Mixture Matters

The challenges and opportunities in the business models of Craft Development Organisations

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[1] These five organisations have received funding as a consortium under the Arts Council England Catalyst 3 scheme: building fundraising capacity, 2013-15

Contemporary Craft Development organisations such as the set of five[1] comprising Bluecoat Display Centre, Craftspace, Devon Guild of Craftsmen, Smiths Row and Manchester Craft & Design face a very particular set of business model challenges. Contemporary Craft is defined as part of the visual arts in the Arts Council England sector definitions and, in common with the rest of this sector, there is a focus on art form development. Art form development for the contemporary craft sector means commissioning makers to create new artwork for a wide range of contexts. Development of contemporary craft also includes the communication of the wider value of craft skills, knowledge and approaches to problem solving as well as its role in settings such as education and research.

The first challenge is that unlike visual arts there is a perception that craft development organisations are well placed to earn a percentage of their income from the sale of the craft objects they commission or exhibit. It is notable that we would not set this as a priority for a gallery such as Chisenhale, Tate or Baltic. Whilst these organisations might recoup a set of commissioning costs should a work sell they are not expected to be a sales agent for the work. This dual role of development organisation and sales agency can be seen in the structure of the income models.

A second challenge can be seen when we look in more detail at the type of contemporary work which is commissioned as part of art form development vs. the type of work which tends to sell in a craft shop or gallery. Whilst not entirely mutually exclusive it is unusual to see substantial crossover in terms of the work being produced to meet the needs of these two different markets. There is some crossover between the makers who supply to these two distinct markets.

So, the models of contemporary craft development organisations are particularly complex and not necessarily easily synchronised. If we are to establish a set of sustainability and robustness goals we therefore need to identify the objectives and business models for these different types of activities and set separate goals for each, before knitting it all together into a single business model for an organisation. As an aside this makes comparison of organisations somewhat more challenging as there is a greater degree of difference between five similarly sized contemporary craft development organisations than there would be between five small to medium sized visual art galleries.

The key differences which affect the contemporary craft development organisation's business model are as follows:

- Is the organisation operating a public gallery or not?
- Does the organisation include the provision of studios to craft makers in its development or delivery remit?
- Does the organisation play a role in selling craft objects to the general public?
- Is the organisation delivering business to business activities within the arts and cultural sector such as touring exhibitions?
- Is the organisation developing business to business activities which connect craft into other public sector activities in health, education or social services?

The first four of these affect whether the organisation has the opportunity of venue based income generation in the form of café, shop and space hire. The fifth speaks to the organisation's ability to stick its fingers in public sector pies beyond those marked 'arts & culture' and thus not only diversify its income sources but demonstrate how craft can deliver a wider set of social impact outcomes.

The first four work with an organisation's tangible assets, the fifth with the intangible assets. A further challenge arises for organisations who are not building based as the market for the exploitation of intangible assets is generally less well developed in the arts than the market for goods and services based on tangible assets. We are all familiar as consumers with what to do when faced with a café or shop; artists and makers know what to do when looking to rent studio space and corporate clients know how to rent meeting space but fewer public sector clients are familiar with buying in craft skills to deliver education, health and social services outcomes.

The key questions therefore are:

- Q1 - To what extent are the business models of contemporary craft development organisations driven by their Deferred Value Creation (which needs to be grant funded)

- Q2 - To what extent do they have an opportunity to develop earned income streams which are complementary to this deferred value creation from their various tangible and intangible assets?

The Culture Benchmark data for 2012 and 2013 shows the following current position:

	Catalyst Craft Group Data		National Average	
	2012	2013	2012	2013
Sample Details: Sample size Average turnover	 5 £339k	 5 £338k	 203 £1.9m	 144 £2.9m
Income by type as a % of turnover				
Grant Income:				
Arts Council England NPO	31.6	45.7	35.7	36.8
Other Arts Council	14.4	17.6	13.9	17.9
Trusts & Foundations	4.8	1.3	10.8	10.9
Local Authorities	10.3	10.9	11.6	14.9
Lottery Funds	1.1	0.1	7.9	3.8
Other Gov't grants	2.1		7.4	4.5
Other revenue grants	4.0	3.8	20.0	20.4
Total grant funding	46.1	45.8	56.0	56.9
Venue based income:				
Ticket Sales	0	0	21.2	18.5
Education & Participation	1.1	1.0	10.9	6.5
Shop & Retail	37.0	34.3	10.6	15.6
Café	29.5	28.3	10.5	13.3
Space hire	32.2	30.8	10.2	15.9
Total Venue based income	61.3	57.7	30.3	33.2
Non-Venue Based Income:				
Total Donations & Sponsorship	1.0	0.9	7.0	6.2
Corporate Sponsorship	0.6		4.6	5.4
Private Donations	0.4	0.8	5.0	3.4
Other sponsorship & donations	1.7	1.0	6.0	6.5
Research Councils	0	2.1	0	2.1
Other research funding			3.2	9.9
Royalties			1.9	4.5
Franchise, Licensing and other IP income			1.3	0
Product sales	1.5	4.1	15.2	5.5
Services & consultancy	0.9	6.6	4.8	7.9
Ticket Sales (from other venues)			20.2	18.0
Subscriptions & membership	0.9	1.2	3.8	4.3
Delivery Contracts			18.0	25.1
Commissions			11.0	1.7
Investment Interest			0.8	0.7
Total non-Venue based income	4.8	7.3	20.6	15.4
Costs:				
Total Direct Costs	32.4	27.3	36.6	36.5
Total Salaries Costs (ex NIC & Pensions)	45.2	46.1	38.5	39.1
Pensions (ex NIC)	1.1	2.4	1.5	1.7
Marketing	4.0	6.4	5.1	4.3
Total Revenue Expenditure	102.6	104.0	103.8	101.6
Annual Surplus/Contribution to Reserves	-2.8	-5.8	-4.1	-1.8

These figures give a good indication of the overall health of the set of contemporary craft development organisations. As an average for the cluster their levels of grant dependency are below the national average despite being much smaller in terms of their total turnover (on average about £340k per annum vs. a national average of £2-3m). As a set they are also extremely good at deriving income from their tangible assets – 55-60% of total turnover vs. the national average of some 30-35%.

This set of organisations derive very little income from Trusts & Foundations (1-5% vs. the national average of approximately 10%) which begs the question as to why? Is it because they've not yet found the right funds to back the sector development activities or because the visibility of the craft objects and retail activities gets in the way of funders seeing the other activities they engage in based on their intangible assets? There might also be an issue with the amount of time that these small organisations are able to devote to fundraising and the writing of development bids given the small team and the demands of visitors in the building[2]. This set also derive very little income from donations and sponsorship (1% vs. a national average of 6-7%). Do the factors that affect the low levels of funds from Trusts & Foundations also impact the ability to raise funds from these sources? Is there also a skills issue in that these small organisations need to improve the skill sets in the team when it comes to developing private giving?

[2] If we look at the 2011-12 ACE NPO data set we see that, excluding the one organisation in each of the Catalyst Craft Consortium and Common Practice groups, the average known exhibition attendance for the craft cluster is in the region of 23,000 vs. the average for the Common Practice members of 13,000 visitors. This is almost twice the audience numbers for a craft organisation who has roughly the same numbers of staff as their peers in the visual arts.

Given the sector development role it is great to see that LA grant levels are on a par with the national average for the cluster as a whole (barring future cuts!) which we can suggest indicates that Local Authorities do know the value of these organisations. It is also some compensation for the low levels of income derived from education and participation activities on the basis that, particularly in areas where the organisations are focussed on delivering cultural and social impact to hard to reach communities, this LA funding contributes to the cost of delivery in ways which local participants simply could not afford individually. The development opportunity that relates to this is around the winning of public sector contracts to deliver services outside of the arts i.e. instrumentalisation of contemporary craft skills to deliver into health, social services, education etc. Not a decision to be taken lightly if organisations are to manage the balance between the intrinsic and the instrumental in terms of the wider development of contemporary craft!

1 The cluster vs. the individual organisation

The averages present a particular problem in that they mask the variation between the building and non-building based organisations. It would therefore be an error to compare any single organisation to the average for the set (this would be true for any cluster where there is high variation between the maximum and the minimum).

For example, if we look at the levels of grant funding the minimum is 11.3% of turnover and the maximum is 81.1%. The former is from an organisation where the sales of craft objects forms a high proportion of their activities but the latter is from a non-building based organisation where the focus is on the utilisation of craft skills to deliver social impact. There is also a high degree of variation between the minimum and the maximum for earned income from the tangible assets. For those who do have tangible assets from which to derive income the minimum is 19.9% and the maximum is 80.9%. These figures are based on the gross turnover not the income passed from trading company to charity.

2 Tangible vs. Intangible assets and their potential to deliver earned income

Unsurprisingly therefore there is a high degree of variation between the levels of tangible asset based income which acts a balancing factor for the cluster as a whole – a minimum of 19.9% and a maximum of 80.9%. This begs the question as to whether we should be comparing the activities of the cluster as a whole to the national average rather than looking at a single organisational level?

Alternatively should we be setting the target for levels of grant dependency for non building based organisations somewhat differently to those with public access to their buildings (and the sources of tangible asset based income that this opens up)? If we take Craftspace as an example of a non-building based contemporary craft development organisation with substantial intangible assets and high deferred value creation we could argue that it is inappropriate to set a target for the level of grant dependency at the average for the cluster or indeed the national average but instead we should look at the average levels of earned income from intangible assets and set this as the earned income target. With a national average level of earned income from intangible asset related sources of around 15-20% we might therefore reasonably expect grant dependency to be around 80-85% and for this to be a combination of ACE, Local Authority and trust & foundations. It is worth noting that Craftspace are already achieving a level of earned income from intangible assets that puts them on a par with the national average despite a total turnover which is only 10-15% of the national average.

3 Deferred Value Creation, intellectual property and the sales agent vs. the retail models

It is worth noting that the data published in Size Matters[3] is in tune with the data on non-building based contemporary craft organisations. Both data sets underscore the message that non-building based development organisations whose focus is on Deferred Value Creation are likely to continue to need to be dependent on grant based income sources.

[3] Size Matters, Notes toward a Better Understanding of the Value, Operation and Potential of Small Visual Arts Organisations, Sarah Thelwall for Common Practice, July 2011

However this is not to say that the solution is to open a publicly accessible venue! The other challenge that we see exemplified in the building based members of the Catalyst craft consortium is that whilst they create significant deferred value the structure of the market and the structure of the relationship with makers offers little opportunity to leverage this relationship into long term income streams. The market for the sales of contemporary craft is one where the majority of the relationships between maker and gallery are non-exclusive and the income to the gallery is based on a 50:50 split of the retail price. Contrast this to literature or music where the organisations who take a role in developing the talent and backing the production of a body of work (a book, an album etc) have a contractual structure which ensures that a percentage of all sales of the item are always returned to the producer. This means that a producing organisation can build up a catalogue of works upon which it continues to receive royalties. This offers a much longer return on investment period than the role of the retailer whose income is solely based on the volume of product sold through their own gallery or shop and has no income from the rest of the sales of the body of work. This issue of a much smaller window of opportunity for a return on investment is further compounded by the difficulty that a contemporary craft development organisation faces in the attribution of impact of their role in any one maker's career. That is to say if relationships are non-exclusive it will be very hard for a single maker to see the long term impact of one development organisation amongst the various other inputs and support they receive as any one body of work may have several retail outlets. This might go some way to explain why the levels of private giving are particularly low – neither maker nor collector can easily see the value being delivered by a single contemporary craft development organisation on an individual maker and their career. If we contrast this to the role of small to medium sized publicly funded galleries or commercial galleries where relationships are more likely to be exclusive either for the production of a specific body of work or for a geographic territory we can see a distinct difference in the ease with which value delivered is made visible to all parties.

Lastly the building based model which offers retail is further complicated by the need to make product selection choices which are based on the contribution to the canon of contemporary craft not simply on the needs of the customer segments i.e. a contemporary craft gallery cannot simply stock that which sells well, it must stock that which is deemed to be making a contribution the canon. This is not a restriction that the commercial sector would wear!

4 Conclusions

As deliverers of Deferred Value, contemporary craft development organisations such as the members of the Catalyst Craft Consortium, play a vital role in the health and future of the sector.
Their business models are complex; probably more complex than their contemporary visual arts peers.

The visibility of the value they deliver is hampered by a sector structure which is based on non-exclusive relationships and a widely distributed mechanism of both development input and sales of craft objects. It should be noted that the visual arts has a wide variety of sizes of organisation (and thus volume of strategic thinkers employed in the sector) from Showroom to Arnolfini to Tate. Whereas, aside from the Crafts Council, the craft sector is made up of small organisations and lacks the infrastructure benefits created by a mix of small, medium and large organisations. This too affects the visibility of the sector.

Contemporary craft development organisations have responded to this challenging environment by establishing a wide variety of mechanisms to raise income and deliver value. This makes the analysis of the achievements of any one organisation and the success of its business model very challenging as there is very little in the way of a 'norm' or 'average' to which we can compare a whole organisation. Instead we have to look at each income stream in turn and compare it both to equivalents within the craft sector and to benchmarks in other creative and cultural sectors.

This ecosystem demands that the directors of these development organisations have strengths in both long term strategy development and a finely tuned tactical antenna which continues to search for both local and national opportunities to leverage their role and position. This ecosystem also requires a deeper level of understanding of the role of a single organisation by the key stakeholders and grant funders.

In terms of the ways in which grant funders and other key stakeholders might better support these vitally important organisations we would suggest the following:

- Help the sector establish detailed benchmarks for the various types of income they achieve and enter into more nuanced discussions of the level of deferred value creation that each organisation is undertaking
- Recognise the specific challenges of a retail model which is not allowed to dance to the tune of customer needs
- Engage in further discussions as to the value of the intangible assets these organisations develop and the wider role of the championing of craft skills and thinking in education, health, community development and research

- Support the sector in helping contemporary craft development organisations improve their ability to track, measure and articulate the long term value they generate with a view to changing the sector's ability to deliver a return back to the early supporters of a maker or a body of work

In terms of the ways in which contemporary craft development organisations can help their stakeholders to help them we would suggest the following:

- Improve the ability of development organisations to track the deferred value they create
- Improve the skills and increase the resources allocated to tendering for public sector contracts
- Better articulate the retail challenge and the reasons why this element of the organisations activities cannot simply be customer led
- Demonstrate the variety in business models that exists in this area of work
- Engage in discussions with makers about whether the roles and relationships between development organisations and makers could be rebalanced to the mutual benefit of both parties

Small organisations with limited staff resources are likely to continue to struggle to carve out sufficient time to spend on strategic sector development simply because of the volume of immediate demands on their time and the lack of people in a team to do the firefighting. It is however a vital element of a sector's evolution. The increase in the recognition of the importance of this in the visual arts can be seen in the development of the Common Practice group and the over-subscription to their recent conference which could only (!) accommodate 200 participants. The challenge to contemporary craft development organisations is to achieve a critical mass of strategic thinkers and harness their combined intelligence and insight. The Catalyst Craft consortium has started this under the auspices of its Catalyst funding. The question is how can it continue?

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