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Revenue Models and Financial Sustainability

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What is a Case Study?

A case study presents an account of a profit or non-profit business that is facing significant issues that have an impact on its success. The study reports the issues that managers deal with on a regular basis and asks you to identify the problems and develop a response. Cases often represent a real business situation or provide a generic situation or compilation of issues as in the case you will be studying. The case study experience requires you to identify the problems in the case and be ready to participate in a class discussion of the issues and potential solutions.

How to Prepare a Case Study:

I have found the following comments by Francis J. Aguilar in “General Managers in Action” to be helpful in studying and discussing cases:

The starting point is individual preparation. You have to read the case, figure out what is at issue, do the necessary analysis, and draw whatever conclusions the assignment calls for.

While no single preparation method works best for everyone, you should consider the following useful guidelines:

- 1. Skim the case quickly to ascertain the general nature of the situation and the kinds of information it provides for analysis.*
- 2. Read the case carefully with respect to the issues under consideration, noting specific problems and the data germane to each.*
- 3. Analyze each problem and issue, taking into account all the relevant data in the case and noting explicitly your assumptions.*
- 4. Develop a set of recommendations supported by your analysis.*

Case Study Goal:

Reading the case study and participation in the class discussion will test your problem-solving competences and the skills you have acquired during your HLI experience. In addition to the narrative, please pay particular attention to the financial reports attached to the narrative.

It is important to remember that there is no right answer to any problem and that, in the real world, managers make their best guess and frequently say that they are only right half the time.

1 *Your assignment is to serve as a consultant to the CEO of OPV and prioritize the*
2 *liabilities on her list and suggest how she can think in new ways – converting the*
3 *museum’s liabilities into income-producing assets.*

Case Study: Old Pemberley Village

4 The Museum

5 Old Pemberley Village [OPV] is an outdoor living history museum located in the city of
6 Rivermouth at the convergence of a tidal river and a large bay.

7 Rivermouth, population 22,000, is the business and cultural center of the county.
8 Two colleges are located Rivermouth: Mid-State Community College is a technical
9 school offering career-oriented programs in landscape management, culinary arts,
10 environmental studies, graphic design and paralegal studies, and Austin Polytechnic
11 Institute is a university with a highly respected school of architecture, a growing
12 business school, and advanced programs in technological and scientific
13 entrepreneurship.

14 Industry consists of headquarter offices for major telecommunications, computer
15 software and pharmaceutical companies. The city is located close to a number of
16 major metropolitan areas and is the weekend home for a number of wealthy second-
17 home owners.

18 Twenty-five 18th and 19th century buildings are situated on the OPV eight-acre campus
19 located between the city’s business district and the water. The historic buildings -
20 residences, a church, a courthouse, city hall, and two city-barns in *situ* - are tightly
21 packed around a central green space where buildings have been removed or destroyed
22 by fire. One leg of the OPV property borders directly on the river and is the site of a
23 late nineteenth century brick warehouse and large parking lot. There is a modern
24 replica of an historic building that was built for use as a restaurant. In addition to the
25 historic campus, OPV owns 500 acres of open land to the south of the city and half-
26 dozen historic houses located at various addresses through the business and
27 residential areas of the city. The museum is designated as a National Historic
28 Landmark because of the unusual number of historic buildings preserved in a distinct
29 area.

30 The annual operating budget averages \$2.5–\$3.0 million. The budget is in deficit. The
31 current annual visitation is 60,500: 25,000 general visitors to the site, 10,000 local
32 member visits, 12,000 school children, 500 summer camp kids, and 13,000
33 Rivermouth adults and children at special events. OPV is a 501c3 and is governed by
34 a twenty-one-member Board of Trustees. There are thirty full-time year-round
35 employees and fifty seasonal part-time employees. The museum season stretches
36 from March 1st to the end of December. The museum’s name was adopted from the
37 original 17th century town name.

38 The Case

39 Michelle James, OPV president, looked out the multi-paned window of her office over
40 the historic fence with peeling paint, across the parking lot to one of the museum's
41 buildings – a beautiful Victorian-period warehouse, located on the waterfront, that was
42 falling apart. The building's magnificent clock tower is the highest point in the city and
43 can be seen for miles around. Fortunately, the building houses staff maintenance
44 department and miscellaneous storage and is not on the visitors' tour path. What she
45 saw irritated her each time she looked in that direction – years ago a OPV employee
46 had bolted an industrial-strength floodlight to the side of the building and run the
47 cable down the exterior of the brick wall and in through a period window. The light no
48 longer functioned. It seemed to Michelle that the light was emblematic of the museum
49 – a well-intentioned but inappropriate choice, poorly installed and no longer
50 functioning because no one took responsibility to replace the bulb – that is, change
51 the bulb.

52 The light fixture was a small matter compared to the enormity of problems facing
53 Michelle - problems that had become increasingly apparent over the first six months of
54 her tenure.

55 Michelle's pensive mood was partly attributable to her mixed feelings after today's
56 lunch meeting with her CEO colleagues from other Rivermouth cultural institutions.
57 Their monthly lunches were a lively combination of commiserating about their
58 institutional problems, griping about their boards, and working on shared solutions to
59 the issues facing Rivermouth's cultural community during tough economic times. It
60 was always enjoyable to see her colleagues and it was good to know that they were all
61 facing similar problems. But, at times, she was overwhelmed by the needs of the
62 community and its cultural life - and what that meant for OPV.

63 The first topic of luncheon discussion was *The Chronicle of Philanthropy's* recent
64 correction of an earlier article that reported giving to non-profits had not decreased to
65 any degree during the recent recession. That had not been the experience of the
66 Rivermouth cultural organizations – and the CEOs were relieved when the most recent
67 *Chronicle* reported that IRS statistics reflected what had been their organizations'
68 experience – a significant downturn in individual giving. Ben Little, City Park
69 manager, observed he was the only one who was not reliant on donations – the city
70 paid the bills – and the only organization where most of his costs were variable, not
71 fixed. The budget discussion continued, and they argued about what costs were fixed
72 and which were not. Michelle realized that Ben's comment about the problem of fixed
73 costs certainly applied to OPV. The group then turned to discussing the situations at
74 their respective organizations.

75 Ben managed the large public park on the waterfront near OPV. His comments turned
76 into a major meltdown – he had just met with his boss, the city manager, and despite
77 the fact that city tax support for the public gardens and attendance at the park's
78 summer arts festival was continuing to dwindle, the city manager had refused to
79 support Ben's proposal to do a chili and beer fundraiser in the fall – referencing the
80 city's restriction on the consumption of alcohol in city parks. It seemed to Ben that
81 the city's policy was – “cut budgets, maintain services – and don't show any initiative.”

82 Patti Stevens was the Artistic Director of the non-profit theater company located just a
83 block away from OPV. Two years before the recession, Patti's board had raised a large
84 amount of money to restore and enlarge the Victorian former vaudeville house. It was
85 quite beautiful – but the changes were made without a marketing plan for the theater
86 and Patti found herself with a seating capacity that was on many occasions too large
87 for the concert or program she presented. There was nothing worse than seeing a
88 partially filled auditorium. On the flip side, the huge space was great for popular big
89 events, but the board [as well as the city government] had failed to consider the limited
90 number of on-street parking spaces in the crowded downtown area. Because the
91 theater looked empty on some nights, the rumor was making the rounds that the new
92 performance center was unsuccessful.

93 Priscilla Germaine was a talented musician and directed a highly lauded and
94 increasingly popular acapella chorus. Money was tight and she was finding it difficult
95 negotiating performance spaces in the local churches and halls – each having a
96 different set of fees and requirements, and schedules that seemed to always conflict
97 with the most desirable concert dates. But she loved her board - it supported her
98 vision for the chorus – but it failed to help her raise money in a consistent manner
99 from the chorus's small but wealthy group of supporters. She repeatedly was going to
100 donors with the message – “if you don't help us, we will disappear.” Somehow it
101 always worked.

102 Kathy Baker was the most difficult fit for the group. She was the founder of a new
103 arts group, RiverMouthModern [RMM]. Her vision was to bring modern art to the
104 citizens of the tradition-bound community of Rivermouth. She didn't have space –
105 either for an office or exhibitions. She had been working out of her home and all her
106 exhibitions had been presented in outdoor public spaces. Her board was growing and
107 mostly represented second-home owners - what the locals viewed as “outsiders.” Her
108 most recent public exhibition had been graffiti art, which consisted of tag artists'
109 paintings on the walls of a number of buildings in the business district. It had done
110 what she had hoped – it created a major stir in the community with the local paper
111 filled for weeks with letters condemning or praising the project. Ben had been skillfully
112 avoiding Kathy's efforts to get him to take the next project – a super-sized black board
113 where people wrote in chalk the things they would like to accomplish before they died.
114 Ben felt that neither he nor the park needed any public attention at the moment.

115 Michelle's attention drifted during Kathy's comments. E.F. Madison, Michelle's
116 predecessor at OPV had a tough time with the newspaper – through no fault of his
117 own. The Rivermouth Eagle raked the museum over the public coals repeatedly during
118 his tenure. It seemed to Michelle that the museum had been an easy target for the
119 local newspaper because there was little that OPV could do to defend itself and it
120 wasn't going to pull any advertising dollars away from the paper because it wasn't
121 purchasing any. Michelle felt guilty that she was secretly glad that Kathy and RMM
122 were taking the heat these days and not OPV.

123 Molly Brewster was the manager of the replica historic boat that was docked at the
124 park's public marina - part of the Ben's operation. The *Bailey* provided tours of the
125 river and bay area for the general public and recently added an educational
126 component that provided overnight sailing experiences for groups of young people
127 from schools and special needs programs. Federal grants programs funded the new
128 programs. With the addition of the educational program, Molly's staff had increased to
129 three, and she and the boat's captain were now sharing office space in the attic over

130 her board chair's law office with a museum educator. Molly's financial situation was
131 the envy of the group – 100+ volunteer “boat buffs” kept the boat in shape and wrote
132 checks. The *Bailey's* fixed costs were currently low, and new income from the grant-
133 funded educational programs added to the mix. Unlike the others, Molly's financials
134 were currently in deep black ink.

135 The lunch had ended on a convivial note, and they selected a date and place to meet
136 the following month.

137 Five years ago when Michelle took the OPV CEO position, she moved her family from
138 New England. It had been difficult. Because of its proximity to larger population
139 areas and its “olde tyme” ambiance, Rivermouth was a popular place to live - the real
140 estate and rental markets were strong, and the rents and the cost of houses were very
141 high and had remained high throughout the recent economic recession. Apartments
142 were renting for \$17/square foot and average two-bedroom house routinely sold in the
143 \$500,000 to \$1.5 million range. The town's stock of older houses sold at a premium.
144 Michelle's starting salary would not support a house purchase or rental in
145 Rivermouth, and she was forced to buy a house that came with a forty-five minute
146 drive to work.

147 Despite her thorough investigation of OPV during the interview process - she had
148 known there were bound to be some surprises – she was shocked to find that she had
149 missed so much or that so many problems were not recognized or understood –
150 knowingly or unknowingly – by the trustee search committee.

151 Before she took the job she had studied the museum's difficult financial position. The
152 prior decade consisted of year after year of deficit operating budgets – not just
153 unplanned shortfalls and unexpected expenses, but years of planned deficits. The
154 reserved funds had been reduced by \$2 million in the previous five years alone. If
155 Michelle didn't get the deficits under control the emergency funds would be depleted
156 within five years. To her shock Michelle discovered that the current and long-time
157 board treasurer, Warren Baron, had not only approved but encouraged the deficits.
158 He often said, “You've got to spend money to make money.” Every time Michelle heard
159 Baron pontificate, she wanted to remind him that if you want to make money, you've
160 got to work with a well-defined plan and a clear understanding of the expected
161 outcomes before one spent any money.

162 The problem – a plan existed. OPV had a master plan that had taken the board and a
163 team of consultants a year to prepare. It was more than fifty pages in length, and - it
164 seemed to Michelle - included any and every idea that any member of the focus group,
165 board member, staffer, architect or historian had ever thought of. The planning
166 process had begun with the standard – “Ignore the finances and think outside the
167 box.” As a result, much of the plan was not remotely feasible – including the idea that
168 the museum would become a “nationally recognized leader in preservation.” The
169 plan's financial projections were overly optimistic bearing little reference to past
170 fundraising experience and the restricted earning capacity of the museum. And to
171 compound the problem, the local foundation coughed up \$100,000 for developing the
172 strategic plan. Not surprisingly, Michelle found that the foundation had complained
173 about the quality of the plan and the failure to implement anything significant in the

174 subsequent five years. The foundation staff would not return her calls. Reading
175 through the plan Michelle saw that the museum had not recognized the danger ahead,
176 nor the strategic directions it needed to adopt to be viable and sustainable in the 21st
177 century.

178 The treasurer wasn't the only financial leader pointed in the wrong direction – the
179 chair of the Investment Committee, the committee which oversaw the museum's small
180 endowment of \$3.5 million and its surplus funds of about \$2 million, held meetings
181 twice a year - on the occasion of the chairman passing the museum on the way to his
182 summer home in New England and returning to his residence in Florida. When
183 Michelle asked to look at the investment policy, she was greeted with blank stares
184 from the committee members. It was only at the second meeting that it dawned on
185 Michelle that the endowment was managed by the chair's former business partners – a
186 move made by the chair when he took over the committee. The chair wasn't a trustee–
187 he was a member of the museum's Friends of OPV – and rarely reported to the Board
188 of Trustees.

189 Michelle had made a couple of very positive new hires in the first year of her
190 administration. Mike Walsh, an early retiree with extensive banking experience, had
191 replaced the previous Finance Director. Mike brought decades of business experience
192 plus years serving as a trustee on various non-profit boards. Within a year he had
193 reduced the number of Finance Department staff by two and increased the work
194 capacity of the remaining crew by computerizing the operation. Mike recently
195 mentioned to Michelle that he thought that he could eliminate another position in his
196 department in the near future.

197 The second hire was JB Coleman. JB was an "outsider" who had recently moved to
198 Rivermouth after a successful career as development officer at the university level.
199 She managed the OPV development department out of its former chaos and
200 rationalized the operation. Her goal was to broaden the pool of donors to OPV beyond
201 the current givers – mostly the old families of Rivermouth.

202 As Michelle's grandfather, the source of most of Michelle's aphorisms, often said, "To
203 solve the problem you have to recognize there is a problem and then break it down
204 into doable parts." Without prioritizing, Michelle set out to do exactly that - and in
205 one long laundry list she outlined the liabilities that she needed to convert into assets.

206 **Michelle's Laundry List**

207 1. The OPV Ice Cream Shoppe – Madison had opened an ice cream shop in an historic
208 house on perimeter of the campus that had proven to be popular with visitors and
209 locals drawn to the area by the many craft shops. It had been a solid source of income
210 until the bookstore opposite the Shoppe began to sell ice cream and a full menu of
211 snacks. The sales had dropped steadily over the last five years. The Shoppe is 576 Sq.
212 Ft. [Net Sales = the Gross Income minus all costs except tax and utilities.]

213

Fiscal Year	2007	2008	2009	2010	2011
Net Sales/ Square Foot	\$29.51	\$22.57	\$16.49	\$13.89	\$14.95

214 2. Michelle's predecessor apparently had placed hopes for improved financial picture
215 in food. Madison not only launched the Ice Cream Shoppe, but also built a replica of
216 one of the larger historic buildings for use as a restaurant. The museum had always
217 run a low-key operation in one of the historic buildings that was successful at
218 attracting visitors and locals to its quaint, slightly run-down authentic atmosphere.
219 Unfortunately, the new building had little of the charm of its predecessor and the
220 attraction for local citizens was gone and the restaurant never moved into the black.
221 The restaurant was run by a vendor – so the loss was not OPV's, but it was
222 increasingly difficult to find a vendor to run the restaurant from year to year.

223 2. Additional Property – the museum owned six historic houses not located on the
224 campus. The houses were left to OPV in various trusts – the donors indicating that
225 they wished to have the houses opened to the public as house museums. The donors'
226 wishes were considered but found unworkable and so the houses had been divided
227 into apartments and offices. For the most part, the houses were in poor condition
228 when they were received and none were gifted with endowments. Rents were far below
229 the city average because the buildings were in such poor condition - a result of the
230 donors' and museum's policy of deferred maintenance.

231 3. The Collections Department and Storage Facility were located in one of the off-site
232 historic houses in the middle of the business district. The building has a large
233 attached shed. The Collections Department staff was isolated from the main campus
234 and other staff members – it was clear to Michelle that the department members, who
235 Michelle had determined to be unproductive for the most part, were happy in their
236 silo. The fabric and structure of the house and shed had taken a beating because of
237 the misguided efforts to climate control the interior, and the utility bills [calculated by
238 square feet] were three times those of any structure the museum owned. Despite the
239 best efforts of the maintenance staff, a family of raccoons set up permanent residence
240 in the leaking attic.

241 4. Five hundred acres of rolling farmland to the south of the town had been purchased
242 by the founder of the museum with the idea that the museum would build a replica of
243 the acre-sized original settlement that was located there. Many in the community still
244 hoped for the site to be developed as yet another historic site, but the plans proved to
245 be financially impractical and the restoration project was never implemented. It was
246 unclear to Michelle and the State's Historic Commission whether the property had
247 been included when OPV had been designated as a National Historic Landmark. The
248 acreage included a number of beautiful wildflower orchards and wetlands teeming
249 with wildlife.

250 The generosity of the founder, over her lifetime, was well-known in the community –
251 she was remembered fondly by long-time citizens of the city. Upon her death, her
252 home and large art collection were donated to the museum. As her will directed, the
253 house was sold and the income from the sale was designated for the preservation of
254 the museum's historic buildings. That money had been spent. Her valuable collection
255 of mostly European art was given without restriction or direction and was currently
256 stored on the upper floors of two of the historic buildings – presenting security,
257 storage and ethical issues. The collection had been accessioned although it does not
258 meet the current collections policy restrictions.

259 5. Modern Visitors Center – OPV didn't have one. In anticipation of a new building the
260 simple kiosk that had served the museum for ticketing since its founding had been
261 removed. Money for a new Center had been raised by Madison – the building plan had
262 been quite elaborate with multiple galleries, a store, theater and an impressive
263 ticketing area. The museum's neighbors had lobbied against the design and placement
264 of the building – ensuring that the museum couldn't get through the labyrinth of city
265 agencies to get approval for the building – and the Center was not built. The fund for
266 the Center had dwindled in value as it was raided for improvements to the museum
267 campus. Less than \$2 million remained of the original fund.

268 6. The onsite historic buildings were remarkable in their beauty and the history they
269 represented. Unfortunately, the museum's ever-present financial problems had
270 resulted in the very evident effects of deferred maintenance. Of the twenty-five
271 buildings, fifteen were open to the public – the remainder was used for staff offices,
272 and un-controlled storage. In deference to accessibility issues – the exhibition/public
273 area of most houses was limited to the first floor. The curators had been very effective
274 in restricting the use of the houses to “mission-driven programs,” and nothing beyond
275 the daily interpretive programming was staged in the houses.

276 7. A number of the buildings requiring significant preservation and restoration
277 attention were located on the edge of the campus, facing into the business district.
278 Most were mid-sized with two to four bedrooms. All were empty. The work on each
279 house was estimated to range between \$ 25,000 and \$500,000 – beyond the current
280 financial capability of the museum.

281 8. OPV operates two museum stores – one located in an historic house at the entrance
282 and selling admission tickets, and the second in an historic house across the campus,
283 facing the business district. Both stores sell essentially the same product line. It is
284 unclear, so far to Michelle, whether both stores are profitable.

285 *Our job, as the HLI Consulting Team is to help Michelle develop a plan that focuses on*
286 *creating a financially self-sustaining organization that supports strong preservation and*
287 *education programs.*

Old Pemberley Village

289 I. Operating Budget FY 2020

INCOME	
1. Contributed Income	
1a. Annual Fund	\$ 780,000
1b. Membership	110,000
1c. Corporate Support	88,000
2. Earned Income	
2a. Admissions	320,000
2b. School Group Fees	72,000
2c. Children's Program Fees	37,000
2d. Museum Store & Ice Cream Sales	195,000
2e. Special Events	172,000
2f. Site Rentals [Weddings]	17,000
2g. Managements & Facility Fees	25,000
3. Transfer from Investment	
3a. Endowment [underwater]	87,500
3b. Building Endowment [5% draw]	55,000
3c. Quasi-Endowment [5% draw]	225,000
3d. Trust – Tudor	54,500
3e. Community Foundation	88,000
3f. Trust – Stephens [Foundation – 5% draw]	120,000
3g. Garden Endowment [5% draw]	5,000
4. Restricted Contributions	
4a. Grants	-0-
5. TOTAL INCOME	\$2,451,000
EXPENDITURES	
6. Personnel	
6a. Regular Staff Salaries	\$1,207,000
6b. Seasonal Staff Salaries	744,500
6c. Payroll Taxes	112,500

6d. Benefits	157,500
7a. Departments	
Administration	25,000
Facilities	50,000
Development & Marketing	30,000
Special Events	100,000
Education & Collections	80,000
Museum Store and Ice Cream Shoppe	206,000
7b. Restricted Expenditures	-0-
8. Operations	
8a. Utilities	118,000
8b. Insurance	60,000
8c. Legal and Audit	28,000
8d. Technology	20,000
TOTAL EXPENDITURES	\$2,938,500
SURPLUS/(DEFICIT)	(\$ 487,500)

290

291 **II. OPV Staff Salaries Budget**

292

293 President \$100,000

294 Assistant 30,000

295

296 Director of Finance 75,000

297 Accountant 40,000

298 Clerk 30,000

299 Museum Store Manager 40,000

300 Museum Store Assistant Manager 30,000

301 Ice Cream Shoppe Manager [PT] 20,000

302

303 Director of Education 58,000

304 Director of Interpretation 58,000

305 School Program Manager 35,000

306	School Program Assistant Manager	30,000
307		
308	Marketing Director	60,000
309	Marketing Assistant Director	30,000
310		
311	Development Director	75,000
312	– Major Gifts & Annual Fund	
313	Development Assistant Director	50,000
314	– Membership & Corporate	
315	Grant Writer & Clerk	30,000
316	Events manager	25,000
317		
318	Chief Curator	58,000
319	Associate Curator	40,000
320	Assistant Curator	40,000
321	Curatorial Housekeeper	25,000
322	Librarian	30,000
323	Curator of Gardens	35,000
324	Curator of Gardens Assistant	30,000
325		
326	Facilities Manager	40,000
327	Maintenance Worker #1	25,000
328	Maintenance Worker #2	25,000
329	Maintenance Worker #3	25,000
330	Restoration Carpenter	40,000

331

332

333 The Seasonal Staff are all part-time and work from March 1st to the end of December.

334 The historic houses are usually staffed with a minimum of two interpreters.

335