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## **Business and operational planning**

### **A blue print to be as financially sustainable as possible**



*Figure 1 Norwich Castle*

#### **Introduction**

Since covid, the financial and economic climate for museums, arts and heritage attractions has been challenging. Managing and delivering a financially self-sustaining museum or heritage attraction has continued to become even more difficult.

We hope this article maybe useful for organisations that are planning capital projects, feasibility studies, needing to look at ways to be more financially sustainable or to turn the financial situation around.

Getting the business and operational plan right is fundamental and critical.

There is no guarantee of success. What follows is a blue print based on the work of Bryn Jones Associates (BJA). BJA are management consultants that have been trading in the sector for nearly 20 years. This includes related work over this period with dozens of clients and most of these projects requiring secondary research drawing on an even larger number of comparators.



*Figure 2 Blists Hill Victorian town*

## **PART ONE**

### **When to prepare a business plan**

When making a significant grant application, depending on the scale of the project, it is generally a requirement to provide a project business plan. One of the aims for the project via the project business plan is to show that the development is financially sustainable, to provide the evidence and how this will be achieved. If a project shows that it is financially sustainable, then it will be in a better position to be awarded the grant.

If a project business plan shows an operating loss this will possibly be viewed less favourably than a project which shows the project is financially sustainable. The latter appears far less risk.

The incentive is to make sure that a grant application project business plan shows the museum or heritage attraction is financially sustainable, regardless of whether this is realistic and achievable or not.

There are some projects which post-delivery, do not achieve the visitor and financial projections and budgets set in the project business plan. Some projects need additional annual revenue financial support and if not forthcoming have to make cuts to the service and the operating model. Worst case this can lead to closure, going into administration or being taken over by local authorities to manage and stand the additional cost of running the new or re-developed heritage attraction or museum.

The drive is to be as financially sustainable as possible but ultimately the business and operational plan has to be objective, realistic and achievable for the good of the project, the team operating the new development, for the local residents and community the museum or heritage attraction serves and the local tax payer who sometimes can end up having to pay the additional cost.



Figure 3 Cornerstone arts centre

### **When to prepare a business plan and be objective**

At least some form of business plan with at least visitor and financial indicators (income and expenditure) is essential as part of the feasibility of a capital project.

It is critical that the business plan is objective, and not emotive, based on research and experience.

The project needs to prepare an income generation strategy and operating model that identifies and budgets the real visitor and income potential. This means how resources can best be focused to deliver the business plan, an exceptional experience and offer.

If the business plan shows that the project is not financially sustainable then a properly informed decision can be made as to how to move forward or not.

This way you know before making an application whether your project is really financially sustainable or not.

For a charitable body, being financially sustainable is even more challenging as there is often no ongoing local authority revenue contribution. For a charity running a heritage attraction or museum, being financially sustainable also includes generating sufficient net income to provide financial reserves to cover any challenging period whether this is a recession or a pandemic.



Figure 4 Waltham Abbey Royal Gunpowder Mills



## PART TWO

### Process

Whether for a capital project or to improve the financial resilience of an existing attraction in terms of business and operational planning the following process may be helpful:

- Monitoring and reviewing the current performance, structure including visitors, financial, governance, roles, volunteers, skills and experience mix, mission and objectives.
- Customer feedback / surveys and customer profile, including who are and who are not your main existing audiences.
- Identifying and looking at every phase of the customer journey including the website and social media to finding the venue, accessing from road / rail and on foot, parking, signage, the key targeted promotional messages and where, the entrance area, pre and post ticketing, the service provided, locations, offer, exiting the attraction etc.
- Secondary / online research looking at comparators. This should include looking closely at a couple of comparators that are already financially sustainable as possible and deliver an excellent experience. This includes looking at operating models, visitor numbers, the offer and income generation strategy. The secondary research should also cover competitors, a wider comparator view – including visitor numbers, related trends, demographics (including socio economic mix), main sources of income, related financial indicators, what are not the main sources source of income and potential markets to target.
- Involve your team and key external stakeholders in the process.

All the above will help to identify the way forward and help to identify what differentiates your attraction or museum and the key target audiences to focus on.



*Figure 5 Waltham Abbey Royal Gunpowder Mills*

### Focus your resources

Critical to being as financially secure as possible is to focus resources on income streams which will generate the greatest net return. This has to take the costs into account (all the direct and possibly some of the indirect, staff and non staff costs). Whichever of these income streams provide the best net return and most net income are the ones to focus on.

Anecdotally with any business, if 10% is assumed as a reasonable net profit, that means to generate a £10,000 net income or net profit means generating a £100,000 in net turnover / income.



Figure 6 Blists Hill Victorian town

## The main Income streams

Do not try to do too much. Trying to cover too many income streams can result in poor returns. It is better to be focused on the income streams that will generate the greatest returns, net income, provide the easier wins and make sure you do them really well.

Each museum and attraction is different and does require a bespoke approach. However, there are certain income streams and considerations which are core to generating the most significant net income and net return. This includes:

Driving visitor numbers: visitor numbers are general critical to financial sustainability. In addition to the offer and delivering an exceptional experience, marketing is key, those that spend more on marketing tend to generate more visitors. 'As seen in previous years, attractions that reported an increase in their marketing spend were more likely to see an increase in their total admissions and gross revenue.' Source: Visit England, Visitor Attraction Trends in England 2018 (August 2019)

Admissions income: admissions income is the primary spend and provides the greatest incremental income and net return. The costs associated are significantly less than for other secondary spends such as retail and catering. If moving from free admission to a full admission charging model visitor numbers could decrease between 30% to 60%. To make it easy for potential customers to understand and for staff to explain and to generate the highest admission yield keep the admission pricing model simple with as few pricing tiers as possible e.g. aim for three. There are a number of pricing model options to consider. See examples such as the National Maritime Museum in Cornwall (NMMC): Ticket Prices

- Pay once, get in all year
- Adults
- Children (Under 18s)
- Children (Under 5s) Free.

Donations and gift aid: whether free admission or charging, particularly for charitable bodies and those with charitable status, donations and gift aid can provide significant incremental income. The more proactive the donations strategy, the higher front of house donations spend per head can be generated. However even with a very proactive donations strategy, the donations spend per head is not at the same level as a full admission pricing model. With an admission pricing model option where the entry fee is also an annual ticket, such as the NMMC example above, this automatically qualifies for gift aid (as long as a UK tax payer).

Related front of house / ticketing desk services: Front of house is the one point where all customers will pass through. The location of the ticketing desk is paramount to

provide a welcome to all customers, to promote key messages, the offer and for staff to be able to upsell guidebooks, memberships / seasons ticket / donations and gift aid. Opening times: there could well be seasonal variations in terms of opening times depending on the visitor numbers and also factors such as whether primarily an indoor or outdoor attraction. To keep things easy for potential customers to understand and from a marketing perspective the aim should be to keep opening times as simple and as consistent as possible.

Retail and catering: neither catering and retailing will generate the same level of incremental net income as admission charging. Catering viability is largely dependent on visitor numbers, location, facilities, space etc.. Retail does not involve having to work with food and drink and thus there is far less potential waste and environmental health concerns and can generate a return more easily. Catering at times can be worth providing even if more for enhancing the customer experience than for financial return. In house catering can be highly time consuming for the whole organisation and financially highly risky especially with the latest increases in national insurance contributions, the living wage and energy costs. If visitor numbers are not significant and you are working with a very good external caterer, do not make commission and rental payments too onerous, at least initially.

Venue hire: can be a major revenue contributor and facility hire can make a significant net return. Venue hire varies significantly depending on the spaces and facilities available, the standards, the capacity, the market and the competition. This is also an area where an external caterer may also be interested in managing and could help to attract a good caterer if the public catering and venue hire catering are combined. Each museum and heritage attractions situation is different and there are a number of potential management and catering options to consider.

Car parking charges: especially if a free museum, but even if a charging museum or heritage attraction, car park charging can generate a significant return. Other than any capital cost, the running costs are relatively low.

Coin retention lockers: if you provide lockers for customers to leave their coats and bags when they visit, coin retention lockers can generate a significant incremental net income. Other than any capital cost, the running costs are relatively low.



*Figure 7 Black Cultural Archives*

## **Messaging**

If you are a charity make it clear that all the income raised helps to secure the future of the museum or heritage attraction. This needs to be done prominently, in a well

presented and in keeping visual way preferably pre ticketing and at the other key pay points.



*Figure 8 Cornerstone arts centre*

### **Other possible incremental net income streams**

Depending on the nature of the museum and attraction there could be other potential income streams worth considering including:

- Commercial temporary exhibitions: this an area which can attract sponsorship, but still can be very challenging to generate a net return. However some of the main benefits include:
  - Generating incremental visitors, more repeat visits and helping to attract more members.
  - Depending on the nature of the exhibition, attracting audiences that do not come to or are not normally interested in museums.
  - To help generate secondary spends through retail and catering and sometimes corporate hire.
- Online retail: There are exceptions such as the Tank Museum and the V&A, but whether online retail generates a significant net return remains very challenging. Shopping online is incredibly competitive.
- Licensing and or wholesale: This is a specialist area and requires someone with related experience to evaluate the collection and imagery as to what will sell and what will not.
- Filming: This depends on the nature of the museum or attraction and can generate significant returns. As an income stream film hire is highly volatile year on year and therefore difficult to budget for. This is an income stream which depending on the nature and scale of the museum or attraction might be worth working third party operators and agents who specialise in location hire.
- Events: Depending on the nature of the venue, museums and attractions and the target audiences some events can be profitable, some can run at a loss and some may break even. They can be resource and time heavy for not a significant net return. From a budgeting perspective again another income line to be careful what is budgeted in terms of incremental net income. However as with commercial temporary exhibitions this is an area which can help to reach audiences that do not normally visit or not interested in visiting museums or heritage attractions, generates more repeat visits and can help to drive membership. Events is an area where there is the potential to work in partnership with commercial operators. Although potentially an integral part of the offer, budget cautiously.





*Figure 9 Coalbrookdale Museum of Iron*

### **From a commercial and net income generation perspective what not to focus on**

Unrestricted revenue fundraising: Funders tend to be more interested in capital projects or projects which have community, outreach, educational and social objectives and increasingly diversity, equality and inclusion (DEI) objectives. Unrestricted revenue fundraising towards general running costs such as maintenance, cleaning, utilities, back of house, office and general staffing costs is very challenging.

Community, social and educational objectives: These objectives as well as increasingly DEI objectives are becoming central to museums and heritage attractions mission. These are not ways of making a significant net profit. They cost money to achieve. These are areas which generally need to be fundraised for or subsidised to support their delivery.



*Figure 10 St Magnus Cathedral*



## Is the operating model fit for purpose

Critical to achieving this potential is whether an operating model is fit for purpose. This includes:

- Governance: Does the Board have the right skills and experience. From a business planning perspective this should include somebody with significant operational, commercial and customer experience in a similar museum or heritage attraction or more generally the attractions sector. Good governance is essential. The mission and objectives should be simple, clear and the objectives measurable, including the customer experience, visitor numbers and financial sustainability. From volunteers and front of house staff to Trustees, the mission should be easy for everyone to know and understand.
- Staff structure: It is important to have a staff structure, that has the roles and clear lines of responsibility to deliver the mission and objectives including the customer experience and income generation. Drawing together front of house services that deliver the customer experience can make complete sense and can also incorporate the front of house trading activity. If feasible this could also include those back of house services which indirectly impact the customer experience e.g. cleaning and gallery maintenance.
- Too often particularly with capital projects the proposed structures tend to be top heavy with too many heads of departments and not sufficient staff to provide the actual service and deliver an exceptional experience. The starting point should be to make sure the staff structure and operational plan is based on having determined the number of core staff positions that have to be covered every day the museum or attraction is open throughout opening times and includes time for break cover, staff holidays, training and sickness cover into account. This means that it will be more than one full time equivalent (FTE) member of staff to cover one core position seven days a week all year, i.e. up to 2 FTE's per core position. Once the cost of this has been determined it then helps to provide an indicator as to what else is affordable and needed to deliver the business and operational plan.
- Volunteers: In the charitable sector volunteering is quite often business critical, whether that's providing the stewarding, front of house or maintenance functions etc. However, in business critical roles such as working on the ticketing desk where the role is selling admission tickets, asking for donations, gift aid, and upselling other services whether this is guidebooks, memberships or season tickets, the income generated from these activities is incredibly important and potentially significant. Being able to deliver speed of service, keeping queues moving and accuracy is important. If feasible it will be worth having paid staff for these roles. Volunteers can still provide very important support whether stewarding, tours, engagement, welcoming customers, working with queues etc.



*Figure 11 Black Cultural Archives*

- Culture and attitude: Whether trustees, senior and junior management and front of house, the culture of an organisation is central to success. The organisation needs to be moving in the same direction and unless supported by huge subsidies must be:
  - Truly and objectively commercial (willing to go against popular group think when needed i.e. what will generate the most net incremental income), flexible, nimble, focused on service excellence and income generation to have the best chance to survive and be financially sustainable.
  - Focused on delivering exceptional standards and customer experience for all our customers. Doing this will also help to achieve DEI objectives in terms of how we look after all our customer groups coming to visit.

Bryn Jones

Director

Bryn Jones Associates

For more details please visit their website: [www.brynjonesassociates.com](http://www.brynjonesassociates.com)

Email: [info@brynjonesassociates.com](mailto:info@brynjonesassociates.com)