

STRATEGIC CASE STUDY

Strategic stage

ADVANCE MATERIAL

07 June 2022

Examination Schedule: 3 Hours 30 minutes

Country of Rothland

Rothland is a wealthy, developed country ranked highly in the global index for per capita income, economic freedoms, education, civil liberties and quality of life. It is dominated by the service industry, which employs over two thirds of the country's working population. The drive to digital has accelerated in Rothland over the past few years and a significant proportion of business activity is now conducted online – a trend which is expected to continue.

Rothland has a federal government structure. The national government is responsible for areas such as foreign affairs, police, defence, the national transport infrastructure and telecommunications. The 43 regional government authorities have independent responsibility for matters such as education, healthcare, environmental services, energy production and local tourism. In addition, to grants from national government, regional government authorities raise funds from a mix of taxes on local sales and property values, and charges for certain services such as car parking.

The currency in Rothland is the Rothland pound (£). There has been little price inflation in Rothland over the past few years, and interest rates are currently at an all-time low. However, some economists are forecasting increases in both inflation and interest rates in the near future, primarily as a result of the global Covid-19 pandemic, which has had an adverse impact on economic activity and has led to large debt-financed increases in public expenditure in Rothland over the past two years.

Museums and Galleries in Rothland

Rothland is internationally renowned for its arts and cultural heritage. It has a wide range of museums and galleries located across the country, which attract millions of visitors every year, both from within Rothland and abroad. Estimates from late 2019, before the onset of the Covid-19 pandemic from March 2020, suggested that 9% of Rothland's annual Gross Domestic Product was directly generated by tourism (before taking account of the indirect impact on the downward supply chain), with at least 30% of tourists visiting at least one museum or gallery during their visit.

The Rothland Arts Commission

The Rothland national government primarily supports the sector via the Rothland Arts Commission (RAC) – a non-departmental public body within the Department for Arts, Culture and Sport (DACS). The RAC's remit is threefold:

- to promote the creative arts culture in Rothland,
- to distribute grant funding, and
- to work with cultural organisations, regional government authorities and independent arts providers to increase access to arts and culture for all.

The RAC's stated mission is *'to increase the accessibility of art for all the people of Rothland, working to ensure that everyone, no matter who they are or where they live, can enjoy, engage with, and be energised by all that art has to offer'*.

The RAC receives 80% of its funding directly from the DACS in the form of grant-in-aid, with the other 20% mandated as a transfer from the income raised by the popular Rothland National Lottery. The RAC distributes grants for one of three specific reasons, as follows:

- Capital grants: for new buildings, public art and the renovation of existing buildings. (Public art is art that is within the public realm, usually commissioned for the site in which it is situated. It includes statues, monuments, sculptures, graffiti art

installations, and transitory performances – such as dance, poetry readings and theatre).

- Project grants: (which can vary from £1 000 to £1 000 000) fund projects which 'engage the people of Rothland with creativity and culture'. Projects are wide ranging, from taking art on tour and running arts festivals around the country, to art-related research and investing in digital developments.
- Support grants: specifically designated funding for organisations in crisis; for example, to provide emergency funding during the Covid-19 pandemic or to help institutions 'recover and improve' after damage from major events such as fire, flooding etc.

Decisions on awarding grants are made by the RAC Funding Council. It has eight members, including two practising artists and a well-known arts journalist who writes for a national newspaper. It is rare for capital grants to cover the full cost of the planned expenditure although digital developments are usually looked upon favourably by council members. Grants are typically awarded for up to 75% of the value and conditional on the remaining funds already being in place.

Digital development

The adoption of digital technologies by the arts and culture sector has been slower than it has been by most other industries in Rothland, and planned digital projects in the arts and culture sector were further delayed by the pandemic. However, the RAC is committed to supporting arts institutions to improve their digital engagement and has therefore set up the Digital Development Web (DDW) which provides free information, practical support and advice. The stated aim of the DDW is to help the sector 'harness the power of digital to find new ways to connect with audiences, enhance business models and generate new income streams'. Excerpts from the DDW bulletin – *The Power of Digital* – can be found in Appendix A.

Etra Art Gallery

Etra Art Gallery (EAG) was established in 1908 by the Etra family, wealthy industrialists with an interest in collecting art. It is a registered charity and is exempt from taxation on its charitable income.

Although it is smaller than the Rothland National Gallery (RNG), EAG has an international reputation and a highly regarded permanent art collection. Initially based on a single site, EAG expanded in the 1980s after receiving a major bequest from a private donor which provided significant additional funding. EAG now consists of three galleries located across Rothland: the original main gallery in the capital city Utte; Etra Enne in Rothland's second city Enne, a popular tourist destination 250 kilometres to the north of Utte; and, Etra Spar in the seaside town of Spar, 300 kilometres to the south west of Utte.

EAG's mission is '*to celebrate and share the art of the past and the present day, encouraging artistic engagement and creativity, and ensuring access for all, both today and in the future*'.

Governance

EAG is run by a Chief Executive Officer (CEO), currently Juliste Bajek, whose power is delegated by a Board of Trustees. The CEO leads an Executive Board made up of the Chief Finance Officer (CFO), Ara Kundnani, the Chief Operating Officer (COO), Dene Menakem, and five further executive directors responsible for each of the three galleries, for Collection Care, and for Learning and Research respectively. The Board of Trustees works with the Executive Board to determine policy and set strategic direction for the EAG and

is made up of a mix of art specialists and business experts including a member of the RNG's Board of Trustees; correspondingly, another EAG's trustee sits on the RNG's Board of Trustees.

In addition, EAG's commercial activities are delivered by an independent but wholly owned for-profit subsidiary, Etra Merchants, which is run by its Managing Director, Sam Becker, who reports directly to EAG's Board of Trustees.

Over the past few years, the EAG has struggled to find its way. Despite an enviable permanent art collection, it has begun to get a reputation for uninspiring exhibitions and in common with much of the sector, it has made little use of the opportunities offered by digital technologies.

The current CEO of EAG, Juliste Bajek, previously worked in the sports sector, and has only recently taken over the role. Juliste believes that one of the main challenges facing EAG is the embedded culture of risk aversion and that to embrace new opportunities and bring EAG firmly up to date it will require a bolder approach, in which change is seen as positive and new ideas are welcomed. Juliste argued, when interviewing with the Trustees, that, in part, the existing culture at EAG was the result of the academic background of so many of its decision makers – as steeped in evidence-based research, she suggested that they were reluctant to take a leap of faith. Juliste's appointment was unanimously agreed by the Trustees but openly criticised by some members of the RAC, as they publicly expressed concerns about the expressed desire to rationalise and modernise the business. Juliste has also made it clear that incorporating digital into the EAG's business model will be a development priority in the near future.

Funding

The EAG receives funding from the following sources:

- Direct grants from DACS

The EAG receives an annual revenue grant from the DACS to support its ongoing operations.

- RAC grants

Previously, RAC capital and project grants have been provided to the EAG for specific developments including a collaborative Rothland-wide art tour with international partners, work to remodel the main Etra building to improve access and a special exhibition to tie in with Enne's appointment as City of Culture in 2014. Shortly before the pandemic, after months of lobbying of the EAG Board of Trustees by the Managing Director of Etra Merchants, the Trustees secured from the RAC a grant of £100 000 to start work on upgrading EAG's website. However, the project, which was still in the detailed planning stages when the pandemic hit, was temporarily postponed and has not yet been resurrected.

- Commercial activities

Etra Merchants was set up to maximise profits and extend the Etra brand to support the gallery. Its after-tax profits are gifted to EAG under Rothland's corporate giving scheme, in which income tax is deemed to have been paid by Etra Merchants and can therefore be reclaimed by the EAG from the Rothland government's Revenue Service. The commercial activities include:

- Corporate and individual membership schemes. In return for a membership fee, members are entitled to a range of benefits including discounts on admission to exhibitions, and for online and purchases during physical visits to an EAG site, and access to member's rooms in all three Etra galleries. Memberships are the largest source of income after RAC grants.
- On-site income earned from non-art related activities such as sales of merchandise in the gift shops, through which gallery visitors have to pass when exiting the gallery, and food and drink sales in the on-site restaurants and cafés. The income is collected locally by the individual galleries and transferred electronically to Etra Merchants on a weekly basis.
- Sales made through the online shop on the EAG website.
- The premises at each of the three galleries are offered for hire for films, conferences, weddings and other events. Bookings are made directly with Etra Merchants who make all the arrangements and liaise with the customers. Galleries can see the bookings made for their premises in the EAG electronic calendar.

Over the past five years, EAG has been increasingly dependent on Etra Merchants for its financial survival. However, Sam Becker, the Managing Director of Etra Merchants, believes that there is a silo mentality in place at EAG which needs to be addressed, complaining that Etra Merchants is often seen as the trivial business end of a higher artistic calling. Sam is convinced that in practice most visitors to the EAG website come to buy products and only later find their way to the membership pages, but has found it hard to persuade others at EAG who instead see the website as 'the door to the world of art'.

- Admission charges

Entry to EAG's galleries to view the permanent collection is priced deliberately low, with some groups such as over 65s, students and the unemployed given free admission. Higher charges are made for admission to temporary exhibitions, with discounts available for those qualifying for free admission to view the permanent collection. Entry prices are set by individual galleries, but the policy on who is entitled to free admission, and the discounts they will be given on exhibition prices, is set by the EAG Board of Trustees.

- Donations and bequests

This category of income comprises the following:

- Income arising from donations of cash or art works from individual or corporate donors, and through legacies left to the EAG in individual wills. Many such bequests come with strict conditions over how they can be used or where gifted art must be displayed.
- Cash donations on entry – donation boxes are sited at all entry points to the galleries, and this income is kept by the relevant gallery.

- Sponsorship

Many large companies sponsor specific artworks, exhibitions and projects. Some sponsors are closely associated with a particular gallery, while others are aligned with the wider EAG brand. The funds provided by sponsors are, in effect, conditional gifts as the sponsor typically requires that their brand is displayed prominently on all related advertising. In practice, major sponsors have considerable influence over EAG's business decisions relating to work they have sponsored.

Covid-19 pandemic

EAG's commercial income was badly affected by the lockdown instigated by the Rothland government at the start of the Covid-19 pandemic. The fall in visitor numbers, when combined with the high level of fixed costs in EAG's cost structure, had a significant impact on its overall profitability.

In addition to the loss of in-gallery spending, a high volume of memberships were not renewed, the buildings could not be hired out, and without the usual footfall through the galleries to generate interest, online purchases also fell. The RAC did provide a support grant to assist the EAG survive the closure, but EAG's reserves are now severely depleted and management is now focused on improving short-term cash flows.

In the past financial year (to 31 March 2022), there has been a gradual removal of restrictions implemented during the pandemic and visitor numbers are gradually rising. However, some continued restrictions on international travel, and the EAG-wide policy of limiting the number of people in each room to provide some social distancing, means that visitor numbers have not yet returned to pre-pandemic levels.

Business model

EAG has a traditional business model in which works of art held in its permanent collection are displayed in its galleries for viewing by on-site visitors. In addition, each of its galleries holds temporary exhibitions focused on particular artists or themes, which consist of EAG's own works plus works on loans from other institutions and private individuals. Only 15% of the works owned by EAG can be displayed in its galleries at any one time (which is a higher proportion than many other galleries across the world – rates of 2 and 3% are not uncommon). Some of EAG's works are, at any one time, on loan to other galleries, or on tour, but the majority pieces not on display are held securely in storage units.

- On-site visitors

The demographic make-up of EAG's on-site visitors is not officially recorded. However, at a recent meeting of management heads, Jackie Birkin, Head of Audiences, made the following statement:

"With every passing year, the market for art fractures further; from street art exhibitions on sidewalks, to curated exhibitions online, today's art consumer is spoiled for choice. However, we are delighted to note that, whilst we do not officially record the demographic of our visitors, staff have reported a noticeable increase in the number of younger visitors across all our sites in the past year, which bodes well for the future. Furthermore, a significant proportion of our guests have always come from other countries, as evidenced by the number of foreign language leaflets given out at each of our galleries, and, although numbers fell during the pandemic, we are relieved to see signs of an upturn in foreign visitor numbers in recent months. Several visitors have also specifically commented to staff that the online exhibition we ran during the pandemic had inspired them to visit."

- Website

EAG has made limited use of digital technologies. Its website, which is slow and difficult to navigate, is primarily used to promote its exhibitions and membership schemes. Although it is also used to sell EAG merchandise, the system is old and opportunities to collect data from visitors to the site are being missed. As part of its ongoing obligations under the Rothland Data Collection and Protection Regulations, EAG does regularly review and update its data access and management policies, so it has the systems in place to

cope with additional data collection if that is instigated. The Board of Trustees is keen that the project to upgrade the website is restarted as soon as possible.

- Online exhibitions

During the pandemic EAG did begin to experiment with the possibilities offered by digital, and provided an online narrated tour of an exhibition, which, before the pandemic, had been planned to be shown in Etra's main gallery. This online tour could be accessed for a small fee. It was a major challenge to develop and produce the online tour because although many of the EAG staff are highly skilled professional researchers and curators with years of expertise in their area, few of them had worked directly with the public. Most such staff operate behind the scenes, with the in-gallery face-to-face guided tours and workshops being run by trained volunteers.

The online exhibition offered during the pandemic, 'Light and Power', was advertised by email to EAG's existing mailing list, and on the EAG website, and was a critical and popular success, although the EAG's systems were not sophisticated enough to capture and analyse data on the size, location or demographic of the audience reached. Most of the internal costs involved in producing the online tour were pre-existing staff costs. The only significant external cost was the payment to We.B.Art, a digital company that helped to put the tour together and hosted it on its own website via a link on EAG's website.

Lin Allen, EAG's Head of Development, commented in the last quarterly report to the Board that "Whilst we were delighted with the success of our pilot online exhibition which led to some highly positive reports in the media, we are aware that some of our competitors, and in particular the RNG, have embraced digital technology with far greater enthusiasm than we have to date and we know we need to do more. We also need to make intelligent use of social media – an area in which we are currently extremely poor. With the reach of the internet, every single artwork we display is already available online and we will need to ensure that we add value and enhance the consumer experience."

The galleries

There are three galleries which comprise the EAG.

- Etra main gallery

The first of its galleries to be established, and the largest, Etra's main gallery in Utte is located in a building that was purpose-built to house works of art and is considered to be of great architectural merit.

- Etra Enne

Etra Enne was opened in 1989. It is located in a former warehouse in the docklands area of Enne. The conversion of the warehouse building won several design awards and Etra Enne is considered to be a 'must-see' for the typical tourist. It recently had a sell-out exhibition displaying the works of a modern artist who is highly regarded internationally.

The director in charge of the gallery, Jem Alakija, is keen to adopt a more forward-looking approach to exhibitions in future. In a recent report to the Trustees, Jem pointed out that some of the smaller galleries in Enne were curating exciting new events featuring the likes of tattoo art, graffiti art and art of the counterculture, whilst the EAG was still focusing on mainstream art, and was too unwilling to change. Jem is quoted in the report as saying: "We need to better understand the interests and passions of our potential audiences, and be ready to respond with agility and curiosity."

Due to the lower costs in Enne when compared to Utte, Etra Enne is more profitable per square metre than the main Etra gallery, and for several years the Trustees have been considering ways to expand the Enne gallery.

The EAG recently received a bequest consisting of an exceptional private collection of well-known art produced by highly regarded artists. A condition of the bequest is that the art is displayed at the Etra Enne gallery. The Executive Board have agreed with the Trustees that this presents the opportunity for expansion that they had been looking for and they now hope to build a new wing on land adjacent to the current gallery. The architect that designed the original structure has been consulted and has intimated that they would be willing to work on the extension which it is anticipated would take two years to construct.

- Etra Spar

Etra Spar was established in 1983 and has a large collection of indoor and outdoor sculptures as well as traditional paintings. It is located in the popular large seaside town of Spar, which has attracted artists for hundreds of years, owing to the quality of the light in the area. Its current director is Charlie Thomason who has been in the role for the past 15 years.

Spar is located in the Kandin region of Rothland. The region has a high level of unemployment and is heavily reliant on tourism for those jobs that do exist. Kandin Regional Council (KRC) has therefore worked hard over the years to build the tourist economy including the Spar brand, and is now redoubling its efforts to help the tourist industry recover from the impact of the pandemic. During the pandemic, the fall in visitor numbers to the town severely damaged its economy, causing shops and businesses to close, and levels of unemployment and homelessness, already above the national average, have increased further. Despite this, property prices in Spar are high. Land is restricted by the fact that the town is located on a peninsula, and land within the town itself commands a significant premium. Building developments are further hindered by KRC's strict planning restrictions. However, recently, pressure from the Rothland national government to increase local housing stock, combined with the rise in homelessness, has led the council to look more favourably on projects which would increase the level of affordable housing in the area.

The Etra Spar gallery building was originally a power plant located in Spar town centre. A capital grant provided by the RAC financed a significant part of the cost of the conversion of the building. The site is large, but the building has an inefficient layout, is expensive to heat and run, and it is in desperate need of refurbishment. However, attempts to modernise the building have run up against KRC's planning laws, and, after nearly 40 years without substantial investment, parts of the building are in danger of becoming unsafe. To avoid the risk of damage from damp or dust, a large part of the gallery's permanent collection has been transferred to Utte, where it is being stored in atmospherically controlled units.

Etra Spar employs 82 people across the site. A further 20 people working in the on-site café and gift shop are employed directly by Etra Merchants. The café is situated at the entrance to the gallery and has been championed since it opened in 2012 by Sam Becker, Managing Director of Etra Merchants, who grew up in Spar and has a strong affinity with the area and the gallery. It has an excellent reputation for its high-quality food. It is popular with local residents and visitors to Spar, including many with no plans to view the artworks during their visit.

One of the main sponsors of Etra Spar is the national Mojo Bank, which has its headquarters in Spar. The bank sponsors most of the exhibitions curated by Etra Spar, which has allowed it to keep all of its entry prices lower than those at the other two Etra galleries. It also reimburses the gallery for the costs of the publicity and signage for the exhibitions and in return requires that these feature the bank's logo and product advertising, which is also displayed on the back of gallery programmes and on the Etra Spar web pages within EAG's website. The bank has also been involved in sponsoring some of EAG's nationally touring exhibitions.

Etra Spar has a joint admissions arrangement with three other tourist attractions in Kandin: Umbe, a working lighthouse; Nion, a group of show caves; and, Rocco, a sculpture park, each located on the outskirts of Spar. Visitors can purchase a 'See Spar's Splendours' ticket, which offers discounted entry to each of the attractions and money off purchases made on-site (including entry to the exhibitions at Etra Spar). The gallery also has a close relationship with the education department of KRC, and in 2019 the two organisations worked together to develop the 'Art for All' campaign, which encouraged visits to the gallery from local school children and service users at multiple local charities.

However, despite the best efforts of KRC and Etra Spar's own management team, in recent years the popularity of the gallery has been waning. The rundown building and the absence of much of its permanent collection has led to accusations that it is 'tired' and 'uninspiring'. The loss of visitors during the pandemic also hit the gallery hard, and although visitor numbers are gradually increasing, the gallery director is concerned that it will struggle to cover its costs over the next few years.

The candidate

The candidate is Umi Salihu, a recently qualified accountant, who is undertaking a number of job rotations within different business areas at EAG, and who reports to Kit Branton, Finance Manager. Umi is currently working in the strategic projects team (SPT) of the finance department and for this role reports directly to Mina Ramaroson, the Senior Finance Director (Mina reports to Ara Kundnani, the CFO). The next rotation for Umi will be at Etra Merchants, working for Sam Becker.

Although business across Rothland is beginning to return to normal following the pandemic, there is still considerable uncertainty about expected future levels of economic activity over the next few years. The Executive Board at the EAG is therefore keen to develop a flexible strategy that reflects these uncertainties, and has asked the SPT to take a closer look at a range of proposals. Each proposal is to be considered independently.

Digital Development Web

The power of digital

Here, we summarise the ways your organisation can capitalise on the benefits of digital.

1. Making data work

You can get more from your data once you start thinking of it as an asset. Data is being generated everywhere – by internet enabled devices (from smart phones to roadside cameras), on social media, by other businesses and by government organisations – and at an unprecedented rate. The phenomenon is referred to as '**big data**' because traditional systems cannot be used to store and analyse the data. However, using it effectively can transform organisational decision making.

There are four stages in your data journey:

- **Collect** or access the data
- **Analyse** it for insights
- **Use** the insights to improve your performance
- **Share** data with other like-minded businesses to support each other to reach even greater insights.

There are four ways in which you can analyse and use data to improve performance:

- **Descriptive analytics** – This is used to provide you with a clear picture of what has happened in your business in the past; for example, giving a demographic breakdown of your visitors in the period, or identifying which items on your website are most clicked on when visitors browse your online shop.
- **Diagnostic analytics** – This is also known as 'root cause analysis' and it uses the findings of descriptive analysis to explain why things happened, that is, it looks for likely causes. So, if your profits are down in a period, you could look at the relationship between the prices you charged and your visitor numbers, or compare the amount you spent on different types of media advertising in one month, with the profits you earned in the next month.
- **Predictive analytics** – This uses past performance information (from descriptive analytics) and the associated likely causes (from diagnostic analytics) and combines them with statistical modelling to forecast what is likely to happen next. It could be used, for example, to predict your future visitor numbers based on factors such as the season, your advertising expenditure, and the prices you plan to charge.
- **Prescriptive analytics** – this helps you decide what to do next and is the final stage of the analytics process. Having used the analysis of past patterns and their likely causes to predict future outcomes, it can then suggest a course of action. It could, for example, be used to suggest potential purchases to customers on your website, based on what else they have looked at, or to suggest a suitable price to charge for tickets, based on how many you have already sold.

2. Use technology to improve accessibility

Ways to improve access for all include:

- **Descriptioning** – providing a verbal commentary of visuals during televised or live performances, on recordings and at cinema showings. The descriptions can cover all of the different visual elements such as scenes, actions, settings, and costumes.
- **Captioning** – this is the provision of a text version of speech and written descriptions of other sounds. Captions can be used in television and film, and to support online content.

3. Embracing the potential of mobile

Help your customers access you wherever they are, including on the move. Create:

- **Digital programmes** – allow visitors to buy and access your programme on their smart phones; not only is this a greener option as you can save on printed literature, but it allows you to add in links to your website or other services and so increases opportunities for cross-selling.
- **Interactive apps** – These go beyond programmes; they can be used in the same way you have used audio guides for gallery visitors, but offer far greater opportunities for users to engage with the services you offer – to learn more, and curate their own experiences.
- **Increased opportunities for customisation and personalisation** – Both digital programmes and interactive apps allow you to hand more control to your users:
 - **Customisation** means providing users with opportunities to customise your product or experience to meet their personal needs
 - **Personalisation** involves capturing and analysing customer data to make personalised suggestions or offer personalised options.
- **Online ticket purchases** – do not forget to optimise your ticket sales for mobile phone access; for many young people their smart phone is the only way they access the internet – you need to make it easy for them to buy!

4. Develop new business models

The digital world offers brand new opportunities:

- **Digital content** – This is about taking your exhibitions or shows online, or developing new content for video or podcasts. Digital offers new and exciting ways to bring your product to audiences.
- **Dynamic ticket pricing** – Not just for the airline industry, this involves setting prices which respond to market demand using algorithms which build in factors such as sales to date, competitor activity, external market events etc. With dynamic pricing you can encourage sales of slow-moving items whilst maximising your profits when sales are going well.

5. Reach new audiences

- **Social media** – The importance of social media cannot be overstated. In today's world, an active and engaging social media presence is essential for all businesses.