Evolving Assumptions About Budgeting and Use of Capital

June 15, 2023

SPEAKER 1: So today, we're here to talk a little bit about budgeting through the lens of capitalization, or thinking about how can you budget moving forward in kind of this new world order that we're in. How do we think about it differently? So is that the session you all thought you were coming to? [LAUGH] Great. All right. So this is what we're gonna talk about. We're gonna talk about first capital. What is capital? What does capitalization mean? We'll do a brief conversation about that.

If you've come to any of my conversations before you know this is where I start almost everything. So we're gonna talk a little bit about what does capitalization do, how does it matter to you, and how do you think about it through your organizational lens. And how does it affect the way you would budget? Then we're gonna use a case study, because the best thing to explain this thing is to actually use an example. So this is real data that we're gonna show you that has been made into a case that is right, it's correct, it's actually in real time, but it's not any one organization. So I don't want you to say, I know who this is. Don't try. [LAUGH] Okay? So then we're gonna look at that. And then we're gonna talk about how you would do budgeting through multi year projections.

And then we're gonna use this case study to talk about it. Okay? So that's what we're gonna do. Great. So what is capitalization? Big, fancy word. This is what it really means. It's having the cash to do what you need to do when you need to do it, and it is as simple and as complicated as that. Do you have the cash? Is it yours? Can you use it? That's what we care about. And that's the lens that we use to think about how financially healthy you are and what can you do. Let's get real about what it is, though, on a concrete level. What kind of cash really matters? So we want to talk about these buckets all throughout our case today.

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So if you look in the middle, what we have is the core money you need to run your business. Sitting in the middle, in that light gray bucket, is working capital. People are confused about working capital. It's the cash you need to run the business, pay the bills. It's not a reserve. It's not a rainy day fund. It's actually the liquidity that you need to pay bills and salaries. So you need to understand how much money you need in working capital at any given time. Were you in this world that we sit in, often,

thinking about working capital is next year's subscription money. But we learned during COVID that that doesn't quite work. [LAUGHTER] So the focus on working capital is important.

Then the next thing we care about is the operating reserve. Do you have money for shocks? Change? Again, we learned that that's kind of important. Then, we need to take some risks. Everybody in this room I'm sure is thinking about programmatic risk, change, they want to change their marketing, they want to change their development, they want to think about programming through the lens of inclusion and diversity, they want to try new audience things. You need a little cash to try things. That's in the core for everybody. That gray bucket. So that's when we think about how much cash you need to have. These are the buckets, and we're gonna explore them.

And on the purple side, on the right side, the needed by some, some organizations, and maybe you're one of them, really needs to think about endowment, and the role of endowment. But endowment needs to be robust and helpful, and endowment really only works as a part of your financial model if the income off of it is at least 10% of your budget or more. Otherwise, you're just tying up money for no good reason. And so we'll explore that, too.

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If you have a building — very few people do, but if you do, you need some money on the side to make sure when the bathrooms break and the roof leaks, you can actually pay the bill, and that you're not holding your breath on the other side. So you need money set aside for that. Then, on the other side, some really exceptional circumstances. You need — you might need what we call consumable capital. Something to actually bail you out if you have negative equity on your balance sheet, if you've gone upside-down on your balance sheet. You need to get — before you look at any other kind of capital, you need to clean that up. You can't build the other capital with negative equity. And then, many of us in this room, and any part of the arts, are gonna need some change capital.

Because your organization is undergoing different changes that are actually meaningful. And you're running deficits to make those changes, and you need some money to help that out. So this is all the kind of capital we're talking about. It seems a little fussy. But all the things mean something. And they're really important for us to think about. So do people have this kind of capital? Well, before COVID, no. None of you really did. Most organizations had really highly constrained capital structures. I've literally looked, because I have nothing better to do with my life, at more than a thousand financial statements in our sector.

And wherever I go, this is what I had seen pre-COVID: highly constrained capital structures. Nobody was ready for COVID, or any other major shock, when it happened. Many balance sheets were

eroding pre-COVID from persistent deficits. And, oh, underneath, there was this smelly little thing that we didn't want to kind of face that the ratio of earned to contributed was shifting more towards contributed and less of earned.

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These were kind of things that were in the sector everywhere that led to very little working capital, hardly any operating reserves, definitely no risk capita.. Definitely none. And what we saw was some endowments were too small and not helpful, and very few people had money if the roof leaked. So that was how we thought coming into COVID, it was bad. And you know, that no major shock thing was real. But who knew, much to my shock, we got rescued. We got rescued.

I don't know if everybody remembers just as COVID started, everybody was like, what are we going to do? And we worked really hard, you know, the League worked really hard, lots of folks worked really hard and got in through the legislative door, and got real COVID relief money. So we got rescued. And boy, did we get rescued. We didn't get rescued a little bit, like just the the little PPP. We got a lotta different kinds of money, and made a lot of major donors, I don't know how many folks in this room, but gave real money. Real money. Because no one wanted people to die. And I remember sitting in foundation rooms pre COVID, where literally donors were saying how many organizations should we let die because we can't fund them all? But it changed. [LAUGH] We got rescued.

And it resulted in a very odd thing. Not only did we get rescued, but a lot of folks' balance sheets got a lot better. People got capital. They got cash, because we got a lotta money. Not only did we get a lotta money, but we — our expenses got reduced. Not in ways that we particularly liked, [LAUGH] but it happened. Right? And so we had this odd thing. We posted surpluses, and our balance sheets got better.

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But we have this feeling that '24 to '25 is not gonna play out as all that money starts to come out of the system. And that really, we don't know where we are. And that is because '24 is gonna start to tell the tale. So here's what this real result was. Many core capital buckets, whether you know it or not, [LAUGH] or you talk about it this way or not, or maybe you just talk about it as cash, you have buckets that have been filled, and so now, when we are starting to look at organizations, we actually see some working capital. And we actually see a little bit of an operating reserve. And occasionally, people sneak into the risk capital place.

They've actually been able to save some money and do that and work it through. And you know, the endowment still remains a mystery to lots of folks, and we can talk about that later. And the facility reserve is still, like, out there, people thinking what am I gonna do. But some people have actually saved enough money that they could tip into that change capital bucket. They have enough money, maybe, maybe, to think about how can we make some changes in what we want to do. It's an odd moment, where we are. But what's really important to understand about this moment is we got the cash from not normal sources. They are not repeatable. And they do not actually speak to the health of our organization.

The health of our organization was pre-COVID. Understanding where you are now from COVID dollars only? It's really important to understand, one time money. I always like to say, in a terrible moment, if the government actually knew what they did, they would take it back. [LAUGHTER] Arts funding. At the best, right? They would take it back. So, understanding that this is a moment where you actually have capital, and thinking about how to use it with the coming cliff that might be there for you is really important.

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So that means that when you think about what to do, that you need a strategy, You need a strategy that says, how would I think about using capital, and how much more capital might I really need? Because before this all happened, I needed money. And I was trying to plot and plan how to get it. And now, I might have a little bit. But what does that really mean? So thinking about a capitalization strategy about how you actually get this cash to work for you is really important.

But I can't tell you exact rules of the road about, this is the thing that you need to do precisely. But what I can tell you is this is how you can think about it. You need to understand what your strategy is based on your mission, the vision of where you want to go, what your drivers of business are, you know, what are the things that are actually driving your risk profile? This is where we're gonna dive in deep. And the market. You know, what market are you sitting in? I'm gonna tell you my huge — I'll just say it bluntly. I think benchmarking is nuts. [LAUGHTER] It's nuts. Understanding what's happening in Tulsa does not apply to Chicago. It doesn't work. All politics are indeed local. So when we sit there and go, well, Joe can do this, that's garbage. [LAUGH] It's the first thing I tell my young MBA students.

Stop it. Unless you can replicate the government relationships, the donor relationships, the audience size and shape, the economics, you can't use benchmarks. You have to understand your own market. Deeply. That's the place you need to live. And so if you walk away with anything from this, [LAUGH] I hope you think about that. When you're sizing where you are and what you're trying to do, it has to do with you and your community. And what that community can bear. Understand.

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So when you think about all those things, that's kind of how you think about how you get to the buckets, how much working capital do you need, how much risk capital do you need, how much reserves do you need. So we're gonna dive deeper for a second about what this really means. If we had to take all these ideas and put them together, we think about how you need to think through your state of play here, through two lenses. You have operational risk. And you have strategic risk.

This chart is trying to do two things. I used to have three charts and that was horrible. So this chart is saying, okay, in the black are things that pre COVID, we all had to care about. So operationally, we worried about our programs. You know, how risky were they? Is what we're programming gonna attract an audience? You know, how much does that audience care about what we're trying to do? Is it gonna create a subscription season we care about? It's just normal program risk. What do we think of it? Then we always had some external risk and what are audiences doing, and what are funders in our community playing against? You know, we all know funders change. And any kind of modest shift in the economy.

A little recession, a little growth. What is happening. And then human capital. What we know from logicianal studies is the moment a CEO leaves is actually the most capital intensive time as you get a new CEO. It's the most capital intensive time, because that change, they don't — until the new CEO gets all the relationships in place, understands all the donors, understands everything, you get a little stall in the money. And you consume some capital. So those were normal program risks. But right now, look at those red things. They've actually added to operating risk in kind of deep and real ways.

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So it's not just what is audience doing, but audience demand is really opaque. And we're gonna really dive into this for a moment. I mean, if anybody actually understands what audience are doing, please stand up and I'll give you the clicker. [LAUGHTER] Right? Because that's where we are. We are in a completely different moment here. So understanding how to forecast around that has gotten really hard. Gotten really hard. So then we have other shifts in the economy that we also need to understand.

We still have pandemic and public health rules happening. That's lessening all the time. But we have also cost and supply chain issues. Costs are really going up in ways that we didn't understand, and then we all are thinking about social and racial justice work. And what does that mean internally and

externally, and how are we embracing that, and what risk does that mean operationally? And then under human capital, it's a whole new world. It's a whole new world. Salary pressures are insane. They're insane. There's real difficulty in finding staff. Everywhere we go. And pay equity and transparency is a real thing. Understanding what people get paid and how equitable we are in those pay structures are real.

So all of a sudden, operational risk has gone from being hard to really complex to forecast. And these are all the things that you need to kind of think about and understand when you think about what is the size and need of my operating reserve? Not my working capital. That's just the cash to pay your bills. But how much money do you need to defend against all these issues. Defend. And then let's flip it. There's never been a better moment to understand strategic risk. We are in the — a huge change moment. It's actually kind of exciting. Like, what can we do to think about how the programs need to change? How do we incorporate the social and racial justice work?

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And equally important, are we having this moment that we need to respond to? Is there a meta issue with audiences that COVID has revealed? And do we need a bigger solution? Do we need a bigger sense of investment? Do we need more capital to actually address those ideas? And organizationally at the same level. Internally, as we organize correctly, how do we think about that? But again, great moment. Amazing moment. But how can we invest in ways that actually address those issues? So how much risk capital? How much capital do we need to make those changes that we care about? Does everybody get why these resonate? These issues? Okay, head nodding. That's good. Okay. So we're gonna talk about an organization that, again, all the data I'm about to show you is real data.

I'm just not gonna tell you who. [LAUGH] So this is called Anywhere Symphony. It's a mid sized orchestra. Pre pandemic, they had all this stuff all going on. They had some compensation issues with staff already, 'cause they just couldn't get some of the compensation right. They had earned revenue that was increasing through a combination of higher price and increased single ticket sales. Subscriptions were not. But the net, the net on their revenue was going down, because they had to spend more. And they kind of were just realizing that. Subscribers were definitely declining and marketing costs were increasing.

Expenses were outpacing the rate of earned revenue growth, creating dependency, more dependency, on contributed revenue. There was a core group of really dedicated donors, but they needed to be expanded. But the people really were giving generously. They alternated between modest surpluses and deficits over the last few years. They had an ongoing capital campaign that was fueling the budget. You know, they had used this idea of campaign to do it.

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And their cash was totally dependent on subscription sales. If they didn't — you know, that was what they used. And there was no real reserves, and risk was covered by donations. If something got funky, they went and raised some money for it. Okay. So during the pandemic, they did what you all did. They got every kind of federal money known to man. They used it. They got a couple of major donors who gave a huge amount of money. They got endowment growth from the market.

Oops, everything grew, and then everything went away. [LAUGHTER] But everything grew. And then, they had a decreased expense base, they had lots of ticket forgiveness. Lots of ticket forgiveness. It was great. They lost one season fully, and two seasons on either side were kind of diminished. They were less than they could have been. But they had a lot of cash. Lots of cash. And that meant their deferred revenue dependency lessened, because first of all, they hadn't sold all those subscriptions. They just got used to not using them. And they had all that cash. It was great. So, look closely. [LAUGH] Let's see if I can do this. Okay.

Here, you can see that ticket sales had gone — so they had gone from being more subscription based to more equally between the two. They had other kinds of revenues they were earning that were maybe one time, maybe they could complete. You could see their donations were good. Here's their campaign. Coming in from a comprehensive campaign.

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They had endowment, net draw. And then they had a lot of other kind of contributed. And you can see here, the performance cost, you know, when you compare to the revenue up here, they're increasing, so the nets are going down, right? And marketing is going up as they try to hold on. So, and then their costs down here have kind of remained the same, or gone up a little bit. So they lost money, they made money. They broke even. That meant that their change in liquid assets, pre COVID, they actually grew a little bit, their change in their net assets, they actually had a little cash, I'll show you that. So in the pandemic, you can see, all these things got wonky and squirrely, but they had huge amounts of PPP, et cetera, money. $1 million, $1.3 million, and then everything came in in the last year, SVOG, deploy our tax credits, major donor, they got — it was amazing. And they got, like, $8 million. So they posted a surplus during the pandemic every year, and then a big surplus. Post pandemic, in '23, they're trying to finish out a real season. It's done not too bad. But the balance has really gone to single tickets. They've lost the campaign. And they've lost the SVOG. So it's a little dicey. It's a little dicey. Does everybody get it?

AUDIENCE: Yeah.

SPEAKER 1: Yeah? [LAUGHTER] Okay. So this — [LAUGHTER] And you all think I'm gonna give you the answer a that end, don't you? Yeah, that's not gonna happen. So, here's what their balance sheet looked like. And again, you know, this total net asset line is where people's eye kind of first goes.

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But up here is where I'm kind of thinking I care about it. And their cash is not too bad. They went from in '17, having $500,000, a high of $3.8 million, then they still have about $2 million left in cash. And so here's how we really think about your balance sheet. I don't care about all that crap. [LAUGH] Here's what I care about. We take your net assets. We get rid of anything to do with property, plant and equipment, because you know you can't pay the bills with that. In fact, you just have to pay more money, because you have it. If you have any loans, we give you back credit for that, because that's the way we think about it.

So this group actually had liquid unrestricted net assets that were negative in '17. It got up to $2 million in '22, and at the end of '23, because remember, they lost the money in '23, it's at about $1 million. So we want to see about how that breaks out in cash. We wanted to make sure that the deferred revenue wasn't too much part of that cash. And you can see, actually, they have at a high, two months of operating cash. But once you take out the deferred revenue, it goes down to about a month. But it's much less dependent on deferred revenue. Make sense? Yeah? Okay. So then, we started to say, well, yeah, let's think about the buckets I told you about, right?

Well, they had no bucket before. [LAUGH] They were living off deferred revenue. Then they had, oh, they took their $2 million and they had real working capital. Okay, here's another one thing you have to walk away with. The way you think about working capital is you take your operating budget, divide by 12, one month, one month of expenses. There's nobody in the world who doesn't need a month of cash. This is not an operating reserve. This is not an operating reserve.

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This is the money you need to run this silly business, right? You've got to have it. So that's the first $1 million. Doesn't count. It's not reserved. It's not, what is it, a floor wax and a dessert topping? You can't have both. It's one or the other. [LAUGHTER] And it's got to be working capital first. Okay. So they had some. Yay. And they had some extra money, because they were following change capital. They didn't think about it as a reserve. They thought, no, no, no, I think we need to fix our business

model, so we want to use that money, and we'll probably use it next year. And you can see that the deficit actually ate up all that change capital. And diminished their working capital. So that what they are leaving with is working capital. But they still want to think, how do we actually deploy this? And what are we doing here?

So coming out of the pandemic, right now, right this second, this organization is thinking about this. Inflation is driving costs in ways they couldn't imagine. They just didn't think inflation would kick their backsides this way. It's really harder than they thought. This idea of 2%, 1% that we all did all the rest of our lives, not happening. The audience return feels opaque. There's lots of good news, and especially at the very end of this season, ticket sales were much better, people seemed to be in the audience, there were some new to file ticket buyers that people felt good about. It got a little bit better. There was more single ticket sales. A lot more. The new subscribers, while there were not as many as they wanted, it was at a higher rate than they'd seen in a long time. And there was some evidence of younger, more diverse audiences. They were like, hmm, looks a little different out there. But it still felt really opaque. They couldn't not get a handle on it. They wanted to understand why.

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Programming against equity goals had had an unknown results. Again, they thought that they saw more younger and diverse audiences, but they really wanted to think about how that was working. The endowment, you know, the lord giveth, the lord taketh away. [LAUGH] The endowment has seen some significant losses and they've had to remodel. And replacing the government funds just feels very difficult. But donors are standing strong. All their donors as they're coming up, they're standing right there, and they're being incredibly generous, and they're about to restart the capital campaign, because what is the world without a capital campaign? [LAUGHTER] So they're going back to that idea. And they feel really good. They've got some initial gifts. So they think they can get somewhere, but they really want the campaign to add to them. But here's their question. How much do they need? For how long? What?

What should it be for? Those buckets? How does it work? What do we want? How much do we need? And as somebody said to me, we want enough money to convince people that we're on a bridge to somewhere, not walking off a pier to nowhere. [LAUGHTER] And that's what we really want to be able to talk about. Make sense? Okay. So here's two things we asked them to do, and we did together. First, we looked at their audience in a slightly different way. 'Cause this idea of opaque audiences feels like the biggest operational risk, risk management, and the biggest strategic risk, risk taking. Opportunity, defensiveness. You need both of them, right? So, okay. Let's talk about this slide for a minute. We looked at the audience through the lens of what we call a cohort. So if you came in whatever year you came in, it's just like the college you went to, or you're that class. You stick in that class. No matter what you do, you're that class. So if you came before 2012, you're in the 2012 class.

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And then every other year, you get assigned to the class. So here's the big takeaway that we all know, but this shows it. We are dominated by older — it doesn't mean age. But it could. [LAUGH] We are dominated by older subscribers. And the sum total of new subscribers actually doesn't even get to half. So what we are really seeing is the behavior of long term people running the subscription piece. Here is something we have never seen before. As you can see, every year, we keep adding the class.

We have a missing class. We have a missing class. That means when we roll the data forward, all the acquisitions that happened in that year, didn't happen. So all of a sudden — one of the things that's really weird right now is that base is different. Then, the blue got weirdly lower. And we were like, what does that mean? So we wanted to also look at single ticket behavior. Same idea. Right? Same idea. But you can see here the blue, while it's still a part of the equation, every year, the prior year gets smaller.

Here is something that I want to tell you that is really important in this data. We retain audiences from single tickets at about 10% a season. That first season. The next year, it's about 10%. And I've looked at these charts for over 100 organizations. About 10%. Maybe a high of 12%. Good. But the year after, what this shows you, is, they stick. We don't think about that. We think, well, it's that 10%, they never come back. But you can see, there are blue people all throughout.

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There are green people all throughout. Once they get through that initial barrier, it's a huge drop, they stick like glue. And we don't think of them as loyal. And they're just as loyal if not more than some subscribers. We just don't even think about that. And remember, single thinks are — the balance — we're going single tickets, folks. The revenue is changing. So I think we've gotta think about that. But again, we're missing class. And we've just never seen that before. And we don't know quite what it means. So we also needed to get underneath what those cohorts were telling us. So existing older cohorts have the highest one-year retention rates. So all those blue people? They stick like glue, too.

They have the highest retention rate year on year. And they were over 85%, pre-COVID. That's a lot. Over 75% in most years, but the loss of retention is, after COVID, is real. That blue part is only getting retained at about 60, 65%. So we went from a high of 85 where all those blue folks were — hmm. So, that's a problem. Here's the other problem. The median spend for that older blue cohort is twice what the new cohort spends. So it takes two new households to replace one old household. So this is why

this all feels opaque to you. Because there's all these dynamic underneath that are in play that we have to really think about. So we also said single ticket buyers is the whole idea that we just said. The return is 10 to 12%.

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But future retention is about 70%. Kind of through all the classes. So what does that mean? There's something there that's really good news but we don't know what it means. And their median spend has increased. Hmm. Again, what does that mean? So I just want to show you in real ways what this means. This is actually the chart, the kind of chart we use. To see this, the blue is the top line. See how they were getting retained year in and year out? And then look how they dropped. Right?

And then you see at the bottom, the numbers are just so much smaller, right? So this — and this is the chart that actually makes me the most queasy. See the spend for that blue folks? And see the spend for new folks? So this is really both opportunity, the whole single ticket thing is real, that we don't actually play on. But the subscriber change is actually something we have to defend against. So, strategic risk to invest in the growth that we can possibly see, defends against that eroding top.

Understanding what that is happening and what are we gonna do to fix it. And until we fix it, what do we need for capital. Make sense? Yeah, okay. All right. And this is just — I'm just showing you proof of the single ticket numbers. Okay. All right. You should be encouraged. And a little cautious. The next one, you're just gonna be mad at me. [LAUGHTER] So let's just go.

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So, they asked a question we really needed to dig into, because we've all been kind of blasé about this, but we can't be anymore, is the effect of inflation. And so one of the things we asked people to do who are in any situation is we ask them to roll your expenses forward based on reasonable inflationary growth. It's an exercise. This is what multi year projections are. This is where we're going. Why do multi year projections matter around capital? So we ask them anywhere to think about just let's roll forward for three years with inflation. Before we think about program ads, before we think about changes. Let's just understand what do we need on the revenue side to just combat inflation? So we roll it forward based on inflation, right, that we all agree on. It's subjective. But it can't be 1%. [LAUGHTER]

But you have to think what would be reasonable, and then roll it all forward. And for some things, like if you have a union contract, you know. You might know. So you can roll it forward on that part, right?

But other things, you'd have to roll forward. Now, here's the trick. This is where you're gonna get mad at me. What we see from everybody is that usually if we ask people to do multi year projections, and Anywhere did this very thing, and I gave it back to them, where they said, okay, well, it works out fine, because we roll the income at 3%. I'm sorry, that's not how this works. [LAUGHTER] There is no donor who gives you $103 because inflation is up.

They give you $100. You have to ask them for a new gift, and it's not an inflationary gift. No one gives you at the rate of inflation. And if anybody here can tell me they inflate ticket prices every year. And volume. So you can get a 3% return. Again, I'm gonna give you the clicker. Because that's not how it works. Nobody does that.

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The only thing that keeps up with inflation is if you're investing your endowment correctly. Because it's invested to keep up with inflation. Everything else, if you are not thinking about price and volume, and the contributed and non contributed side, it just rolls forward the way it is. It just rolls forward. You have to do something affirmative to make that change.

So we say we'll give you maybe 1% growth in this model, to understand what it looks like, because what we want to understand is just to stay even, just to stay even, what's it gonna cost you? Make sense? Okay. I know you hate me in this moment. So this is what Anywhere did. And they hated me at this moment. [LAUGH] Because what it shows you is that we're gonna run deficits that started at about $1.6 million, and by the outer year, they were $2.4 million off. And that means they would have been in the hole, if somehow miraculously they could just run this, $5 million at the end. Because they would eat up all the money that they had just on inflation. Not doing anything about the audience we just talked about. This is why we run deficits.

But this is the — and before, we could kind of squeak by, because maybe inflation in your area was 1.5%. But it's all pervasive now. And salary costs are not coming back down, and benefit costs are not coming back down. You know, they fly up, they don't fly down. They kind of stay where they are. So that was interesting to us, right? So now, there we are. What are we gonna do? [LAUGH] So we thought a lot about, again, the importance of the multi year financials. What are we gonna think about?

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So we asked about this through the lens of financial planning, through long term goals and strategy. Remember that first slide I showed you? It's all about the mission, it's about the marketplace, it's about the risk, it's about the program. If it sounds like strategic planning, it probably is. It's about sitting all those things in context, right? It's understanding organizational change, any kind of reserves you need to think about what you want to address. If you have capital expenditures, it's understanding how much you need for that. In this case, Anywhere had just invested in the building, so they — do not think about that right now, which we could argue about whether they should or they shouldn't.

But long term, you have to think about that. So you also need to think about the uncertainty in both earned and contributed, and whatever kind of inflation. So that's the multi year projection idea that you just saw starting to play out with the roll forward, right? Think about all these things. But with the baseline roll forward, you're just thinking about inflation. When you do this, you have to align it, as I said, with your strategic plan or programming goals or organizational goals. You need annual operating projections tied to that. The time frame needs to be about how you think about the strategy. So you need to have a minimum of three years roll forward. You can't tell what's really happening in your organization if you can't roll forward about three years.

And it's not a budget that you're, like, locking and loading. It's not something that you're gonna use as, you know, the bible. But it's a predictive model that says, how are we gonna set strategy? Because strategy never gets implemented in one year increments. That's not how it happens. It's a multi year thing. You can't say, it's a false delineator, to say, my strategy ends on June 30, and I get magically a new strategy on July 1. That's not how it works.

[00:40:01]

You've got to be consistent and constant. And the level of detail needs to be the key areas where you're tracking change. And you need some ownership of this project. Somebody, a CFO or equivalent. The full board, not just the finance committee, should understand the long term trajectory. We often lock these conversations in a finance committee and then we wonder why the board doesn't give. It's 'cause no one understands. It's all opaque. And we think we're saving them from worry.

But this is a shared fiduciary responsibility. We collectively own this. So we need to make sure the board understands where you're going. And the staff, the non-financial staff, should have a working knowledge of the long term trajectory, because they should understand what they're trying to work for. Again, if you just do it in one year increments, and you give people goals for that one year, you know, does that end on June 30? Or are they trying to do audience development over a three or four

year period? Are they trying to do programmatic change over a multi-year period? So people should understand why they're doing the things they're doing, and understand the impacts they have. And as I said, this is not a locked and loaded budget. It's a set of guidelines.

Here are some extras, and you're gonna hate me. [LAUGH] Used to be. Used to be when we did long term multi year projections for capital, which we've done for a long time, we used historical benchmarking, because we said, let's start with what you have been able to accomplish and let's see how we can change it. 19 is a foreign country, we can't go back. We can't go back. So it's helpful to look at it as, like, guidelines. It's helpful to understand, this is what we used to spend. But it's not predictive of the future. So this idea that we can lock and load from '19 and roll forward, which I know there's a lot of pressure at the board level to do that.

[00:42:05]

I have had a lot of board people say to me, I just need to get back to '19. We can do that, right? Foreign country. No longer available. No entry. You gotta really think about what is happening now. And '22 is a better way to start than '19. '23, better way to understand. '22 and '23 are better ways to understand what you're rolling from. Okay. So we just talked about this so that everybody needs a baseline trajectory. And then, you need the strategic choices, which, remember, with anywhere, we didn't even do.

We just said inflation. So here, you really need to think about are you doing new programs? Is there something that you need to change in your programming? How are you thinking about that? But you need to think about how that would roll out over the next few years. Are there compensation issues above inflation? I don't know if any development directors are in the room, but anybody tried to hire development people recently? [LAUGHTER] Anybody having a problem? [LAUGHTER] Yeah. Not going away. [LAUGH] We're going to have to — you know, eventually we're going to crumble and give them money.

Once we give them money, then everybody else's salary has to go up. You've got to think about, it's not gonna be 3%. So how are you thinking about that? So you really then have to think about anything that's an increased cost above inflation, and other areas, too. Programming, marketing and general infrastructure. What else costs? So this is where you need to get to the delete part. Strategic — strategy is not about growth without dilution. A strategy says what you are not gonna do anymore. And you've got to figure that out.

[00:44:04]

And you've got to say, are there things that we just do because we do them, but when we look at them, we can't figure out what they're contributing? Could we get rid of them? Or are there things that when we have to make choices, they're nice to have? They're nice to have. But when we get to the core of what we need to do, and what we might need to add, we might need to delete in order to get those things? And making ourselves make those choices is really important. I always laugh.

I leave this in because people think I should, but you know, you could think about reduction of overhead, but there's not one of you in the room that has too much overhead, I'm sure of it. [LAUGHTER] I'm positive. But maybe. I don't know. [LAUGH] Funders like to see that part of the slide. [LAUGHTER] Okay. So then you need to think about your capital expenses. Does anybody in the room here have buildings? Oh, good. Oh, then I'll talk about it. All right. So if you're breaking even after depreciation capital expenses are really the thing you need to understand. I don't care about depreciation. I know we all care, but I don't care. What I care about is how much you're spending for capital expenses, and how much you think you're gonna spend. Depreciation is a number that is accounting.

And as an accountant, I can tell you, who cares? I don't care. I care about capital expenses. Like, what are you actually having to spend? If you have a plan for what you need to spend in deferred maintenance, you can program that in. If you have a history of what you think it takes to run the building, you can program that in. But you gotta put something in. You gotta put something in. And if you have principle, payments on debt. Anybody have that? Oh, I love you all. Then you don't have — you have to put the principle payments in. So then you need to say am I gonna get the money from — remember I said who has a facility fund? Well, some people, a few people, do.

[00:46:06]

You might be able to draw it down. And size your fund to that. And if you're in a capital campaign, boy, is that the moment to go figure out how you could get a cap x fund. Because actually, it turns out, you can raise that money. I've worked with tons of clients who are successful in that. So thinking about how to fund that, incredibly important, and it's part of your multi year pro forma. So, all that stuff is in play, right? You've got your inflation. You've looked at your audience risk. You've been thinking about your programming.

Then, you need to figure out, what does that mean for the capital, multi year capital, that you need? Because remember, you're sitting on capital. Some people think, oh, I'm sitting on capital. It's great. Let's grow. You need to deploy the capital from where you're starting and make a decision. So you need to use these projections, these multi year projections, to say, how much money might you need

for operating deficits? Because I'm going to bet you that you're gonna have some. Just to change the organization. How much is it gonna cost to actually figure out the working capital and reserves that you really need?

So you need these three buckets, change your risk capital, working capital, and operating reserves, and the multi year pro forma should help you size all those things. Remember, when we get to Anywhere, Anywhere is about to start the new campaign, and have donors that have done amazing things. So having the donor understand what the new campaign needs to be for, really important. Incredibly important.

[00:47:58]

So. Here's the deal. [LAUGH] When we looked at Anywhere, and we just looked at their baseline needs to keep going — remember inflation. What we saw — see, remember? This is the problem. Here's what they — if it plays out this way, this is what happens. So what does that mean they need? Well, remember. They need a month of working capital.

They need about $6 million of bridge capital, change capital, just to maintain where they are. And they need to put some money aside, because this is all, who the heck knows. They need at least some money sitting aside in an operating reserve. And it's got to be not the working capital. I know you're bored with me saying it, not the working capital. It's got to be two different ideas that you're thinking about. Got to pay the bills, and have some money set aside. And if you end up using the operating reserve as working capital, and you deplete the operating reserve, you've called it the same thing, you have no money to pay the bills.

And if you've stopped using subscription income, or it's gone down, as deferred revenue, which we all know is dicey, it's more and more important to understand working capital. Okay. So this is what they need over a three year period to kind of stabilize the organization, and maybe within their current operation, do something. So now — okay, everybody get it? Cool. So here's where we leave them. Here's what everybody's working on now. And this is what we would ask you to think about once you do this kind of work. What will it take to get into balance?

[00:50:00]

You could raise $9 million. But at this moment, that $9 million is just keeping you floating, right? But what would it take to change that? So, what, if you actually sat back and had a multi-year strategy for volume and price in earned revenue, you actually had targets that were not — I'm going to have 3%

more next year, but you actually said, I'm going to try to retain that to older cohort at a slightly higher rate, here's my strategy, and I think I can get x out of it. I'd like to have new subscribers spend at a slightly different rate.

So I'm putting up pricing this way or that way. I know we all want to go discount. I don't know. I — it's an earned revenue spiral down. You've got to really think about the value of your tickets. And then you have to say, okay, that single ticket side has a real strategy, volume and price, volume and price. There's evidence that that body will pay more for this group, and that they'll be sticky. What does that mean? Can we sell them more? Can we do more with them?

They have all the consumer behavior that is positive after the first year. One little aside. We've done this data for lots and lots of different people, and through a big project with a big foundation, we looked at 27 organizations marketing data through this lens of performing arts. A big chunk were orchestras. Here's one of the things that we tested about new audience return. We have this idea that when we do diverse programming, that people don't come back. We did a program for x or y, and they came, but then they didn't come back.

[00:52:00]

That's a fallacy. Here's the truth. No one comes back. We just showed you that. [LAUGHTER] It has nothing to do with color, economics. It's got nothing to do with it. People of color come back at the exact same rate as white folks. I'm just gonna be as blunt as blunt can be. People of lower economic status come back at the exact same rate as rich folks. Got nothing, nothing to do with it. It's that behavior, something is new, is just likely they try it. And they don't come back. They haven't gotten into the habit. But there is a whole group of people that is diverse in age, gender, color, economics, that come back. So we've got to stop this idea that we're somehow programming, and people are not responding. That is not true. So I just — that's my rant for the afternoon. But it's really important to understand that. Because you've got to get boards over that, too. That's just not true. So, all right. So here are their choices.

[OFF-TOPIC CONVERSATION]

SPEAKER 1: Okay, here's my other rant. [LAUGHTER] So right now, we're in a world where you need consumable capital. When you get endowment dollars, it's five cents on the dollar. It's five cents on the dollar. It's a long ball strategy. I'm all for it. Again, as long as it's big enough to make a difference. However, this is gonna keep you alive.

[00:53:58]

So I'm not saying you would say no, because who says no? And if an older donor really is committed to giving you an endowment and you're not gonna change their mind, you should of course graciously take it.

[OFF-TOPIC CONVERSATION]

And so it's important. But it's not the priority. It's just not the priority. And right now, I would tell you, unless you've got the buckets of cash to get you through a changing environment, long term endowment isn't gonna mean a darn thing. What are you gonna do with it? You really need to get a piece. Yeah?

[OFF-TOPIC CONVERSATION]

SPEAKER 1: Yeah, no. So the losing money happens in the change capital. The working capital is the money you need to have just to grease the system, about a month's worth of expenses. Those deficits that you're seeing need to be covered by that $6 million and change. Does that make sense?

SPEAKER 2: Yeah. It just seems like the target would be more than one month.

SPEAKER 1: So you can decide you need more than one month. Here's when you would need more than one month of working capital. If you have a lot of prepaid expenses, like you have to pay a lot for next season, and you have to say you're not just running against a current budget, but boy, shoot, when I add it all up — and I have no idea — I have to prepay my artists, I have to prepay something else, and it adds up to another million dollars above any given pre-spending a million, then I would increase your working capital. I totally would increase it. And that's actually how we think about working capital.

[00:56:02]

But it's hard to understand how you need less than a month, right? It's really hard to understand. And again, working capital is not the reserves, and it's not the consumable capital as you're trying to change your business model. Different buckets. Everybody got that?

[OFF-TOPIC CONVERSATION]

SPEAKER 1: Okay, people get this? Okay. So this is where we want you to then think. Once you understand this baseline, and you understand what the risks are, especially around audience, programming and inflation, you need to understand what it's gonna take to come into balance. I said roll the price, what is the next you can get, how is the annual fund actually growing? You can predict that too, right? You can look at donors at the different levels and say to yourself, how many will I lose, how much will I get, and what is my strategy for moving people up the ladder? And again, there's development directors in the room. Here at Anywhere Symphony, they've done an amazing job of that. Amazing job, I will say. Truly amazing. And the plant, right now, I'm in the process of rolling forward for them, because I can actually predict that they have such a strategy bilevel. So, great, right? And then what programming investments need to be made? What would you take away? What can be stopped? What can be stopped? I really want you to think about what can be stopped, because it's the only way to have a bridge, not a pier. It's the only way we're gonna get to the bridge. And then here's something else that I didn't mention as much as I should have, this idea of what are the investments in marketing and development. Because generating cash takes cash.

[00:58:06]

And what is the first thing that we always do when we're in a squeeze, and what did Anywhere do? They cut their marketing budget. What? Did we just look at the audience problem? They cut their marketing budget. In order to keep their programming level the same. That is, I get it. I get the emotional part of it. But how the heck is not — this is a spiral going down. Same thing with development. If you want development to return something better, you'd better have the talent to make that happen. So you have to understand, do you have the right talent? Do you need more? How does that work? So we really need to understand both those parts. And then, recalculate your investments and see what you need. Do it again. And do it again. And do it again. And then every year, roll forward. This is not a one-time idea. This idea of budgeting through the capital lens is a roll forward idea. So next year, rather than just finishing the budget for a year, you roll forward and add a year. Constantly understand how this changes. So, there endeth the lesson. [LAUGHTER] Questions? Things that you might want to ask? Yes?

SPEAKER 3: I know it's probably a little rhetorical, but you made a comment about the endowment not being worth doing unless it's representing 10% of your annual revenue or budget.

SPEAKER 1: Yeah. I mean, it might take you a few years to get there. I get that.

SPEAKER 3: Okay, so that's my question, is if you're growing your endowment because, you know, you have a long, long view there?

[01:00:00]

SPEAKER 1: Yeah. So the idea about the 10% is like, you should say, as part of my capital structure, for an endowment to be worth it, we have to be able to raise a corpus that gets to that 10%. Some people, very few, but some people I've seen do this neat trick. It's a trick. Where they raise maybe close to it, and then, like, a little red hen, they sit on it and let it grow, and they don't take a distribution for a while. It's really hard. Because already you're only getting 5% on the money. So that is a strategy. Scary, because people get impatient about that money. But the growth should get you to at least 10%. Otherwise, these — the honest to God truth, if it's doing, 3, 4 or 5%, you could fix that in a budgeting issue. It's hard to fix 10%. I would say in a bigger organization, I can take $1 million out of anything. I don't know if you want me to, but I can do it, right? But this is — that's why we say 10%, because when we've done all the testing, looking at organizations over a 10, 15 year period, and literally, I've looked at almost 2000 organizations. Oh, my God. My life. That's just true. That's just true. Helpful? Yeah? Good. Other questions?

SPEAKER 4: Hello.

SPEAKER 1: Hi.

SPEAKER 4: I would just want to see you add some comments perhaps about the importance of orchestras investing seriously in a planned giving program. I will tell you, at the Chicago Symphony, the endowment has grown enormously, not from an endowment drive.

[01:01:58]

SPEAKER 1: Right.

SPEAKER 4: But from planned gifts. And the problem for most orchestras is, it won't solve tomorrow's problem.

SPEAKER 1: That's right. That's right.

SPEAKER 4: But just think of how good you would feel if your predecessors 20 years ago had done it. And I think it's still undervalued in most orchestras.

SPEAKER 1: I agree with you. And so, I think there are two things about planned giving, let me tell you, that I agree with you on the positive side. It's a gift or a bequest, I think about bequests this way. When we take bequests and put them into the annual operating budget, shame on us. Shame on us. Because that's one time money. The donor meant it in probably a way for longevity. That was their gift of longevity. And so no matter what it says on the document, you should stick it away. I am 150% there. Because it also gives you a false positive in the years that you have a result. And I also think planned giving is an amazing way to make sure that a donor who has loved you for a long time again has done a legacy gift that keeps the engine going in ways that are amazing. And so not to do a planned gift or estate gift with somebody who's been a loving and wonderful donor, to me, is nuts. So I think that's incredibly important. Here's where it gets a tiny bit dicey. Sometimes, when we're in a capital campaign for current dollars, we count the planned gifts as part of those current dollars. Because we have this odd conversation going on between development and finance, it's a really odd conversation about what counts, we just have to be realistic about if we're raising current money, you can't count planned giving in that money. You need to do planned giving for a wholly other reason which you've just articulated perfectly.

[01:03:59]

So that's just the piece I would tell people, but, okay. Other questions? Yes, sir?

SPEAKER 5: Thank you very much for this. I'm not convinced that the change capital is actually change capital for this organization. It looks more like survival capital, because there isn't an improved bottom line. So underneath this or alongside of this, does the organization have a five or six year projection that actually shows the positive impact that that change capital which I assume has been raised through philanthropy, is actually going to change the structural deficit or the bottom line results?

SPEAKER 1: Yeah. So this is — let me go back to this slide. This is why we're saying this organization, we did the baseline for them. We showed the problem. Now, they have to do this. They have to do the work around strategic choices. The adds and subtracts. What are they actually gonna do? Because clearly, this isn't gonna work. So this is why we care about multi year projections. Because if you just project based on current, 90% of you in the room is gonna get something that looks like Anywhere Symphony. So you've gotta do this. You've gotta do the multi year projections that look at the strategic choices of add and subtract.

SPEAKER 6: But those aren't reflected yet?

SPEAKER 1: No. This is the work. This is the work. Because what we're saying, that's where we left Anywhere, is we said okay — well, actually, right now, we're working with them, but what we're trying to say is, okay, what will it take to get into balance? What will it take? What is the role, again, of volume and price over a multi year strategy? What is the ultimate investments we need to make in marketing and development? What is the net? How can the annual fund grow in the same way in a very detailed analysis? And then what programming investments need to be made, right?

[01:06:08]

Right? If you're marketing well, and the audience isn't responding, they gotta go back to programming. Gotta go back to programming. It all lives in the programming. So you gotta think about programming. This is not an intellectual exercise just about marketing dollars, although, spend more. Spend more well. But you've got to make sure the programming aligns with the audiences you're trying to get a hold of. You’ve got to really understand more and more about that. So, yes. This is what they're doing right now. They're trying to make the choices so that, again, this money looks — right, what you were saying. This right now looks like a pier, not a bridge. This work needs to get them to a bridge. And it might not take three years. It might take four. You've gotta kind of understand where they are. Is that clear to everybody?

SPEAKER 7: Hi, Susan. Simon, here. Good morning. Thank you for this. I'm taking the liberty of asking a question because Susan's because working with us at the League. And one of the things we're struggling with, I think, is if you look at what you — I mean, if you just look at this orchestra, you describe what they need, and to me, there is then a gap between connecting that with a compelling way to present it to donors.

SPEAKER 1: Right.

SPEAKER 7: Because what we need, and what we know about how to sell something aspirationally to donors, is two very different things.

SPEAKER 1: Oh, God, yes.

SPEAKER 7: So I wondered whether you had any advice about taking the needs and actually taking them into something which is persuasive for the future? For the vision of the organization?

[01:08:01]

SPEAKER 1: Yeah. So I always say when I have to translate this with a development pitch, is this. No one — well, a couple people, wonderful, nerdy, cool people like me, will find you a capital reserve. They will. But there's three of them. Right? [LAUGHTER] So here's what you need to — that's why you need to go through the programming door. You need to recast the argument through excellence in programming, changing taste in programming, vision of new programming, vision of current programming explained really well. Impact of what you're gonna get, right? You know, if you invest in us, in three to five years, when we put all the stuff in here about how we're gonna get volume and ticket price up and how we're gonna get — you'll have the full house of people loving this programming. I mean, you've gotta talk about the outcomes and the impact.

You can't talk about, I need an operating reserve. Well, again, a few people will give it to you, but most people will say, I'm drawn to this. So the plan, the ultimate plan, needs to say, this amount of money gets us these kinds of things. Just like a normal capital campaign. It's the same idea. But you've gotta know why you're driving to it. And you internally have to know the buckets of money you're putting into it. And you gotta make sure that the way you're raising the money kind of aligns with this. But it's gotta be through the impact, the vision, the quality, the things that you want to do that are why you're here. That's what matters. That's really what matters. Yes, ma'am.

[01:09:54]

SPEAKER 8: Thank you. You mentioned some of the one off windfalls during the pandemic on the contributed revenue side. How would you recommend doing this kind of forecasting for the annual fund given market volatility? We've already heard from foundations that they want us to ask for less in FY '24, because they know that they don't have the capacity to give at the same level they have. And I'm sure we're gonna be seeing that from individuals as well.

SPEAKER 1: Right. So you know, it's really interesting. The research we're looking at right now is — your mileage may vary, but high net worth individuals are hanging tough. They are hanging tough. It's hard for them right now, it's harder in the capital campaigns right now, if they're of a certain age, for them to transfer corpus to you. That's harder because of market volatility. But annual giving actually has kind of stood it up. I could give you, if I was doing this talk to foundations I will tell you what I'm telling them. Really? You're gonna cut the money? Are you insane? There's no one — 5% is the bottom, not the top of what they can pay, right? But, all that being said, you're right. So I think what you have to forecast is a slight dip in foundations, then I believe it's a curve back up. I really think that's how it's gonna work. Foundations do not stay down. The market has already perked up. It hasn't fully, but it's perked up. So that's just the world, and so maybe one year down and back to flat. I wouldn't do any growth. I wouldn't do any growth. Which also makes me crazy, a foundation who gives you $10,000 in 2010 and gives you the same amount now is — the purchase power is, what, half? So, anyway. All right. I'm sorry. Does that help?

SPEAKER 8: I mean, it's depressing, but yeah. [LAUGHTER]

SPEAKER 1: Queen of depressing. I get it. Yes, sir.

[01:11:57]

SPEAKER 9: Hi. So, in terms of the subscription model, and let's say reinventing it for the future, in your experience, have you seen examples of how you can make a subscription more attractive? I mean, we know about the concerts and the benefits of taking out a subscription, but organizations that you've seen who have innovated with this concept of repeated loyalty from season to season? And secondly, have you seen how it can be paid for in a different way? So, I've heard some things about, you know, we all pay a Netflix premium every month or a Prime premium. Should we be thinking in other kinds of ways in terms of how we propose the charge to the audience? And trying to see ways to get back to the foreign land of FY '19?

SPEAKER 1: You can't. [LAUGH] It's over. I'm gonna be so blunt with you. So here's the deal. We have done countless focus groups in countless organizations. And we get the same response all the time. Do you like it? Oh, God. I like it. So it's not a like problem. Hey, was it fun? Yeah, it was pretty fun. What didn't you like? Ah, the wait for booze. The booze is always a problem. [LAUGHTER] I didn't like it. And the ladies' room was kind of, yuck. And my seat was uncomfortable. But overall satisfaction? High. Well, so, if I fix your seat, would you come back? No. No, that's not it. I really liked it. Okay. Well you know, the A-B testing? Yeah, there's no A-B testing that works. People want to come when they want to come. The older generation had a habit. They had habit and tradition. I go Tuesday night. I go Wednesday afternoon. I see Saturday matinee. I see my friends. It's tribal behavior. The tribe is dying.

[01:14:00]

The new tribe is diverse, has different needs, spends their money on leisure time. But when you ask those folks, did you like it? Oh, yeah. Did you say good things about it? Oh, yeah. Would I come again? All my A-B testing. Yeah, in a couple years, I'll come again. Yeah, I'm gonna put it into the rotation. We are chasing something, and we're asking to be rejected. It boggles my mind. I mean, like, we're asking to be rejected. We keep saying to people, want us, love us, want us, love us. And they keep saying, we do. This way. I want to date. I don't want to get married. I want to live with you. I don't want to make it legal. [LAUGHTER] It's an is. So there's a new territory we gotta go look at.

Can we think about pricing? Can we think about new people coming in and out of the subscription system, trying it, because there is evidence that people want to try it. There's a lot of evidence that

people want to try it. And just live with that churn. And calculate it into the way we're doing it. I know the marketing price goes up, but that's the way of life. And then what is happening in that single ticket world, that we have gone unexplored? We've also done focus groups. This was not in an orchestra. We did this in a major theater in America, with an artistic director was in the room, where we asked single ticket buyers about what would it take them to be loyal?

And they would all repeat. You never saw a more offended bunch of people. I am. I am loyal. I love this organization. I've been coming for ten years. I've seen this, that, and the other, and she did amazing with — loyalty was not the issue. We just don't talk to them. Because we think loyalty lives on the subscription side. I think we gotta rethink all that. We gotta say, yes, people will want to subscribe.

[01:16:01]

They may not stick. How can we get the most out of them and have the best, most positive experience so they come back in some way at some time? And then with single ticket buyers who want to be loyal, it's can we boost that relationship in some meaningful way, where they've actually come in, year after year, and paid a higher price? There's stuff in there that we need to unpack. But I really think if we keep saying can't we get back to a six pack or a seven pack, I think it's the road to total frustration. I just really do. There will always be subscriptions. There will always be subscriptions. But I just think that those numbers will never be the same as they used to.

[OFF-TOPIC CONVERSATION]

[01:17:13]

SPEAKER 1: We did this amazing piece of work in Philadelphia where we looked at the Tessitura data of every performing arts organization that was over $1 million over a 15 year period. That included the Philadelphia Orchestra and the Ballet and the Opera Company. It was, you know, y'all come. What it showed is over the 15 year period, 685,000 households bought tickets. 20,000 were repeat customers. The base of loyalty for the whole system was $20,000.

[01:18:12]

And pre COVID, the balance of single tickets to subscriptions tipped in single ticket behavior in the aggregate, but earned revenue went up. Because single ticket buyers spent more per ticket. They didn't get the subscription discount. So what happened is the revenue rebalanced in the whole

system. What's scary to me is not that. What's scary is the marketing cost increased. So what it cost to get that rebalancing went up. When we dug underneath, I think what was really interesting, people were able to actually increase their donors because their audience had — there were new people in the audience through single ticket buyers and new subscriptions, actually had increased their donations, not just for major gifts, which we all know is, you know, mother's milk. But also, underneath, people were giving at the $100, $150, $200, $250 level at a much higher level than we did see at the beginning. So something of a rebalance there, too, as well. So understanding how that all — you know, your question about development. How that all works and where we can actually make all those things happen, I'm a big total girl. I think that, you know, you should not just look at the value of a customer through — I'm sure you all do this. Through the lens of the ticket buy. But what it is they give, right? And when you do that analysis, that has increased as well over the same period. Does that help? I mean, it is complicated. Okay. Yes, ma'am.

[OFF-TOPIC CONVERSATION]

[01:20:09]

SPEAKER 9: Susan, thank you so much. Every session you've ever led —

[OFF-TOPIC CONVERSATION]

SPEAKER 9: Hello. Your sessions have always been such a wealth of information, and I want to thank you for that. My board loves talking about buckets now. [LAUGHTER] That's all we talk about, is filling our buckets. So thank you for that. I had a question about the delete portion of this.

SPEAKER 1: Yeah.

SPEAKER 9: Every time we do a concert, we lose money.

SPEAKER 1: I know.

SPEAKER 9: Every time we do — you know, our core mission concert, we lose money. We lose even more money. Actually, we fared well during COVID because we weren't doing concerts. [LAUGH]

SPEAKER 1: I know. It's terrible. Don't think about it. Don't think about it. Yes, I know. [LAUGHTER]

SPEAKER 9: And maybe this is too large of a topic for this moment in time. Maybe it's a future topic for a session. But how do you approach that delete conversation without it going to, well, what's losing money? Because our mission concerts are losing money.

SPEAKER 1: Yeah. So I think that's real. But I also think it's more completed than that, given the conversation we just had. So you need to understand, as a concert losing money on its face, or a program, or a series of programs, on its face, but then when you think about, is it driving donations? And a realistic conversation, not a, like, oh, we feel better now conversation, but in a realistic conversation, is this stuff driving donations? You've got to get to total return. You gotta understand that people are giving money for something. They're just not generally giving you money. They're doing something that — they're responding to your work. So you have to have a realistic conversation about that. All that being said, I'm gonna say the unpopular thing again.

[01:22:00]

And this is where we are with this organization. Do you actually think about insuring high quality programming at the highest level in fewer programs? Or try to keep going with more? I don't know the answer to that, because we're in the middle of that conversation with all my clients, right? Do you do more? Do you stay the same? Do you flip the quality switch, which I'm sure you're all flipping now, but do you really double down and make sure that everything you do is of the best quality, and in the best way, that has the best chance of having a conversation? Also, we think about the portfolio approach, right? If you have a stock for portfolios, some things are down and some things are up and they flip around at all different times. We also think that not everything should make money. Not everything should. I mean, to your point, there are things that you should have in your portfolio, and they should — some are gonna lose money. But you need to do them. You absolutely, positively need to do them. You just need to understand the mix better. Right? You know, some of these things mostly break even. Do some of these things lose a little bit of money? And do some of these things lose a whole bunch of money? Well, the whole bunch of money should be up for discussion. And again, you could say, I need three of these things that lose a whole bunch of money, because they are so core to the artistic progress of what we're trying to do, they've got to stay in the bucket. They've got to stay. I mean, that's what's hard. Yeah. Yes.

[OFF-TOPIC CONVERSATION]

[01:24:24]

SPEAKER 1: Yes. That's always part — when we say add, delete, we are talking about — and we said one of the things we want to look at is the infrastructure and how it all works together. We absolutely look at that. We absolutely look at that. You've got to make sure you understand how all those pieces work. And all that being said, while I would say there are some organizations where you can actually get some of those dollars moved around and make some hard choices, way too many organizations are underinvested in infrastructure. They're underinvested in development, they're underinvested in marketing. And it's worse now than ever before. And so I think it's a delicate balance, but absolutely, you have to look at that.

[OFF-TOPIC CONVERSATION]

SPEAKER 1: Some things you can collaborate on. I've done a lot of collaborative models. Yeah. Okay. I'm sorry, I thought I was talking to you before, hi.

SPEAKER 10: I was throwing my voice. Thank you. So, kind of two questions about the changing way that audiences spend money. And I'm coming more from the theatre world. So, one of the things that theatre folks talk about a lot is concessions and sales in that regard. And I'm wondering if the folks that used to come every Tuesday maybe spent less on a beer than your one time ticket buyer spends a lot more on concessions. And the idea that younger folks will pay for experiences, and providing them that sort of holistic experience with food and beverage, et cetera. I haven't heard you mention concessions at all.

[01:26:03]

SPEAKER 1: It's in there. [LAUGH]

SPEAKER 10: And the other side of that was — oh, was it? Okay. And then the other side of that was, you know, subscriptions, well, festivals seem to be very popular because it's that experience, because it's that communal kind of congregating.

SPEAKER 1: Yeah.

SPEAKER 10: And I'm wondering if festivals have worked in the symphony world?

SPEAKER 1: So, I don't have the answer to that. But what I will tell you — again, I'm a total return girl. And in this organization, understanding total return is important. And what you just said about the younger audience not being as price sensitive, that's another thing that this shows us. Like, people want to experience this. When we do the testing, people want the really nice booze. They want the nice conversation. The meeting the artist thing is real. [LAUGH] All that stuff is real. And they're willing to spend for it. So price you know, this idea that we've gotta make $10 tickets to get gate, is not real, either. So the pricing part in that part. The idea of festivals, I think I've really looked at that closely in the opera world. It does a lot of really interesting things that are incredibly helpful. It doesn't change the audience pattern. It changes the volume. And the age of people. It definitely changes those things.

SPEAKER 4: I just want to make one comment to the question about when we do concerts, we lose money. Part of the problem is historic in this field, is people have thought, boards have thought, if contributed revenue is the stuff we have to raise because we lose money. Contributed revenue is an integral part of the revenue stream of an orchestra. And it shouldn't be thought of that way. It used to be, 20, 30 years ago, you'd see operating statements, which operating loss, which was only up to the earned revenue.

[01:28:08]

And then it was — what we have to raise to fix that. The fact is that contributed revenue is an integral, important part of the revenue, and you don't look at anything we do as, well, we're losing money because we don't make enough earned revenue for it. That's a philosophical issue that boards need to come around to, and are slowly. I've been in this field 60 years. I'm beginning to see boards come around to understand that.

SPEAKER 1: Incredibly well said. I think that's exactly right. I'll leave you with this, because I know we're over time. We're in a subsidy business. We are in a subsidy business. You gotta start from there. And people want to help. Okay? They want the wonderful thing. And that's what you're talking to people about.

[OFF-TOPIC CONVERSATION]

SPEAKER 1: I love that. Go for it. [LAUGH] I think that's right. I agree. I think that's well said. Yeah. Exactly. All right. We're over time. Thank you very much. [APPLAUSE]

END OF TRANSCRIPT # #