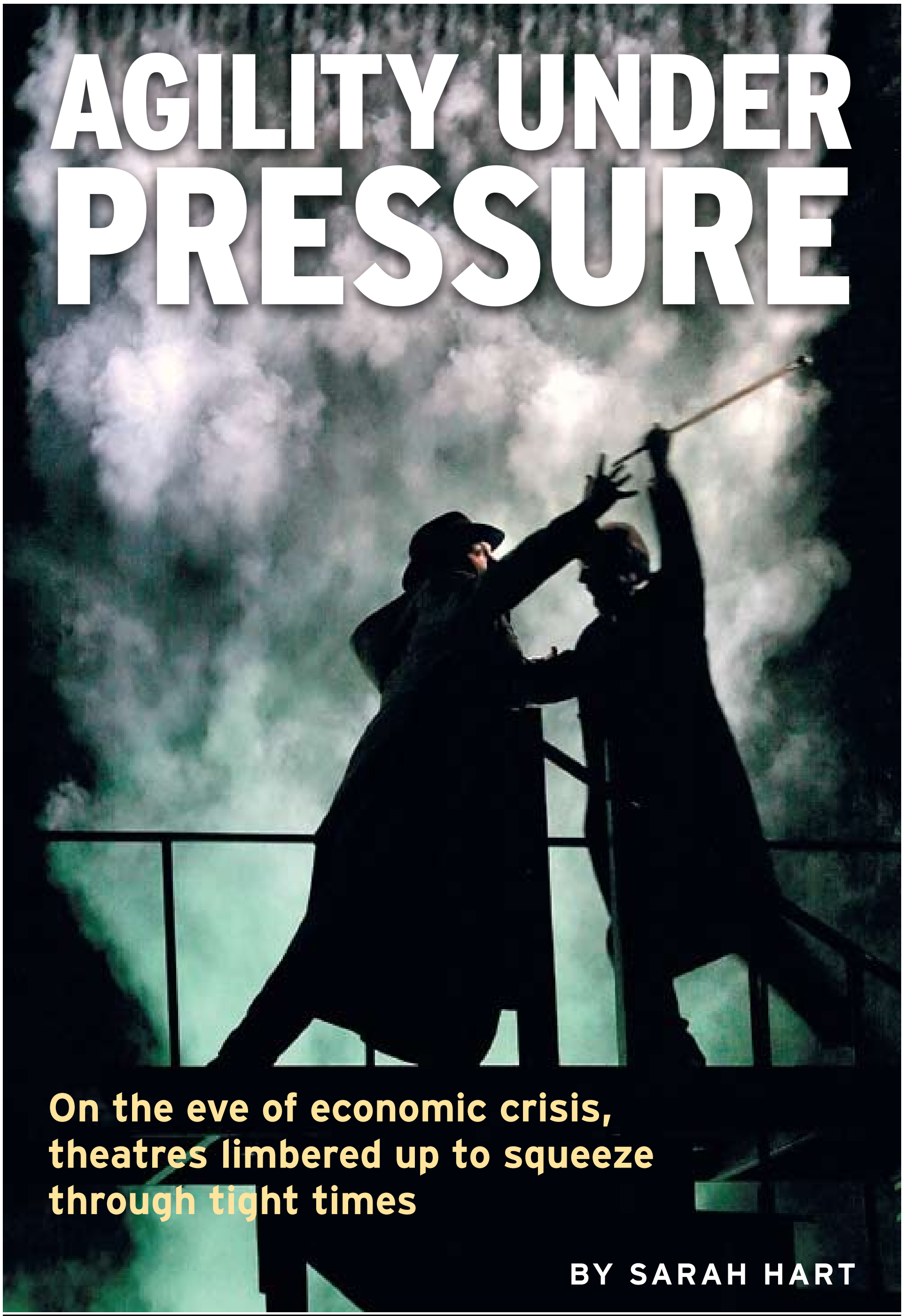
AGILITY UNDER PRESSURE

On the eve of economic crisis, theatres limbered up to squeeze through tight times

BY SARAH HART



Christian Kohn, left, and Timothy Crowe in *Sherlock Holmes: The Final Adventure* at the Cleveland Play House in Ohio.

KEN HUTH

IT'S IMPOSSIBLE NOT TO LOOK FOR HARBINGERS of economic crises to come in *Theatre Facts 2008*, TCG's annual analysis of the fiscal state of the American not-for-profit theatre. As *Theatre Facts* co-author Zannie Giraud Voss proffers, not-for-profit theatres can often be like canaries in the coal mine, the first to show the effects of a poisonous environment. The report, based on TCG's Fiscal Survey, examines the fiscal year that theatres completed anytime between the period of Oct. 31, 2007, to Sept. 30, 2008, which dovetails with the beginnings of the credit squeeze in the U.S. but stops short of the rapid acceleration of the crisis in September 2008.

Nevertheless, theatre leaders are apt to recall the 2007–08 season as the halcyon days before the storm. "[2007–08] was a normal year," remembers Kathryn Lipuma, executive director of Writers' Theatre in Glencoe, Ill. "We did things; it was all great. That ended July 31. We went into survival mode almost overnight. Maybe we were all just pretending it wasn't coming, but it felt like it was a physical change."

Indeed, the numbers don't lie: *Theatre Facts 2008* validates, at least to some extent, a hunt for ominous signs. More than half the theatres surveyed ended the 2008 fiscal year with a negative bottom line, a reverse of the trend of the past five years, in which an increasing majority of theatres operated in the black. Cash reserves were at their lowest point in the past five years, after adjusting for inflation. And though the plethora of recent capital campaigns left theatres with growth in fixed assets and investments, 2008 heralded more capital losses than gains.

"You started seeing things unravel even before the crisis that fall," notes Voss. "A domino effect came into play. A lot of different areas were up [in terms of income]—but nothing was up enough to keep pace with expenses."

The full report, authored by Zannie Giraud Voss and Glenn B. Voss with Christopher Shuff and Ilana B. Rose, was released in July and is available for download from TCG's website at *www.tcg.org/tools/facts*. As in previous years, the study takes a three-pronged approach, first zooming out for an extrapolated overview of the 1,919 not-for-profit professional theatres that filed IRS Form 990 in 2008; next zeroing in on the 105 TCG member theatres that filled out the Fiscal Survey in each of the past five years for a comparative view; and finally scrutinizing the 176 theatres that filled out the Survey in 2008, helpfully dividing those theatres into varying budget groups for more probing inspection. Those sections are labeled, respectively, the Universe, the Trend Theatres and the Profiled Theatres. This year, the Trend Theatres section also offers a small-sample view of the 59 theatres that have participated in the survey in each of the past 10 years.

The sweeping estimates in the Universe section offer some of the most easily packaged facts: In 2008, not-for-profit theatres gave 202,000 performances for 32 million spectators, employing 131,000 people. That workforce breaks down to 63 percent artistic, 26 percent technical and 11 percent administrative workers, though the authors note those percentages vary by theatre size, with theatres of total expenses less than $500,000 employing 73 percent of their workforce in artistic positions, 21 percent in technical/production and 6 percent as administrators; theatres with budgets greater than $500,000 average 58, 28 and 14 percent, respectively. Overall, not-for-profit theatres contributed more than $1.8 billion to the U.S. economy—and that only reflects direct transactions, not accounting for monies exchanged in dining out, parking, babysitter hire, etc., that often go hand-in-hand with theatrical attendance.

A more down-and-dirty view comes from looking over the Trend Theatres section data, beginning with one of *Theatre Facts*'s most useful measuring tools: CUNA, or the change in unrestricted net assets, which includes operating income and expenses, unrestricted equipment and facilities, board-designated and endowment funds, capital gains/losses, capital campaign expenses and gifts released from temporary restrictions in the current year. In short, CUNA is total unrestricted income minus total unrestricted expenses for the fiscal year. Looking back five years, CUNA doubled between 2004 and '05, dropped in '06, was back up slightly in '07, and descended precariously in '08, not only below its '04 level but, for 55 percent of theatres, to a negative number.

To start with, earned income dropped 7.2 percent between '07 and '08, though inflation-adjusted calculations still show 6 percent growth over the past five years. Ticket revenue was up a total of 6.2 percent over the past year, mostly due to single-ticket income, which increased by 14.1 percent over the past year and by 18.3 percent in the past five [see sidebar 1]. More theatres reported endowment income, with 65 in 2008, up from 48 in 2004. And though average endowment income was down in '08, that source of profit exceeded inflation by 75.3 percent over the past five years. Rental income—which was reported by more than 80 percent of the Trend Theatres—was up by 32.1 percent since 2004, with more than half of that growth coming in 2008.

As Voss notes, although income showed gains in many areas, it couldn't keep up with expense growth, which outpaced inflation over the past five years by a whopping 19.1 percent. The percentage of total expenses supported by earned income fell in '08 to only 56.5 percent, down from 65.2 the proceeding year and dropping by 6.2 percent over the past five years.

COSTS IN PHYSICAL PRODUCTION EXPENSES (I.E., non-payroll) continued to lead the way, more than doubling over the five-year period. The data are somewhat skewed by the exceptional activity of one theatre that added a second space in 2005, but even eliminating that theatre from the equation, physical production expenses still show the highest growth rate of any category. Often this rise in costs translates merely to the price of raw materials. "The housing market was driving the economy, so materials were hard to come by—lumber, plywood, aluminum," says Steve Martin, managing director of Childsplay in Tempe, Ariz. "We couldn't put our hands on anything because aluminum was used in duct work for houses. Now we're hoping the '08-09 drop-off in housing can benefit us—as well as make available labor. Skilled workers will work for what we can pay." Also, as many theatres expand their profiles or move into fancier

HEATHER HILL

At left, Jason Powell in *Alexander and the Terrible, Horrible, No Good, Very Bad Day* at Childsplay in Arizona. Below, from left, Robert Scogin, Suzanne Lang and Linda Kimbrough in *Savannah Disputation* at Writers' Theatre in Glencoe, Ill.

MICHAEL BROSILOW

Christopher O'neal Warren, left, and Michael T. Weiss in *Of Equal Measure* at Center Theatre Group in Los Angeles.

CRAIG SCHWARTZ

digs, there's a corresponding rise in expectations. Southwest Shakespeare Company of Mesa, Ariz., found that after moving into the Mesa Arts Center in 2005, there was more pressure to up their production values, according to managing director Chris Rhodes. "When you go from performing in a high school and outdoor amphitheatre to performing in a $100-million building, you have to raise your standards. Whether we did that too much, I don't know. Now we're really trying to go green, recycling and reusing. Our set designers are incredibly imaginative in coming up with sets that reuse materials."

Expenses also ballooned in the categories of general artistic non-payroll (including housing and travel, per diems, company management and stage management expenses); general management and operations; occupancy; and marketing. Total payroll escalated 12.5 percent above inflation, and the number of paid employees grew to a five-year high in 2008. However, the ratio of full- or part-time employees to fee-based or jobbed-in workers dropped in 2008, with an average of three fewer per theatre in the first category and eight more in the second compared to 2004. Royalties were the one expense area in 2008 that dropped slightly after an increase in 2006–07. Over the past five years, royalty payment growth fell behind inflation by 2.4 percent.

This inexorable climb of costs has theatres scrambling for creative ways to cut—without diminishing product or losing income streams already in place. As Lipuma notes, "With fixed costs in place, you have to look at what's not fixed." Solutions ranged from the now tried-and-true method of co-producing—"Really the only way to keep any size and scope to our seasons," according to Kevin Moore, managing director of Ohio's Cleveland Play House—to tapping into a staff-wide brain trust [see sidebar 2] to streamlined marketing. "Our approach a few years ago was to get the biggest list we could and send brochures to the world," says Lipuma. "But we're not getting a big enough return to justify that expense. So we're really looking at repeat customers, streamlining mailings. It's the same brochure, same quality, with a much more targeted list, cutting back on print and mailing costs. We're finding other ways, using the Internet, to hit a bigger circle of people."

But while the explosion of online opportunities over the past few years, from e-mail blasting to social networking, has provided theatres with lower-cost methods of marketing, many are still wary of overemphasizing those approaches. "The jury is still out," qualifies Charles Dillingham, managing director of Los Angeles's Center Theatre Group. "We're not sure that e-mails are as effective as we hoped they would be eight years ago—partly because on the receiving end people are just so inundated. We certainly haven't abandoned newspaper and magazine, which in some cases have gotten cheaper, with lots of discounting [fed by shrinking distribution numbers]. That's still the most cost-effective method on a short-term basis." Lipuma echoes that caution: "We send Twitter and Facebook and e-mail blasts, but it's too soon to tell if that collection of hits will drive our numbers. When we send e-mails, we do see a result in our box office that day—not a sell-out, but a bump."

"Marketing?" repeats Martin. "We sit here and throw our hands up in the air. We don't know where to go next. Isn't everybody feeling that way? Our newspaper this morning was,

Erin Sheehy, Andi Watson and Kelly Elizabeth Turner in *Macbeth*, directed by Jared Sakren at Southwest Shakespeare Company of Mesa, Ariz.

LAURA DURANT

like, five pages. It's depressing. We take out banner ads—but I don't read those banner ads—do you? Social networking—that's not driving moms to our place. Direct mail is what we've learned from our surveys. We're where everybody was 10 years ago—we're going to put money in direct mail again. But we're going to have to learn to understand this new marketing paradigm."

CAROL PRATT

The cast of *The History Boys* at the Studio Theatre in Washington, D.C.

"We're putting a lot of capital campaign money into high web capability and high web marketing," concurs Joy Zinoman, founding artistic director of Washington, D.C.'s Studio Theatre. "At the same time, I'm not a believer in a complete shift. I think that's an error. I think moderation in all things marketing is best—and moderation means that you don't discard the techniques of the past. A relationship to your neighborhood, the idea of theatre being very tied to a place, is a very different notion than being a destination theatre tied to national publications. That costs different money and has different implications."

While online marketing may still be in its adolescence, everyone agrees that online ticket sales have changed the game. "In less than five years, 60 percent of single tickets are now bought online. It's unbelievable," notes Zinoman. And Mu Performing Arts of Minneapolis's managing director Don Eitel notes that his theatre's gala was actually sold out a week before the event: "That's never happened before. People could buy online, so there was a convenience factor."

The rise in marketing costs often corresponds to the hope that a higher investment in that area will

THE RISE OF THE SINGLE-TICKET BUYER

THE AGE-OLD NOT-FOR-PROFIT theatre wisdom—since Danny Newman first sat down at a typewriter—has been to hook the subscribers, then keep them at all costs. But the *Theatre Facts 2008* numbers suggest that a new age is asserting itself, one in which the single-ticket buyers will drive theatre planning and budgets—and theatre leaders are starting to reconsider this strange, fickle population.

"The single-ticket buyer was seen by the very old school as the enemy," confirms Joy Zinoman, founding artistic director of Studio Theatre in Washington, D.C. "They were people who only wanted to see hits; they come and go; they're not supporting a body of work. That's the old rhetoric. But I think there is an alternative view of single-ticket buyers as people who are incredibly enthusiastic about projects. They really want to see Pinter or they really want to see some contemporary British play. They tend to be younger. They have more energy for specific work. And they are the people who provide the kind of large audience that provides for extensions—and that is part of the for-profit theatre model that we have always embraced at Studio."

That show-based energy also allows theatres to crank up their box-office revenue while subscriber income remains fixed. "Writers' Theatre has instituted demand-based pricing," notes Kathryn Lipuma, executive director of the Glencoe, Ill.–based company. "Our single tickets went up by $8 a ticket based on that. For an organization which has a limited seating capacity, that's the only way we could address bringing in more income at the box office. Our single-ticket income increased by 40 percent—which had a significant impact on our bottom line."

It also starts to compensate for what has typically been seen as the more expensive marketing tack. From '04 to '07, marketing initiatives targeting single-ticket buyers lessened in cost-effectiveness, but picked up slightly in '08. Still, theatres spent 22 cents for every dollar of single-ticket income, compared to 15 cents for every dollar of subscriber income (excluding payroll expenses).

While single-ticket income has exceeded subscription income fairly consistently for more than five years, the gap between the two has widened even more substantially in the last season. Anita Stewart, executive and artistic director of Portland Stage Company in Maine, corroborates: "From 2003, single tickets have come up rather quickly. We've seen 60-percent growth in single tickets." This development is seen at a particular extreme in the 10-year view of Trend Theatres, which underrepresents smaller theatres, but gives a snapshot of activity in the larger theatres. That scale shows that in this subset of generally larger theatres, subscriptions continued to bring in more income than single tickets until 2006, when a very dramatic incline in single-ticket income rapidly overtook subscriptions.

So, what does this mean as theatres envision their future audiences? Many have persisted in trying to convert single-ticket buyers to subscribers, and some have found traction in flexible subscription packages. But others have embraced their single-ticket buyers for what they are, and potentially as the new face of their audiences.

"I trust individuals," concludes Zinoman. "I trust our single-ticket buyers. Theatre is an intimate form. I'm not interested in a lot of institutionalization." *—Hart* reap higher and higher returns. Notes Sharon Graci, artistic director and co-founder of PURE Theatre in Charleston, S.C., "It's an awful catch-22. You have to do a better job at marketing in order to buy more marketing." Eitel relays that Mu has experimented with hiring a contract public relations coordinator for one show per season, beginning in '07–08 with its remounting of *Walleye Kid: The Musical!* "That's been hugely successful," Eitel says. "In this market, most theatres of our size are lucky to get one feature article a year, so we kind of pick which one we want them to focus on and really push it." Portland Stage Company in Maine has found its way onto the front page of news sources by making sure it can provide top-notch production photos—which means hiring their own master photographer now that newspapers can no longer afford to. "That was one of the greatest things we did [in terms of marketing]," says executive and artistic director Anita Stewart. "We were getting increased coverage because we were getting something of value to them. That shifted some of our thinking about marketing."

Tyla Abercrumbie, Victor Cole, Ronald Conner and Allen Edge in *The Piano Lesson* at Portland Stage Company in Maine.

DARREN SETLOW

IN TERMS OF CONTRIBUTED INCOME SOURCES, individual givers—both trustee and non-trustee—continued to aggressively lead the way, supporting 16.5 percent of total theatre expenses with their contributions. It's interesting to note, though, that fewer individual donors contributed higher dollar amounts in order to generate this increase. The average gift from non-trustee individuals in 2008 was $471, up from $319 in 2004. Foundation and corporate giving (covering 7.5 and 4 percent, respectively) were both down slightly from the preceding year, while federal, state and local funding all rose slightly, at least in dollar amounts. The latter three categories cover much smaller proportions of theatres' expenses, though, so their high level of fluctuation has less impact on the bottom line.

The all-important ratio of earned to contributed income gave a fairly even showing of 51 to 49 percent in

MAKING STAFF PART OF THE SOLUTION

THE MANTRA THESE DAYS SEEMS to be to do a lot with a little. So, what do you do when you need fresh ideas for saving money, but you're short the cash to bring in an efficiency expert? Over and over, interviewed theatre leaders said their best method for trimming costs was to bring the whole staff into the process.

"We've taken the approach where it's not just two or three people who are sitting in front of computers in the business and finance office who take on efficiency," says Kathryn Lipuma, executive director of Writers' Theatre in Glencoe, Ill. "Every single department is encouraged to participate in creative ways to save expenses and build revenue. Everyone is taking ownership of the budget, and is excited about contributing to the bottom line in ways that their department doesn't normally leave them the opportunity to do. In the past few years, it's become the culture of the organization."

That organizational culture is a key component. Theatres where collective economy was already the ethos have found that, come leaner times, it was easier to make ends meet. "It's a culture we've always had," says Grace Grillet, managing director of People's Light & Theatre Company. "Everybody's very cost-conscious here. We've been saving money that way for the past several years, which helps the budget. We were worried we weren't going to save any more than we were, but even the small deficit we've projected for '08–09 may not happen."

Tapping staff resources beyond the official job description can also lead to professional development. "I think every manager should always be looking at all the skills of the staff regardless," says Don Eitel, managing director of Mu Performing Arts in Minneapolis. "Our new marketing coordinator had skills in design. We started utilizing those skills in-house. The downside is that there is a learning curve—but on the plus side, she's been here two years and her skill set has improved. That's an asset to the company—and to her professionally."

With that empowerment comes a strong sense of buy-in from the staff. "It makes them want to be part of the solution," notes Anita Stewart, executive and artistic director of Portland Stage Company in Maine. Her colleague, managing director Camilla Barrantes, adds, "There's a real sense of accomplishment in the staff when we have a surplus or when we make our single-ticket goals. Everyone from the shop manager to the actors are saying, 'How are we doing on ticket sales?'"

—*Hart*

the Universe section estimates. The Profiled Theatres of *Theatre Facts 2008* average an even healthier 55.1 to 44.4 percent (with a .5 shortfall in expense coverage). However, breaking down the theatres by budget groups demonstrates that the smaller the theatre, the more it's relying on contributed income, a worrying statistic looking forward as foundations and corporations find their portfolios diminished. Group 6 theatres (with a budget of $10 million or more) supported 60.6 percent of expenses with earned income, while Group 1 only supported 35.3. An anomaly is Group 3 (with a budget of $1 to $3 million), which covered the second-highest proportion of expenses with earned income, at 50.5 percent.

"You cannot depend on half of your income to be unearned," attests Zinoman. "We do everything we can to maintain that 63 or 64 percent of our operating income comes from earned revenue. That can be done with several instruments, particularly capital campaigns. If one has more unearned income from a very colorful campaign, that [income] doesn't become part of the operating budget. It's artificial, but it's a conservative way to control spending so that your spending is related to your earned income instead of contributed. I'm not against unearned income. I just believe, especially in this kind of economic climate, that earned income is less volatile."

MARK GARVIN

The cast of *Theophilus North* at People's Light & Theatre Company in Pennsylvania.

That directive is keenly perceived by managing director Sarah Benvenuti of Group 2's (budgets from $500,000 to $1 million) Curious Theatre Company in Denver, Colo. "Our earned income is much lower than average," she laments. "We're growing very quickly,

OBJECTS IN MOTION

FLASHY NEW BUILDINGS, SOLD-out hit shows, high-profile national events—these are all attractive enough in their own right, but several theatres interviewed reported feeling shielded against the downturns of late 2008 thanks to a bit of lasting momentum from the season that had just concluded.

"Overall in '08 for the company, on an operating basis we had a fairly significant surplus," notes Charles Dillingham, managing director of Center Theatre Group. "But that was due to a couple of big hit shows [notably, *The History Boys*] and successful fundraising, including a number of multi-year gifts, pledges made in better times that were honored. That insulated us against the downturn which, in retrospect, was happening in markets."

"*Walleye Kid: The Musical!* was a turning point for our organization," notes Don Eitel, managing director of Mu Performing Arts in Minneapolis, referring to the remounting of Mu's previous hit at St. Paul's Ordway Center, a much bigger and more widely known venue than Mu had previously used. "We're still riding that initial P.R. We had a lot of momentum going from that into our next show, the first show of this season. Mu as a brand has really improved in the past couple of years. We've been ambitious in our programming, which keeps you at the forefront. Between that, and co-hosting the National Asian American Theatre Conference at the Guthrie Theater—those things are cumulatively having a long-term effect on the organization."

To be sure, for any sort of momentum-building at all, to be met with a national point of crisis can have a cold-water effect. "We ended '07–08 in a really good place," recollects Sarah Benvenuti, managing director of Curious Theatre Company in Denver, Colo. "We'd purchased our building, which was something the community could rally around. Our capital campaign had a really strong finish. That put us in a position of confidence. Then we literally saw a dead stop in ticket sales the week the crisis began."

Likewise, Kim Whitener, producing director of HERE Arts Center in New York City, relays, "Individual givers aren't as big a piece of our pie as we want them to be. We had some momentum going because of the reopening of our new space [in summer 2008]—people were excited, and we got back people who'd lapsed. Then '08–09 knocked the wind out of our sails. We had to revise down our projections."

Still, Whitener notes, even if individual giving hasn't picked up again, '08–09 has been one of the best years in terms of attendance in HERE's recent memory—which carries its own kind of momentum.

In fact, that forward-moving energy might simply be a matter of framing the conversation. Eitel credits Michael Kaiser of Washington, D.C.'s Kennedy Center (with whom he trained for two years as part of a capacity-building program for community specific theatres) for instilling that principle at Mu: "There's always some big, exciting thing that you can sell to the audience and to the public. Plan ahead so that if things are crappy now, you're talking about next year, the next thing. Everyone wants to be with winners. Success breeds success." —*Hart* but I believe we need a larger earned income percentage to make the next leap forward. The jump to Budget Group 3 will only happen when our income is more diversified."

Still, bigger budgets do not necessarily equal healthier organizations: Group 5 theatres (with budgets from $5 to $10 million) took the biggest hit in capital losses, equivalent to 2.5 percent of their total expenses (and two of the reporting theatres had losses in excess of $1 million). Breaking down by budget group reveals that negative CUNA was primarily felt by Group 5 and 6 theatres, with 66 percent of Group 5 and more than half of Group 6 falling into that category. (Group 1, by the cumulative average, had negative CUNA, but the results were skewed by one theatre with a six-digit negative CUNA.) Group 5 theatres also experienced the most severe working capital shortages, leaving them little or no space for financial maneuvering. The authors of *Theatre Facts* note that smaller theatres tended to be more stable in 2008. Group 1 (with budgets of up to $500,000) had positive working capital, and Group 2 had a higher CUNA than any other group.

"Smaller organizations are more nimble, and bigger ones have more endowment," notes Moore, who moved to Cleveland Play House (a Group 5 theatre) from D.C.'s Woolly Mammoth Theatre Company (Group 4) just before the 2007–08 season. "[At Cleveland Play House] we're making an inflated budget with a very small endowment. We're not nimble. We have 50 to 60 people here. During a season we're employing 150 or so. There's a huge amount going into the facility. When I was running a smaller arts organization I understood what was mid-sized, small, etc. Now I've got the trappings of a big organization in a market that will support a mid-sized. There are just not a lot of mid-sized organizations out there running around with the kind of real estate we have." Moore points to Studio Arena Theatre, which shuttered in February '08 in Buffalo, N.Y., a similar post-industrial city with a declining population. Cleveland Play House, however, shed $3 million of its debt load in '07–08 using board designated funds. "In retrospect, it was one of the best things we ever did, because that money would have been in the stock market," says Moore. "I'd like to say I was smart enough to see that coming, but it was just good luck." And in 2011, the theatre will move out of its current oversized campus to a shared multi-venue space downtown. "We'll be much closer to being that mid-sized organization," Moore anticipates. "Our organization will be much nimbler. Our resources will go into art."

That sort of agility is what Kim Whitener, producing director of HERE Arts Center (Group 3) in New York City, cites as making success in '07–08 possible. That season encompassed a five-month construction blackout for HERE, and when the theatre did recommence operations, it was able to do so slowly—which provided the flexibility to extend its hit show, Basil Twist and Joey Arias's *Arias with a Twist*, all the way through the following fall and winter. "We really do have more flexibility," says Whitener. "I feel really lucky. I think that's absolutely true of small theatres. We're able to adapt."

"We've been willing to remain small with a loyal following of subscribers," reasons Graci, of PURE Theatre (Group 1). "When you're that small, you're not necessarily going to teeter over because of weight—because there isn't any weight. But PURE is in a frustrating place in terms of budget. We're not babies anymore. We command a certain amount of money. But there's no extra, no breathing room. We can't cut something and save a lot of money."

"There are things I would change about how we approached '07–08," says Moore. "We treaded water on some things, such as the size of staff and the number of plays. When the recession hit, we did a lot of layoffs, and went from an eight- to a six-play mainstage season. Those are things I had on my mind to do in '07–08, but I elected not to because I wanted to see how this place operated first. I wish I had made those decisions at that time instead of seemingly reacting to the recession."

Finding the room to shift and change is likely to be paramount in the seasons that follow, from 2009 forward several years, and organizational litheness going into the recession might well determine theatres' robustness on the other side. "I don't think we've ever seen anything like this," ventures Grace Grillet, managing director of People's Light & Theatre Company in Malvern, Pa. "This year feels worse than 1990. I'm hopeful, but we may still have hard years ahead."

Still, no one is shrinking from the fight: "It's like what Bette Davis said about getting old," quips Martin. "Managing a theatre is not for sissies."

Sarah Hart is a former managing editor of this magazine.

MICHAEL ENSMINGER

The cast of *The Lieutenant of Inishmore* at Curious Theatre Company in Denver, Colo.