



How Can Earned Income Support My Museum's Operating Budget?

By Rob Schwartz and Art Manask

There is increasing pressure for new and expanding earned income to support the operating budget of cultural institutions. Endowments are shrinking, donors are disappearing or giving less and government support is evaporating. Many museums are refocusing on income opportunities from facility rentals, catering and visitor food services.

Should we be receiving income or commissions from our caterers?

In most cases, yes. However, you should first research what is standard and typical in your local market. The caterer will typically pay the institution a percentage of the external catering (paid for by outside customers) food and beverage revenues generated at the museum. As a competitive business, a caterer will often bid this number up to secure rights at the most prestigious venues in your

community. While many factors have an effect, commissions range from 5 to 20 percent, with 10 to 15 percent as the average.

Do we need to offer exclusive catering rights to receive a commission?

No, but there are multiple factors to consider. How active is your facility rental program that drives the catering business? If you have fewer than two or three events per week, there is likely not sufficient business to split among multiple caterers and attract reasonable commission payments. If the caterer is also running the onsite restaurant and operating at a loss (most do!), then they need the catering profits to make their overall business successful. They will often pay a commission on catering, but possibly only at higher sales thresholds. Finally, the longer your list of approved caterers, the

less commission you will likely receive. Limiting your options will attract the best caterers and secure the best financial deals for your museum. Regardless of how many caterers you have on your list, based on industry experience about 20 percent of the caterers on your list will do about 80 percent of the catering at your institution.

What other forms of income are offered by caterers?

A percentage-based commission is not the only form of payment that caterers offer museums. Other benefits may include:

- an annual fixed-fee (or in-kind) payment to the museum for inclusion on the approved caterer list
- a discount on institutional internal catered events paid for by the museum or affiliates
- free caterings for smaller, internal

Rob Schwartz and Art Manask are principals, Manask & Associates, Burbank, Calif., which helps cultural clients optimize their earned income potential from food service, catering, facility rentals and gift shops. More information is available in the current and past issues of The Manask Report and The Complete Guide to Foodservice in Cultural Institutions at manask.com/publications.

You Asked for It

events like board meetings, alternating with other caterers on the approved list

- payment for annual corporate museum membership
- payment for advertising, Internet placement, social media fees, etc., to promote facility rentals and catering business
- free participation in showcase events during the year to promote the museum's facility rentals and catering business to local corporations, event planners, etc.

Is it reasonable to expect commission payments from the restaurant operator?

Generally speaking, a cultural institution's restaurant is not highly profitable and often breaks even or loses money, as

many café operators depend on catering profits to make the overall business successful. The financial success of a restaurant is dependent upon:

- museum attendance
- location within the museum
- after-hours access
- accessibility to convenient parking
- brand power from affiliation with a known local chef or popular local restaurant concept

If your restaurant boasts any of these assets, your chances of profitability and receiving a commission or rent in return increase.

How can we capture more of our potential rental income?

First, identify your museum's potential. Make an inventory of your facility rental spaces and how often they could be rented per day. Subtract the planned museum uses for programmed events, development, exhibit openings, etc., to arrive at a net available inventory (occupancy). Next, monitor your occupancy rate by dividing the actual rentals by the potential. This will give you a percentage "occupancy." For example, a room that can be rented every night for \$1,000 could potentially generate \$365,000 in rental income. If rented 50 times for \$50,000, the occupancy percentage would be 14 percent. Finally, develop a business plan to capture a portion of this opportunity. This will include investing in: staff; marketing; your website; and pricing adjusted to reflect demand for weekdays vs. weekends, day time vs. evenings, etc. ●