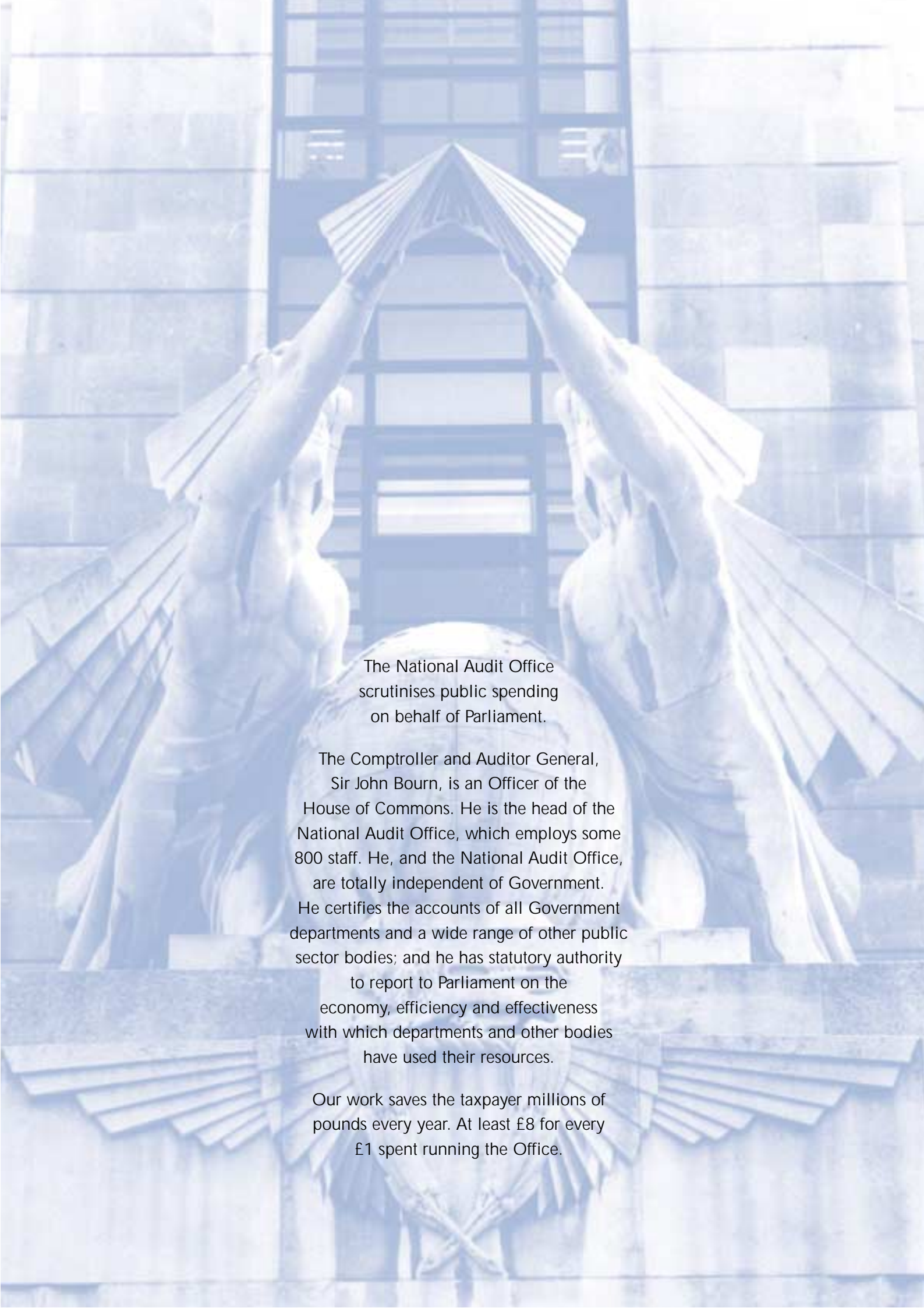


Income generated by the Museums and Galleries

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 235 Session 2003-2004: 30 January 2004





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Income generated by the Museums and Galleries



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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 20 January 2004

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Introduction and executive summary

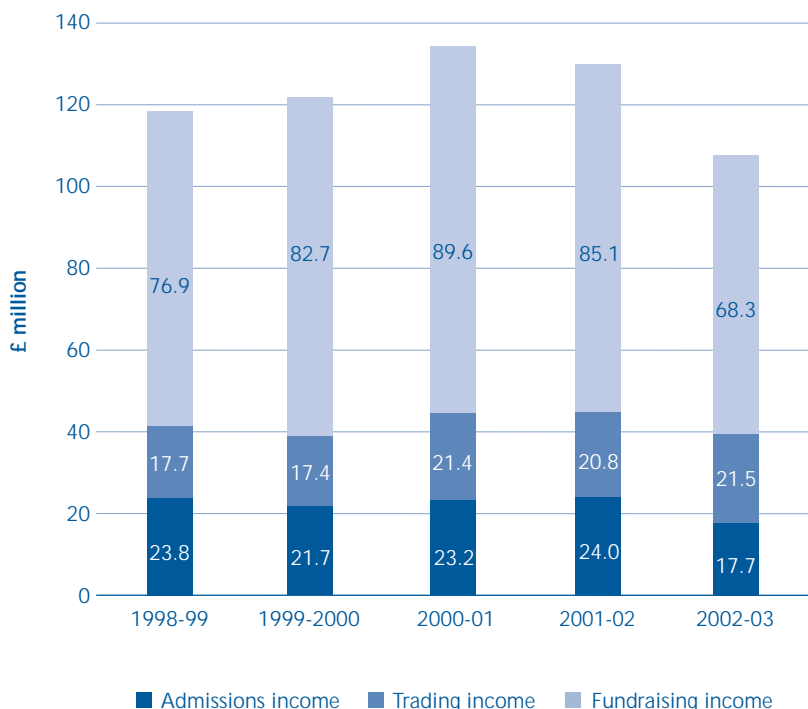
- 1 The Department for Culture, Media and Sport (the Department) provides annual grant-in-aid funding to 17 non-departmental public body museums and galleries (the sponsored museums and galleries) which in 2002-03 totalled £270 million. The museums and galleries also generate income themselves from fundraising, trading activities and admission charges. This self-generated income¹ amounted to £108 million in 2002-03.
- 2 This report looks at how the 17 museums and galleries go about their income generating activities and how they could increase their income. We asked the museums and galleries to complete a questionnaire covering their skills and organisation, how much income they have generated and their views about what is needed to generate more income in the future. We also surveyed a range of other organisations about their approach to income generation and looked at museums and galleries in other countries. The methods we used, and a list of the experts who helped us, are set out at Appendix 1.
- 3 We have not sought to rate and rank the individual museums and galleries. The museums and galleries are not a homogeneous group and many factors including inherent characteristics such as location, size and the nature of their collections influence their ability to generate income. Instead we have looked for generic success factors, potential barriers to achieving more and examples of successful ideas that might have a wider application. By way of background, the status of the museums and galleries and the regulatory framework in which they operate is set out at Appendix 2.



¹ Self-generated income includes income from all sources except grant-in-aid and the National Lottery.

1 Income generated by sponsored museums and galleries over the last 5 years

Total self-generated income rose between 1998-99 and 2000-01 but has since declined, mainly because of less fundraising towards capital projects.



NOTE

Income is shown at 2002-03 prices and refers to the gross income from admission charges and fundraising, and the profit on trading activities.

Source: National Audit Office

About performance and products

- 4 Fundraising has accounted for some 65 per cent of the museums and galleries' self-generated income over the last five years. Total fundraising income has fallen from its peak of £90 million in 2000-01 to £68 million in 2002-03 as a period of major expansion and building, fuelled by the availability of lottery funding, has come to a conclusion. However, funding from corporate sponsorship has doubled over the same period to £13 million in 2002-03 and at £22 million, trading profit on activities such as catering, retailing and the sale of reproduction rights was 18 per cent higher in real terms in 2002-03 than it was five years earlier (Figure 1). Looking across the 17 sponsored museums and galleries there are many examples of innovative ways of generating income.

- 5 In line with the Government's Wider Markets Initiative, launched in 1998 to encourage departments and non-departmental public bodies to engage in commercial services based on their physical and knowledge assets, the sponsored museums and galleries have been exploiting their assets in various ways for a number of years and are increasingly reliant on self-generated income to meet their operational costs. The range of their income generating schemes is broadly comparable with other organisations within the heritage and tourism sectors. In common with the overseas institutions we looked at, the museums and galleries have tended to have more success with initiatives to increase visitor numbers and spending on-site than with developing new markets away from the organisation.
- 6 The museums and galleries are on the whole optimistic about the prospects for growing their income over the next five years. They are looking to increase their income across a broad spectrum of activities including fundraising and a range of trading activities such as venue hire, catering, licensing of products, and retailing. Most expect some growth and seven of the 17 predict substantial growth.
- 7 Profit is not always the main driver for the museums and galleries' income generating schemes, which can be primarily about serving objectives relating to increased access, outreach and education. Nevertheless, they need to look more closely at the profitability of some of their trading activities. Nearly all the museums and galleries have good information on the profitability of their core retailing and catering operations, but most have information gaps about the cost of generating income through some of their other activities, such as publishing and venue hire. Where we were able to calculate profitability we found considerable variation between the museums and galleries, with a few making losses on some types of income generating activity. Venue hire achieved the highest profit margins, on average, of the trading income streams.
- 8 Most of the areas where the museums and galleries are pursuing growth are those which are already staple sources of income; for example most forms of fundraising, venue hire, retailing, catering and licensing. But museums and galleries are also looking for growth in newer areas such as e-commerce. Six are already involved in e-commerce, although total turnover is currently small, and a further nine are in the process of planning their involvement in on-line business. Eleven museums and galleries are also planning to increase income through membership schemes including three new entrants to this type of activity. These schemes can be costly to run, however, and do not necessarily make a profit, although they may help the museums in the longer term by developing relationships with potential supporters.

About the people

- 9 To make the most of their assets, grow their income and manage the risks associated with commercial activities, the museums and galleries need to ensure that they have the necessary attitudes, skills and understanding. The museums and galleries themselves confirmed that leadership, entrepreneurial culture and skills are key to successful income generation. This report illustrates a range of creative schemes, nevertheless the museums and galleries may need to do more to encourage an entrepreneurial culture at both grass-roots and management levels. The museums and galleries all recognise the need to develop their skills for income generation with most seeing entrepreneurship as a key staff development need: over half, for example, want their senior management team to be more skilled at entrepreneurship and business management.
- 10 The museums and galleries, however, have difficulty acquiring the skills they need, which they attribute primarily to an inability to fund new posts, the upgrading of skills and competitive salaries. But most see scope to do more to draw on and enhance the knowledge and expertise of their Boards of Trustees. The Department for Culture, Media and Sport, which is responsible for approving trustee appointments, has placed more trustees with income generation experience onto Boards in recent years.
- 11 Many of the museums and galleries have brought more commercial approaches and new skills to their trading activities by establishing trading subsidiaries. The ten that have trading subsidiaries see considerable benefits in terms of improved management focus on commercial objectives and the input of skilled and knowledgeable non-executive directors. But concerns about the cost and complexity of managing separate legal entities have prevented other museums and galleries, particularly smaller ones, from going down this route.

About the processes

- 12 We considered the following aspects:
 - i **Planning.** All 17 of the sponsored museums and galleries explicitly consider income generation as part of their corporate planning, but the extent to which they set out a clear strategy for income generation varies. While most museums and galleries' plans are good, amongst a minority the identification of opportunities and risks, and how they intend to take advantage of the scope for growth they have identified, is underdeveloped.
 - ii **Raising Finance.** As non-departmental public bodies, the museums and galleries are subject to Government controls over public sector borrowing, which prevent them from borrowing money freely on the open market, although some, mainly large, museums and galleries see this as a constraint on their ability to generate income. The museums and galleries obtain the money to invest in new income generating projects mainly from within their own resources or through partnerships with other organisations. Many have developed very successful partnerships which generate income from a range of activities, most commonly catering, consultancy, book publishing and the distribution of digital images from their collections.





- iii **Measuring performance.** The museums and galleries set and monitor internal targets for income generation, although the nature of the targets and the measures used varies between them. As part of its oversight role, the Department for Culture, Media and Sport has developed two common income generation performance indicators, one relating to fundraising and one for other income. The Department is looking to refine these measures to provide a basis for comparing the performance of the museums and galleries.
- iv **Sharing knowledge.** The museums and galleries share knowledge through a variety of formal and informal networks, nevertheless most see scope for further learning and collaboration and see this as an area where the Department for Culture, Media and Sport could play a facilitating role. This would be of particular assistance to the smaller museums and galleries.

Concluding comments and recommendations

- 13 The 17 sponsored museums and galleries are engaged in a wide range of income generating activities, including both traditional areas such as retailing and catering and more innovative projects. They have grown their trading income and corporate sponsorship in real terms over the past five years, although total fundraising income was lower in 2002-03 than in previous years, and it is encouraging that they see scope for growth across a wide range of activities.
- 14 The museums and galleries have not quantified the scope for growth. But even a one per cent increase in each of the next five years would be worth over £5 million a year to the museums and galleries by the end of that period. By maintaining current levels of growth in trading income and sponsorship, and returning other fundraising income to its 2001-02 level, the museums and galleries would generate in excess of £40 million a year more by 2008. However, much depends upon the economic and other external conditions for attracting visitors and securing donations and sponsorship.
- 15 Achieving the potential for growth depends not only on external factors such as market conditions but also on the success with which the museums and galleries can inject more entrepreneurial skills into their management and planning, and ensure that these are underpinned by full and accurate financial information. They also need to capitalise on the knowledge and experience available in the sector and find more effective ways of harnessing this. The difficulty of developing and obtaining some of the key skills needed, coupled with funding constraints, suggests that there may be scope to take collaboration beyond the sharing of information and into the pooling of some key resources. This might particularly benefit some of the smaller museums and galleries.

RECOMMENDATIONS

- Each museum and gallery should have a clear plan for its income generation. The growth areas, and those at risk, should be identified together with the action needed to maximise these opportunities and minimise the risks.
- The museums and galleries should convert their assessments of the scope for growth into achievable but demanding short and long term targets, to serve as a goal and to enable them to track progress. Communicating these targets and performance against them to staff in the museums and galleries at regular intervals in the course of each year would reinforce their 'buy-in'.
- While profit is not always the primary objective of income generating activities the museums and galleries should establish a clear understanding of the profitability of each income stream, and have a clear rationale for continuing with those which are unprofitable.
- Deciding which income streams offer the best prospects is a matter for individual museums and galleries, but the profitability achieved by most for fundraising and venue hire, both identified as growth areas by the museums and galleries, suggests that these income streams in particular should be targeted. For fundraising this could require initial investment in developing specialised skills.
- As significant numbers of the museums and galleries have common skills shortages in the key areas of entrepreneurship, business management and marketing they should collectively consider how the problem might be addressed. Possibilities worth exploring are:
 - the pooling of resources;
 - a structured programme of staff exchanges within, and to organisations outside, the museums and galleries sector;
 - greater use of external training; and
 - the scope for some smaller organisations to set up a joint trading subsidiary.
- To help ensure that the museums and galleries capitalise on the freely given skills and knowledge of their trustees, the individual museums and galleries should work with those trustees who have particular strengths relating to income generation and articulate a clear role for them. The Department and the museums and galleries between them should continue to use the trustee appointments process to strengthen the commercial and fundraising experience available on their Boards of Trustees.
- The Department, working with the museums and galleries, should further refine its measures of income generation to include measures of profitability and to improve the comparability of data on the museums and galleries' income generation performance.
- While income generation ultimately is a matter for the individual museums and galleries, the Department should respond to the interest expressed by museums and galleries in learning from one another by working with them to identify the types of information and other support they need and help them develop an action plan to meet those needs.

Part 1

The Museums and galleries want to increase their income and have identified scope for growth

Self-generated income is important to all museums and galleries

- 1.1 The 17 museums and galleries sponsored by the Department for Culture, Media and Sport receive some £270 million from the Department as grant-in-aid. Increasingly, however, they are turning to other sources of income to realise their ambitions, and in 2002-03 they generated income totalling £108 million. They regard self-generated income as important to the achievement of their key objectives, as it helps them to invest in developing their collections, buildings, facilities, services and research activities. It also promotes access to their collections through helping to finance touring exhibitions, education and outreach work. It is the Department's policy that it will not reduce an institution's grant-in-aid if it is successful at raising income from other sources: self-generated income is to be additional to government grant and is a way of achieving better services and facilities than are possible from grant alone.
- 1.2 The 17 sponsored museums and galleries range from small museums like the Geffrye Museum, with around £1 million a year in grant-in-aid and 80,000 visitors, to very large museums like the British Museum with around £36 million a year in grant-in-aid and nearly 4.5 million visitors (**Figure 2 overleaf**). They differ also in the proportion of their income which is self-generated. There are, however, inherent differences between the museums and galleries which affect their income generating potential: particularly size, the nature of their collection, and location. For example, a greater proportion of the visitors to science and social history museums are children than of the visitors to art galleries; whilst regional museums and galleries attract fewer visitors from overseas than those in London².

A museum or gallery's visitor profile also affects what it can charge for special exhibitions, and in the shop and café, and influences how potential corporate sponsors view it. In addition, self-generated income can vary from one year to another depending on economic conditions and whether the museum or gallery is fundraising towards a specific large project.

- 1.3 There are three main types of income generating activity:
- **fundraising** - activities which involve seeking financial support from, for example, sponsors, private benefactors and charitable trusts;
 - **trading activities** - activities which involve selling a product or service to a customer;
 - **admissions** - charges some museums and galleries make to view their permanent collection or temporary exhibitions.

In this report self-generated income refers to the gross income received through fundraising and admissions, and the profit from trading activities.

- 1.4 **Figure 3 on page 9** shows the main sources of income generated by the museums and galleries in 2002-03. The biggest income streams for the group as a whole were, in descending order of size: grants and gifts, admission charges, corporate sponsorship, retailing, catering and venue hire. Most of the museums and galleries generate income from most but not all of the sources shown. Smaller museums and galleries do not necessarily have the internal resources, markets or profile to generate income from consultancy, publishing, licensing of branded products and membership schemes for example.

2 The 17 sponsored museums and galleries and their income in 2002-03

	Collection	Location	Number of Visitors	Grant-in-aid £	Self-generated income ¹ £
British Museum	History of civilisation	London	4,623,000	36,469,000	10,639,000
Geffrye Museum	English domestic interiors	London	81,000	1,274,000	127,000
Horniman Museum	World culture and music	London	250,000	3,378,000	250,000
Imperial War Museum	20th century British war history	London, Duxford and Trafford	1,980,000	16,350,000	11,290,000
Museum of London	Urban history and archaeology	London	363,000	6,293,000 ²	4,384,000
Museum of Science and Industry in Manchester	Science and technology	Manchester	434,000	3,406,000	3,782,000
National Gallery	European art	London	4,100,000	20,449,000	9,174,000
National Maritime Museum	Maritime	London	1,208,000	13,681,000	2,535,000
National Museum of Science and Industry	Science and technology	London, York and Bradford	4,326,000	31,248,000	12,921,000
National Museums Liverpool	Diverse collections	8 sites in Liverpool	1,242,000	16,569,000	3,947,000
National Portrait Gallery	Portraiture	London	1,319,000	5,732,000	4,088,000
Natural History Museum	Natural sciences	London and Tring	2,893,000	38,085,000	6,910,000
Royal Armouries	Arms and armour	Leeds, London and Portsmouth	358,000	6,157,000	515,000
Sir John Soane's Museum	Paintings, antiquities and architectural collections	London	86,000	699,000	826,000
Tate	Modern and British art	London, St Ives and Liverpool	6,332,000	27,779,000	25,825,000
Victoria and Albert Museum	Art and design	London (3 sites)	2,539,000	34,771,000	9,679,000
Wallace Collection	Paintings, armour and furniture	London	220,000	2,607,000	564,000

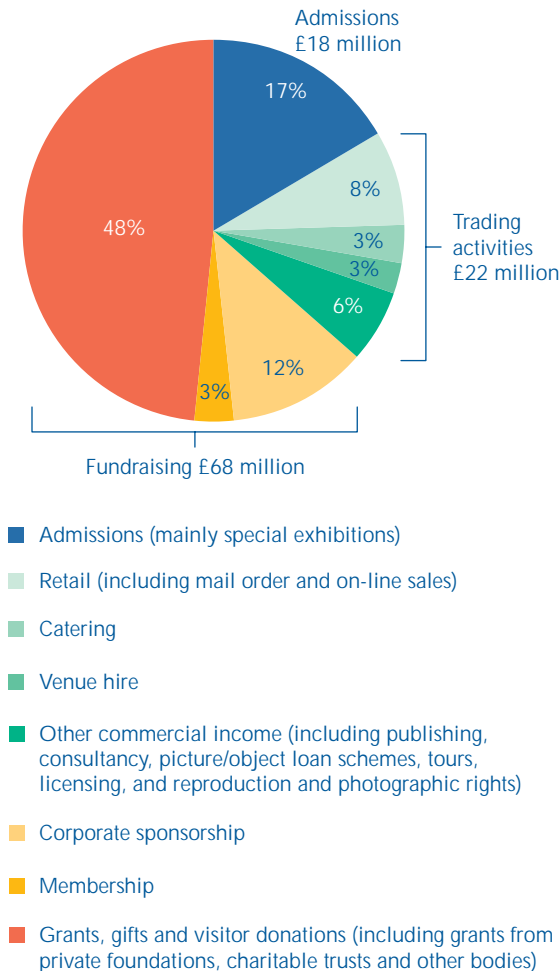
NOTES

- 1 Self-generated income is defined as the gross revenue from admission charges and fundraising and the profit on trading activities. It excludes funding from the National Lottery. Although the figure shows wide variations in the income raised by the museums and galleries, there are inherent differences between them which affect their income generating potential (paragraph 1.2).
- 2 The Museum of London is part-funded by the Corporation of London. In 2002-03 it received £4,519,000 from the Corporation in addition to its grant-in-aid above.
- 3 The museums and galleries are shown in alphabetical order.

Source: National Audit Office

3 Sponsored museums and galleries' self-generated income in 2002-03

Fundraising income accounted for over half of all self-generated income in 2002-03.



■ admissions income has fallen by 30 per cent from £23.8 million to £17.7 million (17 per cent of the total).

Fundraising income in support of capital projects has fallen because major projects are now largely completed but fundraising income for other purposes has risen

1.6 Over the five years 1998-99 to 2002-03, fundraising has been by far the largest source of self-generated income to the museums and galleries. Most fundraising is for specific purposes, with about 80 per cent of the income used for capital projects, mainly buildings. A further 10 per cent is used for purposes specified by the donor. For example, grant-making bodies and benefactors tend to give money for educational activities, research work and specific additions to collections.

1.7 Total fundraising income (as seen in Figure 1) rose between 1998-99 and 2000-01 and has declined since as a period of major expansion and building, fuelled by the availability of large amounts of lottery funding, has reached a conclusion.³ The museums and galleries have been successful at raising money in support of capital projects, with around £70 million a year raised in real terms between 1998-99 and 2001-02 (Figure 4 overleaf). The subsequent reduction in 2002-03 to £50 million is mainly due to the completion in 2001-02 of two major projects: the British Museum's Great Court development and the Imperial War Museum North. Other forms of fundraising such as corporate sponsorship, membership and visitor donations have increased in real terms over the last five years from a combined £8.7 million to £18.3 million.

1.8 Fundraising can require considerable effort. It takes time to develop relationships with potential donors for example, and fundraising in support of core activities is usually more difficult than fundraising for capital projects. Nevertheless, fundraising is generally a highly cost-effective form of income generation. Financial data from the museums and galleries shows that in 2002-03 the overall direct staff cost was some 18 per cent of the money raised. Nevertheless not all fundraising is instantly successful. One form of fundraising where the costs can be as high as the income generated are membership schemes, because they involve providing services to members, such as information and special events. Of the eight museums and galleries which have membership schemes, three were unable to provide information on the costs or overheads of their schemes. The remaining five achieved variable results, with three recording profits and two recording losses. But despite the possibility of low returns from membership schemes, most museums and galleries see longer term benefits in terms of building relationships with their visitors.

Over the last five years total self-generated income rose and then fell

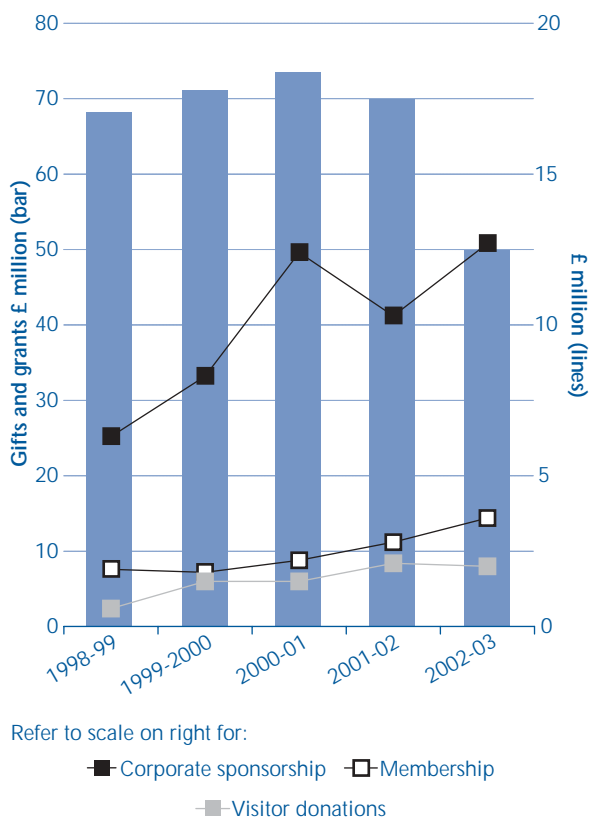
1.5 Figure 1 on page 2 shows that in real terms the total of self-generated income rose between 1998-99 and 2000-01 but has subsequently fallen. This is primarily due to reduced fundraising towards major capital projects. Since 1998-99:

- fundraising income rose from £77 million to a peak of £90 million in 2000-01, falling to £68 million in 2002-03 (63 per cent of the total);
- income from trading activities has risen by 18 per cent from £17.7 million to 21.5 million (20 per cent of the total); and

³ Lottery grants to the museums and galleries between 1998-99 and 2002-03 totalled £236 million, falling from £84 million in 1998-99 to £15 million in 2002-03.

4 Income generated from fundraising over the last 5 years

Most types of fundraising income have grown over the period except income from gifts and grants which declined significantly in 2002-03.



Source: National Audit Office

Income from trading activities has risen

1.9 Although smaller than income from fundraising, the museums and galleries have more freedom and choice over how to use income from trading activities. Trading income has risen over the last five years, with average growth of 3.5 per cent a year (Figure 1), although only one of the museums and galleries has achieved consistent year on year growth. Most museums and galleries consider that economic factors and world events in recent years have had a detrimental effect on visitor numbers and spending, with increased competition for visitors, and around a quarter have also experienced staffing problems such as recruitment and staff illness. The temporary upheaval caused by their own building works is another factor, although the opening of new spaces on the completion of building works has enabled them to increase their income.

1.10 Profit is not always the main driver for trading activities, for example publishing can be primarily about serving the museums and galleries' access, outreach and education objectives. But they need to know how profitable or unprofitable their activities are so that corrective action can be taken.

1.11 We looked to see which trading income streams are the most profitable although not all the museums and galleries were able to provide full information on their direct costs and overheads. In some cases this was because an activity (e.g. catering) had been contracted out and only the profit passed on to the museum, but in other cases it was because the museums and galleries do not themselves routinely collect information on all the costs associated with an activity. The museums and galleries have good information on the profitability of their core retailing and catering operations, but most have information gaps about the costs of generating income through some of their other activities, such as publishing and venue hire. Greater detail on costs was available for activities run by the trading companies than those run by the museums and galleries themselves. Figure 5 shows, from the data available, that the ranges of net profit margins achieved on some key trading income streams vary greatly between the museums and galleries. In 2002-03:

- venue hire was the most profitable income stream on average, with profits ranging between 25 and 70 per cent;
- consultancy and publishing were, on average, the least profitable; and
- some museums and galleries, according to their own figures, made losses on some trading activities. Four made an overall loss on two or more of the income streams shown opposite.

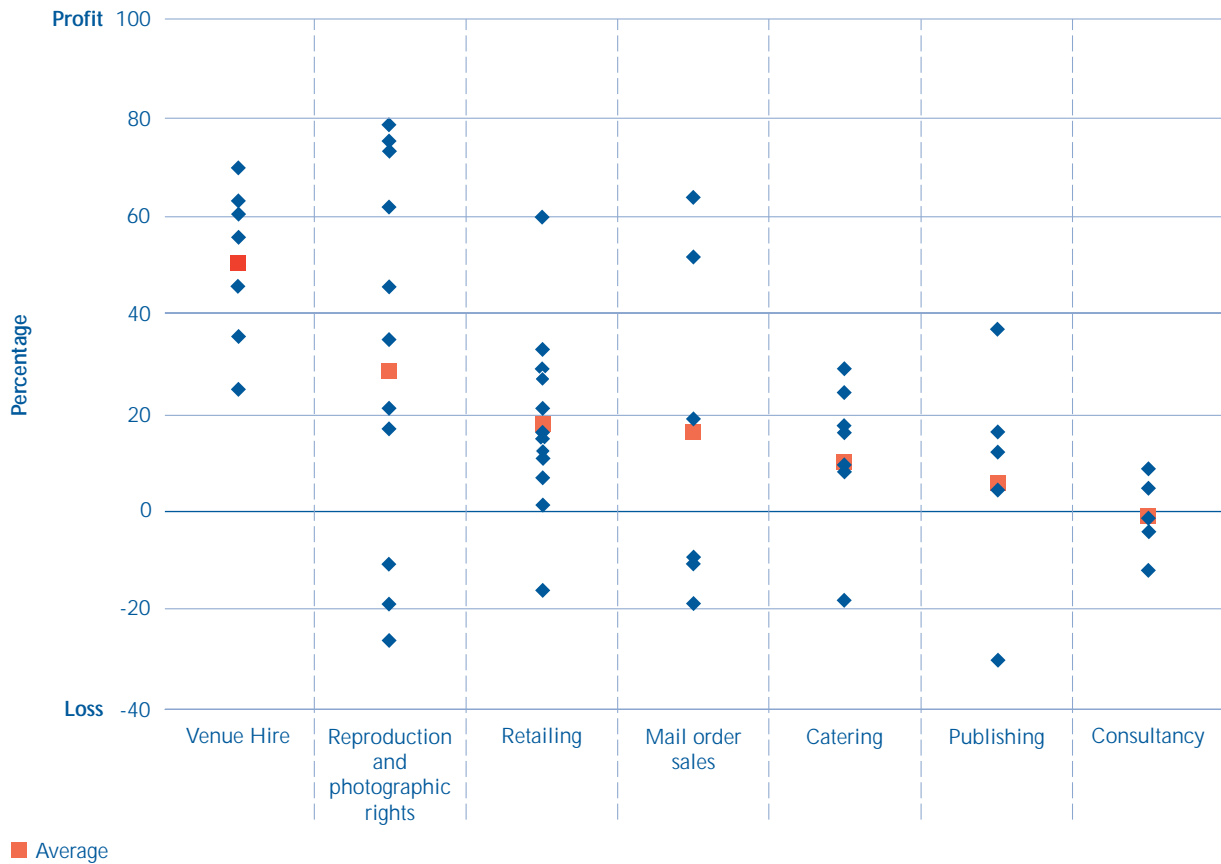
Admission charges continue to be a significant source of self-generated income

1.12 The Government introduced a policy of free admission for children in 1999, the over 60's in 2000 and other adults in 2001, increasing its grant-in-aid to the nine sponsored museums and galleries which used to charge for admission to compensate them for loss of admissions income. None now charges for admission to its main museum or gallery although three have retained general admission charges for adults to one or more of their satellite sites. And, as before, most of the museums and galleries continue to charge for admission to special exhibitions.

1.13 Figure 1 on page 2 shows that in 2002-03 admissions income was £17.7 million compared to £24.0 million in the year before. Although admissions income has fallen since the introduction of free admission, it is still a significant source of income because of increased income from special exhibitions. Before the introduction of free admission in 2001, income from special exhibitions was around £7 million a year. In 2002-03 it doubled to £14 million, in part due to the success of several major London exhibitions in that year. Most museums' special exhibitions do not make a profit. They usually cover their costs and no more, but such

5 Net profit margins achieved in 2002-03 for trading income streams

Venue hire is the most consistently profitable type of income generating activity reported, consultancy is the least profitable.



NOTE

Each point in the chart represents the net profit margin reported by one of the museums or galleries where net profit margin is defined as profit after direct costs and overheads as a percentage of turnover.

exhibitions are important generators of additional income through the extra visitors they bring to the museum or gallery, and are important in terms of the museums and galleries furthering their access and education objectives.

There is scope for growth in museums and galleries' self-generated income

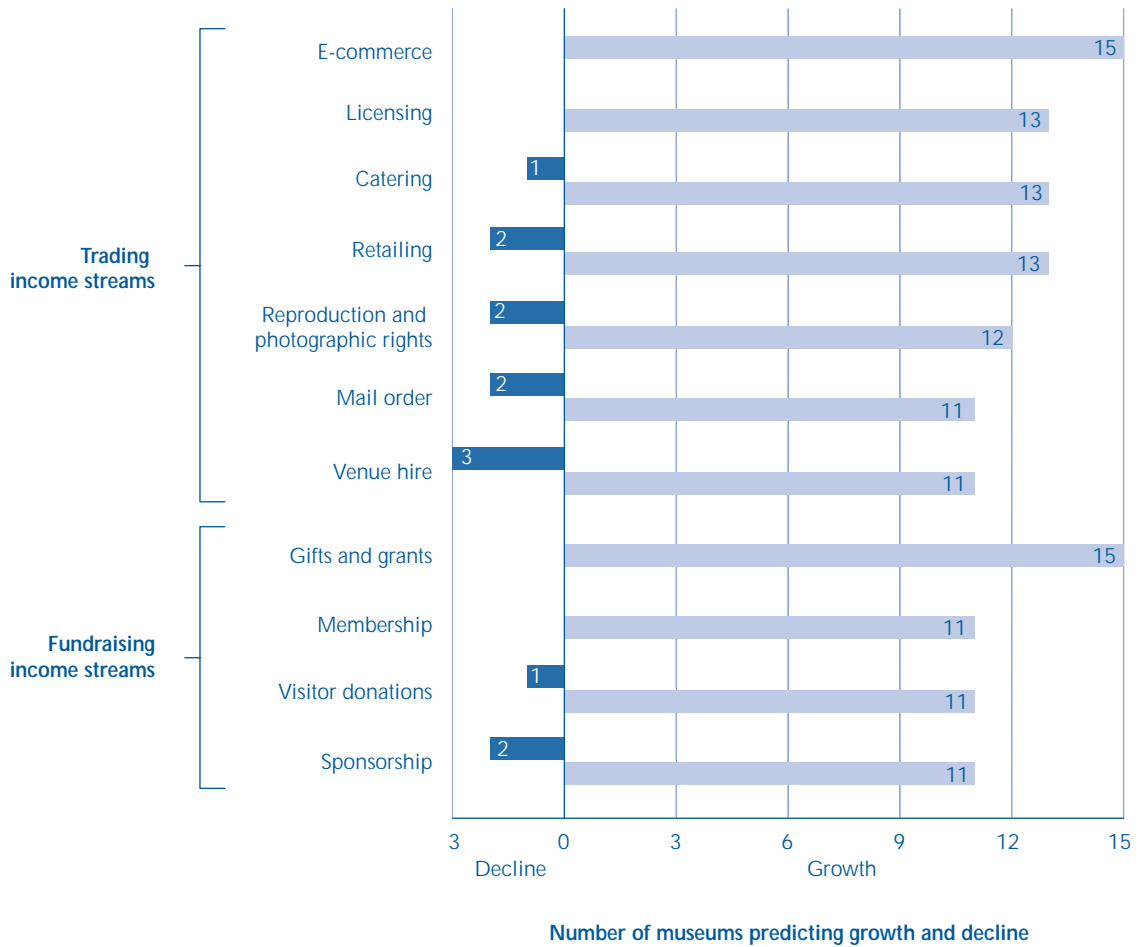
1.14 The museums and galleries are, on the whole, optimistic about the prospects for growing their income, and three-quarters envisage substantial (seven museums and galleries) or slight (six) growth in their self-generated income over the next five years, and none anticipates a decrease. Figure 6 shows that most are expecting growth across a wide range of income streams, both trading and fundraising, although for some income streams a small number are expecting a decline. Seven museums and galleries have reflected increased growth in income in their financial plans for 2003-04 and 2004-05.

1.15 The trading activity from which most museums and galleries are expecting growth is e-commerce, an area in which the Department for Culture, Media and Sport is seeking to encourage all its sponsored bodies to explore opportunities for increased revenue⁴. Fifteen museums and galleries see e-commerce as a future growth area, both for exploiting digital images from their collection and as an extension of existing mail order businesses. Income from e-commerce is currently small, involving only six of the museums and total turnover from on-line sales of around £250,000 compared to total turnover of £37 million from shops. But nine museums and galleries are now in the process of developing their on-line business plans, with four predicting strong growth over the next two years. Some of the potential benefits from e-commerce are:

- open 24 hours a day, 365 days a year to customers in every time zone in the world;
- reduced transaction and support costs; and
- facilitated access to niche and overseas markets and to target customers.

6 Income streams from which museums and galleries expect growth

The sponsored museums and galleries are optimistic about the scope for growth in most income streams.



Source: National Audit Office

The museums and galleries, however, need to be confident that their future profits from e-commerce justify the up-front investment in specialist expertise, time and money. Discussions with some of the museums and members of our expert panel suggest that growth is easiest to achieve and most profitable for "thin" products such as tickets and membership and through access to specialist content, and that generating profit from the sales of merchandise on-line can be more challenging because of the constraints of scale and product range available to most museums.

1.16 Figure 6 also shows that eleven museums and galleries are predicting growth in income from venue hire, which as shown in paragraph 1.11 is the most profitable of the trading income streams. Venue hire is also the area in which the comparator organisations we surveyed⁵ most commonly expect growth. Like the museums and galleries, the comparator organisations also cited retailing and catering as growth areas.

1.17 Most of the museums and galleries are also expecting income growth from fundraising activities including from membership schemes, although they need to be aware of the potential cost implications of these schemes (paragraph 1.8).

⁵ We surveyed 101 museums, galleries, zoos, castles and other visitor attractions and received replies from 55. More information on the survey of comparator organisations is in Appendix 1.

Part 2

Growth is achievable

- 2.1 This Part of the report considers whether the museums and galleries are well-placed to take advantage of the scope for growth in self-generated income identified in Part 1. We examine how the museums and galleries are exploiting their assets to generate income, whether they have the right culture and skills to exploit their assets and whether they have the management processes they need to support their income generating endeavours.
- 2.2 We asked the museums and galleries what factors they felt had contributed most to their success so far, and eight distinct reasons for success were given (Figure 7). The comparator organisations we surveyed identified similar factors. The views of our panel of experts (Appendix 1) are also very much in line with those of the museums and galleries, although there are differences of emphasis. For example the panel emphasises factors around commerciality and viability, people and skills, and governance and powers.

Museums and galleries are already employing new and interesting approaches to generating income from their assets

- 2.3 In line with the Government's Wider Markets Initiative, launched in 1998 to encourage departments and non-departmental public bodies to engage in commercial services based on their physical and knowledge assets, the sponsored museums and galleries generate income from their collections, the expertise of their staff, their buildings or sites and their reputation or brand. They all take a positive view of their core assets and none considers any to be a significant barrier to their own income generation, although three consider that their location restricts their income generating potential. Most of the museums and galleries are fully aware of the income generating potential of the assets they have. Figure 8 uses an example from each museum and gallery to illustrate the interesting and innovative approaches they are already employing or intending to employ to earn more money. None of the museums and galleries generates income by selling original items from its collection.

7 The top income generation success factors identified by the museums and galleries

There are eight key factors which the museums and galleries said contributed most to their income generation.

Type of factor	Factors contributing to success	Number of museums listing the factor
Assets	Having a distinctive core product	9
	Brand positioning	8
Culture and skills	Understanding the marketplace	8
	Entrepreneurial culture	7
	Professional expertise at executive board level	7
Management	Leadership and focus on income generation	8
	Clear income generation strategy	8
	Creating a fit between trading and other key objectives	6

Source: National Audit Office

8 Examples of museums and galleries employing new approaches to generating income

Money-making idea	Museum	Example
Exploiting new technology		
Virtual exhibitions	British Museum	The British Museum is planning a 3D cinematographic encounter with a virtual Egyptian mummy, created from scanned images of the priest Nesperennub, allowing the viewer to explore under the skin of a real mummy.
Laser conservation consultancy	National Museums Liverpool	
Different types of commercial activity		
"Flying Proms"	Imperial War Museum	The Imperial War Museum is building on the expertise it has developed in putting on flying displays at its Duxford branch museum by mounting flying displays to music ("Flying Proms").
Partnerships with high street retailers	Science Museum	
New license agreements with manufacturers	National Maritime Museum	
Improved approaches to fundraising		
Extending business sponsorship to new areas	Tate	Following a successful collaboration over the launch of Tate Modern, BT has now become the sole sponsor of Tate's web site contributing both money and expertise. Since the association with BT began, Tate Online has doubled its unique visitors to more than 2 million a year whilst BT has gained from the opportunity to showcase its technological capabilities and through association with the Tate brand.
Corporate membership scheme	Victoria and Albert Museum	
Premium membership scheme	Wallace Collection	
New full-time fundraiser	Sir John Soane's Museum	
Improving the visitor experience		
Reopened museum shop	Horniman Museum	The Horniman Museum has contracted out the operation of its shop, on a profit-sharing basis to the Museum of London, because it did not have the expertise to run it in-house. Although yet to make a profit (it did not make a profit before anyway), the museum does not bear any losses. With the incentive that this gives the contractor, the museum expects the shop to succeed in the near future.
Virtual parachute attraction, a planetarium and historic train rides	Museum of Science and Industry in Manchester	
London Wall development	Museum of London	
Reaching new audiences and customers		
Touring exhibitions	Natural History Museum	The Natural History Museum is in partnership with a Japanese company that makes animatronic models. The models are used in exhibitions at the museum prior to touring (or for touring purposes only) in Europe and the Middle East where the museum has an arrangement to sell the models. The museum is also looking at partnerships (with other museums and commercial companies) in developing exhibitions which will feature at the museum and which will tour.
Worldwide advertising sponsored by Hewlett-Packard	National Gallery	
Target marketing	National Portrait Gallery	
Children's art activities and themed events in school holidays	Royal Armouries	
Promotion at trade fairs to increase group visits and venue hire	Geffrye Museum	

Source: National Audit Office

- 2.4 We chose four museums and galleries, the Imperial War Museum, National Museums Liverpool, the Tate and the Wallace Collection, to explore some of the features of successful income generation in more depth. **Boxes 1 and 2 on pages 15 and 16** give examples of how the National Museums Liverpool and the Imperial War Museum have used their assets to make money. Other examples are shown throughout this Part.

The museums and galleries have much in common with similar organisations, but there is also scope to learn from them

- 2.5 In broad terms the income generating approaches used by the comparator organisations we surveyed were similar to those of the sponsored museums and galleries, with retail, catering and venue hire being the comparators' staple sources of income. However, they gave many more examples of generating income from laying on special events, such as concerts and themed evenings, and hiring out facilities for weddings and conferences. There were also some interesting and unusual income generating approaches which might suggest possibilities to the sponsored museums and galleries (**Figure 9 on page 17**).

BOX 1

National Museums Liverpool - Conservation Technologies

The *Conservation Technologies* unit of the National Museums Liverpool has brought together experienced conservators and research scientists to develop new laser conservation technologies.



This Buddha sculpture has changed significantly since it was made between 1185 and 1333. There is evidence of features destroyed by later additions.

By scanning with a laser and creating a computer model of the Buddha, it is possible to show the statue as it probably was originally. To reconstruct these features on the actual piece would be potentially damaging.



The unit combines the latest in laser cleaning and scanning technology with traditional conservation skills to provide conservation, 3D recording, replication and training services to a wide range of clients including museums and galleries, local authorities, architects and builders, and ecclesiastical and heritage organisations.

In partnership with a number of organisations and companies, *Conservation Technologies* has developed its business substantially in recent years, raising around £1 million in grants and commercial revenue. Besides generating income, the level of business has enabled the unit to invest substantially in laser equipment.

Conservation Technologies is looking to develop wider applications for laser conservation and replication techniques including external surveys of historic buildings and automated building cleaning.

2.6 We employed Selina Fellows, a marketing and retail consultant, to look at the range and type of income generating activity in some overseas institutions (Appendix 3). The Smithsonian Institution in Washington D.C., the world's largest museum, for example not only runs retail, catering, mail order and licensing activities, but also a magazine (with a paid circulation of two million), and attractions and travel packages to generate visitors to the museum. Further examples from the U.S.A., France and Russia are shown in **Boxes 3-5 on page 18**.

Museums and galleries recognise the importance of having an entrepreneurial culture and skills and are working towards this

2.7 The results of our survey suggest that the museums and galleries may need to do more to encourage an entrepreneurial culture at both grass-roots and management levels. The majority of museums and galleries see entrepreneurship as a staff development need (paragraph 2.12) and this is a view shared by our expert panel. The panel is also concerned about whether the museums and galleries always have an adequate understanding of the economic issues involved in commercial activities, particularly the importance of understanding the market cycle, for example whether a market is growing or maturing.

BOX 2

Imperial War Museum - Duxford



The facilities at the Imperial War Museum's Duxford branch include the Officers' Mess, a 1930's listed building once home to the WWII pilots who flew from Duxford's airfield.

By 1978, when the museum took it over, the building was derelict and it had to be stabilised before a partial restoration was carried out.

Since 1987 the restored central area has been used for conferences and functions. However, the wings of the building, housing the officers' bedrooms were not restored or used.

In 2000, the museum examined the feasibility of converting the Officers' Mess into a hotel, the potential benefits including:

- private investment in a significantly under-exploited asset;
- synergy between the hotel and the museum (e.g. joint marketing, higher tourism profile, longer stays and museum visitor access to restaurants and bars);
- continuation of the successful function and conference business (with its spin-off to the museum in terms of corporate contacts);
- no loss of income and the potential of a considerable and reliable income stream;
- savings in maintenance costs; and
- providing visitor access to the Mess.

Although there were constraints imposed by the historic nature of the building and the need for any hotel operation to be fully integrated with that of the museum, a marketing exercise successfully found a hotel group prepared to take on the lease. Subject to planning and other legal processes, the museum should receive a £1 million capital payment in 2004 and thereafter an annual rental based on a percentage of turnover with a guaranteed minimum payment of £70,000.

2.8 One route many of the museums and galleries have taken to inject a more commercial approach is to establish trading subsidiaries. Trading subsidiaries provide tax advantages and enable the museums to undertake trading activities which fall outside their charitable objects. Having a separate foundation or trust for fundraising serves the same purpose. Ten museums and galleries have trading subsidiaries, and see advantages in terms of improving management focus on commercial objectives, encouraging independent thinking, and making it easier to pay market salaries and to improve skills and knowledge by bringing in non-executive directors. Trading companies can also make direct financial rewards to staff that exceed targets. Tate Enterprises Limited, for example, offers targeted bonuses for certain staff to act as an incentive.

2.9 Trading companies are not a panacea, however. The cost and complexity of managing different legal entities is the reason why others, including the smallest of the museums and galleries, have not taken this route. Some museums are also concerned that staff can lose a sense of the museum's overall identity and brand, and there can grow up two separate cultures which have to be carefully managed. This is illustrated by the example of the National Museums Liverpool shown in **Box 6 on page 19**.

9 Examples of interesting initiatives other organisations have found successful

Special events

City Museum and Art Gallery, Bristol has licensed one of its museums as a venue for civil wedding ceremonies, naming ceremonies and renewal of wedding vows. It has held 110 weddings since July 2000.

Beamish - The North of England Open Air Museum has used special events to appeal to a wide range of people. It has held caravan club visits, model boat exhibitions, classic car events, special interest group meetings and more besides.

Thackray Medical Museum hosts a popular series of lectures on the History of Medicine which are accredited for the Continuing Professional Development of doctors and medical professionals.

Different types of commercial activity

Southampton City Art Gallery leases works of art (of lower artistic merit and low monetary value) from its reserve collections to institutions and businesses. It has also licensed its art conservation studios to a private sector conservator. It generates income through an hourly fee for work carried out on works of art owned by other local museums and galleries.

English Heritage has found trading off-site at events such as County Shows to be successful.

The Deep has built a Science Park at its site in Hull which brings in £200,000 a year. Businesses appear to like the kudos of the address.

Approaches to fundraising

Tyne and Wear Museums created a new look business membership scheme in 1998 called Business Partnership to encourage private sector support for education and outreach projects. Exclusive to Business Partners is the opportunity to borrow works of art from the collections.

Dulwich Picture Gallery has raised £200,000 from recent sponsored walks. The Gallery's Director, Chairman of the Trustees and Chairman of the Friends walked 150 miles following in the footsteps of Dr Johnson and David Garrick who walked from Lichfield to London to make their fortunes. The gallery also organised a 10 mile architectural walk from the Gallery into central London which attracted 160 walkers.

The Pitt Rivers Museum and the Museum Friends held a fundraising evening at which authors Philip Pullman and Penelope Lively, who have used the museum in their books, spoke about how the museum had influenced their writing.

Improving the visitor experience

Leisure Parcs Limited contracted with a retail expert in 2001 to review **Blackpool Tower's** range of merchandise; the new range has resulted in an 85 per cent increase in income. The Tower now has the highest shop in the UK.

Somerset House Trust decided to build an ice rink. Donations were needed to underwrite its first year but the rink now breaks even.

The Serpentine Trust introduced an Annual Architectural Commission in which a renowned international architect is invited to design a temporary pavilion on the Gallery lawn. The Gallery Pavilion attracts corporate sponsorship, sponsorship-help-in-kind particularly from the construction industry, individual donations, venue hire income, merchandising and café rental income and increased visitor donations from the large number of visitors it attracts. The Pavilion is offered for sale each year.

Reaching new audiences and customers

London's Transport Museum operated a 1950's bus, painted gold, on bus routes carrying normal fare-paying passengers in 2002 as part of the Royal Jubilee celebrations. It now uses the bus to take groups on special tours.

The Royal Pavilion, Brighton introduced premium price conservation tours developed for a Sunday Telegraph special offer. It also has an ongoing relationship with South Central Trains with special promotional offers.

Source: National Audit Office

BOX 3

The Metropolitan Museum of Art



The Met has shops worldwide.

The Metropolitan Museum of Art in New York has 18 stores across the United States and 13 in Europe, Asia, Mexico and Australia which it uses to generate sales, build its brand and sell memberships. It also uses its web site to engage a younger and more family-orientated audience with the aim of converting them to 'real' visitors. In 2001-02 the site had 8.3 million visitors, nearly 6,000 of whom purchased memberships or made donations on-line.

BOX 4

The Réunion des Musées Nationaux

Replica of a 7th century Chinese statuette - one of many items for sale from the RMN web site.

The Réunion des Musées Nationaux (RMN), the commercial arm of the 33 French national museums, in addition to its publishing, mail order and consultancy businesses, creates products for museum shops and other outlets including replicas and engravings from the 5,000 moulds and casts it has in its replica workshops. It also owns the intellectual property rights to all the collections held in the national museums and has a picture library with more than 500,000 images, 100,000 of which are already in digital format.

The Louvre, which owns its own freehold together with a large underground shopping complex, earns money from fashion shows, retailing and car parking.



BOX 5

The State Hermitage Museum



The Hermitage Rooms at Somerset House - which have their own shop.

The State Hermitage Museum in St Petersburg, which has one of the largest collections in the world, has a strategy of opening satellite venues outside Russia to increase exposure of the collection, promote the profile of the museum (thereby increasing the number of overseas visitors to St Petersburg), and to generate income. Items from the collection can be seen at Somerset House in London and the Hermitage Guggenheim in Las Vegas. It will open the Hermitage aan der Amstel in Amsterdam in 2005.

It also has a number of active international Friends organisations which organise fundraising events, establish links with potential benefactors and contribute towards the cost of projects - for example the Netherlands Friends made a substantial contribution to the museum's recent refurbishment of its Dutch and Flemish Galleries.

BOX 6

National Museums Liverpool - Managing different cultures



National Museums Liverpool established a trading subsidiary in 1992 to operate the catering and retail services provided for visitors to its eight museums. The museum benefited tax-wisely and from the transfer of risk associated with commercial activity.

In 2002, the museum reviewed the management arrangements of the company and of its operational activities across all the museums' venues.

The review found that:

- cultural differences between the trading company and the museum affected their day-to-day relationship;
- there was a need to narrow the gap between the directors of museum and the operational managers in the company; and
- the cost of support services provided by the museum were probably understated (and consequently the profits of the company were overstated).

National Museums Liverpool recognises that where an income generating activity is best managed may change over time, as value, volume or risk changes and as the need for finance and partnership arrangements dictates.

Consequently, a new Business Unit is being set up within the museum, headed by a Commercial Manager, to review all museum activities and consider their income generating capacity and whether such activity should take place within the museum or within its trading subsidiary.

The museums and galleries need to manage the risks involved in new ventures, particularly with off-site activities

2.10 Trying out new approaches to generating income involves managing risks, a point recognised by the Wider Markets Initiative which recommends the development of a business case before embarking on a new commercial activity. The risks involved can be both financial and reputational. We analysed examples of successful and unsuccessful income generating initiatives provided by the sponsored museums and galleries. The success stories almost all involve traditional income generating activities, particularly those which increase the number of visitors and their spending: retailing, catering, publishing, venue hire, special events and attractions. On-site activities are also usually the more profitable internationally (Appendix 3).

2.11 Most of the examples of less successful initiatives have involved attempts to break into new markets away from the sponsored museums and galleries: for example, mail order and shopping on-line, touring exhibitions and international guided travel tours. Contributory factors have been in estimating the likely demand and costs, and unexpected operational problems. However, **Box 7 overleaf** shows how Tate has successfully generated income off-site by a blend of risk transfer and good risk management. And the Science Museum manages risk by distinguishing between the management of core activity and what it calls "growth engines" - potentially high revenue business areas which are inherently more speculative and complex or less familiar and predictable than well-proven commercial areas such as on-site trading activity.

BOX 7

Tate - Earning money from the brand



B&Q launched a range of paint bearing the Tate name in March 2001. This followed the successful opening of Tate Modern which gave the Tate brand a huge boost, improving Tate's commercial leverage.

Tate saw three potential advantages from the deal with B&Q:

- audience reach;
- extra revenue; and
- enhanced commercial reputation.

B&Q developed the product and paid for a national prime time television advertising campaign, whilst Tate approved all the designs.

Tate identifies the following as important in managing the financial and reputation risks involved:

- a very strong contract to protect its trademark, protect against liability claims and an opt out clause;
- good product development;
- the right profile company;
- an agreed minimum marketing spend;
- minimal cost outlay by Tate; and
- enough money to make it worth the reputation risk.

Tate likes working with retailers rather than manufacturers because, it says, it gains more control, for example over where the product is placed in retail outlets, and the money comes through faster.

Following the successful launch of the Tate range of paints, B&Q developed the Tate range of frames and prints, launched in Spring 2002 and Tate wallpaper launched in September 2002. Tate has recently finalised negotiations with a holiday company for Tate-branded holidays and is pursuing other opportunities to extend brand licensing into new fields.

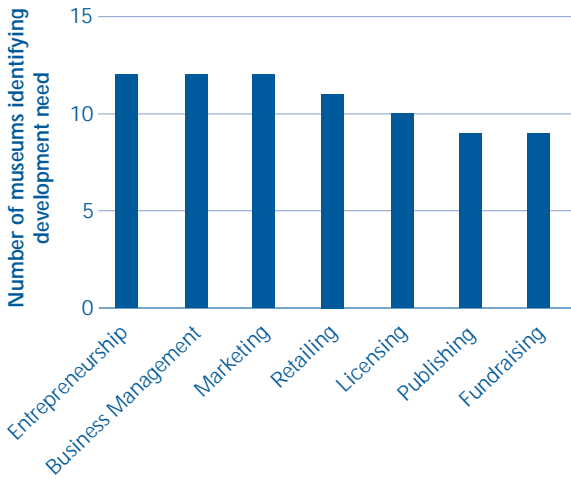
Museums and galleries are seeking to develop their skills for income generation although they face barriers

2.12 The skills that the museums can bring to bear on income generation are clearly important for success and all of the sponsored museums and galleries recognise the need to develop their skills for income generation. Asked to assess their development needs against seven different types of skills only two of the 17 claimed to be fully skilled in more than three of the seven areas and five needed to develop their skills in all seven areas

given (Figure 10). The most common development needs are for entrepreneurship, business management and marketing skills. However, over half of the museums and galleries also see a need to develop their skills in retailing, licensing, publishing and fundraising - fundraising being the largest single source of self-generated income and an area where the museums and galleries are looking for growth.

10 Skill development needs

Museums and galleries need to develop their skills for income generation across the board.



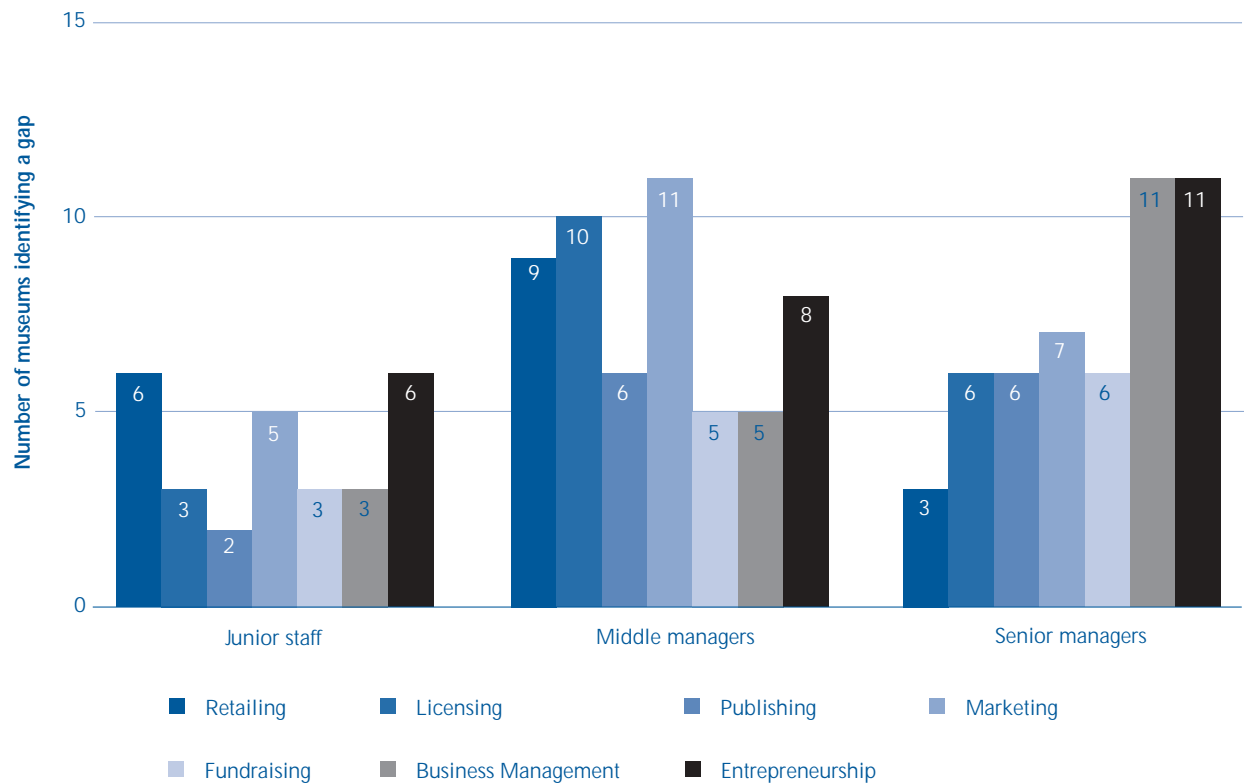
Source: National Audit Office

2.13 **Figure 11** shows the development needs identified for different groups of staff, the greatest need being at managerial level. Museums most want middle managers to develop entrepreneurship, marketing, retailing and licensing skills. They most want senior staff to develop entrepreneurship and business management skills.

2.14 The museums and galleries are working to upgrade their skills, but almost entirely through internal training and normal performance management processes, with little use of external training providers or secondments from other organisations. They primarily give financial reasons for their inability to acquire the skills they want, with a lack of funding to create posts or upgrade skills, and inability to compete on salary with other organisations, being a common problem. In addition, other occasional problems experienced by at least five of the museums and galleries, are a lack of suitable qualified and experienced people available in the marketplace, an inability to create vacancies for new staff because of the age profile of existing staff, difficulty in identifying the key skills needed and lack of agreement internally on the need to upgrade skills.

11 Where museums need to develop their skills

In addition to entrepreneurship, most museums want middle managers to be better at commercial activities including marketing and senior managers to be better at business management.



Source: National Audit Office

One way of overcoming these barriers is to collaborate more

2.15 The Department has a significant role in facilitating collaboration between the sponsored museums and galleries. It represents the sector in government and works with individual institutions to help them solve specific problems. It has also helped provide sector-wide advice and guidance on income generation through its support and involvement in the reports: *Creative Industry: Generating Income for Museums and Galleries*, (Museum and Galleries Commission, 1999) and *Revenue Generation*, (QUEST, Department for Culture, Media and Sport, 2001).

2.16 The museums and galleries share knowledge through a variety of formal and informal networks across the sector, for example the National Museum Directors' Conference, the Museums Trading Association, the Association of Leading Visitor Attractions, and Arts and Business. Some of the larger museums, known for their expertise in specific areas, are called upon by other institutions for advice, which they are happy to provide. Nevertheless, the majority of museums and galleries would like to see a greater degree of collaboration and knowledge-sharing between them and suggest the Department could:

- develop its role as a broker in linking institutions and funding opportunities, such as when, in 2002, it organised a seminar with the Natural History Museum and the National Maritime Museum to promote their research skills to potential purchasers;
- provide an information service, for example on government grant schemes and successful fundraising approaches; and
- facilitate training events and conferences for museum business specialists, and cross-sector market research.

2.17 An example drawn from the Wallace Collection (**Box 8**) demonstrates how smaller museums might benefit from a greater degree of collaboration.

Museums and galleries' boards of trustees have an important role in driving forward income generation

2.18 Trustees serve on the Boards and other committees of museums and galleries in a voluntary and unpaid capacity. The extent to which trustees become involved in income generation depends on their particular expertise, their time and how they view their role (see Appendix 2 on museums' regulatory framework). The Department has made a number of new appointments in recent years to strengthen the commercial and fundraising experience available through Boards of Trustees, and is continuing this approach.

2.19 The majority of museums have at least one trustee on their Board who takes a particular interest in income generation. One museum said, for example, that their Board of Trustees helps them network, raise their profile and make contact with potential funders. Three quarters of the museums and galleries, however, see scope for their Board to extend its fundraising role, with seven looking for a more entrepreneurial flavour to their Board. Our expert panel also considers that the Board could play an important role in driving forward income generation and feels that there is currently a lack of clarity about this.

Some museums and galleries need to improve the quality of their planning

2.20 Eight of the 17 museums and galleries see a clear strategy as one of the top factors contributing to their success in generating income, so we assessed the museums and galleries' income generation strategies and plans against the following criteria:

- the income generation strategy should be developed as part of the organisation's corporate planning process;
- there should be clear targets for self-generated income;
- the planning document should say how the income generation targets are to be achieved;
- the organisation should have considered whether there are opportunities for greater income generation across a range of different types of income generating activity; and
- the organisation should have identified options and considered the risks to its business should the targets not be achieved.

BOX 8

The Wallace Collection - Facing the problems of smaller museums

The Wallace Collection, although internationally important, is one of the smaller museums and galleries covered by this report. These organisations typically face some considerable challenges.

The museum has collaborated successfully with other organisations such as the Bridgeman Art Library, which sells Wallace Collection slides on commission, enabling the Wallace to market its images more widely.



The Laughing Cavalier by Frans Hals - one of the famous works in the Wallace Collection.



The Sculpture Courtyard - in use for catering and functions.

However, the museum's small size limits its ability to access the skills needed to develop income generation more widely or fully. The museum told us that it would like to exploit its collection through licensing and expand its shop, probably with a commercial partner. It is aware from its web site hits of the potential market for its merchandise and is considering making more items available through the web site and using e-commerce tools. But it does not have the resources, or the skills in-house, to pursue these, partly because it cannot afford to pay the salaries of those with the right type and level of experience.

Smaller museums' inability to invest in capital equipment can also impact on income generation. As part of its Centenary capital project, the Wallace Collection roofed the Sculpture Courtyard and uses it as a cafeteria and for functions, with catering contracted out on a profit-sharing basis. Although popular, because the contractor paid for the new kitchens and catering equipment and is still recovering its investment, the Wallace Collection has not received significant income from this development to date.

The Wallace Collection suggests that the Department for Culture, Media and Sport could help it by establishing a fundraising committee to help identify potential donors, provide background information on possible corporate sponsors and reduce wasted effort.

2.21 We found that all the museums and galleries explicitly consider income generation as part of their corporate planning, and nine museums and galleries meet four or more of the above criteria. Indeed over the last two years or so, six of the nine have also engaged outside consultants to take a more fundamental look at their income generating activities and management. The example from the Imperial War Museum in **Box 9 overleaf** shows how a fundamental review of its fundraising has led to a change of strategy. We also found the museums and galleries with well-developed plans on paper were better able to articulate in their response to our questionnaire how they are going to take advantage of the scope for growth in income they identified (paragraph 1.14). But five museums and galleries' plans meet only one or two of the criteria - they do not explicitly consider opportunities and risks and say little about how targets will be achieved.

Shared performance measures would provide opportunities for benchmarking between the museums and galleries

2.22 All of the museums and galleries have assigned responsibility for income generation to one or more members of their senior management team. And they almost all set income targets for their main sources of income, monitor their performance against the targets and a range of other indicators, such as on-site spend per visitor, and report performance against these to the Board. There is, however, little commonality in the measures they use.

BOX 9

Imperial War Museum - Developing fundraising



In 2000, the Imperial War Museum engaged consultants to carry out the first professional review of the museum's fundraising activities and plans. A number of factors were identified that would determine the overall success of the strategy including:

- a whole organisation approach that identified opportunities across as well as within the museum's five branches;
- a clear focus on target audiences with well-researched and co-ordinated fundraising across past and potential donors;
- the highest standards of donor care and relationship building;
- ownership and support of senior staff for the strategy and the 'professionalisation' of fundraising;
- the individual and collective contribution of the Trustees.

Overall, the consultants found that there was potential to raise further significant capital sums and generate revenue income and recommended the adoption of an integrated, overall fundraising strategy in order to maximise this potential.

A Development Division was formed to serve the whole museum and the first Director of Development was appointed in August 2001. A museum-wide development strategy has been prepared, with the objective of maximising external funding and establishing a culture of income generation across the whole organisation. The museum is also investing in additional staff to further support fundraising and development.

2.23 As part of its oversight role, the Department has developed two income generation performance indicators: non-grant income per visitor and revenue generated from sponsorship and donations per visitor. The Department is currently working to refine the measures used to provide a basis for comparing the performance of the museums and galleries.

Finding the money to invest in good ideas can be difficult

2.24 The museums and galleries cannot borrow money freely on the financial markets because as non-departmental public bodies they are subject to government controls over public sector borrowing. Eight museums, mainly larger ones, see their inability to borrow as a constraint on their ability to generate income. The Imperial War Museum, for example, wants to be able to borrow money to invest in better exploitation of intellectual property rights over its photographic and documentary archives. The museum sees scope for working in partnership on a major project to provide on-line access to its collection but would need to be able to finance part of the project itself.

2.25 As they cannot borrow, the museums and galleries must find other ways of financing their investment in income generating activity. The Wider Markets Initiative recommends partnership with the private sector where significant additional investment is needed to develop income generating activities and most of the museums and galleries do use partnerships in this way. Thirteen museums and galleries have entered into one or more joint ventures or partnerships with other organisations, with commercial partners most frequently used for catering, consultancy, book publishing and distribution of digital images of the collection:

- The **Natural History Museum's** catering contractor, Eliance, invested around £450,000 over five years in new catering facilities at the museum, in exchange for a reduced rent.
- The **Science Museum** has a strategic partnership with a leading UK-based leisure consultancy firm, in which the museum provides experience-based operational management consultancy skills that complement the consultancy firm's strategic business advice. This generated business worth £21,000 to the museum in 2002-03.

- The **National Portrait Gallery** has collaborated with the British Academy and Oxford University Press on the Oxford Dictionary of National Biography. The Gallery researched 10,000 images for the new dictionary; it received fees on 5,000 images from its own collection and also helped negotiate the rights for printed and electronic media for 5,000 images from other collections.

2.26 While partnership provides a way to obtain access to funds and reduces the financial risk to the museums and galleries, the museums and our expert panel also pointed to the need to be aware of the following difficulties:

- partnership can lead to lower returns overall for the museums and galleries because the partner usually requires a greater share of the return than a normal lender would;
- establishing and working in partnership can be much more complex than borrowing and therefore requires greater management capacity; and
- it can sometimes be difficult to attract suitable partners.

Some of these issues are illustrated by the Imperial War Museum's project to create a Churchill Museum in the Cabinet War Rooms. The Museum could only proceed in the end through an unusual landlord - tenant leasing arrangement with the private sector contractor (**Box 10 overleaf**).

2.27 Other forms of finance include commercial sponsorship and direct grant from governmental and public sources. Commercial sponsorship is used by most of the museums and galleries. Fifteen have obtained sponsorship, mainly in support of special exhibitions which generate income through increasing the numbers of visitors to the museum and sales of exhibition-related material such as books, catalogues and souvenirs. The National Gallery, for example, as a result of a long-standing scientific collaboration with Hewlett-Packard, have received sponsorship in kind from the company for a variety of projects, including a multi-million pound television marketing partnership, and contributions towards a new Print on Demand facility to produce high-resolution posters for sale with expected gross annual revenue of £130,000.

2.28 There are also some limited opportunities to obtain additional grant from government for investment in schemes with income generation benefits. The Department, for example, has contributed capital grant towards two projects to refurbish buildings for use as spaces for entertainment and events.

BOX 10

Imperial War Museum - Financing the Churchill Project



The 'sandbagged' entrance to the Cabinet War Rooms, London.

Opened in 1984 and the responsibility of the Imperial War Museum since 1989, the Cabinet War Rooms, situated under the building occupied by Her Majesty's Treasury, provided a place to work, sheltered from bombing raids, for Winston Churchill and his War Cabinet throughout the Second World War. Although the site is of national importance, visitors only see a third of the area that was occupied at the end of hostilities in 1945.

When plans to refurbish the Treasury building under a Private Finance Initiative scheme were announced in 1995, the Imperial War Museum entered into discussions with the Treasury and its private sector partner to bring the remainder of the wartime War Rooms within the museum's area and to create a Churchill Museum within them. However, problems with the Private Finance Initiative deal meant that the museum did not obtain rights to the space until August 2000.

As an existing London tourist attraction, even relatively pessimistic predictions of visitor numbers meant that the project should generate extra income for the museum. However, the practicalities meant that the conversion had to be carried out before work on the Treasury building was complete. Effectively, the museum either had to do it straight away or never.

The financing of the project was complicated by the fact that the Imperial War Museum is not allowed to borrow money, did not have the money itself and did not have time to raise it through the traditional fundraising route. Moreover, it was too late and would have been too expensive for the project to be included in the existing Private Finance Initiative deal. Yet cost, time and other considerations pointed to the main refurbishment contractor being the only choice for the project. The museum proposed a 'design, build and finance' arrangement with the contractor but was prevented from entering into such an arrangement since it could be construed as a loan. To overcome this problem, a 'rentalisation' scheme was devised. The Private Finance Initiative private sector landlord carried out and financed the building works and the museum entered into a sub-lease with the landlord. The museum has the option to 'buy out' the lease should it raise sufficient funds.

Work on the extended Cabinet War Rooms was completed in 2003. Fundraising and work on the Churchill Museum continues and the museum hopes to open it in January 2005, the 40th anniversary of Sir Winston Churchill's death.

Appendix 1

Methodology

The main strands of our approach are:

- a survey of sponsored museums and galleries
- case studies drawn from sponsored museums and galleries
- a comparator survey of similar organisations in the UK
- research on international museums and galleries
- drawing on the advice of a panel of experts

These are described in more detail in the paragraphs following.

Survey of sponsored museums and galleries

We sent a questionnaire to the Directors of all 17 sponsored museums and galleries. They were asked to provide information on the following topics:

- their strategy, plans and methods for generating income
- organisational structure and financing of income generating activities
- performance management systems
- skills base for income generation
- collaboration with others
- performance and the factors affecting recent performance
- examples of successful and unsuccessful income generating initiatives
- view of the future for income generation
- success factors and barriers to income generation

We also asked for the actual income and associated direct and indirect costs for 18 different income streams for the five years 1998-99 to 2002-03 and estimated figures for 2003-04 to 2004-05.

All 17 museums and galleries returned a completed questionnaire. Their responses form the key information on which the report is based.

Case studies

We selected four of the sponsored museums and galleries as case studies to provide a more detailed look at the issues around income generation. We chose National Museums Liverpool, the Wallace Collection, the Tate and the Imperial War Museum to represent the range of sizes, collections and locations across the 17 sponsored organisations and to offer interesting examples for the report. We visited each of these organisations where, through interviews and examination of papers, we followed up specific issues and areas of interest arising out of their questionnaire response.

Comparator survey of similar organisations

We sent a questionnaire to 101 organisations within the United Kingdom which, like sponsored museums and galleries, seek to generate income from visitors to their exhibition, collection or property. We asked about:

- how they finance income generating activities
- examples of successful income generating initiatives
- factors affecting recent performance
- their view of the future for income generation
- success factors and barriers to income generation

We chose a wide range of visitor attractions including museums, galleries, historic properties, gardens and zoos. They included independent organisations together with those run by local authorities, the Armed Forces, universities and the national museums of Scotland, Wales and Northern Ireland. They were not intended to be a matched sample for sponsored museums.

We received 55 responses, a response rate of 55 per cent. The organisations which responded, grouped according to the number of visitors they receive each year, are shown in the table overleaf.

Organisations responding to comparator survey	
3 million+ visitors - similar visitor numbers to the British Museum	
■ English Heritage	
1-3 million visitors - similar visitor numbers to the Victoria and Albert Museum	
■ Cadw	■ National Galleries of Scotland
■ Chester Zoo	■ National Museums of Scotland
■ Historic Royal Palaces	■ Somerset House
■ National Museums and Galleries of Wales	■ Tyne and Wear Museums
350,000 - 1 million visitors - similar visitor numbers to the Museum of Science and Industry in Manchester	
■ Arnolfini Gallery	■ Serpentine Gallery
■ Birmingham Museums and Art Gallery	■ Sheffield Galleries and Museums Trust
■ Blackpool Tower and Circus	■ The Deep
■ Bristol Museums and Art Gallery	■ Warwick Castle
■ Leeds Castle	■ York Museums Trust
■ National Motor Museum	
90,000 - 350,000 visitors - similar visitor numbers to the Horniman Museum	
■ Beamish: North of England Open Air Museum	■ Manchester City Galleries
■ Brooklands Museum	■ Museum of Costume, Bath
■ Chatham Historic Dockyard	■ National Botanic Gardens of Wales
■ Coors Visitor Centre	■ National Coalmining Museum
■ Design Museum	■ Norwich Castle Museum and Art Gallery
■ Dulwich Picture Gallery	■ Pitt Rivers Museum
■ Earth Centre	■ Penrhyn Castle
■ Fitzwilliam Museum	■ Powis Castle and Gardens
■ Harewood House	■ Quarry Bank Mill
■ Hunterian Museum and Art Gallery	■ Royal Pavilion, Libraries and Museums
■ Ikon Gallery	■ Tank Museum
■ Jersey Heritage Trust	■ Whitechapel Art Gallery
■ London's Transport Museum	■ Wolverhampton Art Gallery and Museums
■ Magna	
Fewer than 90,000 visitors - similar visitor numbers to the Geffrye Museum	
■ Abbot Hall Art Gallery	■ National Horseracing Museum
■ American Museum in Britain	■ Southampton City Art Gallery
■ Bodelwyddan Castle	■ Thackray Medical Museum
■ Gladstone Pottery Museum	■ Usher Gallery

International museums and galleries

We commissioned Selina Fellows, a retail and marketing consultant, to research income generation in four overseas countries as exemplified by five institutions:

- the Smithsonian Institution in Washington D.C., USA
- the Metropolitan Museum of Art in New York, USA
- the Réunion des Musées Nationaux in France
- the State Hermitage Museum in St Petersburg, Russia
- the Egyptian Museum in Turin, Italy

We selected the museums to provide a small number of organisations from a range of countries, with a mix of business models, museum types, visitor numbers, profile and funding arrangements.

The research provided information on the organisations' approaches to income generation and performance. The purpose of the comparison was not to benchmark the performance of overseas institutions either with each other or the sponsored museums and galleries, but to consider potential lessons. An overview of the results of the work is at Appendix 3.

Background research

We interviewed a wide range of stakeholders to collect information and views on the issues and practicalities of income generation in museums and galleries. We also reviewed relevant reports and evaluations. We drew on the reports *Creative Industry - Generating income for museums and galleries* (Museums and Galleries Commission, November 1999) and *Revenue Generation (QUEST)* (Department for Culture, Media and Sport, 2001) in our questionnaire design and in selecting comparator organisations.

Expert panel

We set up an expert panel to provide advice on our study approach and findings and to identify the success factors and barriers to income generation for sponsored museums and galleries. The members of the panel were:

- Chris Batt OBE - Chief Executive, Resource: The Council for Museums, Archives and Libraries
- Alan Coppin - former Chief Executive, Historic Royal Palaces
- Robert Crawford CBE - Director General, Imperial War Museum and Chair of the National Museum Directors' Conference
- Owain Ellis - Project Director, Partnerships UK
- Selina Fellows - Independent consultant in retail and marketing
- David Fleming OBE - Director, National Museums Liverpool
- Teresa Graham - Deputy Chair, Better Regulation Task Force
- Richard Hartman - Department for Culture, Media and Sport
- Theresa Lloyd - Independent consultant in fundraising and Director of Philanthropy UK
- Alex Stewart - formerly of the Department for Culture, Media and Sport
- Magnus von Wistinghausen - AEA Consulting

Appendix 2

Regulatory framework

- 1 The Department for Culture, Media and Sport (the Department) sponsors 17 non-departmental public body museums and galleries referred to as 'the sponsored museums and galleries'.

Museums and galleries' status

- 2 Twelve of the sponsored museums and galleries have 'National' status - that is, they are subject to primary legislation enacted because they hold collections of national importance AND are grant-in-aid funded by the Government. The Department also sponsors five non-National museums - Sir John Soane's Museum, the Geffrye Museum, the Horniman Museum, the Museum of London and the Museum of Science and Industry in Manchester. Sir John Soane's Museum buildings and collections were bequeathed to the nation by Act of Parliament in 1833, and became grant aided in the 1940's. Responsibility for the four other non-Nationals has resulted from changes to the system of local government administration in England.

Administrative status

- 3 The museums and galleries have administrative status as non-departmental public bodies (NDPBs). As such, they operate within a strategic-control framework under the Department for Culture, Media and Sport. This includes the conditions under which grant-in-aid is provided. The framework is set out in financial memoranda and management statements with each museum. These give museums a high degree of operational flexibility, although the museums remain fully accountable to Parliament.
- 4 As sponsoring department, the Department for Culture, Media and Sport has a duty to ensure that the financial and other management controls to be applied by the museums are appropriate and sufficient to safeguard public funds and comply with the requirements of regularity and propriety; and that these bodies conduct their operations as economically, efficiently and effectively as possible. "Public funds" means monies derived not only from the Exchequer (grant-in-aid) but also from other sources - for example from fees and charges; the supply of services; or the sale of assets.

Charitable status

- 5 The museums and galleries also have legal status as charities. Twelve of the sponsored museums and galleries are 'exempt charities', meaning they are exempt from registration with the Charity Commission, the body responsible for upholding the law regarding charities. The other five are all registered charities and subject to Charity Commission scrutiny.
- 6 One of the effects of their charitable status is to rule out direct Ministerial control over the Trustees in discharging their charitable duties except where written into statute. They must act at all times in the interests of the charity and not of any third party. Trustees are responsible for ensuring that a charity operates high standards in the management of its resources and in the delivery of its charitable aims, in accordance with certain legal and regulatory requirements and the expectations of the public⁶. Insofar as additional income enables trustees to further the charitable objects of the museums and galleries, it is reasonable to expect them to seek to generate more income, taking account of any risks to which the museum might be exposed as a consequence.
- 7 Another consequence of charitable status concerns the museums and galleries' ability to trade commercially. Charities have always been able to trade within their primary purposes, that is selling goods or services which fall within their charitable objects (see paragraphs 8 and 9). The sale of merchandise or sponsorship of the charity are non-primary purpose activities and should be conducted outside the charity unless covered by concession from the tax authorities. This will normally mean that these activities should be conducted through a trading subsidiary which then pays profits up to the charity via Gift Aid.

⁶ Paragraph 8, "Charitable funds associated with NHS bodies" - C&AG Report - HC 516 Session 1999-2000; 15 June 2000.

Legal identity, duties and powers

- 8 The museums and galleries have a legal identity through their Boards of Trustees. Most of the Boards are constituted as bodies corporate under various legislation⁷. The legislation that creates the Boards also imposes duties on the museums and galleries. For example, to:
- a care for, preserve and add to their collections;
 - b ensure that the collections are publicly exhibited and available for study or research; and
 - c generally promote the public's enjoyment and understanding of the areas covered by the collection.
- 9 The legislation also confers powers. For example, Boards may appoint staff, particularly the director responsible for the general exercise of the Board's functions. And Boards may form one or more bodies corporate with the object of:
- a Producing and publishing books and films etc relating to their collections;
 - b the production and sale of replicas, reproductions and informative material relating to their collections, or other goods; and
 - c the provision of catering or car parking or other services or facilities for the public; or
 - d any other object incidental to the Board's functions.

⁷ For example: *Imperial War Museum Act 1920*, *National Maritime Museum Act 1934*, *Merseyside Museum and Galleries Order 1986*, *Museum and Galleries Act 1992*.

Appendix 3

International comparisons

To describe the approach to income generation internationally, five organisations in four countries were chosen in consultation with the National Audit Office. This overview is drawn from the case studies researched on each organisation and highlights some of the common trends that emerged. The selection criteria were a mix of countries, business models (e.g. centralised, third party, in house), museum types (e.g. art, science etc), visitor numbers, and funding by national government.

The museum organisations selected were:

USA	<ul style="list-style-type: none"> ■ Metropolitan Museum of Art (Met), New York ■ Smithsonian Institution, Washington D.C.
France	■ Réunion des Musées Nationaux (RMN)
Russia	■ State Hermitage Museum, St Petersburg
Italy	■ Egyptian Museum, Turin

It is important to note the museums chosen are not necessarily representative of the situation within each country. The diversity of the collections and funding arrangements in most countries is too broad to enable one to hold up any one particular museum as being 'representative' of the commercial and income generating activities of museums in a particular country. For example, apart from Russia, a high number of museums are either locally or privately funded in most countries. Having said this, there are a number of themes which emerge from the five museums surveyed as well as from general knowledge of the local situations in each country.

Centralisation

The economies of scale which centralisation should bring usually appear attractive on paper. However the differing commercial priorities, the scales of business, the different embedded cultures within the various organisations and, most importantly, the difference in appeal of the various collections means that the benefits of centralisation are not always possible to realise. In a centralised operation the better known/visited museums usually support the smaller/less well known or profitable ones and there are the inevitable conflicts of interest as well as the difficulties of applying a business model for say a £5million business to that of say a £100k business.

The RMN and Smithsonian both have a centralised business model with responsibility for 32 and 16 museums respectively. Aldeasa in Spain is another example of a centralised museum trading company (albeit a privatised commercial company). However at the time of writing the RMN (in line with a general shift toward decentralisation in the French public sector) is actively reviewing its structure and scope and it is likely the commercial activities of the major French national museums will become decentralised, or at the very least, more autonomous. Plans have already been announced to enable the Louvre to organise (and take the financial reward from) their own major exhibitions. They will also be able to exploit the images of the objects in their collection although the rights to the images reside with RMN.

Partnerships

Many of the museum shops and catering facilities in Europe are contracted out to third party operators. In Italy, for example, there is a tradition of publishers also being retailers and many of the museum shops are run by publisher/retailers (who usually have the rights to publish the potentially lucrative major exhibition catalogues). Also in Italy, not only are the shop and café/restaurant contracted out but also the ticketing and audio tours/guides - this is unusual across the rest of Europe and North America.

The key benefits of contracting out are low capital investment, little requirement for (non core) operational or commercial management expertise and a relatively low financial risk. The negatives are lack of control, potential dilution of museum service levels such as product mix, range of publications/merchandise, inappropriate customer service etc, poor overall 'fit' with the rest of the museum's activities and lower profits to the museum. In both the UK and USA most of the retail operations are run in house but the catering is often contracted out to large catering groups.

In Italy, a new private/public funding partnership for the Egyptian Museum in Turin is being developed at the instigation of the Ministry of Culture. It is too early to say how successful (or not) this is.

Collection

The scope and the size of a collection also impacts on the museum's commercial abilities and potential (although there is not always a direct correlation between the two). Some collections have more commercial appeal than others and are more in tune with the fashion or zeitgeist of the moment or to a specific visitor/customer profile. For example good collections of Science objects, Post impressionist paintings or Egyptian artefacts are currently all commercially interesting.

The popular appeal of the collection is a significant contributor to the potential overall success of the income generating activities - from trading to gift giving. For example the scope of the collection and resultant high profile of the Hermitage museum has enabled them to create partnerships and generate revenue only dreamt of by other museums in Russia. The commercial potential of the Egyptian Museum's collection in Turin has also been recognized and the new public/private partnership should enable them to address the commercial opportunities offered by an important Egyptian collection in a city which is preparing for the 2006 Winter Olympics and has positioned itself as the Italian capital of contemporary culture.

On and off-site

Income generating activities take place both on and off-site. In general the on-site activities are more profitable. The staple turnover of the trading activities on-site is usually retail and catering based (although there is the exceptional example of the Met who built an underground car park on a piece of prime real estate and have reaped the rewards - albeit at a high initial capital cost).

However the off-site trading activities can play an important part in increasing the profile of the museum (and thus keeping them 'front of mind' - a particular benefit for gift giving/fundraising). Activities which are trading based such as mail order, wholesale distribution, off-site shops, publishing, licensing, and to a lesser extent e-shop all play their part in this. Although they are not necessarily very profitable, as long as these activities make at least a small profit and are in keeping with the overall brand values of the museum, many museums see them as an important part of their marketing and outreach activities.

Scope of activities and revenue from these

North America is the most advanced in terms of the scope of its income generating activities. The Smithsonian not only runs retail, catering, mail order, licensing, but also a magazine (with a paid circulation of 2 million), 'attractions' and travel packages to generate footfall into the museum. Paid entry major exhibitions can also be another profitable (albeit high risk) income generating activity with the spin offs of improved footfall in the museum increasing turnover in the shop and café. The Met has an extensive wholesale operation and a chain of shops in US and internationally. All of these activities build the brand and the public's perception of it, although they may not make large profits.

Shops have often been perceived as the most lucrative element of a museum's income generating activities. This is not necessarily so. The shop is usually one of the most visible and tangible elements of a museum's commercial activities but when all the operational overheads and cost of stock are deducted (as well as the 'cost' of some the non profitable activities (see below)) it sometimes returns a profit as low as 5% in the published accounts (and in some recent, but rare, cases can be loss making).

Of the trading type of income generating activities and on a £ for £ basis admissions are probably the most profitable income generating activity because there are few materials costs to offset against these (unlike the case with retail, catering, publishing for example) - the main cost is labour and capital expenditure on till systems. However the shop is usually an important part of the brand and an expected part of any visit to a modern day museum. It is often argued that the shop has benefits to the brand building and marketing activities of the museum as well as the commercial contribution.

Profits from catering can be much higher than those from shops (because of lower cost of materials) but, because of the large number of people involved (and the difficulties in persuading funding bodies to agree large increases in staff) and the expertise/skill base required to run catering successfully, many museums shy away from operating catering in house.

Publishing is often undertaken on a partnership basis as few of the small to medium size museums have the infrastructure to publish and distribute their titles. For example some co-publish (e.g. Hermitage), others publish but use existing trade sales networks to market and distribute titles. In other cases large museums have in house publishing departments (e.g. RMN, Met, Smithsonian).

However, overall the membership, donor and endowment programmes show the greatest net return and the continuing levels of investment by individuals in the US are impressively high compared to the norm in the UK and Europe. This is due to the culture of giving in the US and the tax benefits. Sponsorship agencies are often used to help effect introductions between potential sponsors and museums but the relationships that develop are delicate and always direct with the museum and often, more importantly, with a specific individual on the museum staff. There are numerous examples of substantial donations that have been made because the donor 'believes' or trusts the museum director, sponsorship director, or curator - the ultimate customer relationship marketing.

Service/educational element v. profit

When the commercial/trading operations are managed 'in house' it is common to include many of the non profit trading activities within their remit. The annual reports (particularly of the USA museums) allude to this. In essence the commercial/profitable activities support the educational or what are sometimes called the 'service' or non profit elements of a museum's mission. For example the cost of publishing academic, specialist or educational publications is often included in the trading operations' financial reports. This reduces their overall profitability on paper. Likewise a museum may choose to run a mail order catalogue which is seen as having part marketing (i.e. it gets the museum in front of more people) and part commercial benefits. As long as it breaks even after all costs (including those 'hidden' costs) the museum will be happy to do this.

Market forces

Depending where September 11th fell in the organisation's fiscal year, tough trading conditions were encountered in 2001 (or 2002) and two of the museums included in this report stated a loss both in USA and Europe showing just how vulnerable the income generating activities can be to visitor footfall. Not unsurprisingly the museums with mail order businesses reported an increase in business (particularly in the US where people were reluctant to travel) as well as an increase in donations.

Simply put the market force drivers for self-generated museum income are both internal and external. The internal drivers include number of visitors, their disposable income, scope and scale of the visit experience and the scope and scale of the activities to attract visitor spending. External drivers include funding (in all its various manifestations), donations, 'halo' effect of the museum brand, economy, general sense of well being (or not) and 'fashion'/popularity of the museum's subject.

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