

# Arts & Business

## Private Investment in Culture 2008/09: the arts in the 'new normal'

Executive summary



## **Executive summary**

Overview of the state of the arts, focusing on the changing relationship between the private sector and culture

## **Tripod economy**

Exploring the success of the mixed-funding economy and the relationship between public funding, private investment and earned income

## **Private investment**

Analysis of the current and future trends of private investment in culture in light of the recession, and beyond

## **Maximising inward investment**

Latest thinking on maximising and maintaining private investment, including the potential for 'corporate cultural diplomacy' and alcohol sponsorship

## **Towards recovery**

Looking at the challenges and opportunities for the cultural sector, and how it can become more sustainable and resilient

## **Appendix**

Our methodology, bibliography, acknowledgements and contributions

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# Overview

**15%**

arts' income from private investment

**12%**

increase in attendances

levels of private investment are currently decreasing

appetite for private investment is still strong

**7%**

decrease in private investment

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# Foreword

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The role of the private sector in supporting arts and culture has become more significant through the years and though the figures for 2008/09 went down by 7% from their record high of the year before, the contribution of the private sector is now critical in the cultural economy. But, in public and political debate, you will rarely hear mentioned either the value or significance of the private sector.

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Why is this the case? It cannot be that the support of trusts and foundations, businesses and individuals is insubstantial – far from it.

And of course, the global recession has highlighted how uncertain both public and private funds can be, when economies, businesses and individual tax payers have seen income fall, often spectacularly. But the private sector will come out of recession faster than the public sector and, therefore, is in a stronger position to support the arts in this critical period.

Our report, Private Investment in Culture 08/09: the arts in the 'new normal', explores the changing nature and potential of private investment in culture, and provides the fundamental building blocks to examine the state of the mixed funding economy marketplace.

In addition, we are publishing our Private Sector Policy for the Arts in order to respond to the challenges that the cultural sector is experiencing and to highlight ways that the public and private sector can work more effectively together to raise not only the funds needed long term, but also raise the bar when private sector funding is discussed.

It is a positive sign that people are beginning to talk about “mixed economy models” and a “tripod” of funding – public, private and earned income. We must therefore provide new models to re-boot and re-wire that marketplace and to successfully lead the cultural sector into the post-recession economy.



**Colin Tweedy**  
Chief Executive, Arts & Business

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# Introduction

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Due to the nature and scope of the recession that has characterised the majority of the financial year 2008/09 not a single sector has remained wholly untouched or unchanged by it, and a 'new normal' has emerged (McKinsey, 2009; nVision, 2009). This 'new normal' is unlikely to change even when the UK completely emerges from the recession in real terms (not simply in GDP<sup>1</sup>).

The cultural sector must now learn to operate in this context. It must understand the changing objectives of businesses and motivations of individuals and how to turn the challenges into opportunities. The focus of this report is therefore on the state of the arts in the 'new normal', moving away from the recession and towards recovery and considering the practical implications of how this will reshape their relationship with the private sector.

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<sup>1</sup> The Times, Britain exits longest recession on record – just, 26th January 2010

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# The tripod economy

**The mixed funding economy of UK arts organisations has served the sector well (FreshMinds, 2008), with the success of the sector championed by the cyclical and reciprocal nature of the 'tripod economy'.**

The healthy levels of public funding provided the foundations for the sector to produce interesting and stimulating content which attracted increasing visitor numbers (and earned income), and which in turn encouraged further private investment, enabling further innovation in the field.

The arts are well equipped and best-placed to survive (and thrive), even in light of a recession, if these levels of funding are maintained.

However, as public funding is placed under scrutiny and private investment is less easy to predict (and secure), the worst could be yet to come – even if there is still plenty of public appetite for cultural engagement and consumption.

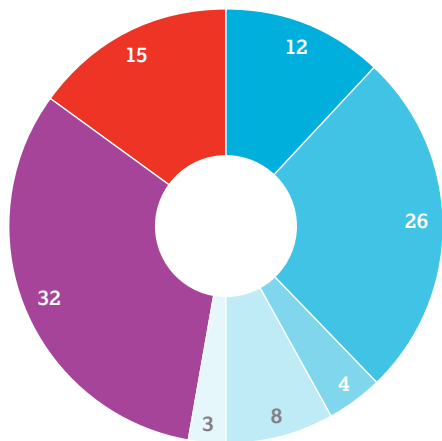
Recent statistical analysis suggests that the correlation between the different sources of income for the arts is less linear and cyclical than was originally believed. According to the analysis, even though public funding and private investment are statistically independent of each other, cultural organisations themselves are dependent on both.

But it is still true that the majority of the commercial sector wants to support and be a part of the cultural industries' success. And even though private investment does not grow parallel to public funding, public funding itself provides the foundations for the health of the sector, which is a prerequisite for further investment – remove that and the balance is completely disrupted and there is nothing to build on.

It will be difficult therefore to find other sources to replace any potential gap in public funding, especially considering that private investment levels are already under pressure because of external market forces.

“the mixed funding economy has helped the sector flourish”

**Breakdown of sources of income (%)**



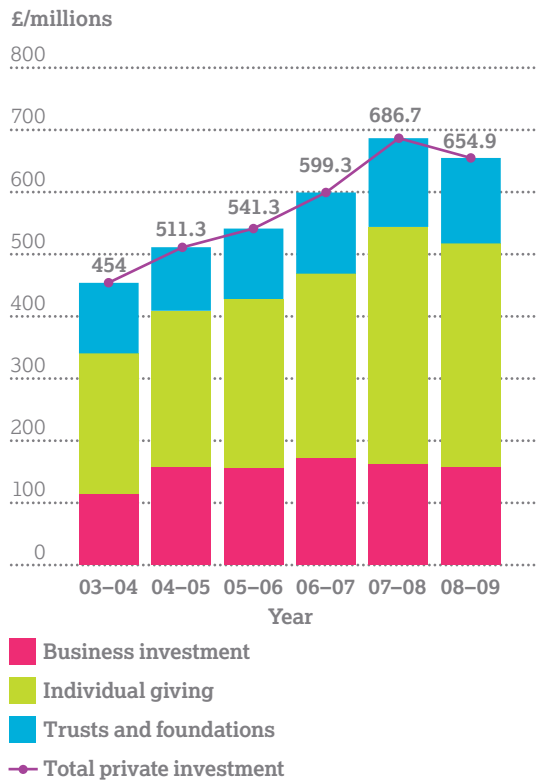
- Arts councils
- Ministries of Culture e.g. DCMS
- Other government department
- Local authority and other public subsidy
- Lottery funding
- Earned income
- Private investment

# Private investment

In 2008/09, we saw the first real effects of the recession impacting on the arts, though not as heavily as it had been feared. Private investment in 2008/09 decreased across the board, from businesses, individuals and trusts and foundations. With a 7% decrease from the year before, private investment in culture in the UK now stands at £654.9 million.

“appetite for private investment is still strong”

## Year-on-year private investment in culture



However, the picture is not one of austerity across the board; some regions reported significant increases, as was also the case with specific artforms.

It is also worth noting, that a significant amount of organisations also experienced substantial increases in the private investment they have received (meeting and often exceeding their set targets). Interestingly, these were mostly smaller organisations, so the increase hasn't impacted greatly on the overall landscape for the sector. The propensity to increase investment in smaller organisations (and with smaller amounts) and to decrease investment in large organisations but not completely withdrawing altogether, supports an assumption we had previously made about the impact of the recession particularly on business investment in the arts: appetite for investment is still strong, but levels with

which businesses can invest are currently shrinking. Furthermore, as we will find in the subsequent analysis, the nature of investment is changing, as businesses are now doing two things:

- 1 Playing it safe by investing with smaller amounts and on less “flashy” projects
- 2 Trying to leverage as high a return on their investment as possible

Even so, the one success story that can't be ignored is the increase in attendances for arts and cultural organisations across all regions, artforms and sizes. This could potentially be the single most interesting and optimistic performance indicator for the arts, as it can have numerous positive spill over effects:

- Earned income can be maximised, not only through ticket sales, but also through the promotion of merchandise and sales in the cafe and/or restaurant
- The personal connection of arts attendees and their favourite organisations is one of the drivers that can turn them into financial donors, on the grounds that they are already artistic supporters (Gaio, 2009)
- Business investment in the arts follows a robust customer base
- Traditionally the arts have had a niche target audience, differentiating them from a crowded market place and setting them apart from other types of entertainment. This is still very much the case, but it is not the whole picture
- Increasingly the arts are becoming more mainstream entertainment and appealing to more diverse groups and higher numbers of people. Businesses that invest in the arts will in this case be recognised by a greater public and therefore receive a higher return on their investment.

It has also been argued that the arts are particularly well placed to flourish in a recession, especially in terms of attendances, due to their escapist qualities, their ability to challenge, their provision of an experience and not least because they provide value for money to the consumer (Gilmore et al, 2009).



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# Maximising inward investment

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**In today's globalised society, intensified by the wild-fire like spread of the recession, culture is the perfect vehicle for businesses to build connections and expand their networks with emerging markets. Our feature on corporate cultural diplomacy explores the ways in which businesses can bring inward investment to the cultural sector, either through their vested interest in foreign/emerging markets, or through foreign interest within the UK market, by using culture as a springboard to build these relationships further.**

Yet, while the cultural sector is trying to maximise inward investment, new barriers are appearing beyond the recession making this even more challenging. The suggestion to ban alcohol sponsors for example, could have a catastrophic impact on the sector. Such sponsors have worked in the sector's favour, not only because of the high levels of cash injected through these projects, but also due to the innovative and unobtrusive nature of the partnerships, which take the sector forward in many respects.

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# Towards recovery...

“the private sector will recover faster than the public sector, so private investment in culture must not only be maintained but maximised”

**Recovery will not be quick or easy for the arts. The current financial year is likely to be the most challenging, especially in terms of raising the necessary funds needed to maintain the highest levels and quality of production and output.**

However, as the private sector is likely to recover faster than the public sector (Pimlott, 2009), increasingly arts organisations will be looking to businesses and individuals to fill gaps in their income streams, expected to decrease from other fronts. In order to do this however, the cultural sector will have to collectively become more creative, flexible, bold and entrepreneurial. Understanding business priorities and individual motivations, and what is driving these, is the first step needed in order to engage with them further.

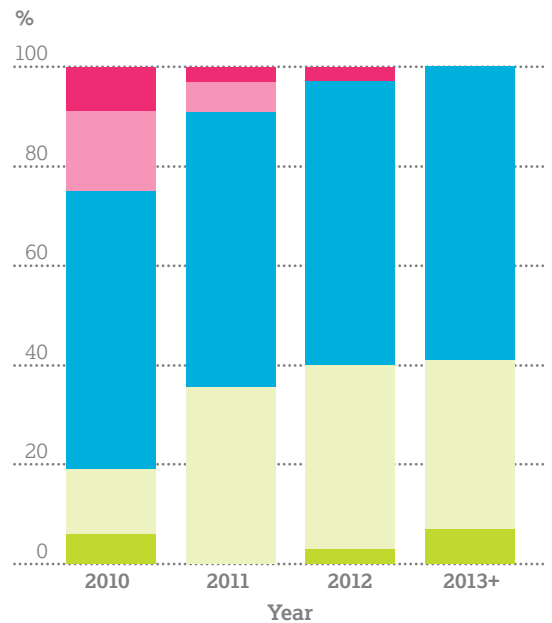
For businesses too the recession is not the only external factor determining and steering the direction of their priorities and activities. Emerging markets in the BRIC (Brazil, Russia, India, China) economies, changing consumer sensibilities combined with smaller budgets are all impinging on the ways they are prioritising their activities, and therefore the ways in which they will be engaging with the arts in both the near and distant future.

Simultaneously, the arts are recognising that if they are to continue to attract increased private investment from businesses, individuals and to a lesser extent trusts and foundations, they will have to offer better value for money. To clarify, we suggest that they take better advantage of their cultural capital, intellectual property (IP) and unique selling proposition (USP), and use them to attract and encourage more engagement and not just investment from the private sector.

The private sector has much to offer in addition to monetary capital: skills, experience, expertise to name but a few (Breeze, 2009). And so, businesses and individuals alike will scrutinise where, how and why they will be spending/ donating/ investing their money especially in this climate. To this end, arts and cultural organisations should engage them in more direct ways – donor care is particularly important, in this and any climate, as it cements relationships and ensures loyalty, longevity and support<sup>2</sup>.

The term partnership is increasingly being used to describe businesses that have become more than sponsors for arts organisations, as they work more closely together to produce innovative work in a collaborative manner. Individuals can, in the same way, be invited to become more actively engaged with the organisation that they support – the more they get out of the relationship the more they are likely to continue to contribute.

## Future levels of business investment in culture



<sup>2</sup> Philanthropy UK, Charities told to ask philanthropists for help in raising income, 11th March 2010

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# Towards recovery...

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“the private sector should be asked to engage with more than monetary capital”

The golden opportunity still exists with individuals. They are the driving force for the arts – it is individuals whom the arts serve and it is individuals that account for the majority of private investment they receive; it is also individuals that attract business investment into the arts.

The emotional connection between individuals and cultural organisations is a deep one, and translating that into support will be both the opportunity and the challenge for the arts. In a similar light and for the same reason, businesses are still very much committed to working with the arts, but the ways in which they are doing so are changing, as are the levels with which they engage.

What is needed in the 'new normal' more than ever, is patience and perseverance, with increasing public engagement and a greater audience focus driving most, if not all, of the cultural sector's priorities and activities (Knell, 2006) – collaboration, partnerships and co-donations will help achieve this best.

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