AASLH
TECHNICAL LEAFLET BUNDLE
A PUBLICATION OF THE AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY

Help in a Tough Economy

BNDL 022

This Technical Leaflet Bundle advises history organizations on ways to make the most of their resources during tough economic times. This information offers ways to maximize income and get creative with expenses in order to help you institution weather uncertain times.

TL209—Fundraising for the Small Museum (2000)

TL237—Membership Matters: Establishing a Vital Membership Program (2007)

TL242—DIY Strategic Planning for Small Museums (2008)

TL268—Building Better Budgets (2014)

TL269—Improving Financial Management (2015)

This bundle may help institutions achieve the standards set forth under the “Mission, Vision, and Governance” and the “Management” section of AASLH’s Standards and Excellence Program for History Organizations (StEPs)

HISTORY NEWS

TECHNICAL LEAFLET

A PUBLICATION OF THE
AMERICAN ASSOCIATION
FOR STATE AND LOCAL HISTORY

Fundraising for the Small Museum

By Salvatore G. Cilella, Jr.
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The key to the successful management of any fundraising program is an understanding of A) the Institution, B) the Marketplace, and C) the Continuity of Approach. These three elements—a knowledge of the internal culture of the institution—an understanding of the marketplace outside the institution, but the place where the fundraising occurs—and a knowledge of how to manage donor relationships, are all critical to successful raising.

A. THE INSTITUTIONAL CONTEXT OR "KNOW THYSELF"

What is your institution and where is it going? As a player in your institution, do you know why it exists—its purpose or mission? Do you know where it is heading—its goals, objectives, priorities, and needs? What strategies have been articulated to get it there—its strategic or long-range planning? And last, how do its constituents perceive it—its image/identity?

Purpose/mission—Do you know why your institution exists?

As a major fundraising player do you know what your mission is? Do you have a mission statement? Does your staff and board have a clear understanding of your mission? Does your membership and development staff understand why you exist? If they don't … you have serious fundraising problems.

The mission statement is the starting point for all fundraising in any institution. All fundraising, from membership to deferred giving, must be mission driven. If it is not, it is a waste of time and money—your two most precious resources.

The mission statement should be concise and easily understandable by all constituents—members, donors, board members, staff, political, and policy-making groups. The best mission statements are meaningless if no one knows they exist. Peter Drucker of the Drucker Foundation for Non-profit Management cites the Salvation Army as the nation's best managed charity, in part because its mission—"to meet human needs in his name without discrimination"—is so clear that it could be silk-screened on a T-shirt.

If you have a mission statement, how do you promulgate it? Orientation sessions? Board notebook? Posted at the front door? Printed on the masthead of all publications? A frontispiece for the long-range plan? For the staff handbook? Personnel manual? Emergency manual? Again, the Salvation Army insures that "followers are reminded of that mission constantly. It hangs on the bulletin board of the East 52nd Street center …"

Examples of non-mission fundraising abound. They usually involve the uninformed, well-intentioned, board member who is frustrated by the lack of money your institution is receiving from the community and goes out on his own. As a manager, you should allow no fundraising in your institution unless it is mission driven/based. In fact, the establishment of a sound mission statement will shut down practically all "wild hair" or "loose cannon" attempts by well meaning supporters.

Goals, objectives, priorities, and needs—Do know where your institution is heading?

Institutional goals must be set before development goals are set and before fundraising begins, because, ultimately, organizational goals determine fundraising goals.

More importantly, goals require enlightened and courageous leadership. If your museum or your development officer is not successful in fundraising, it may be your fault as the director. It may be that you have not sold the "vision thing" to your staff. Leadership/management must be willing to make tough choices and decide which projects have priority over others. But they cannot be developed in a vacuum and they must never be imposed from the top down. Board and staff input are essential to developing them because, when the time comes to achieve them, the pertinent constituencies will have bought into the plan.

Goals should be developed each year during the budget process and when the long-range plan is revised on an annual basis because those plans should be tied to staff performance and evaluations.

For obvious reasons, organizational and fundraising goals must be:

- **Practical** Here common sense should rule. Your attempt to wipe out hunger in our lifetime may be admirable but hopelessly impractical.
- **Believable** This is a close second to practical. Will the supporters who you approach for money believe that you can achieve your goal with their money?
- **Salable** Can you package your goals so that they are palatable to a donor or set of donors? Or are you a marketing klutz who cannot organize them so that they are attractive?
- **Current** Are the goals you are trying to sell to a donor outmoded or outdated ideas that other museums have abandoned years ago?
- **Articulated** Can you explain what your goals are in a sensible way that is understandable by the intended donor, or are your goals so obtuse that no one understands them?

Above all, your goals, objectives, priorities, and needs should be quantifiable. Examples are countless and easily produced.

- The goal for FY 99-00 is to increase our audience from the inner-city area by 10%.
- Our second goal is to increase museum attendance by 20% from the local community and 10% from tourism.
- Our third goal is to increase school attendance by 14% during the next fiscal year.

If it's not quantifiable, it isn't a goal. Examples of non-goals are "to increase and diffuse knowledge among mankind", "to provide better educational programs for our community", "to broaden our base", "to enhance our image."

In setting any fundraising goals whether they are for annual funds, capital campaigns, project support, membership, or deferred giving, the museum must consider three factors:

1. The level of past support to the institution
2. Frequency of past support by the museum's donors or constituents and
3. The museum's financial needs or goals for the year or multi-year long-range plan

Too often appeals for funds fail because they are based on only one or two of these factors. The most common mistake is to appeal for funds solely on the basis of need. For example, the museum does a year-end mailing to all its members and says that it "needs" $25,000. Why? Who and what determined that need? A deficit? If your membership's level of past support is extremely low (it has never exceeded $15,000) or has infrequently supported you in the past (no sustained record of giving by any meaningful group of supporters), the museum will never be successful in reaching that $25,000 goal.

The chances for success for any appeal rely heavily on all three factors. And what this means is that the museum must ask often. It must get its donors in a cycle of giving and that means managing donor relations.

Strategic/long-range planning—What strategies have been articulated to help your institution reach its goals?

Now that you know **who** you are (the mission or identity); you know **how** you want to fulfill that mission (through goals and objectives); you must move the organization along from point A to point B in order to reach your goals and fulfill your mission. Through long-range, strategic planning, you must ask and try to answer the question "**What** are the precise steps we will take to get where we want to go?"

From the fundraiser's point of view, long-range planning is a consensus process whereby the management group and the board agree on a series of precise and specific steps, both large and small, to reach the institution's various goals.

In order to be meaningful, every aspect of the strategic plan should have a price tag and a timetable for execution. This allows the development team to concentrate its resources on institutional needs. It also allows the management team to analyze the cost effectiveness of the strategies proposed.

Direction and approval for the strategic plan should come from the board. The production and implementation of the plan should come from the staff.

Image/identity (the life and death of fundraising)—How do your institutions' constituents perceive it?

Within the institutional context, the museum must also examine its organizational image. How is the museum perceived by the market which will make a leisure time decision to visit it, spend money in the museum, join as a member and, if all goes well, make a conscious decision to give the institution a donation?

A working knowledge of the organization's image is essential to both the fundraising goal and to the successful selling of the museum.

Because of the diversity of funding sources, it is imperative to know your subject inside out. It is important to understand these images in order to be creative about one's fundraising. In fundraising, a poor image, poorly focused image, or misunderstood image will be far more damaging than inarticulate goals, poor long-range plans, and no mission statement.

In addition to these concerns, museum management and the development office must understand the museum's standing in the community and deal with it accordingly. With occasional exceptions such as the United Way mess several years ago, the public holds most non-profits in high esteem in general. But, bad press, bad-mouthing by disgruntled staff or board members, real or perceived mismanagement, real or perceived slights of donors or collectors, and a host of other evils, can and will damage your best laid fundraising plans.

In summing up the institutional context, one must recognize that development is a well organized, defined, management tool directly related to and integrated with the organization's goals and mission. It is not a once and done endeavor but an ongoing, structured, management function designed to create understanding and to gather support for the institution.

Too many non-profits operate in a vacuum. Fundraising without sufficient prior planning or without reference to a larger thing called your organization is doomed to failure. "What makes the Salvation Army so successful is a combination of three essentials to organizational development: it has a clearly defined and easily understood mission; it holds itself accountable for carrying out its mission and for seeing that money goes to the purposes for which it was raised; and it possesses superior marketing skills" (All quotes on Salvation Army from *The New York Times,* Wednesday, November 17, 1999, p. D1)

B) THE MARKETPLACE

The second step of successful fundraising must be a clear understanding of the marketplace in which you must operate and seek funds. Who gives what to whom and how much do they give?

Since the early 1970s, American non-profits have received donations from **private** sources in roughly the same proportions:

- Individuals 90%
- Corporations 5%
- Foundations 5%

In 1998, Americans contributed $174.52 billion to non-profit organizations, according to Giving USA 1999. This represents a 10.7% increase over the previous year. Individuals contributed $134.84 billion. Bequests totaled $13.62 billion bringing the total giving by individuals to $148.46 billion or 85% of all giving.

Although this is less than the model above, the good news is that foundation giving is up substantially to $17.09 billion or nearly 10% of all private giving. The continuing increase in the stock market has propelled the assets of some foundations to new levels, and the trend of increasing foundation grantmaking is expected to continue, according to Giving USA 1999.

Corporate giving, on the other hand, has not budged from its 5% past performances despite the good economy. In 1998, it gave away $8.97 billion a 9.3% increase over the previous year but only 1% of pre-tax income, down from 1.1% reported for the two previous years.

For comparative purposes, **total private** giving since 1983 has tripled from $62 billion given that year.

Individuals

- In 1963, giving by individuals was only $10 billion. Individual giving has grown by a factor of 10 for the last 37 years. Because individuals gave 85% of all donations last year and several years before, they are your prime targets.
- Unlike the corporate or foundation world, where you can peruse a corporate directory or the foundation directory, there is no central file to search for individual donors, and as a result it makes your job more demanding and challenging.
- Information about individuals can be gleaned from newspapers, official records, and annual reports of other similar non-profits. Questionnaires to members, board member information, and corporate reports are useful if your prospect is a corporate type.
- Individuals should be considered for the full range of fundraising possibilities from membership to deferred giving to remembering the institution in their will. But most importantly, you must determine the individual's needs and then attempt to fit them into a part of your program.
- A committed and active donor base for your institution is vital to the overall success of your entire fundraising program.

Every two years, the Independent Sector, a Washington-based coalition of charities and grant makers representing the non-profit sector commissions a survey to measure volunteerism and individual giving. In their most recent survey, the Independent Sector concluded that the average contribution by the American households surveyed, including those that gave nothing to charity, increased by nearly 16% after inflation. Giving by blacks and young people appears to be on the rise, and the higher income, more generous donors have not flagged in their commitment to charities.

Every time the independent sector does its study, it identifies factors that induce people to give. These should not only give you hope but incentive to go after the big gifts.

1. Volunteerism. The Independent Sector found that volunteers in non-profit organizations give twice as much as non-volunteers. Are you asking your volunteers for gifts?
2. Income tax deductions do not induce giving but they do increase the size of the gift. Are you pointing out the tax implications to your donors in the 31% and 38% tax brackets that their donated dollars are important to you but also that Uncle Sam subsidizes them at a greater rate?
3. People who go to church regularly are better donors to secular charities. Church-going folks gave 2.1% of household income as opposed to .6% by non-church goers. If you are in a particularly religious community, and many small historical societies are, you have better chance of being successful in your fundraising.
4. People who are asked to contribute are more than twice as likely to do so as those who are not solicited. Of people who were asked to give money, 85% did, compared to 36% who were not asked. Are you asking people for money or just waiting for it to come over the transom?

5. Bequests—a growth area for everyone. Only 4 in 10 said they had a will and only 13 percent included a charity in their will. Bequest giving varies from year to year with the death rate and because of the varying amount of time it takes wills to go through probate. However, according to Giving USA 1999, within the context of annual volatility there has been a steady increase in the value of willed giving. Are you providing a mechanism for your donors and members to remember you in their will?

There is no question that individuals are your best source of funds and your greatest energies should be channeled in that direction.

Corporations

According to Giving USA, arts groups should not count on corporate growth for more support and noted the trend that the larger arts organizations are taking a larger share of the pie.

Corporate giving, because of its seemingly obvious deep pockets is the least productive source of private giving. During the 1970s and 1980s an unimpressive three out of ten companies gave donations of one kind or another. Conversely, seven of ten gave nothing. During the 80s, the "Five Percent" club was started by farsighted and socially conscious businesses in Minneapolis. "5%" was to represent a percentage of pretax income donated during the year.

Generally, corporations give because they **hope** to show evidence of good corporate citizenship, to strengthen employee relations, reach important constituencies, encourage employee creativity, increase media coverage, promote products, increase sales, and increase productivity of their employees. What companies feel they **actually achieve** by supporting the arts are: an enhanced image, reached important constituencies, strengthened employee relations, encouraged employee creativity, increased media coverage, good corporate citizenship, product promotion, increased productivity, and increased sales.

Though direct giving is still the source of most corporate support, the role of **corporate** foundations is significant according to Giving USA 1999. In 1998, they accounted for more than a quarter of all corporate giving. In addition, corporations support non-profits through marketing, community relations, and advertising budgets, which are generally separate from charitable giving budgets, and so, this support is not counted in the Giving USA estimate.

Foundations

Foundations, there are some 44,000 of them in the United States, deal with every imaginable issue. The larger ones like Rockefeller and Ford are constantly changing focus and responding to areas of global concern, such as the abolition of nuclear weapons, national and international security, peace initiatives, world population control, and environmental issues. If you are a small local concern this should not stop you from applying to them if you think you have a fit with their program. Several years ago, the Columbia Museum of Art applied to the Rockefeller Foundation for an exhibition catalogue for a show on Guatemalan textiles. Because the foundation was interested in South American issues and culture, the museum was successful.

But it is the local and family foundations that remain an area of lucrative fundraising for local and small museums. In fact, most foundations are small, locally oriented, and give large numbers of small grants. Foundations in low-asset categories often have little or no full-time staff and although some respond quickly and effectively, many do not. The few foundations which publish annual reports are generally more responsive. Foundations with national or regional giving programs are usually in the higher giving categories, have full-time program officers, evaluate proposals systematically, give larger grants, and publish annual reports. However, there is great diversity and generalizations do not always apply.

As you begin your research, be aware that there are four basic types of foundations: Independent, Corporate, Operating, and Community. All foundations have the following common characteristics. They have been started with a single or multiple sources of funds such as an individual or family. They are non-governmental, non-profit organizations, managed by their own trustees or directors, and established to maintain or aid social, cultural, educational, charitable, religious, or other activities to serve the common welfare.

Independent foundations are characterized by a staff and a broad charter but may move into new fields in response to changing social needs. Examples of large independent foundations are Ford, Rockefeller, Carnegie, and Mellon.

Corporate Foundations, while obviously begun with company funds, are constituted independently but make grants with high regard for the corporation's visibility and business interests. They are not to be confused with direct giving programs which are administered within the corporation but are usually coordinated with any existing foundation or marketing budgets which are heftier than contributions budgets.

Corporations establish corporate foundations for several reasons. During a profitable year, the company can provide more money to its foundation for a larger tax break. On a down year, the foundation is fairly well insulated from the corporate low and can continue to make payouts on a three-year grant commitment regardless of the roller coaster effect of the business cycle. A corporate foundation can make grants or gifts to foreign recipients and a company cannot legally. A foundation creates a buffer between any customer or client pressure placed on a company by a pet charity. Rejection can be the foundation's decision and not the company's. In addition, "foundation" has an air of respectability and a positive, beneficial public relations aspect.

The primary purpose of an **operating foundation** is to operate its own programs determined by its charter or board. It does not exist to give away money although a few have been known to make small grants externally.

A **community foundation** is much like a private foundation except that its funds are derived from several sources. Investments are made and managed by trustee banks and grants are always local. The governing board is usually representative of its community rather than the whim of a single powerful family as found in the private foundation. The identity of each fund within the foundation is preserved. They are either donor directed or unrestricted. The efficiency of the community foundation is that it has a central administration for all the funds rather than each donor or fund paying for separate administrations of its assets and resources. The community foundation is rather like a money market or mutual fund but instead operates to make grants.

And where does the money go? Unfortunately, last year all categories of non-profits saw increased giving from all sectors **except** giving to the arts and humanities. Health organizations, human service organizations, environment/wildlife organizations, and public/society benefit organizations all reported contribution increases of 20% or more. The latter group includes groups like the United Way who raise money for themselves and others. Two categories, education and religion, reported increases of 10 % or more but these two groups get the bulk of the money each year with religion gathering nearly 45% of all private giving. Giving to the arts decreased by .8% but that meant in dollar terms a decrease from $10.62 billion to $10.53 **billion.**

Every year for the past several years, the federal government has chipped away at the NEA, the NEH, and the IMLS where their combined yearly budgets for grant making is now approximately $403 **million.** The museum field spends an inordinate amount of time writing grant proposals chasing after a comparatively small amount of money. The question is, should your resources—time and people—be spent chasing federal money or going after the private sector, particularly, individuals? The answer should be obvious.

C) CONTINUITY OF APPROACH

How do you get support from all sources on a continual basis? How do you go about raising the necessary funds for the operation of your institution and its programs? Who do you approach and how do you approach them?

Once an understanding of the museum's mission, its goals, its image, and its long-range plan is in place, and there is an understanding of the realities of the donor universe or the marketplace, an understanding of the concept of the "Continuity of Approach" or "The Circle of Fundraising" or "The Management of the Development Process" is now essential.

This concept consists of three distinct components:

- Cultivation
- Solicitation
- Recognition

Cultivation can be further defined as identification and education. Professional fundraisers call "identifying" prospective donors "prospect research." As Geottler Associates state in a recent newsletter "The essence of strategic fundraising involves the right volunteer asking the right prospect for the right amount at the right time."

Step one is to identify "suspects," a large pool of individuals (this strategy also works for foundations and corporations) who are suspected of having the financial means and inclination to make a major gift to your organization. Sources for suspects are many and diverse. An institution's best suspects for major gifts are probably already a part of the museum's constituency. They may include past contributors, those who utilize the museum's services, or other members of the family including advisory boards, volunteer groups, docents, staff, etc. Most potential major donors have demonstrated their philanthropic inclination by giving to other institutions where they have been recognized in annual reports, newsletters, program guides, or memorialized on plaques. National, regional, and local periodicals publish lists of the top paid executives and the wealthiest families, many of whom live or do business in your community. Some fundraising firms now offer prospect research services of individuals who have a given net worth such as $1 million in a pre-determined geographic area. Don't waste time and energy on some millionaire in another area. If you know about him or her, you can be assured that someone else has known about them for a long time.

Step two is to move your suspect to a prospect. This is accomplished by screening those suspects by the staff, knowledgeable board members, or those in the community willing to lend their knowledge of giving patterns. The success of the process depends on the knowledge of the participants. If you are fortunate to have computer files on suspects, there are software packages that will help you track gifts and tendencies. Once identified, it is the museum's responsibility to educate them as much as possible about its cause. Invite them to lectures, seminars, meetings, receptions, openings, lunches, teas, dinners, etc., based, of course, on the proven affinity on their part for your institution.

Cultivation is a genuine, sincere desire on the part of the organization to make itself a part of the immediate community by involving members of that community in its mission and goals. It is not pandering. If you find it somehow offensive then you are forgetting the long-term goals of the non-profit you are attempting to help. By strengthening your system of recruitment through your volunteer group, your board, and your members, you will feed the "new donor" or "new friend" monster on a continual basis.

Solicitation occurs after sufficient cultivation of the prospect. It is known variously as the actual approach or asking for the order. This is the simplest yet hardest aspect of fundraising for most people. Don't hide behind hours and hours of so-called research in the form of receptions, cocktail hours, and openings to cultivate the prospect without ever asking for the gift. Sufficient research and education is important, but it should never be used as an excuse to delay the inevitable.

Do not approach this part of fundraising as a supplicant or beggar. Do not view your institution as a destitute charity. Position your case or organization as "well" or as "superior," not haughty but "good." Deal from quality. Think in terms of investments and returns on those investments. John D. Rockefeller was eloquent on this point, "Never think you need to apologize for asking someone to give to a worthy cause, any more than as though you were giving him an opportunity to participate in a high-grade investment. The duty of giving is as much his as the duty of asking is yours. Whether or not he should give to that particular enterprise, and if so, how much, it is for him alone to decide."

The greatest sin in all of fundraising is not asking for the order. Do not expect the solicited to respond if you do not have a specific dollar figure in mind. You will embarrass a prospect if you do not ask them for a specific amount of money. Why? Because they want to know the length and breadth of your need, how much of that they are being asked to bear, and by inference, what others are being asked to bear.

In what ways do you ask people for money? The manner of asking an individual, a corporation, or a foundation is closely related to motivation and method. Why do people or organizations give? The motivation for giving money is as varied as the types of people who give. It is incumbent on the solicitor—you—to determine what motivates your prospect to give. Social scientists have identified various reasons as motivations for giving. Listed here are a few:

- **Ego** The most obvious reason—"I want my name on the building"
- **Immortality** Related to ego, but in essence an effort to buy eternity with a major gift.
- **Sincerity** A rarity in the age of cynicism, but some people genuinely believe that their money can make a difference.
- **Tranquillity** "If I give you this one-time gift, I would like you to go away and leave me alone forever."
- **Guilt and/or peer pressure** "If all of my friends are giving, I should too."
- **Fear** Related to immortality but more applicable to health agencies than museums. An example would be the donor who gives $100 to the American Cancer Society in the hopes that they will find a cure before he gets it.

While there are a lot of motivating factors for giving, there are just so many methods of asking prospects for money. They include phone solicitation, mail solicitation, a grant proposal, or the best and hardest—face to face. For all large gifts, a personal visit is the most effective way, and it is usually used in conjunction with peer pressure. Large, proven donors should be sent to visit large, potential donors. A case statement is a good idea for the solicitor to have during his visit with the prospect and something tangible he can leave behind. A case statement is a formal, written document making a strong "case" for the prospect's money. It not only helps you "state" your "case," it helps you put down on paper what it is you want and how you intend to use it.

Direct mail solicitations for annual gifts and memberships summon up the herd instinct. Here the appeal is to join others in your cause, and Americans are natural born joiners. A simple letter that includes a business return envelope with paid postage is an effective method of asking for support.

Telephone solicitation for memberships and small annual fund gifts, although universally hated by those who receive them at mealtime, have proven to be the most cost effective method of fundraising. Volunteers and paid professional callers work in most situations, but the museum team needs to be sensitive to which works better.

When seeking bequests and deferred giving, a personal visit, a handsome brochure, and a pitch for fiscal responsibility is most effective.

When selling a memorial program, nostalgia and sympathy can be tastefully blended in a newsletter ad or direct mail piece.

For project support, nothing replaces a well-written, short, but concise proposal.

As a general rule of thumb, when approaching corporations, foundations, and major donors use reason and logic in the proposal and case statement. When cold prospecting, using direct mail for membership, or annual appeals use emotion, not logic.

Recognition or donor stewardship, also known as "taking care of the donor" should not be overlooked. The museum must work hard at saying thank you. Recognition or the show of appreciation, just like cultivation, must be genuine and sincere. It means pristine gift records, which in turn produce proper thank you letters. Gratitude can come from all involved in the project. Large pan-organization gifts should be acknowledged by the Chief Executive Officer.

Thank you luncheons, receptions, dinners, openings, and lectures are all vehicles of saying thank you and become a means of cultivation for the next or higher gift. Plaques, lists of names on walls or doors, near the front door, on paintings, lists in the annual report, in your newsletter, in brochures, are all ways of saying thank you and recognizing people for their contributions to your institution.

With the close of the circle through recognition, the museum is positioned for the continuing circle of donor relationships. Cultivation has already begun with the last recognition. Each and every donor is important to the museum and the circle of donor continuity must not be broken.

SUGGESTED READINGS

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#237

Membership Matters: Establishing a Vital Membership Program in Your Museum

By Marianne Bez and Amy Cunningham

The purpose of a membership program in community-based organizations is to make a direct connection between your audience and the programs and services you offer. Members can be the biggest supporters, the biggest contributors—in both time and money—and the best ambassadors for museums. Yet at the same time, membership programs can also be time-consuming, costly, and challenging to maintain.

A growing, enthusiastic membership is a sign of a healthy nonprofit organization. But why is membership important for nonprofit organizations? It is important for five reasons:

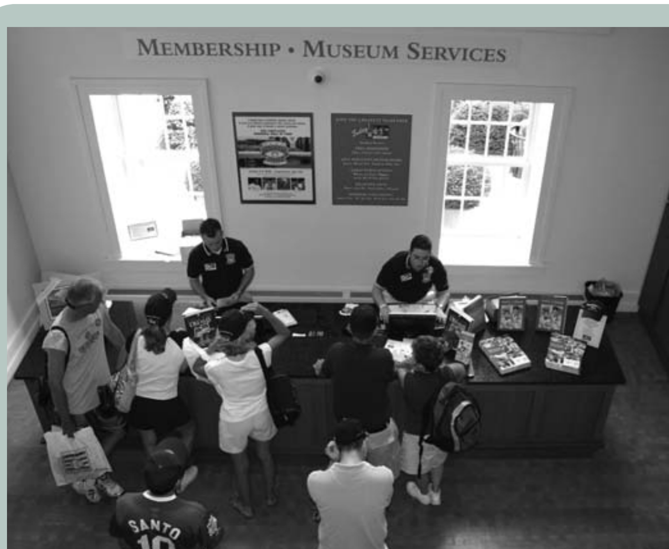
1. Members provide a primary audience.
2. Contented members create community goodwill.
3. Members become volunteers, board members, and donors.
4. Members are initial prospects to look to for additional giving.
5. Members are an important source of additional earned income through gift shop sales, site rentals, and the purchase of other goods and services.

It is important for staff and board members to understand that although membership is the foundation of the development pyramid, there are significant differences between membership and fundraising. The granting of specific benefits and privileges distinguishes membership from all other forms of philanthropic support. **Membership** is a relationship between an organization and an individual or business, in which **tangible benefits are provided in exchange for annual dues. Fundraising**, or philanthropy, involves making a **contribution in return for gratitude** and other intangible benefits. The relationship between an organization and its members varies greatly from that of an organization and its donors and, therefore, the expectations of a member are different from those of a donor. The motivations for individuals to become members are seldom the same as those who contribute. It is possible to be a member and not a donor and vice versa, but it is desirable that most of your members will also be donors.

Museum Membership Challenges Today

Membership is crucial to countless nonprofit organizations and it touches many aspects of work within these institutions. But few employees recognize their role in a successful membership program, and trustees seldom take note of the membership department until there's a problem. These tendencies are especially true for museums, whose staffs face so many other challenges, ranging from deteriorating collections, escalating costs, declining public funding, and meeting the needs of new audiences. It is not surprising that membership can be a low priority for museum administrators today.

The world is changing for museum membership programs. Some historical organizations are experiencing declining enrollments as a result of aging audiences retiring, moving away, or dying. Many museums face the challenge of large numbers of newcomers who are less likely to form allegiances to community institutions or have diverse interests and different needs from those audiences previously served. Museums are further challenged by changes in communications, and many in the field are still trying to maximize the use of new technology to advance their programs and improve communications with members. All of these challenges reinforce the importance of membership. In today's world, membership will succeed only with a systematic approach that has the full commitment and involvement of the board and staff.



National Baseball Hall of Fame and Museum

The National Baseball Hall of Fame and Museum in Cooperstown, NY, provides visitors with many opportunities to purchase memberships while at the museum. Multiple points of purchase and easy processing have resulted in significant success rates, helping the museum to grow its membership to more than 22,000 in just a few years. Presently onsite sales account for almost forty percent of new memberships.

Why Do People Join Organizations?

There are many reasons why someone joins a museum or historical society, including financial (free admission), intellectual, and altruistic. Membership programs offer tangible benefits for joining, and the goods and services provided by museums in exchange for membership dues vary widely. The most common are free or discounted admission, publications, members-only events, lectures, parties, museum store discounts, and premiums (such as t-shirts or tote bags). Less frequently cited benefits include travel opportunities, reciprocal agreements with other organizations, free parking, and special volunteer opportunities. More recently, institutions have begun providing screensavers, online audio features, and members-only sections to their websites. Members who join specifically for these benefits are known as "value members." In the larger development picture, authors Patricia Rich and Dana Hines note that that tangible benefits serve as a "helpful nudge" to introduce these members to what the organization is doing, with the goal that they get involved on a more substantial level.[1]

In addition to value members, people join museums for personal reasons—a sense of belonging; a way to stave off loneliness; the desire to be around similar people, prestige or status; solving a particular problem; or addressing a specific personal interest. Others enroll for civic reasons—giving back, pride in the community, and the desire to make a difference.[2]

Understanding why people have joined your organization and an examination of your potential audience and their needs will help you to craft a more effective membership program. Rich and Hines cite Maslow's "Hierarchy of Needs," a framework that notes five areas of need fulfilled in hierarchical order. The first two levels are basic—food, water, safety, and shelter. The next is the sense of belonging, to which Maslow includes the need for acceptance and relationships, and being part of a group. The higher orders of need deal with esteem and realizing one's full potential (self-actualization). Hines and Rich argue that membership organizations offer ways for individuals to meet these higher order needs (although they may not fully understand or articulate this need).[3]

Planning Your Membership Package

As with all programs and initiatives, an institution must first clearly define and carefully consider the membership program's objectives with respect to the mission of the organization and define the membership package accordingly (benefits, categories, and pricing structure). Whether starting a new program or revising a longstanding one, two rules apply to this important structure on which your membership program rests. First, membership must be cost-effective; the price of each membership category must exceed the cost of the benefits promised. Second, basic level dues should be about double the cost-per-member. As categories increase in value, so should membership income. It is useful to conduct periodic benchmarking to compare the categories, benefits, and prices you offer to those of other cultural organizations that share your audience or your target audience. Be sure to create a price structure that is competitive as well as cost-effective.[4]

To create an enticing membership package, remember the following:

✓ Keep categories as simple as possible. Clarity of choices and fewer options help streamline the program management.

✓ Offer benefits that fit your audience's desires and your organization's culture.

✓ Conduct comparative assessments of your membership benefits, categories, and pricing on a periodic basis.

✓ Calculate the costs of your benefits annually.

Benefits that induce your members to come to the museum, participate in programs and events, or shop and dine help foster a greater connection between the member and the organization. Generally there are two types of benefits, free or discounted merchandise or programs and access to places, people, or information. These range from the basic—admission, program and merchandise discounts, advance ticketing, and publications—to more upscale offerings such as members-only events, special customer services (parking, coat check), professional services (assistance with genealogical research), travel opportunities, and discounts on reproductions of historic photographs or artwork from collections. Many museums also reflect their own personality and mission through creative benefits. The Black River Academy Museum and Historical Society in Ludlow, Vermont, for example, offered coupons for free ice cream cones redeemable at their annual ice cream social. The same society also provides one free entry into their annual quilt raffle.

Membership Levels and Categories

A successful membership structure will have well-defined levels with tangible benefit increases at each step. Tiered levels of benefits enable you to employ a "benefits-oriented" sales pitch in membership campaigns and provide incentives for existing members to consider increasing to higher levels. Museums should offer information-based benefits at all levels. Newsletters, calendars, invitations, or journals serve as avenues of communication to your membership and help them to perform an important role as ambassadors to your organization. Articles on local history also fulfill the educational component of a museum's mission. Institutional support is crucial, as one major challenge of a membership program is the reality that staff in other areas of the museum provide many of the promised services. Therefore, make certain to incorporate staff input into the design of the membership benefits.

The most common membership categories are the basic individual (benefits and privileges exclusive to one person) and the family (includes two adults and a certain number of children). According to results reported in the *NEMA News* in 2004, fifty percent of respondents also offer an additional membership category for sub-groups such as senior citizens, students, residents, and educators, among others. In addition, ninety percent of the museums surveyed also offered at least one category above the family level, and many offered several.

When calculating costs, many institutions fail to recognize how member benefits delivered though the work of another work unit impact the overall budget. These connections are particularly critical during periods of membership growth. To ensure that benefits are delivered as promised and remain institutionally feasible, changes in membership, either declining or increasing numbers or adjustments in benefits, must be shared widely throughout the institution. And finally, there is one absolute rule about making changes in benefits, fee structure, or categories. You must tell your members about any changes repeatedly and well in advance of implementation. You may also want to test these ideas on select members before finalizing new benefits. This communication is critical to the ongoing success of the program.

Developing a Membership Profile

Another ingredient of successful membership recruiting and retention is the ability to profile the people who join your museum and who make up your organization's audience. This will aid in finding new members and engaging present ones. The best way to learn about members is to conduct surveys, focus groups, and even informal interviews. Some information also may be gleaned from analysis of your present membership records. Review the zip code distribution among existing members to determine which areas have the largest concentration of members. Review sign-up or termination dates to help determine if there is a seasonal pattern to your membership. Explore how these patterns relate to events at your museum.

Information about your museum visitors is also helpful. If your museum has a seasonal visitation pattern, remember that summer visitors may represent different demographics than those touring the museum at other times of the year. Do your visitors return randomly or at more frequent intervals? Ask what draws them to the museum initially and what would inspire them to return. Find out if they'd recommend the museum to others.

Before you undertake any research on your own, determine if other organizations in your community have already gathered research that would be helpful to you. Also consider the possibility of using the talents and skills of a nearby college marketing department, or interns from a museum studies graduate program. Armed with greater understanding of your existing members, their motivations and interests in your organization, and the sources that influence their behaviors, you can create an acquisition plan that identifies prospects for membership and formulates a message that will motivate newcomers to join.

What other information is useful to develop member profiles?

- ✓ Keep categories as simple as possible. Clarity of choices and fewer options help streamline the program management.
- ✓ Geographic breakdown
- ✓ Education level
- ✓ Income level
- ✓ Fields of interest/ occupation
- ✓ Gender of the membership decision-maker
- ✓ Age range
- ✓ Marital status

Attracting New Members

Acquiring new enrollees is vital to sustaining a membership program and essential for growth. The key to selling memberships is asking. People rarely join without being prompted. Most acquisition campaigns are not immediately profitable and it is fairly common not to make a profit in the early stages. But the long-term benefits are substantial if new members become renewing members for years. Slow, steady growth is more manageable for smaller organizations; rapid membership increases for all sized institutions can make the delivery of benefits difficult, lower renewal rates in subsequent years, and jeopardize goodwill or support if you fail to meet expectations. It is much easier to recruit new members when staff, volunteers, and board members recognize and endorse the goal. To ensure that the membership program is an integral part of the museum financially and programmatically, provide progress reports to staff and board members.

A cornerstone to any acquisition effort is the identification of good prospect lists. Begin with prospects you know and exhaust in-house sources of contacts first. Solicit past board members, volunteers, staff members, and friends and associates of each, as well as researchers, collections donors, visitors, and vendors. At special events and staff presentations, identify potential new members. Be compulsive about collecting contact information of individuals and businesses who are interested in your museum. Use registration lists and guest books to collect names and contact information, including phone numbers and email addresses.

Tips in finding new members determine:

- ✓ What other organizations interest your members?
- ✓ What benefits are valued most?
- ✓ What motivates them to be members?
- ✓ What magazines and publications do your members read?
- ✓ What TV or radio stations do they tune to?
- ✓ What types of information do they search for on the Internet?
- ✓ Do they prefer to receive communications from your museum via mail, email, or phone?

Acquisition is the most costly and time-consuming component of a membership program and it is essential to have realistic goals and a well-conceived plan. The most common recruitment techniques employed by museums and historical societies include personal solicitations at the admissions desk and during special events, telemarketing, enrollment via the museum's website, membership drives, advertising, gift membership promotions, and direct mail. For the latter, direct mail specialists recommend testing various elements of a mailing package, such as the language of the cover letter, a special offer, or the use of an incentive, before undertaking a large-scale mailing.

Soliciting Visitors

Museum visitors are an excellent source of new memberships. A New England Museum Association survey reported that over fifty percent of membership sales were made onsite. Invite every attendee at the museum, research library, programs, and special events to join. Incorporate a membership invitation into newsletters, promotional literature, and other mailings. Feature membership opportunities prominently on your website, and be sure to include the website address in all promotional literature and all advertising. Following a special event, send a direct mail letter appeal or e-solicitation to participants who are not members. Cull your lists so that only one appeal goes to each household. Be absolutely certain that you do not mail acquisition letters to existing members. Code your mailings so that when an enrollment comes in, you will know where it originated. Track results from every effort and repeat the methods that work best.

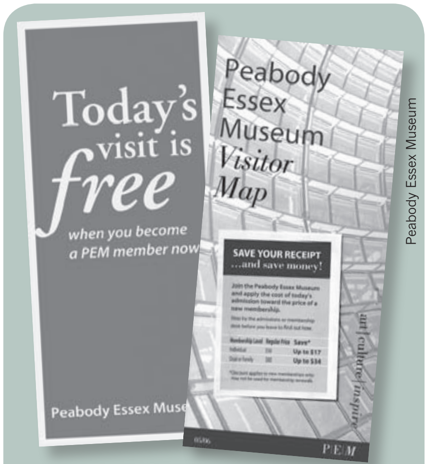
Direct Mail Campaigns

After onsite sales, direct mail is the most common acquisition method. These efforts can be conducted by your staff or with the assistance of a professional mail house. The mail house can handle all aspects or assist with any portion of your direct mail campaign, ranging from preparation of your prospect list, design and production of the direct mail package, and mailing. But before outsourcing, first consider the volume of the mailing, your staffing levels and their abilities, and cost. You may find that it is financially viable to manage all of the work in-house. If you choose to use an outside firm, which can greatly advance your membership promotion, you should closely monitor their work. Regardless of the size of the mailing, carefully proof all of the literature to ensure its accuracy, and purge the mailing list to omit existing members and other VIPs.

The direct mail package should contain a letter inviting an individual to join, along with the membership literature listing categories and benefits, a response form, and a return envelope. In an increasingly competitive market, it is imperative that your membership appeal stands out among other pieces of mail. Professional design services can also make your appeal attractive enough to lure individuals to open the package and read your message.

In mounting a direct mail campaign, identify other prospects beyond your immediate audience. Reference your membership profile and look for others who fit it. This list might include former members, long-time community residents, owners of historic homes, newcomers, regional businesses, people with connections to board members, seasonal residents involved in the community, and descendents of prominent local families. It is also possible to purchase lists inexpensively, using tax or voter registration rolls. More expensive and refined lists are available commercially, but if you consider outside lists, be analytical about which to use. Ultimately, select lists with valid mailing addresses who closely match the demographic profile you are seeking.[5]

The brochure is a crucial aspect of any direct mail campaign. Your brochure should emphasize membership benefits, especially those identified as the ones most valued by current members, and its graphics must reflect the quality of your museum. It is also useful to collect and study membership brochures of other museums and cultural organizations. Remember, this piece may make the museum's initial impression on a potential member. Draft your letter of invitation in an upbeat tone, written as if it's being sent to that specific individual. Focus the letter on what you've learned through your membership research about what entices your current members or visitors (i.e., an exciting new exhibition or special event).



The membership message is front and center at the Peabody Essex Museum in Salem, MA. A membership sales desk is prominent in the main entrance before the admissions counter. While waiting to purchase tickets, visitors face rack cards promoting free admission with the purchase of a membership, cleverly placed in holders mounted on stanchions. Even the cover of the museum's map has a simple but direct message about membership.

Small museums should not be daunted by the idea of direct mail. With today's micro-processing capabilities, it is manageable to produce direct mail in-house, mailing a limited number of appeals each week or month, thus making incremental progress. By working continually on acquisition, a museum with fewer staff can experience new membership growth throughout the budget year. Response rates vary at certain times of the year. Be mindful of outside influences that may compete with your membership mailings, such as tax deadlines, major holidays, or other prominent donor campaigns in your community. Study your results and repeat what works.

In addition to direct mail, many organizations have used incentives, trial memberships, and discounted memberships to attract new members. Other methods include selling memberships on your website or recruitment events designed for the sole purpose of promoting membership. Some historical associations conduct membership drives using volunteers, an effort that requires coordination and training so that the "sales team" imparts the correct message and the knows the correct way to solicit new members. Gift membership promotions can be especially successful in the final quarter of the year. Packaging, which could include a sample publication, an inexpensive item from the museum gift shop, and wrapping with a bow, can make gift membership an attractive purchase. Before you consider these options, research the success rates of others with experience. Whatever lure you use, it must fit your organization's style and budget and evoke a response in potential members.

How Do You Keep Members Interested in Your Museum?

After you've been inundated by responses to your membership acquisition campaign the work just begins. Start by acknowledging new members *promptly* with a welcome letter that includes an introductory message, an invitation to visit the museum, and a membership card. Find ways to honor members, not just with the traditional membership receptions or exhibition previews, but consider how to show appreciation for members every time they cross your museum's threshold. At major events, provide a membership entrance so members do not wait on admission lines. Offer members advance ticketing for popular exhibitions and programs.

Whatever methods you use in selling memberships, it is vital to keep track of the following:

- ✓ Total number of appeals or contacts made in each sales campaign
- ✓ When the prospects were contacted
- ✓ Length of time after solicitation until response was received
- ✓ Number of members and levels of membership joined
- ✓ Source of prospect name
- ✓ Rate of response

Deliver membership benefits on time and with pleasure. This step often requires the cooperation of coworkers in other areas of the museum. Educate your peers as to the importance of membership and be sure to acknowledge their role in its success.

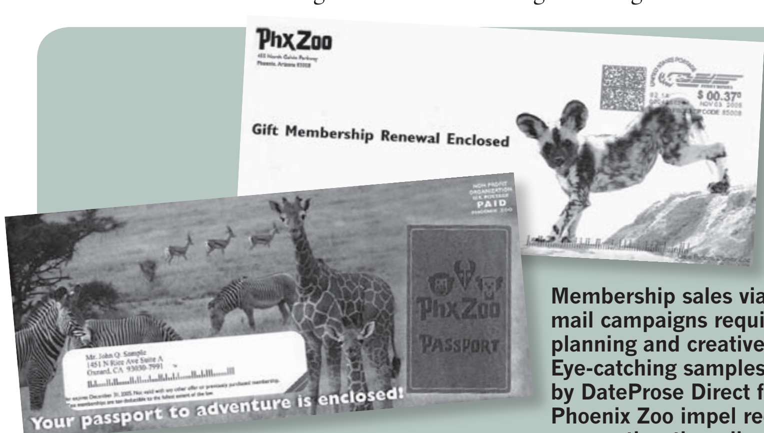
New technologies such as websites, e-vites for special events and receptions, voice-mail, Internet-based surveying, and bar-coded identification cards are being incorporated into membership programs. Many museums offer e-newsletters rather than or in addition to printed versions. The Brookfield Zoo in Chicago provides an e-newsletter every other week as well as a choice of three self-selected thematic versions of their electronic newsletter, Behind the Scenes, Conservation, or Family. Communicating regularly through event publicity, letters, e-communications, publication, and other means will keep members interested and involved. They will feel invested in your organization and be more likely to renew. Building a relationship with your members will result in a program driven by loyalty and affiliation rather than merely benefits. Tapping into passion and core beliefs enables an institution eventually to convert members into reliable long-term devotees.

How Do You Succeed in Retaining Members?

The renewal process helps to ensure that existing members retain their dues-paying relationship with your organization. Neil and Phil Kotler suggest, "Renewal rates are an annual market test in which members 'vote' on whether the product is worth the cost or involvement." When calculating renewal rates, separate first-year renewals and expect these rates to be lower than those of longer-term members. Awareness of these rates will be helpful in budgeting renewal income and knowledge of what sources yield the most long-term members will help you allocate staff time and membership acquisition resources. A total renewal rate of seventy to seventy-five percent is good, as is a first-year renewal rate of sixty-five percent.[6]

To encourage members to renew before their expiration date, renewal notification should be sent early. Multiple renewal notifications will increase your response. Careful tracking will enable you to calculate how many notices are cost-effective or necessary to maintain target renewal rates. Most museums send at least three renewal notices for each expiring membership, ranging from sixty days before to thirty days after the expiration date. The standard renewal mailing includes a cover letter, a pre-printed remittance envelope, and a response form. The essence of your membership message should be repeated along with payment options, categories of membership, and associated benefits. Some museums are experimenting with e-reminders and even telephone voice messaging to urge members to renew online, eliminating paperwork and postage.

Renewal time also presents an opportunity to upgrade members to higher categories. Use the renewal message to invite members to increase to the next level of membership. In your phrasing, convey a sense of urgency and be encouraging—"If you renew today, your benefits will continue uninterrupted." Mention an upcoming event or a new exhibition. Alter the message in each succeeding reminder to reflect greater urgency as the expiration date approaches. As



Phoenix Zoo

Membership sales via direct mail campaigns require careful planning and creative design. Eye-catching samples designed by DateProse Direct for the Phoenix Zoo impel recipients to open rather than discard it.

Tips for Membership Success

Everyone's plan for membership is different according to the institution's specific needs, but the following tips apply to most museum membership programs:

1. **ASK, ASK, ASK —** People are not likely to become members unless they are asked. Mention membership at all events, exhibits, lectures, in your newsletter, and on your website. Most museums have circles of friends and volunteers who would gladly join if it were brought to their attention.
2. **Collect addresses whenever you can —** People who have been "consumers" at your institution, whether touring exhibits or attending a lecture, are the best bet for becoming members. Prominently display a guestbook and ask visitors to sign. If you have a display at a convention or event, have them sign up to get a chance to win something, such as a book published by your institution or a tee shirt with your logo.
3. **Send regular renewals —** Whether on a quarterly or monthly basis, send prompt and multiple renewals. Each member should get at least three renewal notices before being dropped from the membership rolls. Remember that lapsed members should be asked to join again.
4. **Eliminate life memberships —** Anyone who is so engaged and invested in your organization that they want become a member for LIFE is engaged and invested enough to pay dues every year.
5. **Communicate changes in advance —** If you decide to make changes to your membership fees or benefits, let your members know about these changes often and well in advance. You might use it as an opportunity for a membership drive or early renewal—"renew or join before June and save $10."
6. **Figure out what your membership program actually costs your institution.** Consider staff costs and postage. Do your dues reflect that?
7. **You must constantly find new members —** Even with a great annual retention rate of eighty percent, you must recruit twenty percent each year to keep your membership numbers steady.
8. **Keep 'em happy —** It is more costly to recruit new members than it is to keep current members. Make them feel like an important part of your organization by:
   - Welcoming new members, through an event or with a small token
   - Communicating through a newsletter or mailing at least quarterly
   - Delivering the benefits you promise
   - Recognizing members at events

with acquisition, it is equally important to keep track of the response rate for each mailing or renewal technique. Renewal tracking will help you establish an understanding of the patterns that emerge in the process. Multiple factors influence membership renewal, including benefits offered, frequency of benefits, visits to the museum, treatment of members, quality and regularity of communications with the organization, personal finances, and change of interest, health, age, or relocation.

It is important to analyze renewals and use this information to inform succeeding renewal efforts. Those members who do not renew after the final notice are commonly known as lapsed members. The records of lapsed members should be coded as inactive and their benefits ceased. If significant numbers of members (especially from higher categories) are not renewing, it may be time for research to determine how your museum is not meeting expectations. Surveys, focus group discussions, or other interviews with lapsed members can provide helpful feedback. Also, most membership-based institutions find it cost-effective to conduct at least one campaign annually targeted to soliciting lapse members to rejoin. Sample forms for tracking campaign progress and gathering production costs can be found in the *Nonprofit Membership Toolkit* listed among the references.

Making Membership Part of the Overall Institutional Thinking

It might seem easy to let your membership program just glide along. In reality, however, membership needs constant care and attention. Maintaining and increasing your membership requires planning and resources. Ongoing program assessments, benchmarking other programs, and consistently tracking results are necessary to stay current and sound.

Membership touches all aspects of museum work and can succeed only with support across your organization, especially at the top. Constant consideration of the institutional mission and its tie to your membership will keep your program on course.

A strong membership program can strengthen your museum on many levels including financially, programmatically, and in audience development. A robust membership translates to audiences for programs and exhibitions, volunteers and collections donors, goodwill, and a foundation for successful fundraising. A growing and enthusiastic membership is a tangible sign of a healthy nonprofit organization and well worth the investment of time and resources.

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[2] Marianne Bez, "Membership: The Base of the Development Pyramid: Expanded Outline" (Cooperstown, New York, 2000), 2; Beatrice Snyder, "Museums and Membership" *NEMA News* 3 (Spring 1998), 1; Trenbeth, *Membership Mystique*, 15.

[3] Rich and Hines, *Membership Development*, 16.

[4] To learn more about benchmarking see Barbara Windle Moe, *Technical Leaflet #221: Process Benchmarking for Museums*, American Association for State and Local History, 2003.

[5] Questions to consider include: Where did the list originate?; How recently names have been added and what is the frequency of their updates?; What are the list's demographic characteristics? Also ascertain if you are purchasing a one-time use or if you can mail to these prospects more than once.

[6] Neil Kotler and Philip Kotler, *Museum Strategy and Marketing* (San Francisco: Jossey-Bass Publishers, 1998), 292.

AASLH
TECHNICAL LEAFLET #242
A PUBLICATION OF THE AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY

DIY Strategic Planning for Small Museums

by Cinnamon Catlin-Legutko

In the spirit of "do-it-yourself" television shows, this technical leaflet offers a do it yourself (DIY) approach to strategic planning. Developed in 2003 at the General Lew Wallace Study & Museum, a small museum and historic site, in Crawfordsville, Indiana, this approach is especially appealing to small museums as it costs little to no money to implement and it can be completed in-house. This approach is also a good match for small museums as it accommodates "nuts and bolts" goals and projects.

For the purposes of this article, a small museum will be defined as having an annual budget of less than $250,000, operated with a small staff with multiple responsibilities, and employing volunteers to perform key staff functions. Other characteristics such as the physical size of the museum, collections size and scope, etc. may further classify a museum as small.

Many small museums operate with volunteer and non-professional staff. Some small museums are in caretaker mode—operating to keep the roof on and the doors open. They may not have had the opportunity to look to the future and make the best decisions for the organization in the long term. DIY strategic planning is an excellent way to start thinking about the future and improve the present.

At its core, this template is rooted in basic project management where it is important to determine tasks, resources, and deadlines ahead of a project's start date to lower the risk of failure. With a vision for your organization, an allocation of time for planning, public speaking ability, and a modicum of computer literacy, you can easily create a strategic plan embraced internally by staff and externally by donors, grantmakers, civic leaders, visitors, educators, and other interested parties.

Why Are Strategic Plans Needed?

A strategic plan is a map or chart that an organization agrees to follow for three or five years in order to reach their goals. Institutions need strategic plans to help direct efforts and resources in an efficient and strategic manner. Responding to community and audience needs requires a strategic plan.

The planning process is strategic because you are establishing the goals that make the organization dynamic in its community and allow it to keep in step with community needs. It is systematic because it is focused and evaluative in choosing priorities. Institutions make decisions about short- and long-term goals and secure consensus. And most importantly, strategic planning is about building commitment and engaging stakeholders. Once the plan is in place and you have met with all the stakeholders you can, you now have the authority to complete the work and a course of direction to take.

Strategic plans are different from long-range or operational plans. Plans are strategic when the goals are responding to the museum's environment, seeking a competitive edge, and looking for the keys to long-term sustainability. Long range or operational plans do not redefine the organization and position it in the community. These plans are more concerned with laying out immediate and future goals and are less concerned with organizational change. At the end of a five-year strategic plan, you will want to take the time to evaluate the success of the plan and consider next steps. If it was a complete success, changing course may not be necessary and you simply need to plan the next five years along the same course. This would warrant a long-range or operational plan.

Through strategic planning, pen is put to paper and major goals are defined. These goals may spur a sea change or a small shift in operations. It is important to realize at the beginning that the strategic plan is the means to an end. It is a living document and as such, opportunities that are good for the organization should be considered with the plan in mind, but not completely disregarded because "it's not in the plan." The *means* are flexible, while the *end* is not. ***The Strategic Plan is the means (flexible) to an end (not flexible). It is a LIVING DOCUMENT.***

Is Your Museum Ready for Strategic Planning?

Conditions must be right for strategic planning to begin. None of us has the time to waste on planning if the board does not support it or if the goals are unachievable. In these circumstances, staff and board will ignore any attempt at a plan. The proper strategic planning conditions depend on the organization, but the primary indicators for readiness include board and staff commitment and a vision for the future. There are two parts to guaranteeing the success of a strategic plan:

1. Creating a realistic strategy that matches current and anticipated resources.
2. Ensuring board and staff embrace the plan and agree on the articulated goals.

Before you get started, the director should evaluate organizational readiness. If the organization has serious issues—such as board in-fighting, major budgetary shortfalls, or cynicism regarding planning—take steps to resolve them before the process begins. The following table provides several statements to help you consider organizational readiness. Consider the statements provided in the left column of the table and check whether your museum is ready or not. When selecting a "No" response, make a note about whom to consult with to consider resolution (the board president, executive committee, etc.) If you realize you are not ready based on two or more negative responses, use the considerations in the far right column to determine how to get ready and when you might be able to begin strategic planning.

If you have any checks in the "No" column, consider addressing those questions before beginning strategic planning and determining when to start. If you cannot easily remedy these considerations, create an action plan based on responses. Work with key individuals to execute that plan and set a schedule for getting back to strategic planning.

If you are ready, consider if you have lingering comments or concerns to capture and share with the appropriate committee or person before you proceed. It's essential to address these concerns up front.

The Key Players

There are several individuals who should participate in the strategic planning process, but the actual number of participants and their function in the organization will vary from museum to museum. The goal should be to have all board members participate in the process, and depending on staff size, all or most of the staff should participate. It is also important to look beyond the internal players and think externally. The museum exists to serve the public, so what does the public want from your institution?

Depending on your museum's size, you could have the board, staff, and community leaders all sitting at

Readiness Issues	YES	NO	Considerations if not ready	Start strategic planning
The museum has enough money to pay bills over the next six months.			How can your museum get enough money? By when?	
The museum has a history of being able to plan and implement its plans.			What can be done to address this issue? Leadership development? Other ideas?	
Board members work well together. Staff members get along.			Problem in board? Problem with staff? What can be done?	
Board members are willing to be involved in top-level planning.			What can be done?	
Board members and staff will find the time to do the planning.			What can be done to free up more time?	
No major changes are expected in the next 1-2 months.			What changes? What can be done to get ready for strategic planning? By when?	
There is extensive support for planning in your museum (internally and externally).			What can you do to address any cynicism?	
Strategic planning efforts are underway because the museum is ready for change and not just because a grantmaker or funder is asking for it.			What should you do about this?	

Adapted from *Field Guide to Nonprofit Strategic Planning and Fundraising* published by Authenticity Consulting, LLC.

the same table during the strategic planning process. But realistically, splitting these groups up might be better. You could hold a joint board and staff session and a separate public focus group or you could hold three separate sessions. It depends on what the facilitator and/or the museum director find to be the best scenario for the organization.

Creating the Plan

The following is a step-by-step outline for Do-It-Yourself Strategic Planning developed at the General Lew Wallace Study & Museum. This approach has been successfully implemented in other small organizations and produced the same results. While it was a complete success for us, you may want to adapt some steps to match your organizational behavior. For example, at my museum, board members involved in the plan were unable to meet for a long period of time. For this reason, we compromised and shortened the first session to three hours (instead of the six we really needed). By the next strategic planning cycle, the board will be more accustomed to strategic thinking and implementing plans and we anticipate that we will spend more time around the table developing the next plan.

DIY Strategic Planning has three key processes:

I. Preparation
II. Facilitation
III. Formatting

I. Preparation

1. Gain board support for strategic planning. One of the key functions of the board is to set the strategic direction of the museum and ensure that the resources are in place to realize the goals. During the course of a regular board meeting, the president should lead a discussion about strategic planning, the methods you plan to use, board member expectations, and how much time the process will take. Once the groundwork is in place, the president should call for a motion to proceed with strategic planning. During that meeting, set the date for the first session.

2. Select project leader/facilitator. The museum director serves as the project leader/facilitator in the absence of funding for a consultant. While it is better to have an independent party facilitate brainstorming activities and guide the overall process (this allows the director to participate more fully and prevents the director from being "heavy-handed"), this is often not feasible in a small museum. To make sure the director has input in the process, he or she may meet with board members before the meeting, share ideas, and encourage them to spur these ideas during later brainstorming opportunities.

3. Determine length of plan. Decide along with the board whether this will be a three- or five-year plan. There is no magic formula for deciding the length of the plan. In the case of our institution, we chose five years because the board and director knew that resources would support a five-year plan and we knew that the amount of change needed to improve operations would be better affected by a five-year plan. However, we left the fifth year open and assigned no formal tasks, specifically for the purpose of leaving room for scope and timeline changes. During the strategic planning process, the staff consisted of only two part-time seasonal employees, the director included. As the implementation of the plan gained momentum, the board and staff worked together to negotiate deadlines and adjust the scope to fit resources. By year three of the plan, the fifth year was full of tasks.

If you are an all-volunteer organization, a three-year plan might be more suitable. Volunteer energy needs to be replenished more frequently and the planning process can be a tool for reenergizing and refocusing. An organization that has board members not completely convinced with strategic planning may choose three years to demonstrate organizational potential. Experts do not recommend plans shorter than three years because it takes at least three years for many changes to take root and for resources to align with strategic areas.

4. Identify five organizational categories. Identifying categories from the outset will help frame the overall planning process and the later brainstorming activity. You will need to distill museum functions and projects into five categories at most. (Education, Administration, Collections, etc.) These categories can be broad umbrella terms or they can be issues pertinent to your organization such as interpretation, a community initiative, or a major event (e.g., a centennial commemoration). To guarantee the development of a feasible plan, limit it to five categories and use them as guideposts during the planning process and as the backbone of the final plan.

WARM-UP WORKSHEET

Develop a worksheet that asks these questions:

1. What is your vision for the museum?
2. List five things you would like to see happen at the museum that will help make this vision a reality.
3. Where do you see yourself in this vision?
4. Where do you see the museum in five years?

At General Lew Wallace Study & Museum, we used the categories of Administration, Education, Collections Management, Building/Grounds Preservation, and Development. For our purposes, exhibits, educational programming, and guided tours fell under the Education umbrella because their ultimate intent is to educate the public. Development included fundraising, public relations, marketing, and staff training because these efforts develop the overall sustainability and visibility of the site. For us, these categories were most relevant in 2003, but in 2008, when we develop the next plan, they may not be.

5. Distribute a "warm-up" activity. Before the first scheduled strategic planning session, distribute a worksheet to participants to spur thinking about the future of the organization and prepare them for the brainstorming session. Email or mail the worksheet and instruct them to complete it and bring it to the first session.

II. Facilitation

1. Convene a brainstorming session. Ideally, the first gathering should be a five-hour session with a clear agenda provided ahead of time. During this first gathering, the lion's share of board work is completed. Board members will be sharing ideas, thinking of new ones, and begin placing them into concise statements.

For this first session, you will need two flip charts (preferably the kind with adhesive) and several colors of markers. Do not use a chalkboard or dry erase board. You need to keep the notes throughout the entire planning process—you will refer to them during the second strategic planning session and you will need them as you draft the plan. Plus, it is always a good idea to keep the evidence.

2. Begin with an icebreaker exercise. Although it may sound and feel corny, an icebreaker exercise is a good way to make everyone comfortable and ready to begin. If you choose the right icebreaker, you can learn something about the participants. Go around the room and ask what was the last museum they visited (it cannot be yours) and why. You'll learn something about what drives them to go to a museum, what kinds of museums they like, or how far they will travel to visit a museum. Or, you'll find out that some of them have no relationship to museums other than the one they serve. Both types of responses can be very enlightening.

3. Present ground rules. Adults need ground rules as much as children do. To keep the group charged with positive energy and encouragement, cover the ground rules and post them on a wall in the meeting room. Refer to the rules throughout the process to help control behavior issues. At no point do you want anyone to feel alienated, threatened, or discouraged. The brainstorming process works best when everyone is firing off ideas and working in a respectful manner.

4. Work in pairs. Before you start the open brainstorming segment, divide the group into pairs. Be sure to select pairs of people who may not know each other very well or individuals who rarely have the opportunity to work together. Send them to various locations (outside, down the hall, in the corner) with the "Before the Storm Worksheet." This worksheet is designed to build confidence among participants,

SAMPLE GROUND RULES

1. There are NO bad ideas!
2. One person speaks at a time.
3. Listen when another participant speaks. Allow him or her the floor.
4. Think about small, medium, and large ideas. No idea is too small.
5. Allow yourself to be inspired by another participant's idea.
6. When thinking of ideas, visualize yourself as a board member, a staff member, a volunteer, a museum visitor, and a donor.

SAMPLE BEFORE THE STORM WORKSHEET

For the purposes of this strategic plan, we are using five pre-determined categories of museum management and operation: Administration, Collections Management, Education, Building/Grounds Preservation, and Development.

1. Working with a partner, consider these categories and create a vision for the museum. What kind of museum will it be in 5, 10, 15 years? When the vision is realized, what will the museum be like for the visitor? This should be one sentence that imagines "a day in the life of the visitor" and makes a promise.
2. Use the vision and quickly brainstorm ideas that can make the vision a reality. These will be your notes for the group brainstorming session, which will ultimately reveal the main components of the strategic plan.
3. Finally, turn the sheet over and drill your brainstorm ideas down into five main strategic goals. You can come up with more if necessary.

You will have thirty minutes to complete this activity.

drill down the ideas, and begin the visioning process. At the end of the exercise, the pair will condense their ideas into five strategic goals.

5. Brainstorm as a group. The purpose of the group brainstorm is to gather as many ideas as possible, capture them on paper, and keep everyone engaged and excited about the ideas. Very simply, facilitation is about helping a group of people reach their goals. During the course of the brainstorming session, the facilitator will:

- Control the meeting
- Set rules and enforce them
- Ensure participation
- Allow for flow of thought
- Keep the ball rolling
- Keep the meeting on topic
- Act generally as a non-participant
- Be a subject matter expert
- Accurately sum up discussion
- Smile as much as humanly possible

Brainstorming sessions are fast, exciting, and creative. To warm up the group to the challenge, you may start the session with a mock brainstorm. Ask them to share ideas about what are the great moments in American history or what are the best movies of all time. Not only will newcomers to the process get the opportunity to see how it works (and you will get a chance to practice), you will see who the talkers and who the wallflowers are. This also helps you keep the conversation balanced and watch for domineering personality types.

Once the ball is rolling, these steps will take you through the process and help you gather the most salient points:

- The facilitator will jot ideas onto flip charts while keeping ideas flowing.
- Once momentum has slowed, review ideas for clarity and ask for a show of hands of how many people identified these ideas on worksheets ahead of time (mark the number of hands next to each one to show consensus—items with the most hash marks should receive highest priority in the plan). This quick break will likely inspire more brainstorming. Keep it going while ideas are hot!
- During a food break, categorize the brainstorm list onto separate flip chart sheets. Before getting started, write each operational category on a separate flip chart sheet (e.g., Collection Management). As an alternative, you can run through the lists and code the idea into a category, i.e., D for Development, E for Education, etc.
- Once everyone has eaten and had a break, reconvene the group to consider the categories and how you assigned them. Look for gaps. Did they have a million programming ideas but never mentioned collections care? You can take time at this point to restart the brainstorm if there are some obvious holes.

6. Initial visioning session. Once the brainstorm period has slowed down, it is time to start developing a vision statement. A vision statement is focused on the future and considers what the museum will look like down the road (What will the visitor experience be like? How will the museum function?) The vision statement incorporates the needs and desires of the board and staff and crystallizes them into a picture of the future. For some, it is the simple question, "What do you want to be when you grow up?" This first visioning session will start with a conversation resulting in a first draft of a vision statement. To start the discussion, it is useful to create a word list on flip charts about what the board values and what can the museum can offer. Having a pool of words to refer to is helpful when drafting a statement.

7. Plan a follow-up session. Before the participants leave the first session, establish the date and time of the follow-up session. Get a sense of how many people will attend the second session. (For some reason, no matter what you do, expect fewer participants for this second session.) It will last about two hours.

During the follow-up, the facilitator presents the plan's initial draft and walks the group through the format. This will include ideas from the first brainstorm session and formalized strategic goals. It may also include proposed timelines and anticipated resources. This is another opportunity for idea clarification and consideration of the priorities and timeline.

SHOPPING LIST

- ✓ Snacks and beverages
- ✓ Lunch or dinner
- ✓ Flip charts (at least two)
- ✓ Easels (2)
- ✓ Open wall space
- ✓ Markers, two to three colors
- ✓ Masking tape
- ✓ Ink pens
- ✓ Tent cards (for participant names)

Once the group approves the first report, return to the vision statement drafted in the first session. Does it still hold water? Does anyone have revisions? If they do, take time to wordsmith, but do not allow the conversation to drag out longer than thirty minutes. You will want spend the bulk of your time in the session on developing the mission statement.

The mission statement is the most important series of words the board will consider, develop, and approve. It defines the purpose of the organization. It answers why you are here and why the museum matters to its visitors and community. The board must believe in the mission and enforce it. While the vision looks to the future, the mission establishes why the museum should continue and the strategic plan determines how it will reach the future. Your current mission statement might be aligned with your plan's direction, but the board needs to review and consider it during this process. If you decide to write a new one, it may be helpful to refer to the same list of words that the group used to develop the vision statement. Another excellent source of inspiration is to evaluate what visitors and program participants regularly say about the museum. What inspiration do they feel? What questions do they frequently ask?

As in the first session, the group should leave the table with a draft mission statement in their notes. At the next regularly scheduled board meeting, present the final draft of the plan for approval and ask them to formally adopt the new mission statement.

Overall, the strategic planning process can take between four and twelve months. We began planning in May and approved the final plan in September. For us, this short timeframe was essential because we had a great deal of "nuts and bolts" work to do immediately and the director wanted as much authority as possible to accomplish the work. The strategic plan allowed that to happen.

III. Formatting

The final document is simply a formal plan that speaks about the organization's value and makes a case for its future. It outlines the organizational goals and spells out the steps to realize those goals. Once formalized, this document should be shared with community stakeholders, donors, political leaders, volunteers, and whoever is interested in the plan. Post it on your website. Create an abbreviated version and turn it into a brochure. Make presentations in your community sharing the exciting news that your plan has produced.

The format of your plan will look like this:

1. Introduction – Provide information regarding how the plan was developed, who participated, and what the timeframe was.

2. History of the Organization – Start from the beginning. How did your museum develop? What are some of its milestones? The strategic plan is used as a way to build awareness of your organization and attract support for what you do. Present the whole picture.

3. Vision Statement and Mission Statement

4. Strategic Goals – After the first brainstorming session, the director will synthesize the ideas and themes into broadly stated strategic goals. All of the activities and projects the group decides to implement will have a relationship with these larger goals. This section requires the director to have some personal vision for the organization.

5. Evaluation – A plan works best when the board and staff refer to it and regularly evaluate its progress. Explain how you will track and measure the impact (see Tracking and Measuring the Plan).

6. Implementation Schedule – Staff develop, and the board approves as part of the entire plan, the last three sections. You may want to involve key board members in the process of assigning tasks, solutions, responsibilities, and deadlines. In this section, indicate the priority of the project. You will likely have some projects that are urgent and/or have the requisite resources to accomplish them. Assign these projects highest priority. Other tasks may be excellent ideas but funding sources are not clear at the moment and postponing the idea will not affect operations or endanger anything. This type of project will have a lower priority rating. Pick realistic timeframes—estimate on the high side—and whenever possible, assign responsibility to a person, not a committee.

7. Task Lists – To understand better what the institution will accomplish year-to-year, reorganize the implementation schedule into a listing of projects and activities by year and quarter. In this format, board and staff can track progress more clearly.

8. Action Plans – Used for major project and budget planning, action plans drill down details even further and are helpful tools for the board to review. A good action plan identifies the strategic goal addressed, solutions, action steps, deadlines, responsible parties, costs, and outcome measurements. In the final draft of the strategic plan, only include a template of an action plan. Create a new action plan each time you launch a project.

If you are still not sure how the plan should look, please email me at clegutko@ben-hur.com. I am happy to email you a copy of our first strategic plan.

When the Plan is Ready

Tracking and Measuring the Plan

Once the plan is in place and formally approved, track and measure its progress on a regular basis. Keeping tabs on the plan is a major concern of the board and staff and a formal reporting mechanism is useful. We use the task list and insert status updates on an annual or biennial basis. The board formally approves the revised task list.

On a semi-monthly basis, the director's report to the board is formatted to include each strategic goal and every item reported is placed underneath one of the goals. The staff also reviews the plan two to three times per year and makes adjustments to the regular work plan if needed. At year-end, we modify tasks not completed with a new deadline and justification for the change. This flexibility is essential because of our small staff size and funding limitations.

From the start of the plan in September 2003 to April 2006, we met sixty-eight percent of our goals. With the completion of a major capital project in 2006, we reached eighty-one percent of our goals with over a year left in the five-year plan.

General Lew Wallace Study & Museum Strategic Plan Achievements:

- We adopted a new name and developed an identity for the museum.
- The board of trustees restructured and grew from five members to thirteen.
- Fundraising efforts resulted in a 187% increase in income for the first twelve months. Each following year has netted similar results.
- Staff size increased from two part-time seasonal to two full-time and two part-time employees.
- We completed the Carriage House Interpretive Center, a full-service office and exhibit complex located in Wallace's 1875 carriage house. This major capital project utilized nearly $250,000 in donations and grants.
- The museum introduced and sustained new and innovative annual programs, including the Lew Wallace Youth Academy, the Artists-in-Residence program, and the Winter Historic Preservation Workshop Series.
- Each year, we offer special programming inspired by the annual exhibit theme.
- Museum visitation has increased ten percent or more each year since 2003.

Beyond the First Plan

DIY Strategic Planning is best used as the first strategic plan for a small museum. If you have implemented the first plan's goals and strengthened organizational capacity, the board and staff have greater options available when developing a second plan. For example, you may choose to use an outside consultant to facilitate and draft a new strategic plan. (Unbiased facilitation is always recommended.) Most importantly, with a fully implemented initial plan, chances are you can afford to pay for help when it is time for the second plan!

Variations in the Process

This approach is tailored for the smallest of museum staff and boards. At General Lew Wallace Study & Museum, we were a mighty bunch of two staff members and five board members using the approach. This model will work for larger board and staff sizes, but if the group becomes larger than eighteen to twenty people, I suggest you break up the group. You could brainstorm and do vision/mission with the board (with a few staff members participating) and then separately with staff. Follow this with a session with the board where you bring the perspectives of both camps together and look for differences and similarities. This approach is especially helpful when looking for disconnects in the organization.

Another variation is to use community focus groups to gauge interest and perspective on the organization. With a smaller staff and board, include community members in the entire planning process and have everyone working through it together. Or, if there are too many individuals involved, hold independent strategic planning sessions and limit it to a brainstorming session. During the last thirty minutes, field test the new vision and mission statements and see if they resonate with the public.

Managing Change

If this is the first strategic plan for your organization, you are facing a great deal of change over the next few years. Being sensitive to stakeholders and processes is half the battle when managing change. Once you decide to make a change, think through the impact of the change and do some troubleshooting. With a little thoughtful examination at the outset, the important changes you are making will last.

To orchestrate major changes at General Lew Wallace Study & Museum, we use charters and change documents. These tools open up communication channels and document the change. When appropriate, the board will formally approve the document, endorsing the change. Everyone starts out—literally and figuratively—on the same page.

- **Charters –** Charters are documents that outline responsibilities and structures, and they are tools for managing people, projects, and change. We use them primarily to define the purpose and goals of board and ad-hoc committees. With a charter, we make committee members aware of why they are there, chart out planned changes, promote accountability, and define budgetary impact. A charter typically has eleven components outlined and defined: project/committee overview, scope, objectives, relevant strategic goals, measures/deliverables, budget, customers, boundaries, milestones, deadlines, and supporting documentation.
- **Change Documents –** Informally referred to as a change document, these reports can be used to makes a case for change to the board, stakeholders, and government entities. The format we use defines the statement of need, the current state, and

the future state. It also offers a proposal, timeline, cost benefit analysis, barriers, and a final recommendation.

Both documents demonstrate you have done your homework and considered the impact of proposed changes. Essentially, if you cannot define what is requested in a charter or change document, you need to reconsider making the change.

Conclusion

This is just one approach to strategic planning. Other museum and non-profit professionals may stress varying approaches that may include SWOT analyses, more extensive visioning sessions, longer timeframes, etc. As a small museum director, I found that I really didn't need to be that reflective the first time. And, with just two staff members working part-time, we were always on the front line testing what visitors wanted and making quick decisions to meet needs. In addition, in the fast-paced small museum environment, we needed this first plan in place quickly so we could make major board-mandated changes to improve operations.

In developing a strategic plan, it is really time for "first things first." What will it take to do X? What will it take to do Y? Where do we start? Invariably it always ends up with fundraising and development. If you don't have income, much less a sustainable income, how can you do innovative programming and exhibits or improve collections care? If you are struggling with timeframes and which tasks take priority, maybe it would be best to prioritize the development goals first. With the completion of a strategic plan, you have a strong case for support. Use it.

About the General Lew Wallace Study & Museum, Crawfordsville, IN

The General Lew Wallace Study & Museum is a National Historic Landmark site owned and operated by the City of Crawfordsville and governed by the Lew Wallace Study Preservation Society. The centerpiece of the site is the freestanding study that General Lew Wallace designed. Best known as the author of *Ben-Hur*, Wallace was a renaissance man and notable Hoosier. The museum houses personal mementos from his service as a Civil War Major General, second officer of the Lincoln Conspiracy military tribunal, Governor of New Mexico Territory, and as U.S. Minister to Turkey. Wallace's artwork, violins, inventions, and library are on display, along with memorabilia from various adaptations of *Ben-Hur*.

Upon Wallace's death in 1905, the Wallace family opened the study as a museum and operated it until 1939. The City of Crawfordsville has owned the property since 1941. Today, annual visitation is over 5,000 with an annual budget of $120,000. A full time director and associate director, two part time employees, and a small corps of volunteers staff the museum. Programs are offered year round including the popular Lew Wallace Youth Academy, the fall Artists-in-Residence program, and a variety of themed programming in support of temporary exhibits. The museum also hosts the annual Taste of Montgomery County, a fundraiser for the Preservation Society.

Resources

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AASLH
TECHNICAL LEAFLET
A PUBLICATION OF THE AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY
#268

Building Better Budgets

By Stacy L. Klingler and Laura B. Roberts

You probably entered this field of public history because you were excited to be in close contact with the stuff of history and to share your enthusiasms and amazing discoveries with the public. Perhaps you chose to pursue history or another area of the humanities because you hit algebra or geometry and decided that math was not for you. Managing the financial side of a nonprofit history organization is hardly ever the carrot that entices us into this work. You are a whiz at writing in Word, but Excel is still a mystery. But now, alas, just when you thought you'd escaped, you find you need to complete and stick to a budget and provide your board an accounting of just how accurate that budget is proving to be. And if this year's finances aren't enough of a headache, there's a board meeting ahead to discuss next year's budget. How to begin getting together complete, accurate, and helpful reports and data that will inform good planning and decision-making without either overwhelming them in minutiae or hiding significant issues and trends?

Yes, there is special terminology and software that can be difficult to master, but the truth is that most of the math you'll need, you learned in elementary school—addition, subtraction, multiplication, division, percentages. Take one example: a historic house museum is open three days a week. Paid guides cost $8,000 a year; admission fees are under $1,300. The phrase "negative net income" may be unfamiliar, but it isn't difficult to see that the house loses $6,700 a year.

The hard work is not in the numbers but in making sure you can use information about the past (the money you've earned and spent) to tell the story of the present (financial reports for board meetings) and to create a strong future (in a budget that shows how you'll make your plans a reality). A good budget will take time to build, but it's worth it!

Devote the Time

Hardly anyone likes budget time. How can you really know what next year will be like? Will it rain every weekend all spring? Will the school system continue to send every fourth grader to the site? Will the gutters last another year? Instead of being a chore, use budgeting as the time you not only look back but also imagine the future of your organization and solve real problems—not just in a lofty, visionary sense, but in the nuts and bolts of what really makes your organization function.

Put aside the fourteen other projects begging for your attention and embrace the challenge of crafting a better budget. You will appreciate it next year, when you are able to confidently spend the money you've carefully matched with your needs and projects or quickly adapt to unanticipated changes such as rising utility rates or the loss of an important donor.

Do You Have a Plan?

A budget is really just a plan in numbers, describing the financial resources you need to do the valuable work of meeting your mission. Your "plan" may be as simple as a calendar of activities for the coming year or as complex as a strategic plan that prioritizes several new initiatives and sets detailed goals regarding mission-building activities, attendance, and finance. Or it may be something in between. A well-built budget helps to ensure that you have allocated financial resources where you need them in order to realize your plan and helps you adapt when plans don't go as expected. Regardless of the level of complexity of your plan, the same principles for building better budgets apply:

- Use the most accurate data/estimates you can in building your budget.
- Document and understand where your budget numbers come from.
- Understand that the budget must be flexible enough to respond to changes.

Before You Begin

If you have a current budget, ask yourself, is this budget understandable? If you find that people ask the same questions about the budget each board meeting, then something is missing. If the board never asks questions, then the budget and financial reports are probably not giving them the right kind of information in a way that helps them focus on what is important.

The most common questions board members are likely to (or should) ask are:

- How did we come up with this number? What data did we use? What is our plan for getting to this number?
- Why is it different from last year? How has our plan changed? Has something else changed?
- Why is the actual number different from the budgeted number? How is reality different than what we planned for, and why?

As the person responsible for creating, managing, and/or reporting on the budget, you should be able to answer these questions. To do so, you need to do two things in preparing the budget: gather good data and be transparent about your calculations. But how do you accomplish these basic tasks?

Basing Your Budget on Good Data

When starting the budget process for the next year, a natural place to start is the current year's budget. However, although this is the easiest place to start, it's rarely the best. The budget doesn't tell you if your predictions about income and expenses were any good. So, in starting the budget process, the most important pieces of information to have are the actual income and expenses (called the "actuals") for the last year or several years. The actuals bring reality to the budgeting process. Unfortunately, the actuals do not always provide enough information to make better decisions. You really need to know why the actuals are what they are (that is, why they are more or less than the budget).

Perhaps the most valuable and informative calculation you can do is to figure out the net income or loss from each activity undertaken by the organization. Business people call this a profit/loss calculation. Just because you run a nonprofit, that doesn't mean you shouldn't do the same thing. Not everything you do is expected to make a profit. Some projects are planned to break even. Others—the most central to your mission—may cost more than they earn. But each should still have a projected bottom line: how much you expect to make or lose. Only by knowing how close you came to the projected bottom line can you appropriately manage your budget.

So for each project or event, you need to know:

- How much income did it bring in? (This is called the "gross income.")
- How much did it cost? (These are called the "direct expenses.")
- How much did the organization gain or lose? (This is known as the "net," which might be positive or negative.) And how does that compare to what you expected you would gain or lose on that program?

To get a really complete picture of what a program costs or earns, you want to keep track of some other data as well:

- How many people participated in or benefited from the activity? Did they represent audiences that are a priority for the organization to reach?
- Were any services or materials donated? If you had to pay for those services, what would that cost?
- How much volunteer time was needed? Is it getting easier or harder to recruit volunteers for this project? Do they have fun? Are you worried that they won't be available or enthusiastic in the future?
- How much staff time did it take? You may not be in a position to track every hour of your time, but an estimate is useful. Did this take you away from activities that you consider more important (that is, more central to the organization's mission or long-term goals)?
- Were there any external factors (publicity, weather, competition) that impacted your numbers?

You will likely end up with an initial calculation and notes that explain in more detail why your income and expenses were what they were and the impact of the activity on your plan. With this information, you have the tools to make good decisions for the future.

The more information you can compile about *why* the actuals came out the way they did, the better you'll be able to plan for the next year. So when looking at actuals, consider the story behind what they are. By way of an example, let's look at the membership numbers for last year.

Example: Membership Numbers

Your budget said you'd bring in $10,000 in memberships, but in reality, revenue was only $9,000. You budgeted $1,200 in expenses and spent slightly less: $1,000. So instead of net income of $8,800, your membership drive brought in $8,000. If you simply use the budgeted numbers from last year, you'll likely be off by $800. Perhaps that's not a big number, but maybe there's even more going on.

First, you recall that you used extra envelopes left over from another mailing, saving you $400. Next year, you'll have to print envelopes. Also, previously, you always relied on three friends who enjoyed getting together to gossip and stuff the mailing. Alas, one has moved out of state, and a second is nursing a sick husband. So you had to hire some high school students to get the work done, which cost $200. If you don't find replacement volunteers, you'll have that expense next year as well.

But the real question is why you only took in $9,000. Did a single $1,000-member pass away? Or did you lose twenty members at the $50 level? Those are two very different challenges. Perhaps all of the major donors are still with you and loyal, but you realize that when a major employer in the area closed, several of those $50 members moved out of state. So if you are going to get back to $10,000 in income, you might consider a broad membership campaign to reach newcomers. Alternatively, if a single major donor was lost, you might review your dependence on those large annual memberships and work to move some lower level donors into those higher categories.

A step better than analyzing the actual income and expenses from last year is to look at income and expenses for the last *few* years. By looking at income and expenses over time, you can see if those numbers are increasing or decreasing, depending on the organization's action or inaction over time, plus any outside circumstances.

In our example, you might find that membership income has been steadily dropping for years. You can't point the finger at the one departing employer; overall membership support has been declining, and a membership campaign is overdue.

When There Are No Actuals

But what about your new plans? How do you budget for something you haven't done before? As best you can, you'll need to find estimates for your new activities. You can get estimates from suppliers for each element of the program (such as printers, caterers, or other vendors). Most suppliers will be more than happy to provide you with estimates. But don't forget to call more than one place; you may find a wide range of costs.

Another strategy is to contact colleagues who have done a similar project. Most people who work in this field will be quite open with you about the cost of creating a new exhibit or starting a new program.

Example: Membership Campaign

Going back to our example, let's say you realize you need to do a membership campaign. How much will it cost, and how much will it bring in? Start by looking at what supplies you will need: letterhead, membership brochures, envelopes, reply cards, return envelopes, postage, mailing list, and time to pull it all together. Call a couple of local printers and the office-supply store to get an idea of how much the mailing will cost per person. Make sure you document the details of the estimate; you have the option of adjusting them later. You might plan to spend $1 per mailing: $.50 for postage and $.10 each for the other five items. When postage goes up or you find a supply of membership brochures under a table, you can easily adjust your per-person mailing cost.

The more difficult-to-answer question is how much income will the campaign generate? The return you will experience depends highly on the quality of your mailing list. Are you mailing to every registered voter in town or just people who live in historic houses? Are you trading lists with another nonprofit with similar goals or using the youth soccer mailing list? Talk to other nonprofits that have recently done membership campaigns and ask them how it worked out. Consider contacting a museum or cultural nonprofit of your size in a similar community in your region or your state, or ask your regional field service office to help you estimate how much income you might expect to generate. Ask them how many appeals they sent, what was the pitch and/or incentives, and how many new members signed up. And while you are at it, ask what they would do differently the next time around.

After all your research into last year's and previous years' actual income and expenses, and after getting good estimates, make sure you document how you arrived at the numbers you use in your budget. A note or a formula that explains how you arrived at the numbers in the budget will not only help you explain it to others, but it will also help you adapt to changes throughout the year.

In this membership example, you are transparent when you document how many members your currently have at each level (and can expect to renew) to get you to $9,000. To get to $10,000 in income, document a plan to complete a mailing campaign with the goal of getting four $100-members and twelve $50-members. Your plan is clear.

The more time you spend during the budgeting process doing this research, the more realistic your budget will be. Our tendency is to be conservative, when what we need to aspire to are realistic projections. When you estimate expenses that are too high or revenue that is very modest you end up limiting what the organization thinks it can accomplish. On the other hand, you need to be responsible.

When your revenue estimates are too high ($20,000 in admissions!) or your expenses are too low (volunteers will do all the work!), you may take on projects that are too risky. When you don't meet budget and have to tap cash reserves, you are limiting what your organization can do in the future. Reserves should be used strategically and in case of disasters, not as a Band-Aid for poor planning.

Budget

Revenue	*Prior Year Actual*	*Current Budget*	*Notes*
Memberships	$9,000	$10,000	*Membership campaign for 4 @$100 & 12 @$50*
Annual fund	$15,645	$15,000	
Admissions	$7,965	$8,000	*Open 8 months*
Group tours	$4,568	$4,000	*No change; no new advertising*
Student tours	$1,890	$2,000	
Shop sales (net)	$4,367	$6,200	*Allows for $1,000 in new merchandise*
Town grant	$5,000	$5,000	*No change expected*
Wine tasting (net)	$1,980	$2,300	
Auction (net)	$4,756	$4,200	*Includes $500 for advertising previously donated*
Investment income	$3,678	$3,600	*4.5% draw*
Total Revenue	**$58,849**	**$60,300**	

Expenses	*Prior Year Actual*	*Current Budget*	*Notes*
Director salary+benefits	$36,000	$36,000	*No increase this year*
Guides' hourly wages	$6,120	$6,000	*No hourly increase this year*
Insurance	$3,600	$4,000	*Rate increase 10% from previous year*
Maintenance	$2,655	$3,000	
Utilities	$3,689	$3,300	*Expected reduction of $400 with new furnace*
Temp exhibit	$0	$4,500	*Based on average of three quotes and XYZ's new exhibit*
School program supplies	$824	$800	
Printing, postage, office	$856	$1,500	*Includes membership campaign @$500*
Website contract	$2,850	$1,200	*New provider; includes 2 updates per month*
Total Expense	**$56,594**	**$60,300**	

Transparency—Where Did Your Numbers Come From?

To make sure this information is useful in the next year and beyond, be consistent about how you categorize income and expenses. Make sure that each person or group of people contributing to the process (either in planning or reporting) uses the same categories in the same way. If each program has a printed brochure, will you categorize that as a marketing expense or part of printing? As long as the categories are useful to the decision-makers and used in the same way across the organization and over time, you'll be able to depend on your actual income and expenses over years as a useful budget resource.

Create a document that describes what kind of expenses go in each category, that can be shared with all committees (or people contributing to the budget), and that can be passed from director to director and treasurer to treasurer, so that they budget and

Thoughts about Accounting Software

There is nothing wrong with using a paper-and-pencil ledger if your income and expenses are simple and no one in your organization is computer-savvy. But the ability to generate a variety of reports and to easily create digital backups are two good reasons that you might consider shifting to computer-based financial tracking.

There is no one right accounting software. Or rather, the right accounting software is the one that lets you track your finances at the appropriate level of complexity for your organization. If your budget is less than $25,000, you have no payroll, and rarely need to track grants, basic home accounting software might be adequate. However, as your needs increase, you will likely want software designed for small business or nonprofits.

Here are some key issues to consider in picking and setting up your accounting software:

- Do multiple people (staff and/or board members) need to know how to use the software?
- Is inexpensive and easy-to-access training available?
- Is there an expert available (either from the software producer or a knowledgeable local person) to answer your questions? Will this expertise be available for several years?
- Will you be working with an accountant (to prepare tax documents or to review the accuracy of your financial information)? What software is she familiar with?
- Do you need to group income and expenses together for reporting or analysis (as in the case of grants or fundraising activities)?

The more familiar those using the software are with it, the better. And if, as either a staff member or a new treasurer, you find yourself needing to use software that you don't really understand, seek out help now. Check with other local nonprofits, accountants, or your state field services or museum association office for recommendations. And recruit more than one software expert to your finance committee or as an as-needed volunteer, so that you always have someone who can answer your questions.

QuickBooks is the most popular software, largely because almost any accountant can use the files. The nonprofit version links income and expense categories to Internal Revenue Service reporting requirements, and for a fee you can subscribe to automatic payroll updates if you pay staff directly and file quarterly employer tax returns (Form 941). It also lets you group income and expenses together as a "class," so you can organize reports for grants or other activities. The version for businesses may be more familiar to both accountants and small business owners on your board, so it would be prudent to consider both options.

allocate expenses in the same way each year. When they are consistent, they can compare across years and across programs.

The list of expense and revenue categories is called the "chart of accounts." If your chart is murky or inconsistent, financial reports can be unclear or confusing. For example, the library wants to share a great new find with a notice on the website. A week later, the development committee needs to sell tickets to the wine tasting. And then the gift shop gets in some new merchandise to promote. Fortunately, you have a great webmaster who is not upset when three requests come in separately, five days apart. But are her services charged to each department or function, or grouped under marketing or website? The library updates probably don't have revenue implications, but those ticket and store sales do. If you don't keep track of the expense of those promotions, you have an incomplete picture. On the other hand, if you "charge" the library for those updates, will that

Any software for buisness or nonprofits will be more powerful and provide more reporting options than software designed for individuals, but it may not be as user-friendly, so count on a steep learning curve, enlist assistance, and be patient, whatever program you use. There is even some free or inexpensive accounting software for businesses that can be adapted for nonprofit use (such as Gnucash or Xero), but you must have the ability to use any software effectively. Alternatively you can check TechSoup.com to purchase accounting software at a reduced rate for nonprofits.

Regardless of the software you choose, here are a few tips that will make your work easier and more useful:

- Be consistent—decide how to categorize income and expenses and create a cheat sheet to help you (and future staff/treasurers) remember those decisions.
- Guard against data-entry errors—use the same name for vendors each time to avoid confusion.
- When naming categories or accounts, use a numbering system (either generated by the system or created by you) so that you can sort items in your reports in useful ways (e.g., grouping all membership types together). If you don't use numbering, your reports will be sorted alphabetically, which may not allow you to group information in a helpful way. Also, you can change the number to reorder reports without changing the name, which may be helpful when considering many years' worth of information.
- Use "class" to group income and expenses that are related to each other together. For example, if you receive a grant, create a "class" for that grant so that every expenditure and all income is grouped together for easy progress reporting and an accurate final report.
- Always export your reports to Excel so that you can add notes or annotations that explain why your numbers might be different than what was expected.
- Project as best you can your revenue and expenses from your budget month-by-month. This will save you from having to explain why you are under or over budget for items that come in on a basis that isn't the same each month. (And these projections are also useful for cash flow analysis and projections!)

Acknowledgments: *Many thanks to Lew Moir, Broomfield Veterans Memorial Museum/ Broomfield Depot Museum Friends, Colorado; Clifton Patrick, The Chester Historical Society, New York; and Mary Warner, Morrison County Historical Society, Minnesota, for sharing their experiences with accounting software.*

discourage the staff from actively promoting the great work of the organization? The answer is to be consistent. If the webmaster's bill is modest, you can probably just fold it into marketing, knowing that you will be asking her for ten to fifteen updates a year. But if it's a significant expense, allocate it to each program and tell the librarian she has $750 a year to spend on web updates.

Final Word: Flexibility—Budgets Are Never Set in Stone

When your budget emerges from your plans for the future, is based in reality, and is transparent, it becomes much easier to correct your course and adjust. Depending on how accurate your estimates are and your ownership of a crystal ball, you will likely find a time when your income is more or less than expected, or when an unexpected savings or expense surprises you.

In the example, let's say your membership campaign raised $250 from ten $25-members. In the short term, you know that you will need to either cut $750 from expenses or find another source for that income. But in the long term, you'll know that your mailing worked only to get low-level donors. If you repeat the effort, your projections will be more modest. Or you'll find a better list of prospects. Or change the messaging.

When you are going through the budget process, consider various scenarios. If income is less than expected, where can expenses be trimmed? Are there other sources of funding that could be tapped? And if income is more than expected, where are the biggest unmet needs (e.g., maintenance, collections-care supplies, or professional development)? Do you need to replenish your cash reserves or long-term maintenance funds? This kind of thinking is sometimes called contingency budgeting. Rarely does an organization produce multiple, complete budgets. Instead, the budget group considers better- and worse-case scenarios (not best- and worst-case, because major disasters and windfalls are unlikely), so that some priorities for adding to or taking away from planned spending can happen quickly.

Budgeting is the tip of the financial management iceberg; it is the right place to start. Once your organization has a budget in place, the ongoing challenge is monitoring financial performance on a regular basis and developing mechanisms for making sound financial decisions.

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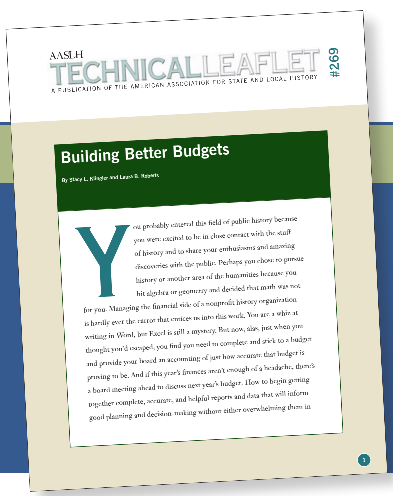

AASLH TECHNICAL LEAFLET #269

A PUBLICATION OF THE AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY

Building Better Budgets

By Stacy L. Klingler and Laura B. Roberts

You probably entered this field of public history because you were excited to be in close contact with the stuff of history and to share your enthusiasms and amazing discoveries with the public. Perhaps you chose to pursue history or another area of the humanities because you hit algebra or geometry and decided that math was not for you. Managing the financial side of a nonprofit history organization is hardly ever the carrot that entices us into this work. You are a whiz at writing in Word, but Excel is still a mystery. But now, alas, just when you thought you'd escaped, you find you need to complete and stick to a budget and provide your board an accounting of just how accurate that budget is proving to be. And if this year's finances aren't enough of a headache, there's a board meeting ahead to discuss next year's budget. How to begin getting together complete, accurate, and helpful reports and data that will inform good planning and decision-making without either overwhelming them in

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COMING NEXT ISSUE!

Technical Leaflet #269 (Winter 2015) will continue the discussion of sound financial management by discussing other ways to improve your organization's financial health.

AASLH
TECHNICAL LEAFLET
A PUBLICATION OF THE AMERICAN ASSOCIATION FOR STATE AND LOCAL HISTORY
#269

Improving Financial Management

By Stacy L. Klingler and Laura B. Roberts

Budgeting is the tip of the financial management iceberg; it is the right place to start. Technical Leaflet #268 outlined the steps for developing a solid budget. Once your organization has a budget in place, the ongoing challenge is monitoring financial performance on a regular basis and developing mechanisms for making sound financial decisions.

Financial management is not the responsibility of any one person. Rather, it should be a shared responsibility among the board and staff. The board has fiduciary responsibility for the health and perpetuation of the organization—that is, they are expected to prudently take care of the nonprofit's assets on behalf of the general public. They cannot do that job without accurate, and timely, information.

There are two categories of financial reports: 1) internally produced budget and other financial reports that are generated monthly or at some other regular interval, and 2) the summaries that are part of an annual audit. Financial management goes far beyond providing and approving reports. The board and staff should also be assessing and considering how to improve financial performance, monitoring cash flow projections, and ensuring that proper checks and balances are in place.

Internal Financial Reports

In general, smaller organizations need to focus on preparing accurate, timely, and informative *internal financial reports* on a regular basis for the director and board. The format should remain consistent from board meeting to board meeting so that members can quickly find information they need. However, if reports are confusing or present the wrong level of detail, they should be revised. The treasurer or whoever prepares these reports should regularly ask for feedback on whether they meet the board's needs. Reports should also provide the director with the information required to monitor the financial health of the organization. One simple test: if the same questions get asked repeatedly, the reports are in some way confusing or inadequate.

As people who work with the public, we know that folks (including our board members) learn and absorb information in different ways. Financial reports tell a story; to get that story across to everyone, you need to use numbers, words, and pictures.

Figure 1 shows an example of a budget report, listing revenue and expense. It should include the following columns, using the same revenue and expense categories, in the same order, in each column:

- Prior year actual revenue and expenses
- Current year annual budget
- Current year budget to date (matching how far you are into the year; so six months in, this would be half the budget)
- Actual revenue and expense, year to date (YTD)
- Difference between budget to date and actual to date

At the bottom of each column, note the difference between revenue and expenses for that column.

Those are the numbers in the budget story. What about the words? For any item that is significantly off budget (either higher or lower), add a note that explains the difference. This not only helps those who are not facile with numbers, but it also draws the board's attention to the most significant and important issues.

Adding pictures means mastering the graphing functions in your spreadsheet or other software. Graphs are best for comparing data. You may want to create a bar chart that compares data (e.g., paid admissions, membership renewals, attendance at the annual house tour) from last year to this year, for example, or—if you run multiple sites—comparing statistics from each (library patrons versus historic house visitors, for example). Or if the mix of revenue or expenses is changing, you might want to create comparative pie charts. And sometimes reports or charts on subsets of your financial information may be appropriate. It can be easier to judge the success of a fundraising event, membership campaign, educational program, or other activity when the relevant information is pulled out from the main report.

Does a board need to review the budget report line by line? Absolutely not. It is the job of the treasurer and director to draw board members' attention to significant variations from budgets and projections. Time should be spent discussing responses to welcome and unwelcome surprises, not examining each and every number.

External Financial Reports

The *audit*, or a less exhaustive and extensive *compilation*, is prepared by someone from outside the organization who reviews all of the bookkeeping, financial transactions, and internally-generated reports. Audits have mainly external audiences—funders, public agencies, etc.—that require an objective review of operations. They also typically include a "management letter," which notes any deficiencies or questions about the financial management of the organization. In larger organizations, an audit committee receives the audit and management letter, reviews the findings, meets with the auditor, and reports back to the rest of the board about any significant issues or concerns.

The main report in the audit is the "statement of financial position," also known as the balance sheet. (The Financial Accounting Standards Board—FASB—changed all the report names several years ago, but many people still use the old names out of habit.) Some accounting software packages can readily produce these snapshot reports of organizational health anytime, throughout the year. Before the easy availability of such reports, they were only generated annually, as part of the audit. Balance sheets provide an overall picture of the organization: how much does it have and where (e.g., cash, investments, property), how much does it owe (e.g., accounts payable, loans payable), and how much is it owed (e.g., accounts receivable). As with all good financial reports, they compare the current and prior years. They are most useful when used to identify issues that need to be addressed, such as "we owe more

January–June 2014 Financial Report

Revenue

	Prior Year Actual	Current Budget	Budget YTD	Actual YTD	Difference	Notes
Memberships	$9,000	$10,000	$10,000	$9,500	-$500	*Campaign less successful, need targeted mailing*
Annual fund	$15,645	$15,000	$0	$0	$0	*Mail October 30*
Admissions	$7,965	$8,000	$3,000	$2,800	-$200	*Major storms in May; free advertising for new exhibit?*
Group tours	$4,568	$4,000	$2,000	$1,860	-$140	*Additional tours scheduled for July*
Student tours	$1,890	$2,000	$2,000	$2,154	$154	
Shop sales (net)	$4,367	$6,200	$2,325	$1,987	-$338	*New merchandise arriving August for auction support*
Town grant	$5,000	$5,000	$5,000	$5,000	$	
Wine tasting (net)	$1,980	$2,300	$2,300	$2,411	$111	*Three leftover cases purchased by committee members*
Auction (net)	$4,756	$4,200	$0	$0	$0	
Investment income	$3,678	$3,600	$1,800	$1,800	$0	
Revenue Total	**$58,849**	**$60,300**	**$28,425**	**$27,512**	**-$913**	

Expense

	Prior Year Actual	Current Budget	Budget YTD	Actual YTD	Difference	Notes
Director salary + benefits	$36,000	$36,000	$18,000	$18,000	$0	
Guides' hourly wages	$6,120	$6,000	$2,250	$2,250	$0	
Insurance	$3,600	$4,000	$2,000	$2,000	$0	
Maintenance	$2,655	$3,000	$1,500	$800	$700	*Roof tile replacement put off for one year*
Utilities	$3,689	$3,300	$1,800	$1,689	$111	*Heating savings better than anticipated, despite cold snap*
Temporary exhibit	$0	$4,500	$4,500	$4,612	-$112	*Replaced interactive panel*
School program supplies	$824	$800	$400	$552	-$152	*Purchased materials in bulk; will reduce overall cost*
Printing, postage, office	$856	$1,500	$700	$800	-$100	*Printed more letterhead than planned; second membership mailing*
Website contract	$2,850	$1,200	$600	$600	$0	
Expense Total	**$56,594**	**$60,300**	**$31,750**	**$31,303**	**$447**	
Net	**$2,255**	**$0**	**-$3,325**	**-$3,791**	**-$466**	

Figure 1

than we have in the bank." Because they are snapshots, capturing the financial picture on the day they were generated, balance sheets must be used in conjunction with other, more dynamic, reports.

The second audit report is the "statement of cash flows," which is not to be confused with the cash flow projection described below. The statement of cash flows is essentially a reconciliation of what came in

Reading Budget Reports for the Novice

While five columns of numbers for a myriad of revenue and expense categories may seem overwhelming for those unfamiliar with financial reports, for those with nonprofit or other business experience, these reports provide most of the necessary information and are relatively standard.

The columns are organized with the oldest information in the first or left column (column 1, prior year actuals) and the most immediately relevant information in the last or right column (column 5, difference between current year budget and actuals to date, otherwise known as over/under budget).

Here are some strategies for reviewing the report for items that may need to be questioned or explained:

1. Review the last column for large negative or positive numbers that represent *immediate* issues. These large differences between where you predicted you would be (column 3, current year budget to date) and where you are (column 4, current year actuals to date) need to be addressed. In some cases, the difference is due to timing and will correct itself shortly (as in the case of a membership renewal letter going out a few weeks later than planned), and so there is little to worry about. In other cases, the difference is a real issue (as in the case of fewer renewals) and so needs to be addressed by the board and staff.

2. To understand if your *long-term* strategies are working, consider where you are in the current year in comparison to the past (prior year actuals) and with your goals (annual budget). Prior year's actual revenue and expense (column 1) reminds you of how you did last year. Are you doing better or worse? Why? The annual budget (column 2) reminds you of what you planned to do this year. Are you on target with your plans, or do you need to make a change?

during the year and what went out, again compared with the prior year. It demonstrates exactly how and why the cash position of the organization changed.

Audits also account for the FASB-defined categories of funds: permanently restricted, temporarily restricted, and unrestricted. These categories are strictly defined and mandatory. Permanently restricted funds are those whose use (and occasionally, investment) are dictated by the donor in perpetuity. Temporarily restricted funds are also designated by the donor, but once the restrictions are satisfied, they are transferred to the unrestricted category. These may include grants designated for a particular program or funds raised for a specific project, like a new exhibition or capital repairs. Everything else is categorized as "unrestricted." This is confusing and annoying to nonprofit managers. What about the proceeds of de-accessioning, which we've restricted to direct care of the collection and new acquisitions? Or the recent bequest that the board voted to put in the endowment? Or the revolving fund we use to seed funding for the next publication? Or the small surplus from last year we voted to put into a maintenance reserve? FASB says that unless the donor put restrictions on those funds, they are, in truth, unrestricted and actually available for any and all purposes. So there may, in fact, be an additional report appended to the audit, explaining all of the policies and organizationally adopted restrictions on the "unrestricted" funds.

Improving Financial Performance

Organizations are searching for the holy grail of "sustainability"—finding a diverse and stable mix of revenue sources that can be counted on year after year. Most historical organizations understand that over-reliance on any one source of funding is inherently unstable. There is no simple formula for sustainability beyond this: look at every revenue source and do the hard work to protect and grow those sources.

Of course, this is easier said than done. Organizations with sizable endowments saw their investment income drop after 2008. Those that enjoyed strong public support from their communities, counties, or states are finding those appropriations increasingly vulnerable. Foundation funding has not only become more competitive, but the funders themselves are demanding more accountability for demonstrable impact of the programs they have funded. We recognize the importance of identifying and cultivating donors with the capacity to be generous, but who in our organization has the skills and contacts to do that work?

Probably the area where historical organizations can make the most significant change is in the area of earned income. Many already have shops or publications programs. Some have profitable programs like symposiums or summer camps. But with some

Assessing Performance

The mnemonic "CASH" captures the four ways to benchmark an organization's performance. A well-managed organization keeps track of all of the four in parallel because together they provide a full picture of how the organization is functioning. It is worth noting that board members tend to relate well to this idea of benchmark data, particularly if they come from data-driven professions. They are often frustrated that historical organizations cannot provide good industry data against which they can assess performance.

C – Comparables. Every nonprofit should be able to identify a handful of organizations that are comparable to its operation: organizations with similar budgets, program offerings, and facilities along with similar communities and audiences. For example, the larger outdoor living history museums collect and share comparable data (not just financial data). Consider creating a small information-sharing network among peer institutions to collect and compare performance data.

A – Averages. Even though the wider community of museums and historical organizations includes organizations that are not directly comparable, there is value in understanding how an individual organization compares to the entire universe of similar nonprofits. State or national surveys are useful for finding good industry averages.

S – Strategic goals. As part of planning, an organization should set goals for performance. These goals should be challenging yet achievable. If your budget is built around your goals, failing to achieve goals will have a negative impact on the budget.

H – History. Snapshot data is almost useless; an organization needs historical data to assess patterns and trends. If an organization does not have good data about past performance, the most critical step in developing a good management performance program is setting up systems that will efficiently and accurately collect key data.

Look at one number—your paid admissions. Last year, you brought in $12,500. Is that a good or bad number?

Your group of friendly comparable organizations report $5,000 to $18,750, so you are doing better than average. But the AAM data report for the most recent year says that average admission revenue for institutions of your size is $22,300, so you're not doing well in those terms. But you also know that history museums generally have lower fees than children's and science museums of the same size. Your strategic plan called for increasing admissions to $20,000 over five years, and you are in year four of the plan, so you are not meeting those goals.

Then you look at the historical numbers:

Year 1: $950

Year 2: $12,000 (special traveling exhibit from the Smithsonian)

Year 3: $10,400

Year 4: $12,500 (special exhibit from your own collections)

You figured out that special exhibits boosted numbers significantly and consequently developed the capacity to do exhibits in house. So the trend lines are all positive. If you can continue to devote resources to developing an annual exhibition that gets people to visit, you probably can increase admission revenue over time. You won't meet the goals in your plan (and there may be financial implications from that), but you are now in a much better position to plan and budget for next year. And if you cancel the annual special exhibition, you can be pretty sure that admission revenue will drop again.

entrepreneurial focus, an organization can increase its earned income. The first step is to identify those programs for which there is a strong market and to figure out if they can be expanded. If you moved the symposium to a local church, could you accommodate more people? Would a fourth session of the summer camp fill? The second step is to look carefully at the price of revenue-generating programs. Are your fees competitive? When was the last time they were increased? The third step is to identify unmet needs and see if you can enter the market at low cost and/ or charging a good price. Can you contract out senior staff to complete corporate histories or set up an oral history program? Can your staff advise on selecting appropriate wallpaper for historic house owners? But be cautious: sometimes "no one is doing…" because the market for that service is weak.

Most fundraising events (and programs) that don't change get stale and lose their attendees after just a few years. Perhaps the most painful change is pruning away those programs that were designed to be money-makers (versus those that are mission-critical) but which, in fact, are not. However, cutting programs that are not very profitable frees up time and energy for new or expanded programs that have greater potential to generate funds. Acknowledging that the historic home tour or lunchtime lecture series doesn't generate funds is the first step in making room, not only for new donors and funds, but also for new audiences. One popular idea is the non-gala: basically, you tell your supporters that there is no event—no need to get your best clothes dry-cleaned and hire a babysitter. Still give us the ticket price, but then take all the money you saved and either add it to your donation or take the family out for dinner.

Cash Flow Projections

No matter how you generate income or track your money, you must consider timing. You can stick to your budget and still find there's not enough cash to get through the month. Even worse, if the majority of your income comes in toward the end of your fiscal year and you fall short of projections, you haven't had time to change your spending. One tool that helps prevent you from going too far off the rails is an accurate *cash flow projection*. Monitoring the budget monthly or quarterly requires that you have a sense of when money comes in and goes out of the organization. Most software programs allow you to enter your budget by month in order to accommodate seasonal influxes (e.g., fundraising events or membership renewals) and irregular outflows (e.g., an exhibit build-out or insurance premiums). From that, your accounting software may allow you to create a cash flow projection, which lets you see how much cash you'll have at the end of each month.

You can also do this with a simple spreadsheet (or even by hand with a calculator), with the budget in the first column and then twelve more columns, one for each month. Take each line of your budget and project which month the revenue and expenses will hit.

Look at the example in figure 2. Start with revenue. Membership renewals go out right after the first of the year, so revenue arrives in January, February, and March. Because the museum is closed for four months, admission revenue and shop sales are projected evenly over eight months. But student tours only come in the spring, and group visits in the spring and fall. Funding from the town arrives in March. Now look at expenses. The director's salary is spread evenly over the year, but guides only work in the eight months the museum is open. Insurance is billed every six months, in April and October. Utilities are higher in the winter and drop in the spring and summer. The temporary exhibit has to be done by re-opening day, April 1, so those expenses all fall in March.

Then you do the math: how much did you start with that month, plus how much will come in, minus how much will go out. The total of that calculation becomes the starting point for the next month. In this example, when do things start to unravel? In April, when membership revenue has ended and the insurance bill comes due. So even though you have a balanced budget, by the end of the month, you are running in the red. Although you make it up in May, you then go through six months of negative cash flow, where you don't have enough cash to pay your bills, before recovering in December, when expenses are lower and revenue from the annual fund comes in.

What can you do? You need to think about shifting the timing of revenue and expenses. Your fall fundraiser (an auction) makes more money than the spring wine tasting. Can you retool the spring event to make more? Or add a summer fundraiser? Perhaps the board can make their annual fund gifts earlier in the year. Have you tried to get underwriting for the temporary exhibit? Try negotiating with the insurance company to change their billing schedule. If you can't move enough revenue and expenses to fix your cash flow, you might need to apply for a line of credit at a local bank. The point is that with a strong, accurate cash flow projection, you will know when you will fall short and find ways to make ends meet.

Cash flow projections also help you make better decisions. For example, suppose a board member observes that it seems counter-productive to have membership renewals go out right after the annual appeal. That may be true, but if you were to shift renewals later in the year, your cash flow would be even worse. You'd need more of a reserve to get you through the first few months of the year. Or perhaps someone observes that the town should send you

Cash Flow Projection

Budget	Month	January	February	March	April	May	June	July	August	September	October	November	December
		Museum closed December 1 to April 1				*Wine tasting*				*Auction*			
	Opening balance	**$1,200**	**$2,550**	**$2,000**	**$950**	**-$1,775**	**$0**	**-$2,125**	**-$4,450**	**-$6,775**	**-$4,100**	**-$7,625**	**-$5,150**
Revenue													
Memberships	$10,000	$5,000	$3,000	$2,000									
Annual fund	$15,000											$5,000	$10,000
Admissions	$8,000				$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	$1,000	
Group tours	$4,000				$1,000	$1,000				$1,000	$1,000		
Student tours	$2,000				$800	$1,000	$200						
Shop sales (net)	$6,200				$775	$775	$775	$775	$775	$775	$775	$775	
Town grant	$5,000			$5,000									
Wine tasting (net)	$2,300					$2,300							
Auction (net)	$4,200									$4,200			
Investment income	$3,600	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300	$300
Total Revenue	**$60,300**	**$6,500**	**$5,850**	**$9,300**	**$4,825**	**$4,600**	**$2,275**	**-$50**	**-$2,375**	**$500**	**-$1,025**	**-$550**	**$5,150**
Expense	**Month**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Director salary + benefits	$36,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000
Guides' hourly wages	$6,000				$750	$750	$750	$750	$750	$750	$750	$750	
Insurance	$4,000				$2,000						$2,000		
Maintenance	$3,000	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250	$250
Utilities	$3,300	$400	$400	$400	$200	$200	$200	$200	$200	$200	$200	$300	$400
Temporary exhibit	$4,500			$4,500									
School program supplies	$800				$200	$200				$200	$200		
Printing, postage, office	$1,500	$200	$100	$100	$100	$100	$100	$100	$100	$100	$100	$200	$200
Website contract	$1,200	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100	$100
Total Expense	**$60,300**	**$3,950**	**$3,850**	**$8,350**	**$6,600**	**$4,600**	**$4,400**	**$4,400**	**$4,400**	**$4,600**	**$6,600**	**$4,600**	**$3,950**
	Ending balance	**$2,550**	**$2,000**	**$950**	**-$1,775**	**$0**	**-$2,125**	**-$4,450**	**-$6,775**	**-$4,100**	**-$7,625**	**-$5,150**	**$1,200**

Figure 2

their check right after the first of the year. While it's always nice to have a larger balance in the checkbook, moving that earlier in the year won't, in fact, improve your cash flow. So perhaps it would not be worth expending political capital on that request. Can you manage with fewer guides in the fall, when there are no school tours? It would definitely be worth looking at attendance statistics. Although admissions and shop revenue are projected out evenly over eight months, in fact those may be slower months.

Checks and Balances

A basic principle of financial management is to ensure that no one person has sole control of the finances. There are several reasons for this. The first is to reduce the risk of fraud. If one person closes the cash register, counts the cash, and makes the deposit, there is little to prevent him or her from skimming cash. If the director approves all the invoices and signs all the checks, he or she could readily authorize fraudulent payments to friends or imaginary vendors. The second reason is to improve accuracy. Simply having two or more people double-checking math and data entry is an easy step. The person who keeps the checkbook might have someone else check the balance when the monthly statements come in. Finally, checks and balances protect everyone responsible for handing finances. Many people will reasonably refuse to be responsible for a nonprofit's finances if there's no one else making sure things are done properly and accurately.

There are some simple steps you can take. On the revenue side, make sure that cash and credit card transactions are not compromised. Two people should separately count cash receipts and reconcile the totals with documentation of sales (e.g., admissions, shop, etc.). If the organization deals with significant cash, deposit slips should be checked against revenue records by someone other than the person who made the deposit. Ensure that credit card information is properly encrypted on your website and that no hard copy records of credit card numbers are kept after the transaction has been processed. For example, don't keep a credit card number on file for memberships or annual fund donations. On the expense side, limit the authority any one person has over spending the organization's money. Checks over a certain amount should require a second signature (generally the president or treasurer). Any unbudgeted expenditure should be approved by someone other than the director: the treasurer, president, or executive committee, for example. Checks should be kept securely locked away, and no one should ever sign blank checks (even before taking a four-week vacation!).

If your organization has an audit or a compilation, the accountant will review your written or unwritten financial management policies and procedures and make recommendations for improvements. If you do not have an auditor, an accountant in the community may be willing to develop a policies-and-procedures document for your organization. Just be certain that procedures are appropriate to the size and scale of your organization.

Use Your Board Wisely

You may have avoided a career path that required a command of math and numbers, but there are many in your community who have just the skills you may lack. You don't have to do this work alone! Recruit a qualified, committed treasurer for the board and help him or her create a working finance committee that monitors financial performance carefully and helps you and the treasurer think ahead. Prepare clear financial reports and present them simply and clearly. If there are no questions, figure out if the board is confused or complacent! Focus the board's attention on the questions where they can add perspective and insights, not on minutiae. You may never be as comfortable with finances as you are with education, collections, or public relations, but providing good financial management is vital to generating trust within your donor community and ensuring your organization has the resources to accomplish your mission in the near and long term.

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