



Arts & Business

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

Tripod economy

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

Overview



Introduction

In this section, we will look at the correlation between public funding, earned income and private investment, and go on to consider what would be likely to occur if public funds diminish and the kind of impact it could have on private investment and the arts as a whole.

“15% of the arts’ income comes from private investment”

Echoing several conference debates, reports and news articles that have surfaced in the past year, it is undeniable that the UK arts sector, in its majority, has experienced a “golden era”, championed by increasing levels of public funding (Bunting, 2010). These in turn encourage high volumes of visitors and attendance numbers and large amounts of private investment, all of which have undoubtedly contributed to the unprecedented health and sustainability of the sector (FreshMinds, 2008).

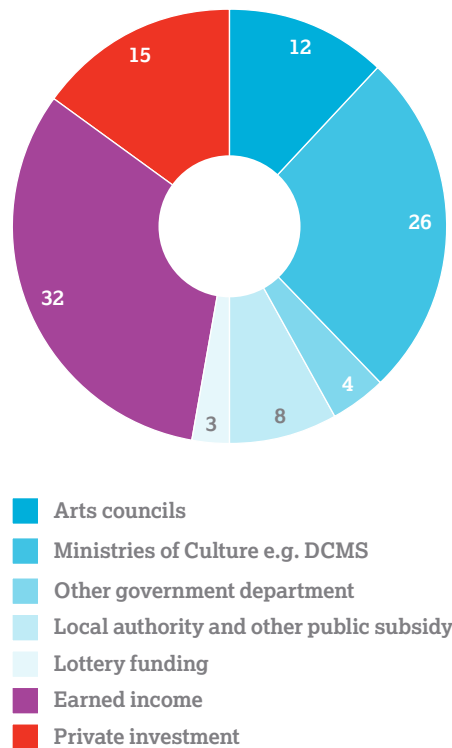
We have always argued that there is a cyclical and reciprocal relationship between these three sources of income – not only do they contribute to the health and success of the sector, but more importantly, one encourages the other.

Though the tripod economy often refers to arts organisations in the UK as receiving a third of their income from public funding, a third from earned income and a third from private investment, the actual make-up of income sources is more complex.

To begin with, public funding is itself constituted of different sources, including central government, local government, Arts Councils, lottery funding and other public subsidies. Together these account for more than half (53%) of the total income received in the arts sector in the UK.

Earned income (including ticket sales and trading) accounts for 32% of the total income and the remaining 15% comes from private investment, encompassing business investment, individual giving and funding from trusts and foundations.

Breakdown of sources of income (%)



However, it is worth noting that this breakdown differs significantly according to region, artform, size and type of organisation (e.g. regularly funded organisations from the Arts Councils).

Introduction

Breakdown of sources of income by size of organisation

% of total income	Major*	Large*	Medium*	Small*
Arts councils	10	22	22	15
Ministry of Culture (eg. DCMS)	31	2	13	0
Other governmental department	4	6	2	5
Local authority and other public subsidy	7	12	13	17
Lottery funding	2	3	6	9
Earned income (including ticket sales, trading etc)	31	36	30	33
Private investment (cash or in-kind from businesses, individuals, trusts and foundations)	14	20	14	21

According to the table above, the smallest organisations are most dependent on private investment, and surprisingly it is large organisations which are the next most dependent (not medium organisations as might be expected).

As a whole, private investment decreased by 7% in 08/09 (see chapter 2 on private investment for more detailed analysis), though both earned income and public funding experienced an increase in real terms this year by 1% and 5% respectively.

Change in income sources

Income source	% change (above inflation)
Total public funding	+5
Earned income	+1
Private investment	-7

Private investment this year has therefore been more immediately reactive to market forces as it is more directly influenced by and dependent on the economy. In contrast, most of the public funding received in 08/09 was committed in advance. What is likely to happen in the following year in terms of public funding is less easy to predict, though many expect there to be cuts. Earned income experienced a moderate increase, which can be directly attributed to the respective increase in attendances this year (see next page for more detail).

* Major: over £5 million turnover, Large: £1 million – £5 million turnover, Medium: £100k – £1 million turnover, Small: less than £100k turnover

Public funding, private investment and earned income

For a long time, Arts & Business has been advocating that public funding and private investment go hand-in-hand. In the following section we explore in more detail the actual relationship between the two and where earned income fits into the equation.

If we want to look closely at the correlation between public funding and private investment, we will have to do so by looking at each of these sources in isolation first.

We will provide a logical (and anecdotal) overview of the relationship between each of the three sources of private investment and public funding. This will be complemented and strengthened with a statistical analysis of the correlation between public funding and private investment, in addition to earned income. It should be noted, however, that any statistical correlation does not automatically equate to a cause and effect relationship (although a relationship can be deduced after comparing variables over lagged years).

A logical argument Business investment

In most cases investment is a business transaction with specific and targeted objectives and outcomes for both partners. However, we must distinguish between the different types of business investment, which may have different objectives, and will therefore respectively be affected and influenced in different ways by the level of public funding of the cultural sector.

- When sponsoring arts and cultural organisations, businesses mainly want to **invest in already successful institutions.** Return on investment is a paramount objective (Mermiri, 2008; Mermiri et al, 2009) and pre-requisites for this are predominantly organisations that have large or niche audience appeal. It has been argued that in order for this to happen, arts organisations need to be able to present attractive offers and services to businesses; arguably, this is easier to do with public funding.

Capitalising on the existing success of an organisation is the most important indicator for business sponsorship in the arts, and quality emanating from public subsidy is therefore a pre-requisite for this

- It is also worth noting that this kind of engagement accounts for the majority (70%) of business investment received in the arts

- In contrast, when businesses invest in culture as **part of their Corporate Social Responsibility (CSR) programmes,** the objectives do not always include a contribution to the bottom line of the business. It is about how the business can benefit the recipient organisation and how it can have a positive impact on the public it serves.

To this end, CSR strives to reach where public funding doesn't, in order to help organisations develop and grow in ways they wouldn't be able to without this additional funding. Alternatively, it could mean that businesses investing in the arts through CSR, want to capitalise on the arts' instrumental value with links to health and education. We presume, therefore, that public funding does not necessarily directly impact on businesses' decisions to support culture in this way.

Individual giving

Motivations for individual giving are harder to trace than business investment. This is because individuals are harder to reach and are greater in numbers than businesses, with presumably more diverse motivations driving them to make a contribution; this in itself can take various forms and will be personal and often unpredictable. As with business investment, we have to look in more depth at the different kinds and levels of individual giving and the different motivations behind each (Gaio, 2009; Goodey, 2010).

- Friends' schemes or memberships can be likened to business sponsorship, as individuals look for a return in their "investment", namely benefits offered by the organisation, such as free or reduced entry fees to the shows/exhibitions, exclusive access to private views etc. The presupposition here is that (as with business sponsorship of the arts) members of cultural organisations will take up a subscription to an organisation that is already successful and has lots to offer them in return
- It is also worth noting that this kind of engagement accounts for the majority (48%) of individual giving received in the arts

“new models and campaigns are needed to leverage support from visitors and supporters”

Public funding, private investment and earned income

- Single donations or philanthropy on the other hand can be more likened to CSR. They are much more selfless and motivated by an inherent emotional connection and desire to help the organisation and improve its services for the public (Local Pride, 2009). In this case, most organisations have the freedom to channel the donations into their activities/needs, excluding capital donations, which are targeted for rebuilding or expanding an organisation
- However, recent observations suggest that donors will make contributions (especially large ones) where they feel there will be maximum impact and where that impact is tangible – this could mean where it is needed most, or a high profile naming opportunity, but it could also mean an efficient organisation which is able to process the donation in a commercial manner, which will in turn maximise impact (Goodey, 2010; Pharoah, 2009). In this respect, donors like businesses, want to be increasingly treated as partners, by contributing with more than just cash and by also determining how that can (and should) be used best.

Trusts and foundations

Considering that trusts and foundations primarily address social welfare objectives, they most often fund arts organisations to instrumentally achieve the social outcomes that align with their vision, mission and purpose. To this end, independent trusts and foundations tend to supplement government funding, specifically around the instrumental value of the arts (Glinkowski, 2006).

Regardless of how public funding may impact on the levels of private investment, there seems to be a consensus that there is the need for both. Overdependence on a single source of income can make organisations risk averse, reluctant to experiment with new business models and less innovative (FreshMinds, 2008). With a mixed funding ecology like the one in the UK, organisations are therefore more likely to have creative freedom, as they are not accountable to only one funder or stakeholder, and simultaneously are more resistant to external economic threats.

This also reflects the need for arts organisations to target different types of businesses and individuals in addition to a mix between private investment, public funding and earned income.

Statistical correlation

It was thought that public investment was the catalyst for private investment, and that in turn this encouraged increased levels of earned income (most notably raised through ticket sales, other commercial income and investments). However, testing this assumption, there seems to have recently been a shift in this relationship as there appears to be a relatively low positive correlation between public funding and private investment (Frontier Economics, 2010), which means that there is little to no direct relationship between the two. Instead, the correlation is extremely high between earned income and public funding and earned income and private investment.

Correlation of public funding to earned income

There is strong 0.7 correlation between public funding and earned income.

Public funding to earned income



Source: Frontier Economics 2010, Arts & Business

Public funding, private investment and earned income

“there is consensus that both public funding and private investment are needed”

Correlation of private investment to earned income

The correlation between private investment (07/08) and earned income (08/09) is even stronger than that between public funding and earned income (0.82). The lagged variable suggests that the correlation exists one-way, with private investment encouraging earned income, and not necessarily vice versa (as the same analysis without the lag shows that the correlation is less strong).

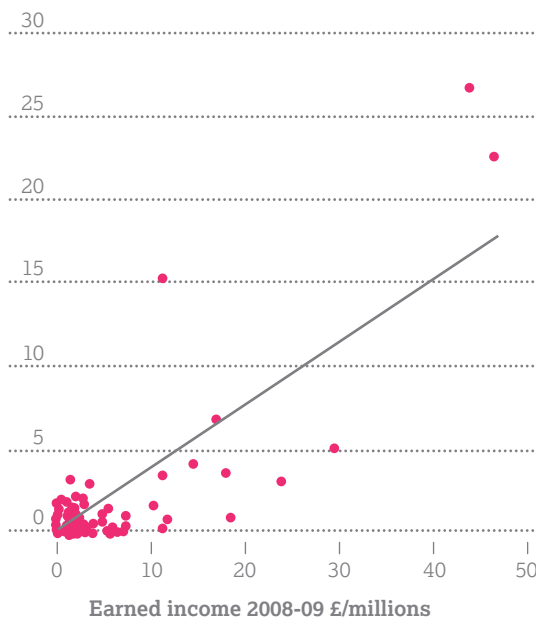
The correlation is even stronger (0.82) when looking at business investment in isolation. From this we can deduce that when an organisation receives a substantial amount of sponsorship or business investment, it is more likely to produce content which attracts higher visitor numbers and therefore increases earned income.

The high levels of the external sources of funding (public and private) are indicators of quality for the sector. And though public funding and private investment are independent of each other, they both equally feed into and encourage higher levels of earned income – combined they therefore enable and facilitate the production of interesting output that appeals to and attracts individuals, which simplistically translates to the earned income of the organisation.

However, this also means that if public funding were to decrease, which it is likely to, private investment could continue to grow, so long as this void is filled either through additional private investment, earned income or a completely new source.

Private investment to earned income

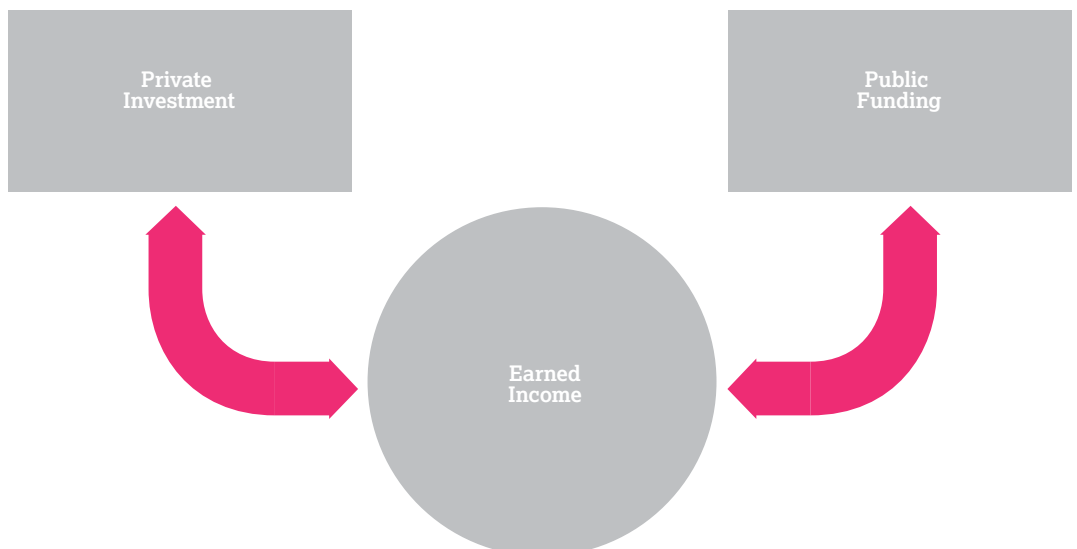
Private investment 07/08
£/millions



Source: Frontier Economics 2010, Arts & Business

correlation between earned income and private investment

The tripod economy



Public funding, private investment and earned income

“the majority of the commercial sector wants to capitalise on the health of the cultural industries”

So even though public funding and private investment are independent of each other, cultural organisations themselves are dependent on both.

And it is still true that the majority of the commercial sector wants to support success and in essence it wants to capitalise on the health of the cultural industries (as was seen through the motivations explored above).

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 at risk because of external market forces (see Maximising inward investment).

The collective challenge and opportunity for the sector is to now create a cause and effect relationship between earned income (attendance levels) and private investment (depending on the different motivations that drive these).

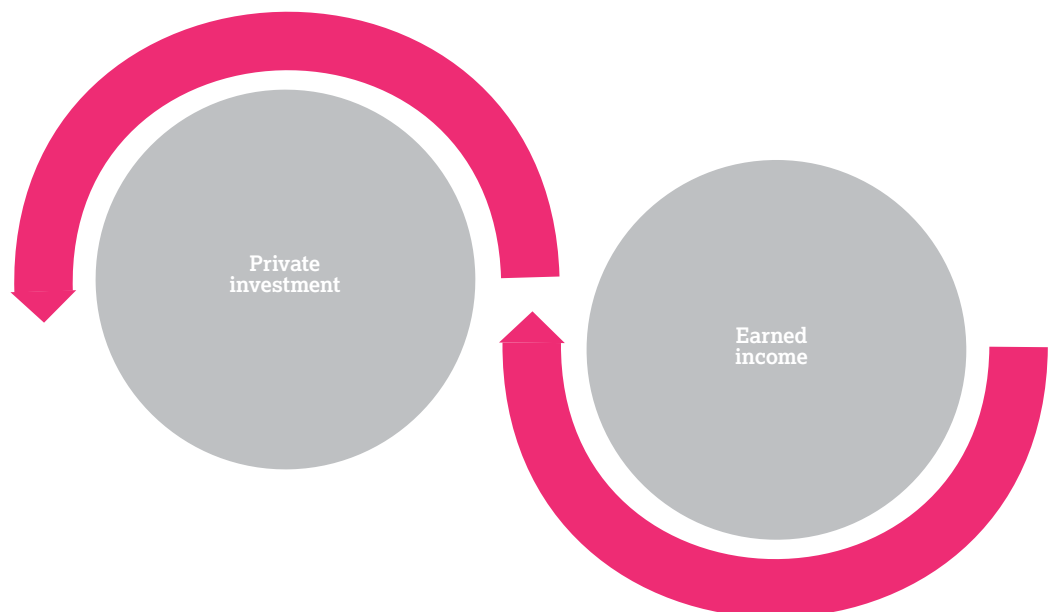
In this respect, individuals are central to what the arts offer – they should therefore be the driving force of the cultural sector.

- As businesses aim for wide reach and public awareness of their brand through their investment in the arts, high levels of earned income (attendances/visitors) will therefore encourage higher levels of business investment
- Visitors to arts organisations more easily become donors or ‘friends’ than non-visitors, so increasing levels of earned income means that more individuals are being attracted to the arts, with greater potential therefore for individual investing.

Entrepreneurialism and commercial thinking will be particularly important, especially in this climate, as more pressure will be put on the arts to raise income from increasingly diverse sources (if they are to at least maintain the levels of private investment they currently receive). Even so, public engagement and a greater audience focus should drive most, if not all, of the cultural sector’s priorities and activities (Leadbeater 2005; Knell, 2006).

This way, not only should organisations capitalise on their existing audiences, they should try to build relationships with new target groups that could also encourage the feedback loop between attendances and private investment. The sustainability of the sector would therefore only be as strong as the relationships that are built and maintained between organisations and their audiences.

Ideal relationship between earned income and private investment



Summary of key messages



public funding and private investment increased over 10 years



private investment is under pressure due to market forces

- Public funding and private investment have for the past ten years been experiencing year-on-year growth, the combination of which has been contributing to the health and popularity of the sector
 - Private investment makes up a sizeable proportion (15%) of the overall income of an average cultural organisation in the UK
 - Private investors, particularly businesses and individuals, want to primarily capitalise and benefit from an already booming and successful sector – existing healthy and sustainable income streams are prerequisites for this
 - Statistically, a high correlation exists between earned income and private investment and earned income and public funding, though there appears to be no direct relationship between private investment and public funding
 - Private investment levels are currently at risk because of market forces, regardless of their correlation between earned income or their lack of dependence on public funding
 - New models and campaigns need to be developed to help counter the challenges in respect of private investment (see Private Sector Policy for the Arts for priority recommendations list).
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