



CULTURAL SNAPSHOT
NUMBER FOURTEEN

Capitalising Creativity

Developing earned income streams in
Cultural Industries organisations

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Abstract

This essay proposes a structure of organisational development which assists non-profit cultural organisations to develop earned income streams from their core intellectual capital. Developing such income streams is not simply a commercial challenge for such organisations – given that many have been built around the premise that a commercial path is neither feasible nor desirable – the challenges run far deeper. The structure suggested here recognises this and proposes an approach which allows creative and commercial activities to operate synergistically without leading to a position where one strangles the other.

Foreword

In the Spring of 2004, Proboscis commissioned Sarah Thelwall to become our Consultant in Residence. The goal of this three year appointment was to bring Sarah's insights and experience to bear on Proboscis' creative and business activities in an organic way that could be free of the traditional client/consultant relationship and the constraints of a set brief. During this period Sarah became a key member of Proboscis, working not just as an advisor, but becoming enmeshed in our creative projects. Her contribution has been much deeper than providing business advice – it has helped us to refine our notion not only of what we do, but *why* we do it – what aspects are crucial to our sense of individual and collective ethos within the organisation. It has also helped us to define what we are not, and what we do not want to sacrifice.

This essay represents part of the approach to helping creative firms become more stable and financially independent of the funding system that Sarah has developed over the past four years in collaboration with clients such as Proboscis, Snug & Outdoor and SCAN. The ideas and arguments it contains are pertinent for the whole sector and we are pleased to be able to offer the platform of the Cultural Snapshots series to bring them to a wider audience.

Alice Angus & Giles Lane
Co-Directors, Proboscis

Introduction

The arts and cultural sector in the UK is a complex eco-system of creative practices, social structures and sophisticated organizational processes. And to operate within this paradigm requires as much subtlety as conducting business in the commercial world. The underlying rules of the game seem to be rather similar, but what distinguishes the two spheres is the different ways of propagating ideas. In the commercial world the value of created products and services are interpreted through financial transactions, whereas we don't necessarily see an equivalent for artistic and cultural values. In the commercial world values are primarily acknowledged through the economics of the marketplace; in a cultural context, values are additionally (and sometimes exclusively) recognized through a complex of systems such as reputation, peer recognition, audience reach, aesthetic and conceptual quality.

Whilst there are many occasions where it would be inappropriate to translate these values into a format that can participate in the market, in the course of my research it became clear that artists and cultural organizations are well aware of untapped economic potential within their practice. Surprisingly, even where the organizational capacity would allow it, the opportunities to use existing cultural and creative assets for the development of additional income streams are not followed up. In some cases, such a route would have an immediate and positive impact on the organizations' core mission and objectives. Still, many shy away from activities that include commercial mechanisms or interactions. The question is why and what would it take to reap these benefits?

General challenges aside, it seems that each situation sees a particular and individual set of barriers and difficulties to overcome in order to capitalize on creativity. Furthermore, a number of shared myths continue to be propagated, the biggest myth of all being that commercial and cultural success are mutually exclusive. Specifically, commercial success is often assumed to compromise artistic and cultural integrity and quality, though the history of art and design demonstrates that this need not to be the case. A close inspection of a few success stories leads to the conclusion that it is more the lack of appropriate models that prevents development and growth in the direction of sustainable commercialization of artistic and cultural assets.

In this very informative essay Sarah Thelwall indicates a few highly useful routes for a natural progression from creative to commercial value. Where sometimes the barriers for a full and careful exploitation of creativity might seem insurmountable, a concise and systematic model as well as a number of inspiring examples will help with the practicalities of taking the first steps.

Dirk Kiefer

Dirk has worked since 1992 as an arts producer and is currently researching the Creative Economy at NESTA.

Capital funding is also on the basis of the cost of materials. This direct relationship between the production costs and the revenue may be termed 'funding for first order activities'. First order returns are the residual value of first order (FO) activities such as individual and organisational expertise and experience, reputational development, cash surplus, goodwill, equipment and resources owned. As an individual or organisation grows in experience the rate of generation of first order returns from first order activities may be expected to increase. For example, once an organisation has been established and has achieved a regular grant-based income it is a relatively small addition to establish audience development or education programmes. It would not however be possible to set up such activities without a stable organisational base and core audience.

First order activities are intrinsically linked to the human labour involved, therefore they are inherently non-scalable. The expertise of senior individuals is the core asset upon which success is based; it is unlikely that such resources as these can be replicated in line with the requirements of further growth within the sector. The increasing demands from growth upon a small number of team members risks their burn out and hampers further expansion via this model. Furthermore, the tacit knowledge and experience gained from FO activities is held by individuals not the organisation itself; the organisation therefore risks losing these key assets unless it can establish development opportunities for them that nurtures both individuals and organisation.

If the relationship between revenue and cost of production can be broken and, replaced with a connection between revenue and customer demand, then the bottle-neck is removed. In practice this will likely mean establishing a new method of production which enables scalable production to meet customer demand. For instance, instead of customers hiring a string quartet to play for them they can buy the CD. The former production method limits the total number of sales whereas the latter is scalable to meet the customer demand levels. Exhibition curation offers an alternate example – there is a difference between the initial curation of the show which requires a creative expert (the curator) to create the concept and pull the show together, but the ongoing touring of the show requires little to no such expertise and is thus more scalable. This removal of the expert skills and ensuing scalability enables growth. The activities and returns generated in this model may be termed second order (SO).

The inter-relationships between revenue, cost of production and customer demand are crucial to the capacity for growth. In a cost-related revenue model the only option for increasing the profit (or 'surplus') is to reduce the cost of production. Even if quality can be maintained there is only a very limited scope for profit growth in this model. However if revenue growth is linked to customer demand then in the first instance price insensitive customers can be sought (the innovators and early adopters) and as the products and services become more mainstream then the number of customers can be increased. This inter-relationship between revenue and customer demand is much more open ended and does not suffer from the limitations of a revenue-cost of production connection.

Typically this translation of expertise and experience from FO to SO activities and returns requires a change in the operating paradigm and a re-assessment of the underlying business model. This does not mean that all FO activities cease but more likely SO activities are chosen and run in parallel.

SO activities and returns offer scalability, improved financial sustainability and greater

distribution and reach. They do however require developments of new capabilities – for example whilst non-profits may be very experienced at managing creative risk and financial uncertainty they are unlikely to be experienced in managing commercial risk. In the following sections this essay examines how non-profit cultural organisations can develop SO revenue streams at the core of their organisation rather than at the periphery and looks at the challenges, benefits and opportunities encountered in the course of making such developments.

First order activities and returns – the standard development path

When an individual or organisation is grant funded for a project or programme, the grant is intended to pay for the FO activities involved in its production, with an implicit understanding that FO returns will be generated that offer socio-cultural benefit to the audiences as well as to the individual or organisation. This forms the basis of 'arts' funding². The challenge in the non-profit sector is that this mechanism offers very little opportunity to build a cash-buffer³ and funding rarely takes account of the research phase of project and programme development. However, if an organisation is able to make the transition to a revenue funded status these impediments to financial stability and sustainability are reduced.

In return for the ongoing financial security of revenue funding, funders tend to expect an increase in the 'value for money' or efficiency of activities, i.e. an increase in FO returns without the need to increase funding levels. Implicit in this expectation is a definition of success based on the establishment and support of a process of institutionalisation. This enables an organisation to become separate from the individuals who founded it, provides clear scalability and efficiency mechanisms and solidifies the expert position which it generates through its FO returns. However this institutional model is not necessarily appropriate as a development path for all types of creative firm. In particular it is inappropriate for organisations whose remit is to continue to be innovative in their programming, projects and curatorial activities – where a more entrepreneurial model which leverages FO returns into SO products and services could provide a far better fit.

First Order (FO) activities and returns – putting your house in order

First Order activities and returns often emerge of their own accord as an organisation develops. It is important not only to review these but critical to include the establishment of Second Order activities for any programme of organisational development seeking long term sustainability.



Market Day delivered in association with Starter for Six & NESTA 2007⁴

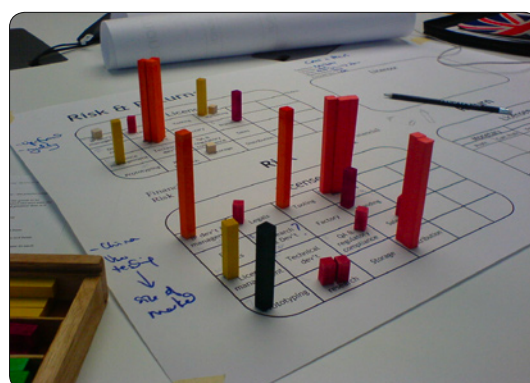
Achieving clarity on the values and key skills followed by a concise articulation of how these translate into the core programme of activities is the first step in such a review process. It is likely that several of the operating assumptions in the translation from values and skills into core programme will need to be changed in order to make space for SO activities. As FO and SO activities may well run in parallel this does not mean that such assumptions should be abandoned altogether, merely that where there are variations in operating assumptions there needs to be a clear distinction between parallel activities. An example here would be Proboscis' publishing activities. The traditional publishing route employed through FO activities of commissioning content for COIL journal (1995-2000) led to sales of around 1,000 copies per issue. Changes in the book market caused Proboscis to re-evaluate their route to achieving a readership and in response they developed an online publishing mechanism – in particular the Cultural Snapshots and eBooks. Annual downloads of these imprints are now in the region of 140,000 per annum.

A second example here would be Snug & Outdoor and their experimental playground kit. Their SO activities of public art installations achieve a user base by making their work available in public parks on a permanent basis. In moving to SO activities they change the operating assumption of achieving audiences through public availability and instead achieve audiences through sales of playground kits in schools. This route has the capacity to deliver higher audience figures as well as increased financial sustainability.

The relationships that organisations establish with partners, funders and audiences is likely to be different to that appropriate in second order activities; in particular a shift from collaboration to with partners to either a service based consulting relationship or to sales and marketing of products is likely. It is therefore important to review such process related assumptions as part of a review of FO activities and returns.

Identifying Second Order opportunities

Perhaps the greatest challenge in identifying SO opportunities is to avoid dismissing ideas too early on the basis that they don't fit the operating assumptions mentioned above. This journey out of the comfort zone can be made easier if the brainstorming of ideas for SO activities includes individuals from the markets and sectors you expect to target. Furthermore, if you can involve individuals who have considerable experience not only of their sectors but of commercial activities then you can harness this to give you a rough assessment of the feasibility of your ideas and goals⁵. It may be expected that an organisation will establish an in-house entrepreneurial capability as this provides greater connection to the rest of the organisation.



Trade Off 2007⁶

There are a number of attributes which are commonly found in successful SO activities, it is these attributes that affect the potential size of the returns that they generate. These attributes include:

- Scalability not connected to a need for 'experts' to deliver the product or service (if this isn't true then it's not a SO activity);
- Clear fit between benefits delivered and current market demand – without this 'market making' activities will be required... market making activities are FO in terms of their business model and will require different skills to those present in FO activities in a non-profit cultural organisation. It is far simpler to follow than to lead;
- Supply chain offering sufficient flexibility for both low and high volume production and distribution – enabling relatively inexpensive access to the market, not requiring large investment in manufacturing or distribution infrastructure whilst enabling change of manufacturing and distribution processes when volumes increase;
- The value of the goods/services sold needs to be sufficiently high to be capable of:
1) justifying the risk involved in developing the goods & services in the first place
2) including enough profit to pay for the sales and marketing functions required to promote them to potential customers.
In the cases where this is not the case e.g. in the art market where the price is only doubled from artist to client then both artist and gallerist struggle to achieve sufficient cashflow and profit to survive.
- Packaging 'expert' processes, services or products into tangible and purchasable goods which no longer require the input of the experts that created them. These products and services can then be sold by people who would not have the expert skills required to deliver them – meaning that sales are not due to personality but to product quality and reliability. The ability to communicate the benefits that the product or service will deliver requires a succinctness that comes from the insight of experience.
- Some SO products and services can be made available in multiple formats, this is particularly so once a brand becomes established and the brand value can be transferred to other/new products. A variation on this idea is where SO products and services form a family of related items with a theme running through them which is highlighted through the brand and marketing.

Having generated a clutch of ideas for SO activities and assessed them to ensure that they have the requisite attributes those that pass the test should be researched further in terms of their markets, supply chains and customers. This is straightforward 'market research' and may be sub-contracted if necessary. These ideas can also be evaluated for their fit within the core remit of the organisation. That is to say that SO activities are generating financial and non-financial returns through sales to customers and therefore this entrepreneurial approach will need space within the organisation, at the heart of it, and thus other activities will likely shift a little in their shape and scope if space is to be made for SO commitments.

The internal evaluation should involve all those within the team responsible for delivering the core remit as what is sought here is not only harmony with the current

programme but ideally these SO activities will have a positive feedback connection to the current programme – be that economic, social and cultural or audience development. It is not out of the bounds of possibility that the core remit may need to be adjusted in order to fully accommodate these new strands of activity.

Evaluating the potential activities in this manner enables economic benefits to be balanced against organisational benefits. It may be expected that the final selection of SO activities will choose between one and three activities with varying risk profiles, initial investment requirements and speed to market.

Once the options for SO activities have been identified, assessed and a selection made the same process of management applies here as it does in the rest of the organisation – defining success, setting objectives and milestones, defining strategy and tactics, establishing evaluation methods and allocating responsibility. It is, of course, worth noting that the success criteria will be more commercial than those for FO activities and both setting and achieving this success will require additional skills to be developed within the organisation.

Establishing SO activities will require a financial commitment, although such investment is unlikely to be available from within the revenue funding of a non-profit organisation. Few such organisations are able to build up sufficient cash surplus (due to the nature of funding from public sources) and, even if an organisation could loan a cash surplus to such activities, this might place a burden of risk unacceptable for funders. However, SO activities open up different sources of funding and investment – proof of concept funds, Angel investment and, potentially, venture capital. It is not yet common for non-profit organisations to consider these investment routes, nor would many investors be familiar with the opportunities created through the wealth of experience in the non-profit Cultural Industries. However the trend present in Higher Education Institutions (HEIs) which encourages the commercialisation of academic findings has permeated into the Art Colleges and it is reasonable to suggest that the funding squeeze in the Cultural Sector will encourage both organisations and investors to consider commercial activities emanating from non-profit entities.

As this is unfamiliar territory for investors there is a need for organisations seeking investment to learn the language, success criteria and motivations of the investors they wish to encourage. Whilst there are some similarities with the language of fundraising and sponsorship, the commitment to a financial return and the ability to demonstrate the skills necessary to deliver commercial success are likely to be unfamiliar to non-profit organisations. The latter's success, both artistic and fiscal, is often measured through audience figures and avoidance of debt. The language of investment is a clear demonstration of investment, risk and return coupled with a customer focused approach to decision making.

It is reasonable to expect that there will be a skills gap in the organisation if entrepreneurial and customer focused activities are a departure from core abilities. The standard question of do we grow our own capability, do we employ a specialist or do we sub-contract it applies. Answers will depend on the timescales, risk profile and route to market.

Whilst the SO activities need to be delivering to the core remit of the organisation it may well be helpful to ring fence them – both to provide them with space in which to learn

and develop as well as to separate the operating assumptions on which SO activities are based from those that FO programme operates. If these operating assumptions are mixed up then decision making seems erratic and unpredictable to those whose role is clearly within the FO programme. The unease that this causes can undermine the role of SO activities within the wider organisation.



presentation of FO and SO theory in association with Proboscis, ELC & NESTA 2006

Second Order activities and returns – why is this a new paradigm?

Historically any SO activities and returns have occurred at the periphery of a cultural organisation rather than at the core – such as the café, shop, print multiples and publishing. Whilst the revenue from such a trading arm is often important in so far as it diversifies income, demonstrates demand and balances the books it is rare that these activities help to fulfil the organisation's vision. If this bit of the organisation was axed tomorrow what would be missed other than the revenue? Generating SO activities and returns at the core of the organisation is a very different paradigm and, unlike a delicious café, can't simply be sub-contracted out.

An intellectual understanding of the merits of SO activities is unlikely to be sufficient to sustain an organisation through the challenges of establishing and developing this area of work. SO activities need to become a positive and lived experience for the senior team. This may involve overcoming personal prejudices; the most common of which is that commerce is dirty or ugly and that it sullies the purity of cultural practice. Whilst forcing teams to take on *The Apprentice*-style challenges may be a bridge too far there is an argument in favour of enabling employees to taste the flavour of commercial success in a manner which gets beyond spreadsheets or profit and loss accounts and moves into a lived experience so that they have the chance to explore their own personal commercial style. The level of understanding that comes from such personal experiences greatly increases an individual's ability to empathise with the challenges and benefits of SO activities and improves their ability to see connections between FO and SO aims, objectives and tactics.

Benefits, opportunities and challenges

The major benefit of establishing and developing SO activities in parallel with FO programmes is that this provides an earned income stream which reduces dependence upon arts funding whilst maintaining the *raison d'être* for its support of FO programmes.

By participating in commercial activities such organisations also open up the potential

for investment finance from the private sector as well as from bodies such as Venture Capital Trusts (there are several who now operate specialist Creative Industries funds). Furthermore, there is a greater chance that innovations achieved by the organisation can be leveraged for ongoing returns. In the absence of knowledge transfer processes, innovations developed in the Cultural Industries are either not exploited or are taken up by related sectors without establishing a return on the intellectual property for the cultural organisation which created the innovation in the first place.



Business Processes for Creatives delivered in association with NCGE 2007

A significant challenge faced by cultural organisations wishing to establish SO activities are the common misconceptions about the values and processes of the commercial world and the entrepreneurs within it. In practice the differences are more likely to be around types of risk, leadership style and working methods rather than objectives. The case of Snug & Outdoor demonstrates a meeting of minds between culture and commerce is entirely achievable.

A few examples of second order activities being undertaken in the Cultural Industries

To understand what is meant by second order, here are a few examples:

- British Library – the Intellectual Property Centre has positioned itself to provide information, research tools and support to SMEs. Whilst the capability to assist in these areas is not new the packaging and promoting of this service is new and is a great example of how the same resources can be re-positioned to meet the needs of a particular customer base.
- Experimental Playground Kit – although Snug & Outdoor had devised and implemented play spaces for over ten years it took the re-packaging of the capability into a kit format that could be purchased for £10,000 (rather than commissioned as a one off for £100,000) for this intellectual property to be translated into a significant income stream for artists Hattie and Tim. As a licensing deal has been agreed with a manufacturer and distributor Hattie and Tim will see a royalty revenue stream which is not dependent on committing their own time to selling the kits.
- SCAN - this digital media focused arts organisation is exploring an agency model. As a by-product of artists' projects a series of commercialisable products & services have emerged. SCAN is developing these in conjunction with the artists, Higher Education institutions and commercial entities with the help of research and proof

of concept funds. This distinctive approach enables SCAN to identify the rare opportunities in individual artist careers when a commercialisable outcome might both grow the audience for their work and enable the artists to benefit from a royalty stream or research strand.

The work of Misson, Models, Money and in particular the exemplar organizations present further examples of work in this field and should be read in parallel with this paper. It can be seen that the intellectual property at the core of these organisations continues to be owned by them and utilised in their primary, funded activities. However the SO activities give increased reach as well as an income stream and therefore also act to promote the organisation as a whole.

Conclusions

The funding climate in the UK may be expected to continue to exert pressure on non-profit Cultural Industries organisations to diversify their funding profile and complement this with earned income streams. The traditional routes to achieving the latter (such as the café, shop and short courses) are limited in their ability to fill the funding gap not least because they are still dependent on human capital assets (and are therefore essentially non-scalable), but also because the customer base for such offerings is limited to those customers visiting the physical site. The leveraging of core intellectual capital into entrepreneurial activities breaks the connections to both the human capital, physical assets and geographic limitations. This immediately increases supply side capability and widens the net of potential customers on the demand side of the equation.

There is a difference between an individual with entrepreneurial flair and enthusiasm behaving opportunistically in an organisation's peripheral vision and a commitment to leverage core intellectual assets into second order activities. The investment from the organisation in the latter case will be strategic, financial and understood by senior management. Furthermore connections between staff involved in SO activities and those generating the intellectual capital through FO activities can be expected to be more visible in the organisational. No longer will such SO activities be undertaken only by mavericks who keep their work below the funder's or board's radar.

The operating paradigm appropriate to such SO activities is likely to be very different to that undertaken in an organisation's FO funded activities. Differences such as the absolute need for and, primacy of, customer focus cascades right back through the production, development and research of products and services. This can be seen in the difference between achieving 'sufficiency' in terms of quality of a product i.e. sufficient to fulfil the customers' needs vs. the striving for 'best' within the context of the funded remit of the organisation.

Differences such as this require an organisation not only to understand the principles upon which successful entrepreneurial activities are built but, also to compare them to and, where appropriate, ring fence them from the principles upon which the organisation has been built to date. It may be expected that such principles permeate not only the cultural activities themselves but also the organisation's structure, hiring practices, objective setting and definitions of success. To succeed in establishing SO activities it will be necessary for all staff to see clear separation between these sets of principles and indeed to value these differences. This separation is important not only in the workings of the organisation but also in the relationships with other entities. Whilst partnerships

and collaboration are the name of the game in the funded arena, the establishment and maintaining of client base whose needs are fulfilled through the provision of products and services is the essence of commercial activities. The differences in the focus of attention, language, expectations and working styles are significant.

An institution often seeks to place its activities within the establishment and in doing so to extend and refine the definition of the canon. The permanence that this implies and the support which it requires define a particular set of values and organisational drivers. This model is generally ill-suited to the flexibility and agility found both in non-profit organisations with a commitment to contemporaneity⁷ and in the entrepreneurial (rather than corporate) organisations in the cultural and creative industries. Indeed such organisations have more in common with each other than they do with cultural institutions or the corporate model⁸. The importance of understanding these differences is that a process of institutionalisation is implicit in many arts funding objectives. Therefore, if an organisation is to resist this, it needs to articulate a sound alternative which is capable of continuing to demonstrate the relevance and benefit of the funded activities and continue to make the case for continued grant-based support. Nonetheless the drive for 'organisational efficiencies' may be expected to exert pressure upon the funding of core overheads. SO activities could be seen as a way of reducing pressure in this area without compromising the fundability of the organisation or its activities.

The many implementational challenges such as skills gaps, lack of market knowledge and product development processes are not to be underestimated. However the ability to engender a complete commitment to customer focus in the development and delivery of SO activities is really the key marker of an organisation committed to achieving SO returns.

In conclusion it is the mind set and the mechanisms for reflecting this in the business model which most clearly separate FO non-profit activities from SO entrepreneurial ones. The understanding of the benefits and limitations of each activity type is, of course, key in appreciating each for what it offers and in developing an organisation capable of running both – not simply in parallel but in synergy and in a symbiotic relationship.

Notes

- 1 Viewing Platform is a workshop game designed to enable creative businesses to create a visual map of the supply chain or career structure in which they operate. This participative experiential tool is very successful as it forces entrepreneurs to externalise their anecdotal, implicit and intuitive decision making structures.
- 2 Myer, R. *Report of the Contemporary Visual Arts & Craft Inquiry*. DCITA, Canberra, 2002. Arts Council England. *Guidance notes for Grants for the Arts*. ACE London 2005.
- 3 Ryan, W. P. *Nonprofit Capital: a review of problems & strategies*. Rockefeller Foundation New York 2001. DiMaggio, P. *Nonprofit Enterprise in the Arts - Studies in Mission and Constraint*. OUP Oxford 1986.
- 4 Market Day is a one day marketing workshop for creative entrepreneurs. Whilst the content is very similar to that of other marketing workshops the innovation is in creating 3D visual mnemonics for each of the key learnings. Participants have found this approach to be far more engaging, approachable and memorable than standard training approaches.
- 5 Bruggmann, J. and C. K. Prahalad. "New Social Compact." *Harvard Business Review* 85.2 (2007): 80-90.
- 6 Trade Off is a workshop toolkit run with companies who are approaching their first licensing deal. Trade Off enables participants to review the investment of both parties alongside the timeline for a return on this investment. Through this process participants are able to evaluate their work in the context of the route to market.
- 7 Smith, T. "What is Contemporary Art?: contemporary art, contemporaneity and art to come." *Critical Issues Series*. Artspace Sydney 2004.
- 8 *The Corporation*. dirs Mark Achbar, Jennifer Abbott, Joel Baker, DVD 144 mins 2005.

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CULTURAL SNAPSHOTS

A series of essays, polemics and manifestoes designed to provoke comment and debate on the contexts in which Proboscis works. Cultural Snapshots are commissioned and edited by Giles Lane.

<http://proboscis.org.uk/publications/snapshots.html>