



Case

Coleman Art Museum

In early 2005, Ashley Mercer, director of development and community affairs, and Donald Smith, director of finance and administration of the Coleman Art Museum, met to discuss what had transpired at a meeting the previous afternoon. The meeting, attended by the senior staff of the museum and several members of the Board of Trustees, had focused on the financial status of the museum. The Coleman Art Museum recorded its third consecutive annual loss in 2004, and Mercer and Smith were assigned responsibility for making recommendations that would reverse the situation.



COLEMAN ART MUSEUM

The Coleman Art Museum (CAM) is a not-for-profit corporation located in Universal City, a large metropolitan area in the western United States. Founded in 1925, the museum was originally chartered as the Fannel County Museum of Fine Arts and funded by an annual appropriation from Fannel County. In 2000, the name was changed to the Jonathon A. Coleman Art Museum to recognize the museum's major benefactor, Jonathon A. Coleman. Coleman, a wealthy local landowner and philanthropist, had provided the museum with a sizable endowment. According to the terms of a \$25 million gift given to the museum upon his death, the museum's charter was revised and its name changed. The charter of the museum stated that its purpose was

To provide an inviting setting for the appreciation of art in its historical and cultural contexts for the benefit of this and successive generations of Fannel County citizens and visitors.

Randall Brent III, the museum director, noted that this charter differentiated CAM from other art museums. He said:

Our charter gives us both an opportunity and a challenge. By spanning both art and history, the museum offers a unique perspective on both. On the other hand, a person can only truly appreciate what we have here if they are willing to become historically literate—that is our challenge.

In 1997, CAM benefited from a \$28 million county bond election, which led to the construction of a new and expanded facility in the central business district

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of Universal City, the county seat of Fannel County. The location, six blocks from the museum's previous site, had extensive parking availability and access through public transportation. The site was made available for \$1.00 from Jonathon Coleman's real estate holdings. At the dedication of CAM in January 2000, Brent said:

I will always believe that the greatest strength of our new museum is that it was publicly mandated. The citizens of Fannel County and the vision and generosity of Jonathon Coleman have provided the setting for the appreciation of art and its historical and cultural contexts. As stewards of this public trust, the Coleman Art Museum can now focus on collecting significant works of art, encouraging scholarship and education, and decoding the history and culture of art.



MUSEUM COLLECTION AND DISPLAY

CAM has over 15,000 works of art in its permanent collection. However, as with most museums, CAM does not display all of its collection at the same time because of space limitations. Artworks in the collection are rotated, with some periodically loaned to other museums.

The CAM collection includes pre-Columbian, African, and Depression-era art, as well as European and American decorative arts. The art is displayed in different portions of the museum, where the building architecture accents the display. For example, Depression-era art is displayed in an Art Deco setting of the 1920s and 1930s; decorative and architectural art of the late nineteenth century is displayed in the Art Nouveau wing. In addition, museum docents provide a historical context for the artworks during tours.

The CAM collection is open for viewing Monday through Saturday from 10:00 A.M. to 6:00 P.M. and Thursday evenings until 8:00 P.M. Sunday hours are from 12:00 noon to 6:00 P.M. There is no charge for viewing the permanent collection; however, a modest fee of \$5.00 to \$7.50 is charged for special exhibitions. CAM is also available for private showings and is often used for corporate, foundation, and various fund-raising events during weekday and weekend evenings. Exhibit 1 shows museum attendance for the period 1996–2004.

EXHIBIT 1 Museum Attendance

Year	Total Museum Attendance	Special Exhibitions ^a	
		Attendance	Proportion of Total Attendance
1996	269,786	N/A	N/A
1997	247,799	N/A	N/A
1998	303,456	N/A	N/A
1999	247,379	N/A	N/A
2000	667,949	220,867	0.33
2001	486,009	140,425	0.29
2002	527,091	227,770	0.43
2003	468,100	203,800	0.44
2004	628,472	284,865	0.45

^aSpecial exhibitions attendance includes attendance at private corporation, foundation, and fund-raising events held at the museum.

Museum Organization

The museum is organized by function: (1) Collections and Exhibitions, (2) Development and Community Affairs, and (3) Finance and Administration. Each function is headed by a director who reports to the museum director, Randall Brent III. The museum has a staff of 185 employees. In addition, 475 volunteers work at the museum in a variety of capacities.

The Collections and Exhibitions staff, headed by Thomas Crane, oversees the museum's art collections, arranges special exhibits, is responsible for educational programming, and provides personnel and administrative support for museum operations that directly involve the artwork. The Finance and Administration staff, headed by Donald Smith, is responsible for the daily operation of the museum. The museum's profit centers (the Skyline Buffet restaurant, parking, gift shop, and special exhibitions events) are also managed by this function. The Development and Community Affairs staff, under the direction of Ashley Mercer, is responsible for marketing, public relations, membership, and grants. This function engages in fund-raising for the museum, which provides supplemental funds for general operating support, endowment, and acquisitions. This function also handles all applications for foundation, federal, state, and local grants.

Museum Finances

Exhibit 2 shows the financial condition of CAM for the period 2002–2004. Total revenues and expenses during this period are shown below:

	2004	2003	2002
Total revenue	\$10,794,110	\$7,783,712	\$8,694,121
Total expenses	11,177,825	7,967,530	8,920,674
Net income (loss)	(\$ 383,715)	(\$ 183,818)	(\$ 226,533)

The three consecutive years of losses followed seven consecutive years of either break-even or profitable status. The cumulative loss of \$794,066 had depleted the museum's financial reserves.

During a recent Board of Trustees meeting, several observations and projections were made that indicated that the museum's financial condition needed attention:

1. The appropriation from Fannel County would decline. Whereas the county appropriated about \$2 million annually to CAM, the museum could expect no more than \$1.6 million in county appropriations in 2005 and for the foreseeable future.
2. Low interest rates in 2003 and 2004 indicated that earnings from CAM endowment and investments would probably remain flat or decline.
3. Income from grants and other contributions in 2004 were extraordinary, and it was unlikely that the same amounts would be forthcoming in 2005.
4. Membership revenues were down for the fifth consecutive year. Membership represented the single largest source of revenue for the museum.
5. Income from auxiliary activities—those that were intended to produce a profit—continued to show a positive contribution to museum operations.

Special exhibitions and events were very profitable. Nevertheless, limited availability of special exhibitions in 2005, a declining number of scheduled events, and rising costs (for insurance as an example) indicated that the revenues from such activities would probably decline and costs increase in 2005. The Skyline

EXHIBIT 2 Summary of Income and Expenses, 2002-2004

<i>Operations</i>	<i>Year Ending December 31</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>
Income			
Appropriations by Fannel County	\$1,786,929	\$1,699,882	\$1,971,999
Memberships	2,917,325	2,956,746	3,134,082
Contributions	338,664	221,282	42,244
Grants	763,581	281,164	645,853
Investment income	27,878	28,537	32,205
Earnings from endowment	673,805	693,625	583,612
Other	149,462	128,628	196,195
Total revenue	\$6,657,644	\$6,009,864	\$6,606,190
Expenses			
Personnel	\$1,973,218	\$1,086,177	\$1,681,653
Memberships	854,461	869,043	906,314
Publications/public information	594,067	404,364	441,710
Education	616,828	519,805	542,076
Administration*	3,777,042	3,345,153	3,389,124
Total expenses	\$7,815,616	\$6,224,542	\$6,960,877
Operating income	(\$1,157,972)	(\$214,678)	(\$354,687)
Auxiliary Activities			
Revenue from auxiliary			
Special exhibitions	\$1,655,200	\$510,415	\$451,347
Museum gift shop	1,596,775	606,503	810,123
Skyline Buffet	515,843	305,952	418,960
Museum parking	131,512	45,068	64,651
Museum Association	337,136	305,910	342,850
Revenue from auxiliary	4,236,466	1,773,848	2,087,931
Expenses from auxiliary			
Special exhibitions	814,741	313,057	137,680
Museum gift shop	1,679,294	662,685	990,090
Skyline Buffet	592,051	457,841	462,475
Museum parking	31,168	16,528	16,536
Museum Association	344,955	292,877	353,016
Expenses from auxiliary	3,462,209	1,742,988	1,959,797
Profit from auxiliary activities	\$774,257	\$30,860	\$128,134
Net income	(\$383,715)	(\$183,818)	(\$226,553)

*Administration expenses included mostly overhead costs, such as insurance, maintenance, utilities, equipment lease agreements, and so forth.

Buffet restaurant, gift shop and parking, and the Museum Association were operating at about break-even.



MUSEUM MARKETING

As director of development and community affairs, Ashley Mercer was responsible for marketing at CAM. Her specific responsibilities related to enhancing the image of the museum, increasing museum visitation, and building museum memberships. Reflecting on her responsibilities, she said:

In reality, museum image, visitation, and membership are intermingled. Image influences visitation and membership. Visitation is driven somewhat by membership, but membership seems to also drive visitation and, in a subtle way, affects the image of the museum.

Museum Image

Interest in the public image of CAM began soon after the new facility was dedicated. The new four-story building, situated downtown adjacent to skyscrapers, was occasionally referred to as the "marble box" by its critics, since the building facade contained Italian marble. When asked about CAM's image, Brent commented:

It is basically correct to say that, in the mind of the public, CAM has no image. There is nothing about this [building] that says, "I'm a museum," or "Come in." There are a lot of people that are not interested in high culture and think this is a drive-in bank or an office building.

Most art museums in America have a problem with image. One of the things that makes me mad is that people think there is something wrong with the museum. CAM is one of the most public in the country, and more heavily dependent on the membership contribution than any other [museum]. Like most, it is underendowed and underfunded from reliable public funds. In fact, the American Association of Museums reports that only about 60 percent of America's 2000-plus art museums have enough income from their endowment to cover their operating costs. Nevertheless, this institution has chosen to be public, with free access, and this is very noble. It is wonderful that the museum has decided not to belong to an agglomeration of very rich people.

This museum has more character than it thinks it has. It has the best balanced collection between Western and non-Western art of any museum in the country. We have not chosen to sell or promote the unique aspects of this collection or the museum's emphasis on historical context. What we have are the makings of an institution that is very different from other museums, and we ought to be able to make that into an advantage rather than apologize for it.

Other staff members believed either that an image existed but was different for the various publics the museum served or that CAM had not made a sufficient effort to create an image for itself. According to Mercer:

Based on our marketing research, I think there are two distinctly different images. One is a non-image. People don't know what the museum is. They also don't know what we have to offer in the way of lunch, dinner, brunch, shopping, movies, etc. They are not familiar with our collections. They are probably proud, however, that their community has a beautiful art museum.

The other image is that we are only for specific people. This image is probably based on our membership. About 85 percent of members are college-educated (compared to 70 percent of the county population of 2.5 million), 60 percent have household incomes in excess of \$70,000 (compared to 20 percent

of the county population), half are over 40 years old (compared to 25 percent of the county population), and 98 percent are white (compared to 75 percent of the county population).

Janet Blake, staff assistant in charge of membership, noted:

Among our membership, CAM is viewed as a community organization that has a cachet of class. It is exciting, educational, convenient, and inviting. It is a great place to bring visitors to our city for an afternoon of lunch and browsing.

A critic of the museum said:

The Coleman Art Museum has a definite image in my opinion. It's a great place to have lunch or brunch, buy an art or history book for the coffee table, and see a few things if time permits. Its parking facility is strategically located to allow its members to park conveniently for downtown shopping, particularly during the Christmas holidays.

Museum Visitation

Because there is a general belief that increased numbers of visitors lead to increased membership, Mercer's staff has historically focused its efforts on increasing the traffic through the museum. "Social, cultural, and educational activity in the museum is a major goal, and is not exclusive to the viewing of art," said Mercer. These efforts can be separated into general and outreach programs and programs involving special exhibitions and events.

Press Relations CAM continually promotes its special exhibitions and activities by sending out press releases, and it maintains a close relationship with the local media. Stories about art and history, public programs, and human interest issues are often featured in the local media. A five-year anniversary party was held at the museum in January 2005, designed as a free special event aimed to involve the general public with the museum.

Education and Outreach CAM has many programs directed toward educating the public. Among these are public programs such as adult tours, school tours, lectures, art films, and feature films. The museum engages in programming to create community involvement and lends performing space to local performing arts organizations.

Special Exhibitions Public service announcements written by the museum are aired on local radio stations to promote special exhibitions. Advertisements are run in local newspapers in a five-county area for special exhibitions. For major special exhibitions, advertising is usually sponsored by a local corporation.

Mercer believed that these efforts increased museum attendance. For example, periodic visitor surveys indicate that on a typical day when only the permanent collection was available for viewing, 85 percent of visitors were non-CAM members. She added that even though less than 1 percent of nonmembers actually applied for membership during a visit, this exposure helped in the annual membership solicitation.

Museum Membership

According to Mercer:

Museum membership and the revenue earned from membership play significant roles in the success and daily operations of CAM. The museum and its members have a symbiotic relationship. Members provide the museum with a volunteer

base, without which our cost of operation would be astronomical. Member volunteers provide tours, assist at the information desk, help in the gift shop and the Skyline Buffet, and are invaluable in recruiting new members and renewing existing members.

The Museum Association was created to encourage membership involvement in CAM. The association, with some 1,000 members, makes our volunteer effort possible—95 percent of our 475 volunteers are Association members. The association's assistance in fund-raising is critical, and we appreciate what its members have done for CAM. Last year alone, the association was directly responsible for raising almost \$350,000. In return, CAM sponsors social events for association members, offers them lectures by authorities on art and history, and provides various other privileges not available to the general membership.

Member Categories, Benefits, and Costs CAM has two distinct memberships: (1) personal and (2) corporate. These two memberships are further divided into categories based on dollar contributions and benefits received. There are six categories of personal membership ranging from \$50 per year to \$5,000 per year. Corporate memberships are divided into four categories ranging from \$1,000 per year to \$10,000 per year. These categories and participation levels were created with the move to the new building. In 2004, there were 17,429 personal memberships and 205 corporate memberships.

Exhibit 3 shows the benefits received by each personal membership category. Exhibit 4 provides a breakdown of personal memberships by category and the revenue generated by each category over the past five years. In 2004, personal memberships accounted for almost 80 percent of membership revenue.

Corporate memberships provide many of the same benefits as the \$500 or higher personal memberships. In addition, corporate members are given "Employee Memberships" depending on their category. For example, corporate

EXHIBIT 3 Membership Benefits by Membership Categories

<i>Benefits</i>	<i>Membership Category</i>					
	<i>\$50</i>	<i>\$100</i>	<i>\$250</i>	<i>\$500</i>	<i>\$1,500</i>	<i>\$5,000</i>
Invitations to special previews/events	*	*	*	*	*	*
Free limited parking	*	*	*	*	*	*
Free admission to special exhibits	*	*	*	*	*	*
15% discount at Skyline Buffet and gift shop	*	*	*	*	*	*
Monthly calendar	*	*	*	*	*	*
Discounts on films/lectures	*	*	*	*	*	*
Reciprocal membership in other museums		*	*	*	*	*
Invitations to distinguished lectures			*	*	*	*
Listing in annual report			*	*	*	*
Personal tours of exhibition areas				*	*	*
Invitations to exclusive previews/events					*	*
Free unlimited parking					*	*
Unique travel opportunities					*	*
Recognition on plaques in the museum					*	*
First views of new acquisitions					*	*
Priority on all museum trips					*	*
Dinner with the director						*

EXHIBIT 4 Personal Membership Categories and Revenues by Year, 2000–2004

Membership Category	Amount	Number of Members				
		2004	2003	2002	2001	2000
Regular	\$50	13,672	12,248	13,483	16,353	17,758
Associate	\$100	2,596	2,433	2,548	2,576	2,465
Collector	\$250	364	325	397	461	454
Patron	\$500	102	85	65	0	0
Partner	\$1,500	604	638	679	741	882
Director's Club	\$5,000	91	86	98	0	0
Total membership		17,429	15,815	17,370	20,131	21,559

Membership Category	Amount	Membership Revenue ^a				
		2004	2003	2002	2001	2000
Regular	\$50	\$639,664	\$556,120	\$611,864	\$600,188	\$662,631
Associate	\$100	234,871	232,398	249,317	244,961	242,981
Collector	\$250	81,415	76,987	97,474	108,432	105,840
Patron	\$500	48,100	44,293	35,500	0	0
Partner	\$1,500	815,666	958,419	968,239	1,187,728	1,041,898
Director's Club	\$5,000	406,673	405,016	458,938	282,219	0
Total membership revenue ^b		\$2,298,449	\$2,334,583	\$2,485,352	\$2,451,638	\$2,079,330

^aThe number of memberships times the dollar value does not equal the amounts given as the membership revenue, since some memberships are given gratis.

^bThe inconsistency between these figures and the figures shown on the income and expense statement is due to memberships given gratis.

members that fall into the \$1,000 category are given 25 employee memberships; those in the \$10,000 category are given 250 such memberships.

The direct cost of benefits provided by CAM to personal and corporate members was estimated by the museum's accounting firm. CAM was required to do this because of income tax laws that limited the deductibility of membership to the difference between the direct cost of membership and the value of the benefits received. The estimated total cost of member benefits provided exceeded \$1 million each year since 2000.¹ An itemized summary of benefit costs by category in 2004 follows.

Category	Benefit Cost
Regular (\$50)	\$631,016
Associate (\$100)	81,903
Collector (\$250)	64,135
Patron (\$500)	39,628
Partner (\$1,500)	99,567
Director's Club (\$5,000)	15,975
Corporate (all categories)	125,576
Total cost	\$1,057,800

¹ The estimated cost of benefits exceeds the membership expense shown in Exhibit 2 because the cost of publications and other items is included in this estimate. These costs are allocated across several different items in Exhibit 2.

The principal cost items in each category were (1) free admissions to exhibits; (2) parking; (3) the monthly calendar of museum activities, exhibits, and events; and (4) discounts at the Skyline Buffet restaurant and gift shop.

Member Recruiting and Renewals "Recruiting new members and renewing existing members is a major undertaking," said Mercer. While some recruiting and renewals occur at the museum during visitation, the recruitment effort mostly revolves around mail, telephone, and personal solicitations. Mail and telephone solicitations focus primarily on recruiting and renewing personal memberships in the \$50 to \$250 categories. Personal solicitations by the Museum Association are used to recruit and renew personal memberships in the \$500 to \$5,000 categories and corporate memberships.

CAM uses mailing and telephone lists obtained from other cultural organizations and list agencies. These lists are culled to target zip codes and telephone prefix numbers. Mail solicitations include a letter from the museum director, a brochure describing the museum, and a membership application form. Telephone solicitations include a follow-up brochure and application form.

The economics of direct-mail solicitation are illustrated below, based on an August 2004 mailing considered typical by Mercer.

Total mail solicitations	148,530
Total memberships obtained	1,532
Response rate	1.03%
Total membership revenue	\$84,280.00
Total direct-mail costs	\$66,488.80

Two direct-mail solicitations of this magnitude are conducted each year.

The solicitation process for personal memberships in larger dollar categories and corporate memberships relies on personal contact by CAM volunteers and corporate member executives. Prospective members are identified on the basis of personal contacts and from the lapsed membership roster, the society page, other organizations' membership lists, and lower-membership-level lists. Once identified, these prospects are approached on a one-to-one basis. An initial letter is sent introducing the prospect to the museum. This first letter is followed by a personal telephone call or another letter inviting the prospect to an informal gathering at the museum. At the gathering, the prospect is introduced to other members and is asked directly to become a member.

Renewal efforts include mail, telephone, and Internet solicitation. In addition, membership parties, special previews, and special inserts in the monthly calendar of CAM activities are used.

Museum records indicate that 70 percent of the \$50 members do not renew their membership after the first year. Among those that do, 50 percent renew in each successive year. Members in the \$100 to \$500 categories have a renewal rate of 60 percent, and members in the \$1,500 and \$5,000 categories have a renewal rate of 85 percent. Mercer believed that less than 10 percent of personal members who do renew their membership increase the dollar value of their membership. Renewal rates among corporate members is about 75 percent, regardless of category.

CONSIDERATIONS FOR 2005

Ashley Mercer and Donald Smith met to discuss measures they might recommend to the Board of Trustees to reverse the deteriorating financial condition of CAM. Smith noted that at an earlier meeting with his staff, personnel reductions were

discussed. Specifically, he felt that a 10 percent reduction in personnel and administration costs was possible. Furthermore, his staff estimated that the appropriation from Fannel County, contributions, grants, investment income, endowment earnings, and other income would be 15 percent below 2004 levels. A "best guess" estimate from the director of collections and exhibitions indicated that special exhibitions and events would generate revenues of \$1.2 million and cost \$675,000 in 2005. Parking revenues and expenses resulting from nonmember visitors would remain unchanged from 2004. Rough budgets for education programs indicated that an expenditure of \$500,000 for 2005 was realistic, given planned efforts. Smith said that changes in other auxiliary activities for which he was responsible, namely the Skyline Buffet restaurant and gift shop, were not planned.

Mercer was impressed with the attention Smith had already given to the museum's situation. She too had given consideration to matters of museum image, visitation, and membership prior to the meeting. Unfortunately, an earlier meeting with her staff had raised more issues than hard-and-fast recommendations. Staff suggestions ranged from implementing a modest admission fee of \$2 per adult (with no charge for children under 12 years old) to instituting student (ages 13 to 22) and senior citizen (60 and older) memberships at \$30. The need for institutional advertising was raised, since CAM had been promoting only special exhibitions and events. Other staff members said that the benefits given to members needed to be enhanced. For example, raising discounts at the Skyline Buffet and gift shop to 20 percent was suggested. Another possibility raised was commissioning a "coffee table" book featuring major artwork at CAM to be given with personal memberships of \$500 or more.

Mercer listened to these suggestions, knowing that some were unlikely to receive Board of Trustee approval. These included any proposal to increase expenses for publications/public information (for example, new books and paid institutional advertising). She had already been informed that expenses for such activities could not exceed the 2004 expenditure. Improving the member benefit package seemed like a good idea. Increasing restaurant and gift shop discounts, even though 65 percent of the business for both was already on discount, seemed like a good idea, at least at the margin. Smith said that he would give this suggestion consideration, but asked that Mercer think further about it in the context of the overall member-benefit package. Charging a nominal admission fee for nonmembers also seemed reasonable. Visitor surveys had shown that 50 percent of nonmember visitors said that they would be willing to pay a \$2 admission fee for viewing the permanent collection (access to special exhibitions would continue to have admission fees). Furthermore, members could then be given an additional benefit, that is, free admission. However, Smith noted that CAM had always prided itself on free access, and he wondered how the Board of Trustees would view this suggestion. Additional membership categories below \$50 and for students and senior citizens also seemed to provide new opportunities to attract segments of the population that had not typically yielded members.

Mercer and Smith believed that their initial meeting had produced some good ideas, but both thought that they had to give these matters further thought. They agreed to meet again and begin to prepare an integrated plan of action and a pro forma income statement for 2005.