journals

Many art forms are also served by specialized magazines and newsletters that may not be covered by the bibliographic services in libraries. Dance Magazine, Opera News, etc. are all good sources of information. Again, make use of the staffs of these publications to determine if back issues included articles that may be helpful in completing an analysis.

• Peer Company Data

Almost every arts organization has a package of information intended for the press and potential donors that they are willing to share with others. These packages may include performance/exhibition information, annual reports, staffing information, brochures, etc. This information is clearly useful for peer company analysis. If additional information is needed, the staff of the peer company will frequently be helpful.

• Field Interviews

There are many people knowledgeable about each art form, peer companies and one's own organization, which can provide useful information for planning analyses. Staff members in peer companies, government agencies and industry associations can all provide useful information. Of course, all staff heads and involved Board members from one's own organization should be asked to provide input to the internal and environmental analyses.

> Before these interviews are conducted, however, it is useful to have gathered data from all other sources and have already performed some preliminary analysis. Field interviews are time-consuming and should only be performed as needed. It is difficult to know what additional information is needed until substantial data collection and analysis has been performed.

The quality of each analysis depends, in great measure, on the quality of the underlying data. Organizations that spend little time on data collection will have a difficult time developing an objective understanding of the environment in which they operate and of their own strengths and weaknesses. Without this analytical underpinning, it is difficult to write plans that create change.

If the planning coordinator does not have the skill or time to gather the required information, a planning consultant may be employed effectively.

Step 6. Performing Analyses

There is a wealth of data that can and should be used to develop a plan; the challenge is to draw insights from this data through environmental and internal analyses. A substantial portion of this book has been devoted to describing the analyses that underlie the development of a strategic plan. While these analyses need not be difficult to perform, the amount of time devoted to them depends on the planners' experience and the desired level of depth.

The application of environmental analysis techniques is perhaps the most challenging part of planning. With little training, most people can begin to apply these tools effectively. Yet the challenges are to generate insight from the analysis and to integrate these individual insights into a coherent analysis, or "story line." Without a cohesive story line, it is difficult to communicate results in a manner that allows the eventual plan readers to remember the key issues. Writing a memorable plan is important. Since implementers will need to shift direction as they observe changes in the environment, it is important that they remember the basis upon which the strategies were developed. Few arts administrators have time to refer back to a written document with any frequency. Developing a story line that makes the analysis more memorable is an invaluable implementation tool.

The development of the story line should begin with the commencement of the external analysis. It should not wait until the day before the analysis is due and after all the relevant data has been collected. Just as Sherlock Holmes always had an hypothesis concerning the identity of the criminal, so should the planner always have a theory concerning the driving forces in the industry and the expected behavior of the peer companies. As the hypothesis is disproved by the analysis, it should be re-formulated to accommodate the new data.

Before completing any environmental analysis, therefore, it is useful for the planner to speculate about the results; if the results support the hypothesis, one can proceed to the next step. If, however, the results are not as expected, it means that either the hypothesis is wrong or the analysis was performed incorrectly. Frequently the biggest insights in the analysis process are generated when the expected results and actual results diverge.

The analyst must be willing to be cavalier when performing the environmental analysis. It is unlikely that every single piece of desired information will be available, nor will every analysis be completed with a great deal of certainty. Just as in all phases of a creative process, the trade-off between time and product is important; if the analyses are reasonable and insightful, one must be willing to "let go" and move on to the next step of the process even if the underlying data are not as specific as one might have wished. (Frequently, the desired information will emerge later in the planning process anyway.)

The internal analysis must be more specific than the environmental analysis. This is facilitated by a substantially easier data collection job. The difficulty in internal analysis is not so much finding accurate data as it is maintaining honesty and objectivity. As noted earlier in this volume, many organizations tend to be overly generous with praise for their own capabilities while others tend to be too self-critical. A clear, mature evaluation is required. In order to achieve this desired objectivity, the internal analysis should be performed by either a new staff or Board member or an outside consultant - someone with planning experience but with few historical ties to the organization.

As with environmental analysis, hypotheses about the strengths, weaknesses, culture, etc. of the organization should be formed as the analysis progresses. Reviewing these hypotheses with staff and Board members allows one to test their validity. One-on-one interviews are very important; internal analyses based solely on printed financial data will frequently fail to reveal the motivating factors that can frequently be the most important revelations. If a theater company is managed by an artistic director whose real motivation is to have an opportunity to direct or to act in his own productions, this will have a substantial impact on the functioning of the organization. This information would not emerge from financial or other printed data.

For this reason, internal analysis is not necessarily an enjoyable endeavor. The analysts must question the performance of their own organization. This requires courage, strength and the open support of the Board and staff. Defensiveness always leads to poor planning.

It is impossible to over-emphasize the importance of insightful environmental and internal analyses. The difference between a good strategy and a bad one is frequently the level of understanding that underlies its creation. The development of high quality analyses will increase the chances of developing a realistic, implementable plan rather than simply a good-looking document.

PHASE III: STRATEGIZING

While a substantial analytical foundation for planning is crucial, the "meat" of the process is the creation of the strategies themselves.

Step 7. Developing Strategies

Just as there is no simple prescription for writing a symphony, so there is no magic formula for creating an effective strategy. Using the framework described in the preceding chapters simply guides the creative thinker.

The most effective way to create a strategy is to ask one member of the Planning Committee to develop a set of proposed strategies, a "straw man plan,"' upon which the remainder of the group can comment. This yields much better results than placing the entire Committee in a room and asking them to create a plan. Groups tend to go around and around with all members repeating their favorite strategies until they are sure they will be included. These group strategies, typically dominated by the views of the loudest participant, have no focus nor much real substance.

Equally dangerous is dividing the strategy development task among separate functional teams (e.g., marketing, development, etc.). While this is an appropriate technique for evaluating strategies or even developing implementation plans, it is not appropriate for developing the strategies of the organization. Every individual strategy must link to and support an overall direction. In fact, one should be able to summarize the key strategies in no more than one page. While many pages of detail might follow this summary, the core of the strategic plan should be an integrated set of actions designed to achieve the mission.

For this reason, having different sub-committees list their strategies for an assigned functional area often results in disjointed, unimplementable plans. Organizations that pursue the "straw man" method of planning endorsed above find that strategies can be suggested, evaluated in the context of an entire direction and adopted or rejected as appropriate. Strategy review meetings must be carefully planned. Board and staff members do not have time to waste on unproductive meetings. The planner needs to establish credibility for the process and the plan; long, unfocused meetings do nothing but reduce the interest of the participants. Frequently, Planning Committee members stop coming to meetings altogether and the entire plan loses credibility.

To avoid dissipation of interest, every meeting should focus on a specific segment of the plan. Review materials should have been sent in advance of the meeting. This leads to an efficient, product-oriented meeting with clear results. This does not mean that all meetings will end with alignment on all issues; any serious planning effort will involve controversy. But isolating the source of controversy and making progress in other areas is one sure way to maintain momentum.

Step 8. Creating an Implementation Plan

Once agreement on each functional strategy has been reached, the Planning Committee must develop a detailed implementation plan that suggests how these strategies will be put into action.

If the strategies have been developed in a rigorous manner, the implementation plan should be rather easy to complete. One Committee member should be assigned the task of creating a proposed implementation plan. Since the central issues to be addressed in the implementation plan involve assigning specific tasks and deadlines to key personnel, administrative leaders are the ideal candidates to develop this first draft. They are in a position to know how much can truly be accomplished within realistic time frames.

The Board members who serve on the Planning Committee can then decide whether the administrator's plan moves quickly enough (or too quickly) to put the selected strategies into effect.

Step 9. Completing Financial Forecasts

The final section of the plan, the long-term financial forecast must be developed with great care and realism. For many readers, the forecast will be an indicator of the rigor of the overall plan. If the forecasts are unrealistic or sloppy, the entire planning effort will be suspect.

This does not mean that financial plans should be ultra-conservative or should show little change in the fiscal status of the organization. If major new strategic initiatives will be implemented, financial condition is bound to change. But the forecasts must be supported by clear explanations of the reasons for these changes.

Too often, the Planning Committee is exhausted by the time it comes to develop these forecasts and leaves the job to the staff controller. While this is an efficient way to begin, the Board representatives must review these forecasts with as much rigor as they review the annual budget. If the plan is taken seriously by the staff and the Board, these forecasts will provide the foundation for developing each annual budget during the planning period.

PHASE IV. IMPLEMENTING

The true pay-off from planning comes from implementation. Everything accomplished to this point in the planning process is just prologue.

Step 10. Communicating the Plan

The strategic plan should be of interest to a variety of people: Board members, the staff, major contributors, major suppliers and the press. It is beneficial, therefore, to devote time to developing an appropriate method of communicating with each of these interested parties.

Obviously a complete written document is vital; it provides an easy, convenient reference for everyone. But there are no awards given for length. The "planning by the pound" mentality that suggests that the heavier the document, the better the plan, misses the point. If implementation is the true end product of planning, then the document must be easy to read and of reasonable length. Rarely should a plan have to exceed 75 pages unless an organization is unusually complex.

The "bigger is better" approach is symptomatic of a common misunderstanding about the role of the written document. It is imperative that all planning participants understand that *the planning document is not the plan.* The plan is the common understanding that all strategy implementers have about the direction of the organization. The document itself is not sacred.

The simplest way to organize the planning document is to use the framework that underlies the strategy development process. (One hint: the titles for the chapters of this book can easily serve as chapter, or sub-chapter headings for the plan.)

When the Planning Committee has completed its work, the entire Board should be asked to read and approve the document. Frequently, some changes to the plan will be requested by those Board members who did not serve on the Planning Committee. Rarely is a carefully crafted plan rejected by the Board.

Staff members should also be given an opportunity to read and comment on the plan. Frequently, the staff that did not serve on the Planning Committee will have ideas that can strengthen the document.

While many donors, particularly professionally-managed foundations, corporations and government agencies, may have an interest in reviewing the entire document, other donors should be provided with a summarized version that includes the mission, key implications of the environmental and internal analyses, the major strategies and summary financial projections.

In some organizations, the staff is asked to provide a very abbreviated Executive Summary for the Board and donor group. This can prove to be counter-productive. If a reader is not given a sense of the depth of the underlying analysis and thought, the proposed strategies may appear superficial, at best. One must accept that many readers will begin with a prejudice about planning, having taken part in unfocused, unproductive planning efforts. If a synopsis appears superficial, the plan will be deemed superficial.

In-person presentations to groups of donors can be a good way to "engage" them in the functioning of the organization and has the corollary effect of demonstrating professionalism. Those organizations pursuing a focused marketing campaign may wish to invite selected prospects to these presentations. Most major donors will be assured that their contributions are not "going down the drain" if a rational plan for the future is presented.

Step 11. Tracking and Revising

Since so much time and effort can be devoted to developing a strategic plan, there is a tendency for participants to memorialize their efforts by creating an impressive, leather-bound, formal document. The strategic plan, however, should be a living entity, residing more in the mind than in the bookshelf. The ability to alter the plan as the organization's situation changes is more important than the quality of the binding.

An organization's strategies should not be static. Despite our best efforts to forecast environmental changes, exogenous shocks to the arts environment (e.g., radical shifts in government funding) create the need for reevaluation of the strategy. Data collection and analysis leading to periodic reviews must be on-going.

This tracking process should review industry and peer company behavior, progress towards fulfilling the implementation plan, and financial and other performance measures versus objectives. Tracking the progress of the plan should be performed at regular intervals. Quarterly evaluations are usually sufficient although in some specific instances (e.g., when large projects are in progress), more frequent ones may be necessary. As deviations from expected results are encountered, strategy alternatives must be developed and implemented.

The results of the tracking process should be presented at Board meetings, Executive and Planning Committee meetings and staff meetings. Once a year, a revised financial plan should be produced. Every three years, a complete new plan should be created. While the mission should not change, and even some strategies may remain consistent, changes to the environment and financial performance are inevitable and the implementation steps must be revised to accommodate changes in staff, Board leadership, etc.

While the nature of a book forces a presentation of planning activities in a sequential fashion, the steps to creating a superior plan are not necessarily performed in a strict linear order. Above all, strategizing is a creative process. Blindly following a series of steps impairs creative thinking; the results of one analysis may suggest revisiting a prior analysis, a new conclusion may influence an old one.

Those arts organizations that design and pursue coherent planning processes support the development of rigorous analyses that result in the creation of creative, effective strategies.

Chapter Seventeen: The Planning Environment

Strategic planning does not happen in a vacuum. Many organizations initiate the planning process during a period of great change (e.g., financial distress, physical expansion, changes in leadership). The benefits and limits of strategic planning are linked to the nature of the change facing the organization.

The way a planning process is implemented will depend, in great measure, on the situation facing the organization when it decides to develop the plan. Only a few arts organizations have the discipline to develop comprehensive strategic plans in a rigorous way during periods of stability. Most organizations only embark on planning exercises when facing periods of great change owing to financial distress, changes to operations (including physical expansion), the loss of a major funder, new senior staff or the decision to pursue a serious stabilization effort.

FINANCIAL DISTRESS

The most common reason why arts organizations turn to planning is the onset of significant financial problems. When there is considerable cash flow pressure, when nothing in the current operations suggests that this pressure will abate, when every conversation revolves around cash shortages, when the fun of involvement has evaporated, and when the Board and staff have no solutions, they frequently turn to planning. (Of course, a careful plan developed three years earlier may have averted the crisis.)

A plan meant to address a fiscal crisis must be comprehensive, but must also be developed with dispatch. These plans accomplish several objectives:

- They force a discussion on the root of the problems facing the organization.
- They encourage a logical, organized discussion of possible solutions.
- They create alignment of the Board and staff around a course of action.
- They result in a document that can be used to attract new Board members.
- They can be used with funders to help show how additional investment in the institution will contribute to long-term stability.

What the plan will *not* do is solve the cash flow problem. This will only be accomplished if the plan is implemented. This typically takes a great deal of effort by Board and staff. If the effort devoted to creating the plan exhausts the time and energy commitment of the key participants, leaving no resources for implementation, it is certain to have no impact on the institution.

Too often, even when a troubled organization does work hard to create and implement a plan, the focus is placed solely on the short-term fiscal needs. The temptation to solve this most pressing problem is understandable but the longer-term consequences can be significant. There are very few institutions that are saved simply by an infusion of short-term cash. While mounting an emergency campaign is frequently a central part of the strategy for a troubled institution, it can not be the only area of focus. Without addressing methods for increasing both earned and contributed income, and controlling costs, the organization is likely to experience serious cash flow problems yet again when the short-term campaign revenue is depleted. Many organizations have to learn how to reduce expenses. Even more have to learn how to enhance income generation by employing sophisticated marketing and fund-raising techniques. The payoff from these approaches is not achieved in the near-term; the best arts executives will make the effort to ensure that long-term revenue growth is pursued even in the face of daunting short-term crises.

PHYSICAL EXPANSION

When a major expansion is under consideration, the planning calendar can be a bit more relaxed. But the case for pursuing a broad planning effort is just as compelling. Too often, organizations in this situation look simply at the design of the facility, the cost of construction and the feasibility of the campaign. Too little time is spent reviewing what is needed for a smooth transition to the new space, the marketing, fund-raising and other operating requirements for supporting that facility and the impact of the expansion and the campaign on the staff and Board.

In fact, many organizations only begin serious strategic planning after designs for the new building are completed. This leaves little room for the planning process to affect the design. While the excitement generated around architectural drawings is significant and understandable, arts organizations must discipline themselves to complete major planning processes *before* any designs are initiated. This allows the plan to address the marketing, staffing, Board expansion and fund-raising issues that must be solved before a major expansion. It also allows the campaign to be specified more accurately by including all the costs the expansion will incur, not simply the capital costs. Yet too many Boards and staffs get so excited about the facility design that serious, rigorous, organized planning efforts fall by the wayside.

LOSS OF MAJOR FUNDERS

Like organizations in fiscal crisis, those that lose the support of a major funder have waited too long to plan. Unless there is flexibility to reduce expenses in the short-term (assuming the fund-raising and earned income efforts cannot be expanded in the very short-term), the financial implications will be substantial.

The answer to the loss of a major funder is not to seek a single replacement funder. Rather, the organization must find a way to enhance its visibility or to exploit its current visibility to attract a larger circle of funders.

Working actively to strengthen the Board is frequently an important element of this strategy. As mentioned previously, the plan itself will provide one of the most potent tools for soliciting new Board members. The plan gives Board prospects a clear picture of the direction of the organization and the way their efforts will be helpful. Those prospects from the corporate sector will be familiar with business plans and will appreciate the apparent rigor of the planning process.

CHANGES IN LEADERSHIP

When an organization experiences changes at the highest level of the Board or staff, the plan becomes an important transition tool. The new leaders can use the planning process to create a renewed sense of direction and vitality, effectively addressing the organizational insecurities that attend any change in leadership. This is particularly true when a visionary leader leaves the institution; new leaders must be given the opportunity to create their own platform.

STABILIZATION

Some planning processes are undertaken when an arts organization decides to make an effort to achieve long-term financial stabilization. (Frequently a special gift from a major donor inspires this decision.) Stabilization is one of the best reasons for embarking on a planning process.

Yet stabilization requires more than financial analysis and a campaign plan. The definition of a stabilization strategy must be broadened to include the operational actions that create financial security in the arts. Simply erasing an accumulated deficit, building an endowment or creating a working capital reserve is not enough to stabilize an organization. The artistic, marketing and development plans must also support on-going revenue generation.

Without long-term revenue growth, a stabilization campaign really only provides a few years of cash flow relief - not a bad thing but not real stabilization either.

NEW ORGANIZATIONS

Very few new arts organizations initiate any form of rigorous planning. The effort it takes to mount a first production and the limited availability of money and managerial expertise makes it difficult to think about the future in an organized manner.

Unfortunately, the failure to think of the first production as part of a continuum can be quite costly. Donors and ticket purchasers who support the first performances are not adequately engaged, people who can provide support in the future are not asked to attend, and members of the press are not cultivated for future coverage.

While developing a comprehensive long-term plan for a new arts organization may not be justified, or even possible, a simple two year plan can be very effective. Evaluating environmental issues and developing basic strategies for dealing with them can help set priorities, attract Board members and convince institutional donors that this new company is approaching its future in an intelligent manner.

Whatever the situation facing an arts organization, plans are only as effective as the people who create and implement them. Employing sophisticated planning techniques is considerably less important than finding the best people to develop strategies and manage their implementation. Yet, armed with strong analytical techniques and a logical planning framework, a well-managed arts organization with an effective Board and, most important, a high quality artistic product, can create plans that accomplish a wide range of initiatives.

In the end, however, it all comes down to probabilities. No one can promise that the building will be expanded, the tour will be enlarged or the deficit will be erased - or that they won't. Turning your dreams into strategies simply increases the odds that they will come true.