Getting the sums right

Although few publicly supported capital projects for visitors in the UK have come in for as much media criticism as the ill-fated Millennium Dome, many are now struggling to forge a financially sustainable business model. James Alexander, managing director of Locum Destination Consulting, reflects on some of the key pieces of learning from his work with such projects, and outlines a number of ways in which managers and funders of such destinations can pave the path to a safer, steadier future.

A good deal of my time over the past 18 months or so has been spent with organisations battling with profit and loss accounts and financial performance that would make even the thickest skinned observer wince. Popular success has not always been followed by financial success. Indeed, very often there would appear to be an inverse relation.

The dramatic, eye-popping architectural landmarks that have sprung up across the UK over the past two or three years have been welcomed by us all, not just as professionals committed to the destination sector, but as punters eager to find new places to explore with our friends and family. And this is what makes my experience over the last year and a half so painful: to see, close up, the reality behind the gleaming statements of the future that we have laid down so ambitiously. More often than not it would appear that more attention has been paid to the photogenic external features of a project than the quality of the product within and the all-important financial and operational procedures that will ensure success and sustainability.

Some common characteristics…

By and large these projects all share an uncannily similar set of vital statistics. As alluded to above, they have been designed by high profile architects and make significant additions to the glossy pages of their region's marketing literature. However, they have seen an awkward and difficult transition between development phase and operational phase, usually punctuated by a glamorous high cost launch heralded as the dawning of a new age in an area otherwise gasping for economic regeneration and inward investment.

Opening seasons have seen large crowds of people flocking to taste the latest national flavour, and breathing life into the cleverly designed spaces within these dreamy buildings. But even before the end of the honeymoon period, troubles and difficulties begin to emerge. Costs begin to grow at levels unpredicted even by high priced advisers, spend levels fall beneath the break-evens forecast in the business plan, and the media begins to cast doubt on the strength of the product. Oh woe, oh woe.

There is a key point here: the very existence of these landmark attractions is often the result of a 'prospectus'-style business plan, written to secure funding, which then mistakenly is turned around to dictate an operational plan. Visionary development teams have had to believe their own hype to get their project off the ground, but in the difficult transition between development and operational phases the same over-optimistic business planning spells disaster.

These factors combine, with others, to present a large and often inexperienced team with the challenge of not only coming to terms with the operational foibles of their new building but also needing to take emergency measures to counteract a changing income and expenditure picture. More often than not the immediacy of the operation and the demands of the visitor mean that the financial analysis takes time to catch up with the reality. In addition (and you would be staggered to know how often this is the case) a senior director or manager (or both) will decide that the grass is greener on the other side of the fence and that whilst they have enjoyed their time, they are going to move on. Holes open up in the organisation, non-executives step into the breach, reporting lines get blurred, the slippery slope beckons.

Suddenly, what looked like a tight, neat, stable and simple-to-operate visitor attraction begins to creak and groan at the seams. Promotions are begun to try and underscore the visitor throughput, marketing spend rises, average ticket price falls, spend per head diminishes. Yet throughput fails to increase (and even if it did it would not be by enough to offset rising costs). Crisis meetings are called. Funders get the 'willies'. Stakeholders look for the life-buoys. What should have been a virtuous spiral, with income rising far in excess of marginal cost, has been the exact opposite.

… and mistakes

Wandering (or rather sprinting!) as I do from project to project, what is fascinating to see, although of cold comfort to our clients, is the number of parallels from one project to the next. More often than not these common factors are not radical new insights into the workings of an attraction but rather issues that would have been discussed at great length in the planning period.

First and foremost is the continued failure of management teams to properly acknowledge the difference between visits and visitors. In any project the resident catchment and repeat visit market is crucial, yet the behaviour of this market segment is very different from that of others and it is therefore simply not appropriate to assume uniformity of behaviour (such as multiplying headline visits by average spend in the shop for example).

Further, whilst it is wonderful to encourage throughput via an events and activities programme that targets family, group and other visitation, this, in itself, is not enough. It is not visitation, but spend, that keeps the wolf from the door. Secondary spend revenue must be generated constantly and this spend must be at levels that offset all extraordinary costs associated with events programmes and so on.

In addition, there is misleading focus on gross turnover. Attractions seem to fail to understand the true costs associated with activities they programme and as such are unable to target performance margins, let alone monitor and evaluate them. This is a common failing and one that reflects a desire on the part of the senior team to 'buy' throughput in the hope that profitability follows. Unfortunately this is not always the case. In a difficult financial climate there is more to economic success than simply boosting turnover.

A further common difficulty is the desire, in the face of difficult performance statistics thrown up in the monthly management accounting process, to grow the project out of difficulty. Despite the well-worn adage that one has to *speculate to accumulate*, publicly supported attractions need to pay far more attention to the measurement of risk, a factor that is overlooked more often than not.

But by far the biggest cause of pain and anxiety in most large projects is the visitors' persistent determination not to do what the business plan said they should: they either stay too long or not long enough, invariably don't spend as much, or come back as often, and most annoyingly seem to be interested in other ways of spending their leisure time on elements that lie outside the project. The visitor is an increasingly fickle and sophisticated beast, and unless we keep them well entertained on a varied diet they will have a tendency to drift away. And behind this somewhat flippant comment lies a vital factor: the majority of the large projects have a tiny proportion of staff costs (usually the largest single budget number) variablised, so when throughput drops operating costs tend to stay the same. This is the harbinger of doom.

So what can be done?

Whilst there are a huge number of remedial and defensive steps that can be taken by a management team, none of them offers an overnight cure to the problem of *income failing to meet overheads*. Getting to a point of stabilised break-even (or loss) takes time and attention. This is management by stealth and demands strong, committed leadership with a medium- to long-term horizon. These challenges are not for the faint-hearted, quick-fix merchant.

Notwithstanding the difficult reality associated with the simple observation above, there is a series of steps that can be combined to make an immediate difference and at least move the attraction in the right direction. Some of these are highlighted below.

Restructure accounts

Almost without exception all the projects we have been asked to help with have required, as a first and key step, a wholesale reorganisation of the management accounts that, in turn, allows a departmental or business unit analysis to be undertaken. It would appear that accounts ordered in a gross income/gross costs manner, allowing absolutely minimal insight into the performance of the component elements of the business, are endemic in the sector.

This is a central failing and one that can be rectified relatively easily with a little bit of time and thought. For example, an in-house catering and corporate hospitality business can be expected, in terms of a best practice benchmark, to generate a bottom-line contribution equivalent to 30 per cent of its turnover (and we are aware of cases where this percentage is considerably higher). Understanding the business, and its strengths and weaknesses, begins by measuring performance against such industry norms. Once this is done, adjustments can be made to reflect the specifics of an operation. But cheating the statistics is, like cheating in golf, only cheating oneself

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Quality data

Whilst it is difficult to believe, given the sophistication of the software now available, that any senior management team should be without key data relating to the central areas of an attraction business, we are consistently surprised by the lack of material that senior teams have at their fingertips. Whilst I can just about understand why a free attraction doesn't want to actually ticket admissions, there is no excuse for not gathering admissions data.

Unless a CEO knows who is visiting, what they are doing, how long they are staying and what they are spending, the chances of understanding the more complicated issues inherent within the business are virtually nil.

We often work with our clients on systems to generate 'key performance indicators', which are meaningful not only to financial professionals but to staff (at all levels) and stakeholders. For example, 'average achieved ticket income' can be set against 'visitor relations staff cost per admission' to see whether the attraction is actually spending more to entertain and inform each visitor than they are earning in return, and by how much.

Furthermore, the marketing department needs to put in place an ongoing programme of market research and exit surveys to ensure that performance data is available and can, in turn, be interpreted within the wider, more human context. Once again, the number of organisations that possess such data is limited. And to add insult to injury, this is a popular area for budget cuts, despite the fact that this information will pay dividends in the long term.

Benchmarks and margins

Once the accounts have been reorganised, business units can be measured for performance against industry norms. These norms can be adjusted to take account of the specific circumstances of a project, such as difficult architecture and internal layout or a particular relationship with a common supplier. But critically, these margins then become the lifeblood of the accounts. In an instant, weekly or monthly measures against forecast will tell the CEO whether they are performing as an organisation or not.

When combined with a set of benchmarks relating to headline throughput, spend per head in retail and in catering for example, the senior management team has all it needs by way of top-line data to fully understand the performance of the business.

These indicators can be fully automated and delivered by the finance director (or a supporting book-keeper if necessary) at the press of a button. There should be no excuse for their absence.

Change the culture

More often than not, management accounts, numbers and statistics are seen as a difficult and awkward burden to those staff responsible for the day-to-day operation of an attraction. Nothing could be further from the truth. At every layer there must a full and complete understanding of the implications of every decision taken, and this needs clear communication throughout the organisation.

It is likely that, in the vast majority of cases, this demands a change of culture and the move away from the 'managers manage' mentality, to one that allows the breadth and depth of a team to share in the responsibility of delivering financial success. Needless to say, this is driven from the CEO's office, but the careful and considered circulation of the weekly/monthly key performance indicators should engender a sense of involvement and ownership within even the largest of teams.

Manage the marketing

After staff, the marketing budget is probably the single biggest line item in any landmark attraction's income and expenditure account. However, it does not receive management attention commensurate with its importance. We regularly see, for example, extraneous small ticket items such as staff entertaining, managed with more care.

Marketing can make a huge difference in terms of headline performance and visitor throughput, but there is no direct correlation between good and bad impacts, and large and small budgets. Indeed, our experience would suggest that there is an inverse relationship between the size of the marketing budget and the attention that is given to its management, consideration and expenditure.

Once committed, marketing initiatives need to be monitored and evaluated to allow better and more effective spending in the future. Nine times out of ten, of course, the clarion call from the marketing department is 'we ran out of budget to do our evaluation and monitoring'. This simply isn't acceptable.

Variabilise costs

A striking characteristic of the organisations with whom we have worked has been the imbalance between the level of fixed and variable overhead, particularly in terms of staff. Given the cyclical and seasonal nature of the attractions business, the ability of managers to manage costs down in the shoulder and low months is paramount. This, of course, is only possible where there is a significant level of staff cost, which is variable in nature.

It is rare that this exists at the levels it should. If it doesn't, it needs to be created and, unfortunately, there is no painless way to do this. Once in place, however, it offers a wealth of other benefits including flexible working hours and the ability to cross-over roles and functions.

Reduce risk and manage expectation

Risk and risk management are not attributes high enough on the list of attraction managers. Yet in today's climate it is not enough simply to focus on the reduction of deficits. There is also a very particular need to identify, and where possible minimise, risk. All too often, we see a drive to heighten income and drive down cost that gives no credence to the risk associated with a particular initiative of line item.

Our experience would suggest that organisations tasked with providing revenue (subsidy) support for these projects (national agencies, DCMS, et al) are as interested in understanding the risk associated with a bottom-line figure as the figure itself. That is to say, they are often willing to commit revenue support of £X but crucially need to know the chances that the deficit will become £2X, so that they can budget accordingly. Any fool can boost income projections on the back of spurious logic (isn't this what got us into the problem in the first place?). Budgeting to embrace risk is more difficult.

Our experience is that the funding agencies are fed up with hype and would rather hear it 'warts and all'. This offers a terrific opportunity to manage the process from a realistic starting point. It has the particular effect of setting up a series of good PR moments rather than defensive ones, i.e. publicly aiming low (or least medium) and reporting every time targets are surpassed. Imagine if the government had said that the Dome was targeted to get five million visits rather than 12 million – the six million it actually got would have been a glorious success. (Well, almost!)

Governance

Whilst much of the focus in times of trouble is on the team tasked with operations, it would be folly to dismiss the role of Trust and operation boards within the mix. In many cases, at a time when an attraction needs stability and strong leadership, boards become riven with discontent, distrust and in-fighting. Very often this is caused by funding or 'parent' authorities reacting to the financial uncertainty by 'loading' the boards. This has the effect of alienating the longer-term membership and changing the focus from the medium- to long-term strategic perspective to the immediate short term. This helps no one, least of all the executives, who now have increasingly anxious non-executives to deal with on an increasingly frequent basis.

Be they at Trust or operational level, boards are there to give leadership and counsel in exactly these moments. Being a trustee in the good times is all about champagne and canapés whilst it is in the heart of a crisis that the non-executives will earn their keep. As well chosen professionals in the sector (we hope) they have an ability (and duty) to keep calm. They should be afforded all the necessary material on which to make the necessary judgements and given the time to advise and coach as required. Drowning out the voice of reason at this point can be more costly than at any other time.

Keep lines of communication open

Finally, we find it universally necessary to urge organisations to keep an open line of communication with their key stakeholders. There should be a climate of honesty and integrity upon which can be founded a culture of support and common purpose. This is a big step from the situation we see now, characterised as it is by finger pointing and blame association (a common feature in situations deemed to be failing). But it is an important step towards success and one that implies the 'buy-in' of all parties. Whilst we all understand that success has a thousand parents, we equally understand that a problem shared is a problem halved.

The prognosis for the future

I am convinced that over the coming months landmark projects will continue to have their teething problems and whilst I hope that there are no further large profile failures, I do worry that we are, collectively, slow to learn.

The experience of the last years has illustrated that there is a dearth of high quality attraction managers in the market. Managers who can combine a genuine love and enthusiasm for their subject, and for the sector, with the financial and operational acumen to get the job done. Whilst I believe that there is an onus on our universities to respond to this need (a specialist MBA programme, for example), even if they do so now it will be a number of years before these individuals reach the market place. What happens in the interim must be a matter of concern.

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The £15 million National Centre for Pop Music, Sheffield, which is to become the students union of Sheffield Hallam University since closing as a visitor attraction in November 1999, just nine months after opening

In the meantime, therefore, we should make better use of those people in the sector whether they are working with a specific project, or plying their trade, like we at Locum are, as consultants. This demands a greater level of openness to sharing information and learning from perceived competitors, and will only come when there is recognition UK wide that the same challenges affect us all. At present there is a huge unwillingness on the part of managers to share financial data, driven by a fear of being judged as having failed. Yet the failure is collective. It rests with us all: operators, architects, consultants, the Lottery organisations and third party funders, all of whom were negligent in the level of thought and diligent planning in support of hundreds of millions of pounds of investment. We must push out the blame culture that is inhibiting us and move on as an industry.

In terms of operational culture, organisations need help moving forward, and this often means letting go of the process and the cultural traits inherent in the places from which they have emerged. What do I mean by this? Well, what I see and experience in many of these troubled projects are clashes between commercial, academic and public sector ethos and mentality. This can create huge divisions and operational challenges, none of which serves either the organisation or the individual well. If these barriers can be broken down and the best elements from each background protected and used, then the future could be genuinely founded on a stronger base.

Notwithstanding any of the above, change takes time and one fear must be that time is not a commodity that these projects, or their funders, have in limitless supply. Given that this is the case, the immediate challenge is to demonstrate that each and every one of these organisations, despite the financial and operational stress they are facing, is moving to a position in which it will be genuinely 'fit for purpose'. With a demonstrable strategy and plan, and continued popular success, not even the most jaundiced of funders can turn their back on what has undoubtedly been, from a sectoral perspective, a golden age of capital investment. To throw in the towel now would heap insult upon injury. Looking forward there is certainly light at the end of the tunnel (and I don't believe it is the train coming the other way!). We are learning, both as a sector and as individuals, and a decade from now we'll be ready for another tidal wave of capital funding. Let's start saving now.

FOOTNOTE: Locum is to run a workshop for operators at which the key messages explained in this article (amongst others) will be explored. Based on fictional case studies, a team of Locum specialists will share their learning. If you or your organisation are interested in attending, please contact the Events Department, Locum Destination Consulting, Rockwood House, 9-17 Perrymount Road, Haywards Heath, West Sussex RH16 3TW. Tel: 01444 459449.