

Rebuilding and Reimagining

How to use scenario planning to make strategic decisions



Prepared by Julie Koo, Vice President
For Arts Midwest | April 29, 2021

Goals for the workshop

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- Discuss issues faced by BIPOC arts organizations before and after start of pandemics
 - Some of these are shared by all small organizations, some particular to BIPOC

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- Discuss issues faced by BIPOC arts organizations before and after start of pandemics
 - Some of these are shared by all small organizations, some particular to BIPOC
- Present process for scenario planning
 - Will use BIPOC arts organizations as examples but basic process applies to all

Introductions: Me

- Julie Koo
- She/her/hers
- Korean American woman with black and blue hair, wearing a black, purple, and green sweater, and sitting in a room with yellow walls
- Located in Brookline, MA, a town situated on the unceded tribal land of the Massachusett people

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- Korean American woman with black and blue hair, wearing a black, purple, and green sweater, and sitting in a room with yellow walls
- Located in Brookline, MA, a town situated on the unceded tribal land of the Massachusett people
- Vice President at TDC
- Nonprofit organization that offers consulting and research services to the nonprofit sector
- Practice centered on strategic planning for arts organizations and arts sector research

A focus on race and cultural equity



A focus on race and cultural equity



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A focus on race and cultural equity



BOSTON ART & MUSIC SOUL FESTIVAL
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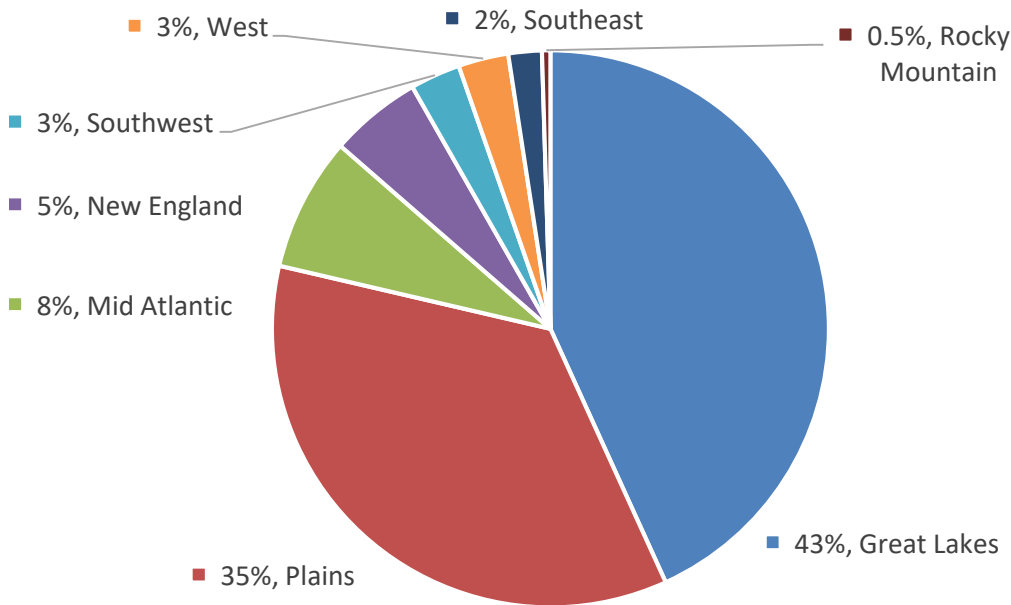
PAO
ARTS CENTER



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Introductions: You!

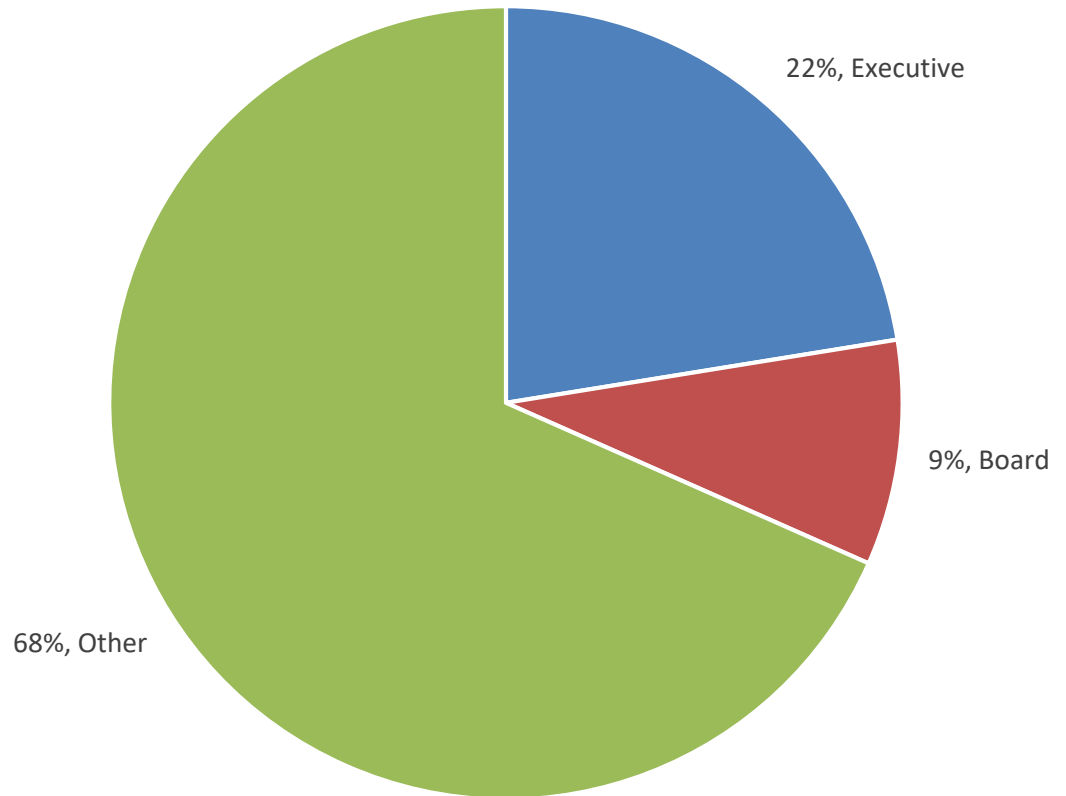
- 208 registrants
- Representing 30 states



Region	States Represented
Great Lakes	IL, IN, MI, OH, WI
Plains	IA, MN, MO, ND, NE, SD
Mid Atlantic	DC, MD, NJ, NY, PA
New England	CT, MA, VT
Southwest	AZ, OK, TX
West	AK, CA, WA
Southeast	FL, LA, KY, TN
Rocky Mountain	CO

Introductions: You!

- Nearly a quarter are chief executives
- Nearly 10% board
- Wide range of other positions
 - Program/artistic
 - Development
 - Administrative
 - Finance



Introductions: You!

- What discipline do you work within?

Introductions: You!

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- What is your organization's budget size (expense)?

Introductions: You!

- What discipline do you work within?
- What is your organization's budget size?
- Do you serve a rural or BIPOC community?

The current context

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(It's been a lot!)

Pre-pandemic issues for BIPOC orgs

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- Reliance on sweat equity
- Reliance on partnerships / risk of compromise
- Lack of clarity on executive and board roles

Pre-pandemic issues for BIPOC orgs

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- Limited access to funding
- Lack of confidence in BIPOC leaders' skills
- No general operating support
- Reliance on sweat equity
- Reliance on partnerships / risk of compromise
- Lack of clarity on executive and board roles
- **What issues does your organization face?**

What did 2020 bring?

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- Pandemic and related uncertainties

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- **New opportunities for resources**

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- Pandemic and related uncertainties
- Personal trauma and loss related to pandemic and racist violence
- Racial justice movements
- Heightened profile
- New opportunities for resources
- **New confidence to ask for resources without a scarcity mindset**

Why plan in this context?

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- Decide what is core to you and your organization

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- Define your aspirations

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- Define your aspirations
- Think through specifics of resources you need to realize the core and reach your aspirations
- Consider risks and uncertainties
- Start a conversation with supporters

Scenario planning

What is scenario planning?

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- Forces precise definition of options
- Quantifies the financial implications of options

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- A tool that allows an organization to consider multiple options
- Forces precise definition of options
- Quantifies the financial implications of options
- **Helps organizations make informed choices**

When should you use scenario planning?

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- When there is extreme uncertainty

When should you use scenario planning?

- When there is extreme uncertainty
- When there is lack of clarity in priorities

When should you use scenario planning?

- When there is extreme uncertainty
- When there is lack of clarity in priorities
- Many organizations face both

Case studies



The Front Porch Arts Collective

Maurice Emmanuel

Parent

Dawn Meredith

Simmons

Black and African
diasporic theater



Case studies



**The Front Porch
Arts Collective**
Maurice Emmanuel
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bamsfest.org

BAMS Fest
Catherine Morris

Black art and music
festival and cultural
programming



Situation in March 2020



- \$40K budget
- Fiscally sponsored
- Volunteer staff
- Two plays in the works for spring 2020 – cancelled by partners

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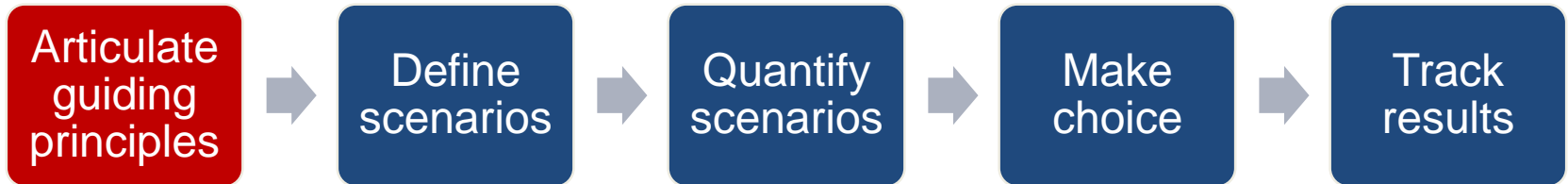
- \$325K budget
- Incorporated 501(c)(3)
- Volunteer staff
- Festival in the works for June 2020 – deciding on cancellation

The planning process and roles



- A joint enterprise between staff and board
 - Board helps set principles and parameters
 - Staff drives the development of scenarios
- Board's responsibilities
 - Assessing and monitoring risk
 - Assuring long-term fidelity to the mission
 - Staff can articulate and share the difficult choices raised through this process; the Board needs to decide
- Funder involvement – open transparent conversations
 - What are the choices you have made, and why?
 - What are your critical needs?

Start with guiding principles



- If you had to make difficult choices to cut – what can't you cut?
- What is the core of your mission and vision?
- What drives your identity?
- What responsibilities do you hold?
- What are your values?
- What are your personal aspirations?

Guiding principles



- **Mission**
 - African diasporic stories
 - Better environment for Black theater artists and workers in Boston
 - Cultural home for Boston's Black theater audiences

- **Aspiration**
 - New model for organization
 - Collective action
 - Better quality of life for founders

- **Responsibilities**
 - Artists and co-producers

- **Values**
 - Setting limits on "box checking"

Guiding principles



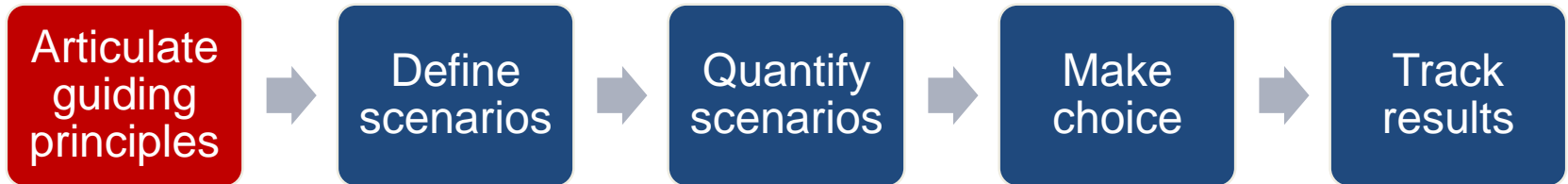
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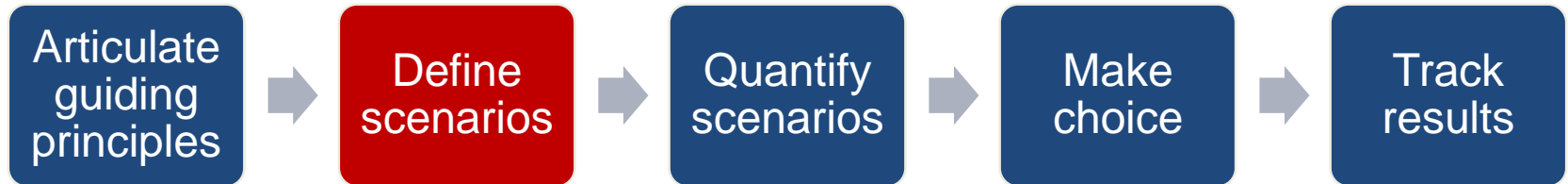
- Mission
 - Building up Boston's Black artists – artist payment
 - Welcoming all Bostonians into BIPOC friendly spaces
- Aspiration
 - Vision for growth
 - Stronger governance: Less reliance on founder
 - Better quality of life for founder
- Responsibilities
 - Artists and sponsors
- Values
 - Getting compensated for expertise

Start with guiding principles



- Has your organization articulated any of the following elements that could inform guiding principles?
 - Clear mission statement
 - Organizational values
 - Brand
 - Strategic plan
 - Something else
 - None of the above

Define scenarios



- Choose a time horizon for your scenario planning
 - When do you have to make the decision?
 - How far out are the uncertainties you are working under?
- What are the key uncertainties you have no control over?
 - What are best/mid/worst case outcomes on these uncertainties?
 - What are the possible choices you can make in response to the worst case outcomes?
- What are the key areas where you have to make a choice?
 - Can you define distinct pictures of the choices?

Define scenarios



- Key uncertainties
 - No control over program cancellation
 - BIPOC arts focused funding opportunities
- Choices
 - Should The Porch institutionalize?
- Time horizon
 - Long term

Define scenarios



- Key uncertainties
 - No control over program cancellation
 - BIPOC arts focused funding opportunities
- Choices
 - Should The Porch institutionalize?
- Time horizon
 - Long term
- Worst case
 - No significant funding
 - Continue as fiscally sponsored
 - Keep day jobs
- Mid case
 - Residency with salaries
 - Develop organization
 - Continue with co-pros
- Best case
 - Three years funding to go independent

Define scenarios



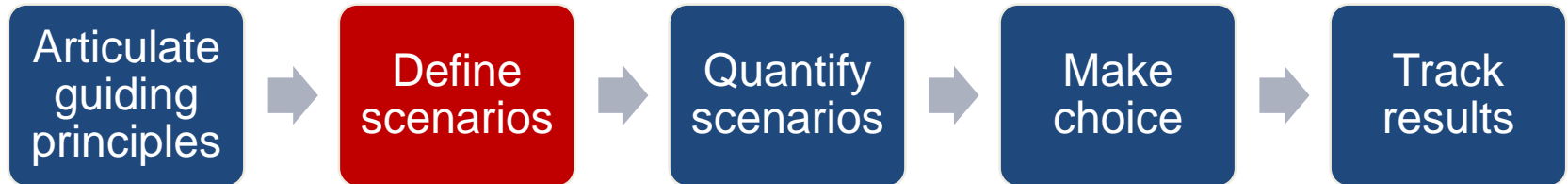
- Key uncertainties
 - Length of time of pandemic
 - Reaction of sponsors to cancellation
- Choices
 - Cancel festival or not
 - Replace with virtual programs or go dark
- Time horizon
 - Short term

Define scenarios



- Key uncertainties
 - Length of time of pandemic
 - Reaction of sponsors to cancellation
- Choices
 - Cancel festival or not
 - Replace with virtual programs or go dark
- Time horizon
 - Short term
- Worst case
 - Continue to go forward on festival and put out working capital
 - Be forced to cancel
 - Sponsors expect money back
- Mid case
 - Cancel festival
 - Sponsors allow use of money on virtual program and/or reserve for 2021
- Best case
 - Pandemic resolves and festival goes forward

Define scenarios



- What time horizon do you need to consider in your planning?
 - Less than 1 year
 - 1-2 years
 - 3-5 years
 - More than 5 years

Quantify scenarios



- What are the implications for **budget and operations**?
- Are there any **one-time investment** needs?
- How do shifts in scale and timing of revenue, expense, and capital needed impact **cash flow**?
- Are there implications on **contributed revenue** for programmatic choices?
- What are implications for **cash position**?

Quantify scenarios



	Best case: Hi funding	Mid case: Mid funding	Worst case: Lo funding
Definition	<ul style="list-style-type: none">• Three years funding to go independent		
Program implications	<ul style="list-style-type: none">• Assumed full slate of programs running through Porch financials and staffing based on benchmarking		
Financial projection	<ul style="list-style-type: none">• Requires \$2.5M in genop over three years		

Quantify scenarios



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Program implications	<ul style="list-style-type: none"> • Assumed full slate of programs running through Porch financials and staffing based on benchmarking 	<ul style="list-style-type: none"> • Priced salaries based on number where founders could quit day jobs • Assumed three years with gradual reduction of co-pros 	
Financial projection	<ul style="list-style-type: none"> • Requires \$2.5M in genop over three years 	<ul style="list-style-type: none"> • Requires \$1M in genop over three years + additional program grants and co-productions 	

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Financial projection	<ul style="list-style-type: none"> • Requires \$2.5M in genop over three years 	<ul style="list-style-type: none"> • Requires \$1M in genop over three years + additional program grants and co-productions 	<ul style="list-style-type: none"> • Assumes only program grants

Quantify scenarios



	Best case: Pandemic goes away	Mid case: Respond to pandemic	Worst case: Pandemic response too late
Definition	<ul style="list-style-type: none">• Pandemic resolves by April and June festival goes forward		
Program implications	<ul style="list-style-type: none">• Festival goes forward		
Financial projection	<ul style="list-style-type: none">• Breakeven		

Quantify scenarios



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Program implications	<ul style="list-style-type: none"> Festival goes forward 		<ul style="list-style-type: none"> 2020 festival cancelled No cash for virtual programs
Financial projection	<ul style="list-style-type: none"> Breakeven 		<ul style="list-style-type: none"> BAMS in debt to sponsors Note: No PPP because BAMS has no paid staff and no rent

Quantify scenarios



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Program implications	<ul style="list-style-type: none"> Festival goes forward 	<ul style="list-style-type: none"> 2020 festival cancelled – artists get no payment Virtual programs would give artists some compensation 	<ul style="list-style-type: none"> 2020 festival cancelled No cash for virtual programs
Financial projection	<ul style="list-style-type: none"> Breakeven 	<ul style="list-style-type: none"> Potential for reserve for 2021 Or, breakeven with virtual programs 	<ul style="list-style-type: none"> BAMS in debt to sponsors Note: No PPP because BAMS has no paid staff and no rent

Funding expected deficits

- **Appropriate uses of debt**
 - **Long-term** debt with low rates
 - **Line of credit** that supports cash flow
 - Only appropriate in circumstances where your annual budget resolves and you have a plan for payback
 - **Campaign financing** only for the amount of pledges received to date
 - **Personal loans**
 - Only appropriate when you have a plan for payback or when lender is prepared to forgive the loan
- **Board-designated reserves**
 - Maintain at least one month of unrestricted operating cash (sized to future need, not current footprint)
 - **Do not include deferred revenue** in your working capital calculation
- **Endowments**
 - Consider the benefits and risks of the maximum investment draw
- **Facility reserves**
 - Is your facility core to the mission and vision you are trying to preserve?
 - If so, preserve funds—the needs are real, and the capital is often hard to come by

Your funds



- Do you have access to resources to fund deficits?
 - Board designated reserves
 - Facilities reserves
 - Line of credit
 - Capital campaign pledges
 - Endowment
 - Loans from executive or board
 - Something else
 - None of the above

Make choice



- What are the **potential financial risks** associated with each scenario?
- How does each scenario respond to the organization's **guiding principles**?
- Is the organization set up for **sustainability**?

Assess scenarios



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Financial risks	<ul style="list-style-type: none"> • \$2.5M in genop over three years • No risk 		
Guiding principles	<ul style="list-style-type: none"> • Meets principles 		
Sustainability	<ul style="list-style-type: none"> • Guaranteed for three years • Need longer runway for full test 		

Assess scenarios



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Guiding principles	<ul style="list-style-type: none"> • Meets principles 	<ul style="list-style-type: none"> • Negotiates on co-pros 	<ul style="list-style-type: none"> • Dependence on co-pros and potential compromise on mission
Sustainability	<ul style="list-style-type: none"> • Guaranteed for three years • Need longer runway for full test 	<ul style="list-style-type: none"> • Guaranteed for three years • Need longer runway for full test 	<ul style="list-style-type: none"> • Not sustainable due to burnout risk

Assess scenarios



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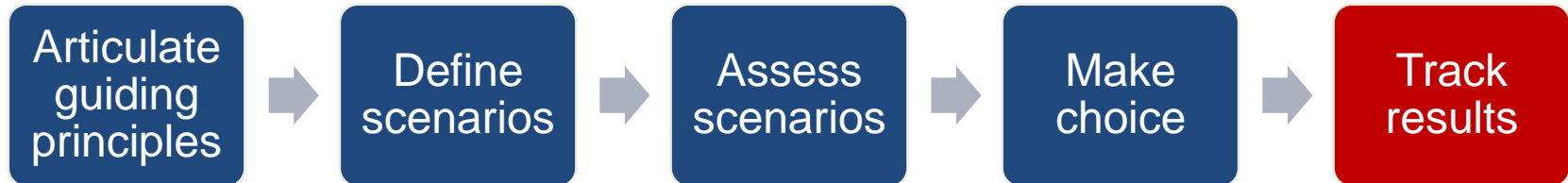
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Guiding principles		<ul style="list-style-type: none"> Medium alignment 	
Sustainability		<ul style="list-style-type: none"> Neutral 	

Assess scenarios



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Financial risk		<ul style="list-style-type: none"> Low 	<ul style="list-style-type: none"> Very high
Guiding principles		<ul style="list-style-type: none"> Medium alignment 	<ul style="list-style-type: none"> Low alignment
Sustainability		<ul style="list-style-type: none"> Neutral 	<ul style="list-style-type: none"> Low

Tracking against your plan



- Use the tools of cash flow analysis and rolling quarterly projections to track results
- Cash flow analysis
 - Regularly updated analysis of the cash coming in and going out in current state
 - Projects 6 months to 1 year, accounting for:
 - Sources of cash
 - Uses of cash
 - Associated timing of each
- <https://nff.org/fundamental/cash-flow-projection-template>
- Rolling quarterly projections
 - Alternative to detailed annual budget
 - Informed by key milestones and major moving pieces in the operating model
 - Projects 1 year forward on a rolling basis
 - Tracking in the short term against key metrics
 - Level of detail decreases as projections move further out

A hidden opportunity

Disrupting norms at the sector level

Why reimagine now?

- Cultural equity is a state that most communities do not enjoy
- BIPOC communities need “by us/for us” institutions now
- Opportunity to build institutions avoiding weaknesses endemic in the arts
 - Business models that do not support consistent mission delivery, that rely on sweat equity, and that set unrealistic targets for earned revenue
 - Not enough capital to take risks
 - Revenue sources often prioritize service or program expansion rather than overall organizational health
- Opportunity to change a scarcity mindset
- Opportunity to change the conversation with philanthropy about what constitutes excellence and leadership

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