



THE BUSINESS OF ART:

a review of Seedco Financial's
ArtBusiness initiative

Cornerstone
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Seedco Financial
Innovations in Community Lending

The Business of Art:
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By: Cornerstone Consulting Group
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Executive Summary

In 2001, following the September 11 terrorist attacks, Seedco launched the Lower Manhattan Small Business and Workforce Retention Program, which provided emergency financial and technical assistance to small retail and manufacturing businesses and their low wage workers. Seedco's approach was to offer financial products such as loans to threatened small businesses, coupled with technical assistance in marketing, financial management and other important business practices.

From the beginning, Seedco Financial noted that a large number of the involved Lower Manhattan businesses were focused on the arts, ranging from individual self-employed artists to performance companies, galleries and others. Recognizing the importance of the arts to the fabric of the Lower Manhattan community and economy, Seedco Financial sought to focus on the special needs and challenges associated with art businesses. In 2005, with support from American Express, Seedco Financial launched the *ArtBusiness* Initiative, an effort targeted to small and medium sized businesses and nonprofits engaged in performing, visual and other art forms.

Many small to medium sized arts businesses and organizations struggle to just make ends meet. Even before 9/11, it was a constant battle for many art businesses and organizations simply to stay above water, much less expand and prosper. While there are "starving artists" in any economy, however, the impact of 9/11 on the New York City art business community exacerbated these longstanding difficulties and was nearly catastrophic.

Beginning in Lower Manhattan, the *ArtBusiness* Initiative broadened its scope in 2007 and now provides loans and services to small and mid-size art businesses throughout New York City and in New Orleans. To date, 35 below market rate loans have been made in New York, totaling nearly \$6.4 million. An additional \$350,000 in loans has been made as part of the recent expansion to New Orleans. Loan funds have supported start-ups and expansions, construction and renovation of facilities, purchase of new equipment, and debt consolidation.

The *ArtBusiness* Initiative has also provided training and/or technical assistance to nearly 600 arts organizations in New York and New Orleans, consisting of seminars and one-on-one consulting. *ArtBusiness* workshops address a range of topics, including Strategic Marketing, Business Planning, Financial Management, Capital Projects and Access to Alternative Financing. In interviews, borrowers noted that the loan application process itself was an educational experience in which they learned more about their business as a business and learned how to articulate the business' needs and prospects.

To be successful, the *ArtBusiness* Initiative must make loans to carefully screened organizations that are able to make repayment. Thus far, Seedco Financial has been extremely successful in this regard, with only one default having occurred. The Seedco Financial staff believes that the combination of providing technical assistance and loans contributes to the high repayment rates.

Borrowers reported that loans and support services from the *ArtBusiness* Initiative have made a big difference in the trajectory of their businesses. Typically, they had been unable to borrow funds through banks or other commercial lenders due to limited credit histories and, without Seedco Financial's assistance, would have missed an opportunity to grow, to secure a new location or to stabilize their finances.

ArtBusiness owners and managers are frequently aware of their shortcomings regarding business practices and finances and found the Seedco Financial staff to be patient and approachable, in sharp contrast to the more formal and depersonalized culture of even neighborhood banks. While borrowers were effusive in their praise of the *ArtBusiness* Initiative, several of the borrowers we interviewed expressed frustration over the length of time it took to get formal loan approval. To some, the process seemed ad hoc and repetitious.

Six recommendations are made looking towards the future of the *ArtBusiness* Initiative:

Recommendation 1: Continue the practice of being visible to and seen as approachable by the arts community. Relationship building is especially important in working with art businesses, given the unfamiliarity and discomfort of many with business and financial matters.

Recommendation 2: Improve communications about the loan process' requirements and likely duration.

Recommendation 3: Maintain a balance between advocacy and analysis when considering loans.

Recommendation 4: Continue to specialize, i.e. to target art businesses as a sector, given the special needs and unique character of these businesses.

Recommendation 5: Consider the impact of program growth and expansion on the character of the program, particularly how to maintain the "personal touch" so consistently noted by interviewees.

Recommendation 6: Expand *ArtBusiness* to other communities, but only when conditions are right.

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Background

The 9/11 terrorist attacks destroyed the World Trade Center and devastated businesses throughout Lower Manhattan. In the 45 days following 9/11, \$795MM in sales were lost at the 3400 businesses made inaccessible by the rubble and destruction¹. The New York City Comptroller assessed the total economic damage in Lower Manhattan at nearly \$31 billion and private sector employment in the area fell by 17%².

As described in detail elsewhere,³ Seedco launched the Lower Manhattan Small Business and Workforce Retention Program, which offered emergency financial and technical assistance to small retail and manufacturing businesses and their low wage workers. Seedco's approach was to offer financial products such as loans to threatened small businesses, coupled with technical assistance in marketing, financial management and other important business practices. This unique methodology, although labor intensive, was seen as necessary to ensure that small business owners had the skills necessary to succeed.

Reflecting on the experience, William Grinker, President of Seedco Financial Services, said: "I believe that our model of service delivery—offering linked financial and technical assistance services—has proved key to promoting the stability of our Lower Manhattan business clients and, in turn, that of the Lower Manhattan economy."

Seedco Financial Services, Inc. (Seedco Financial) is a national, nonprofit community development financial institution (CDFI) with \$200MM in assets under management. Its mission is to provide technical assistance (TA) and affordable financing for economic development in low-income, economically distressed communities. Seedco Financial pursues this mission by identifying key community development challenges, partnering with local public agencies and nonprofit organizations, and mobilizing these partnerships, resources, and technical expertise to effectively address challenges.

From the beginning, Seedco Financial noted that a large number of the involved businesses were focused on the arts, ranging from individual self-employed artists to performance companies, galleries and others. Recognizing the importance of the arts to the fabric of the Lower Manhattan community and economy, Seedco sought to focus on the special needs and challenges associated with art businesses. In 2005, building on an earlier experience with the New York Foundation for the Arts and with support from American Express, Seedco Financial launched the *ArtBusiness* Initiative, an effort targeted to small business and nonprofits engaged in performing, visual and other art forms.

Through the *ArtBusiness* Initiative, Seedco Financial is working to fill an important gap. It is not focused on the big art institutions—not the Metropolitan Opera or Museum of Modern Art or Broadway theaters—but rather on the small art businesses that are in many instances less financially sophisticated, less well known, less well connected and that otherwise might

¹ A Support Strategy for Small Businesses, Seedco, June 2004

² A Pre- and Post-9/11 Look at Lower Manhattan, Salvo et al for the March 2007 Population Association meeting in New York.

³ Several reports are relevant including Back In Business: The Lower Manhattan Small Business and Workforce Retention Project and A Support Strategy for Small Businesses, and others.

be left out. These smaller businesses and organizations make up the backbone of the larger arts community and often serve as the pipeline for the spotlighted artists of tomorrow.

Currently in its third year of implementation, the *ArtBusiness* Initiative has addressed significant gaps in capacity for arts organizations in New York City by providing small grants and making below market rate loans to small businesses and nonprofit organizations. Financial support is coupled with comprehensive training and technical assistance services. The technical assistance provided focuses particularly on (1) formalizing and strengthening business practices and (2) planning and implementation of expansion projects.

Although beginning in Lower Manhattan, the *ArtBusiness* Initiative broadened its scope in 2007 and now provides loans and services to small and mid-size art businesses throughout New York City and in New Orleans. Seedco Financial believes that assisting art businesses can be critical to the overall vitality of their communities. Art is an important part of the fabric of Lower Manhattan and this is true of other neighborhoods and communities as well. Art businesses not only have a cultural and community impact, but also have a considerable and multiplying commercial value —successful theaters help to support nearby restaurants, parking lots and stores, which in turn offer employment to neighborhood residents and others.

Although the *ArtBusiness* Initiative is still very young, Seedco Financial felt it wise to take a hard look at the initiative's early accomplishments and the challenges ahead. This report, by the Cornerstone Consulting Group, was commissioned to assess *ArtBusiness*' progress, identify obstacles to further success and make recommendations for the future.

Art and the City

Art is big business in New York City.

Perhaps more than any other city in the United States, New York City's financial health and identity are tied up in its cultural activities. New York is home to massive broadcast companies, to the Broadway and off-Broadway theater, to world renowned museums and symphonies, to television networks and music companies.

Beyond the big name institutions—those known far and wide and patronized and supported by wealthy individuals and philanthropies—there is a larger, more challenged arts community. One study of the NYC arts world described it as follows:

Most people associate the arts in New York with the for-profit ventures—Broadway and the art galleries of SoHo and Chelsea—but they're only a piece. In fact, arts and culture production in the city is dominated by nonprofit organizations. There are over 2,000 art nonprofits in the five boroughs ranging from the Metropolitan Museum of Art, with a budget of \$130MM, to the 128 theater companies with budgets below \$100,000 a year. Most of these organizations have a diverse revenue base that is split between earned income (ticket sales, sales of gift items, renting performance and rehearsal spaces to other artists), contributed income (foundation and corporate support, fundraisers, individual giving), and government funds (the lion's share from New York City).⁴

Another study looked also at the sheer economic size of the arts industry in New York:

The city's "creative core" consists of 11,671 businesses and nonprofits (5.7 percent of all employers in the five boroughs) and provides employment to 309,142 people (8.1 percent of all city workers). In recent years, creative industries have added jobs at a considerably faster rate than the overall city economy: between 1998 and 2002, employment in New York's creative core grew by 13.1 percent (adding 32,000 jobs) while the city's overall job totals increased by 6.5 percent during this period.

Among the city's nearly unparalleled concentration of creative core enterprises, New York has more than 2,000 arts and cultural nonprofits and over 500 art galleries, roughly 2,300 design services businesses, more than 1,100 advertising-related firms, nearly 700 book and magazine publishers and 145 film production studios and stages.

No other place in the U.S. even comes close to matching the city's creative assets. In fact, 8.3 percent of all creative sector workers in the U.S. are based in New York. The city is home to over a third of all the country's actors and roughly 27 percent of the nation's fashion designers, 12 percent of film editors, 10 percent of set designers, 9 percent of graphic designers, 8 percent of architects and 7 percent of fine artists.

The entities that comprise the creative core range from mega-corporations such as Time Warner and vaunted institutions like the Metropolitan Museum of Art to small organizations and individual entrepreneurs throughout the five boroughs.⁵

⁴ Going on with the Show: Arts & Culture in New York City After Sept. 11
By Neil Scott Kleiman and Suri Duitch, Center for an Urban Future, November 19, 2001

⁵ CREATIVE NEW YORK December, 2005 Center for An Urban Future, p.3

Many small to medium sized arts businesses and organizations perpetually struggle to just make ends meet. While there are “starving artists” in any economy, the impact of 9/11 on the New York City art business community was nearly catastrophic:

Each and every one of the arts and culture organizations we examined for this study has lost funding since 9/11, no matter how diverse its revenue base. Worse, each expects to lose a lot more over the next year. In surveying well over 100 nonprofit arts groups of every size all throughout the city, the Center found that every single one experienced a major whack to at least one of its primary funding streams, and that most are expecting significant funding shortfalls in all three categories. Overall, we found out that the majority of these organizations will experience an average of a 15 percent reduction in income this year.⁶

Financial constraints on arts organizations did not start with 9/11 and its aftermath. Shifts in government and private funding, in and out of arts in general and from organization to organization over time, create a constant struggle for many art businesses and organizations to simply stay above water, much less expand and prosper. New York’s Mayor noted the importance of arts in the city and of the financial plight of those in the art business:

The creative sector gives our city its strategic advantage and competitive edge in succeeding in a global economy. The rich and creative environment here not only attracts businesses and people from around the world, it also influences every single thing that we do. It enhances the quality of life of New York a hundred times a day, it creates jobs, it attracts students, it retains businesses, and it transforms neighborhoods. And you can see all of that being played out on the streets of New York, particularly over the last half a dozen years. The influence of the arts on our city is extraordinary.

The arts sector has witnessed severe blows to all three of its core funding streams—earned income from ticket sales and other sources, contributed income from wealthy individuals and foundations, and government funding. Those organizations reeling from deep setbacks in all three of these areas have virtually no recourse: Unlike businesses that can rely upon insurance, seek government bailouts or turn to new markets when they hit hard times, most arts organizations simply have no safety net.⁷

This seeming contradiction—on the one hand the irreplaceable importance of art to New York City’s economy and quality of life and on the other a hand-to-mouth existence in which many arts businesses fail—characterizes the difficult world in which art businesses find themselves.

To further complicate matters, small art businesses and nonprofits are frequently headed by individuals who, by their self-description, lack familiarity and sophistication in business and financial matters. Far from seeing themselves as business people or entrepreneurs, they often

⁶ Going on with the Show: Arts & Culture in New York City After Sept. 11
By Neil Scott Kleiman and Suri Duitch, Center for an Urban Future, November 19, 2001

⁷ Mayor Michael Bloomberg, remarks at Creative New York Conference
April 4, 2006 Sponsored by the Center for an Urban Future, The City of New York, The Rockefeller Foundation and the Partnership for New York City

shy away from the business side: “part of the problem is that many creative workers are uncomfortable with or resistant to even thinking or talking about their work as a business.”⁸

The *ArtBusiness* Initiative works to address the financial side of the art business world by providing loans, technical assistance and an opportunity for artists to get more comfortable with financial matters and increase their business capacities.

Case Study: The Manhattan Children’s Theater

The six year old Manhattan Children’s Theater is committed to providing affordable, high quality theater for younger audiences. MCT’s stage productions, from *Goodnight Moon* to *Treasure Island*, use professional adult actors and designers for each show. It employs approximately 15-20 artists per production from actors to set designers to illustrators and graphic designers. MTC also works closely with local schools and youth groups and offers acting classes for children ages 3-12.

After producing its first three seasons in a fourth-floor walk-up loft space, a loan from Seedco Financial helped Manhattan Children’s Theatre take a major step by building a 74 seat theater (with a potential to go up to 99 seats) on the first floor at 52 White Street in New York’s Tribeca neighborhood. This space not only accommodates larger audiences, but is also large enough to have a separate building shop, providing the opportunity to produce an extra 4 weekends per year and providing additional revenue.

A Seedco Financial presentation originally captured the imagination of MCT’s co-founder and introduced a new concept—loans for nonprofits! MCT had good credit and a steady cash flow, but could not finance a major expansion going forward. Seedco Financial’s approach was “a revelation.” MCT went through a rigorous application process which sharpened its skills in projecting income, making presentations and focusing on “the financial aspects of running a business.”

The Seedco Financial loan enabled MCT’s expansion and had the further benefit of increasing the organization’s credibility with funders. “Our credibility immediately shot up,” said co-founder Laura Stevens. “Suddenly we were seen as more grant-worthy.”

⁸ CREATIVE NEW YORK December, 2005 Center for An Urban Future, p.22

The *Art*/Business Initiative

“Artists may live for applause, but they can’t live on it.”⁹

History

Begun as an initiative in 2005, Seedco Financial’s *Art*Business Initiative has come a long way in a short time. Continuing the practice of offering linked financial and technical assistance services, the initiative has made loans to over thirty five small to medium size art businesses and nonprofits and has provided training and technical assistance to hundreds more. More than \$6,000,000 in loans has been made to date.

With support from American Express, the *Art*Business Initiative was launched with the conference “Money, Management, Marketing: Building Entrepreneurship in Downtown’s Creative Community” and with the introduction of the first *Art*Business workshops on loan readiness and access to financing.

In 2006 *Art*Business training continued with the American Express *Art*Business Marketing and Debt Financing Workshop Series in Lower Manhattan. One-to-one consulting was provided to arts businesses and nonprofits in financial management, new development, and marketing, while eighteen loans were closed totaling nearly \$1.7 million.

In 2007 *Art*Business lending reached nearly four million dollars, while small planning grants reached \$130,000 and training and technical assistance reached over 400 businesses and organizations. The initiative expanded its scope to include all of New York City and, with initial support from AIG, the *Art*Business Initiative was recently launched in New Orleans.

Case Study: The Irondale Ensemble Project

The Irondale Ensemble Project was founded in 1983. “It exists to challenge traditional assumptions about theater—who makes it, how it gets made and how it can be used, all within the context of a permanent ensemble— artists working together, on a daily basis, over an extended period of time.” The majority of the company's work is either the presentation of established texts in unorthodox and often irreverent productions and the creation of new theater works, usually by combining original material with a classic and blending multiple styles of performance, music, dance, design and text.

Irondale has produced 40 major Off-Broadway shows including 11 original works created collaboratively by the company. Since its inception, Irondale has also conducted extensive programs of educational and social outreach work, including workshops in New York City High Schools and the city jail.

Like many arts organizations, the Irondale Ensemble is supported by public and private grants, donations, fees and ticket sales. Irondale sought to establish a permanent home in a

⁹ Going on with the Show: Arts & Culture in New York City After Sept. 11
By Neil Scott Kleiman and Suri Duitch, Center for an Urban Future, November 19, 2001

new, exciting multi-use performance space—*The Irondale Center for Theater, Education, and Outreach*. A neglected, long-vacant former Sunday school space in the historic Lafayette Avenue Presbyterian Church in Fort Greene, Brooklyn, was identified and the ensemble company saw its future—a vibrant, 7,300-square-foot center for creating and presenting inventive theater, as well as for using theater to educate children.

A loan from Seedco Financial allowed construction to begin as the capital campaign continued to work towards its goal. Having construction underway, giving prospective donors something to see first-hand, has given a boost to fundraising. Before the construction began it was difficult to effectively describe how the space would be utilized and look. Now, as things take shape and renovations proceed, Irondale notes that it “makes the project no longer theoretical” to donors.

The rapid and continuing growth of the *ArtBusiness* Initiative speaks to both the depth of need in the arts community and Seedco Financial’s skills in addressing those needs. The table below summarizes loans to date:

Year	# Closings	Amount of loans	Average loan amount
2006	18	\$1,671,227	92,846
2007	11	\$1,052,683	100,479
2008 (thus far)	6	\$3, 660,510	610,085
Total	35 ¹⁰	\$6,384,060	\$182,402

(Please note: a \$2,000,000 loan to the Museum of Chinese in the Americas and \$1,265,000 to the Irondale Ensemble skews the picture. Without MoCA and Irondale, the average loan for all three years continues to be around \$100,000.)

Loans without MoCA and Irondale:

Year	# Closings	Amount	Average loan amount
2006	18	1,671,227	92,846
2007	11	1,052,683	95,698
2008 (thus far)	4	395,510	98,878
Total	33	\$3,119,420	\$94,528

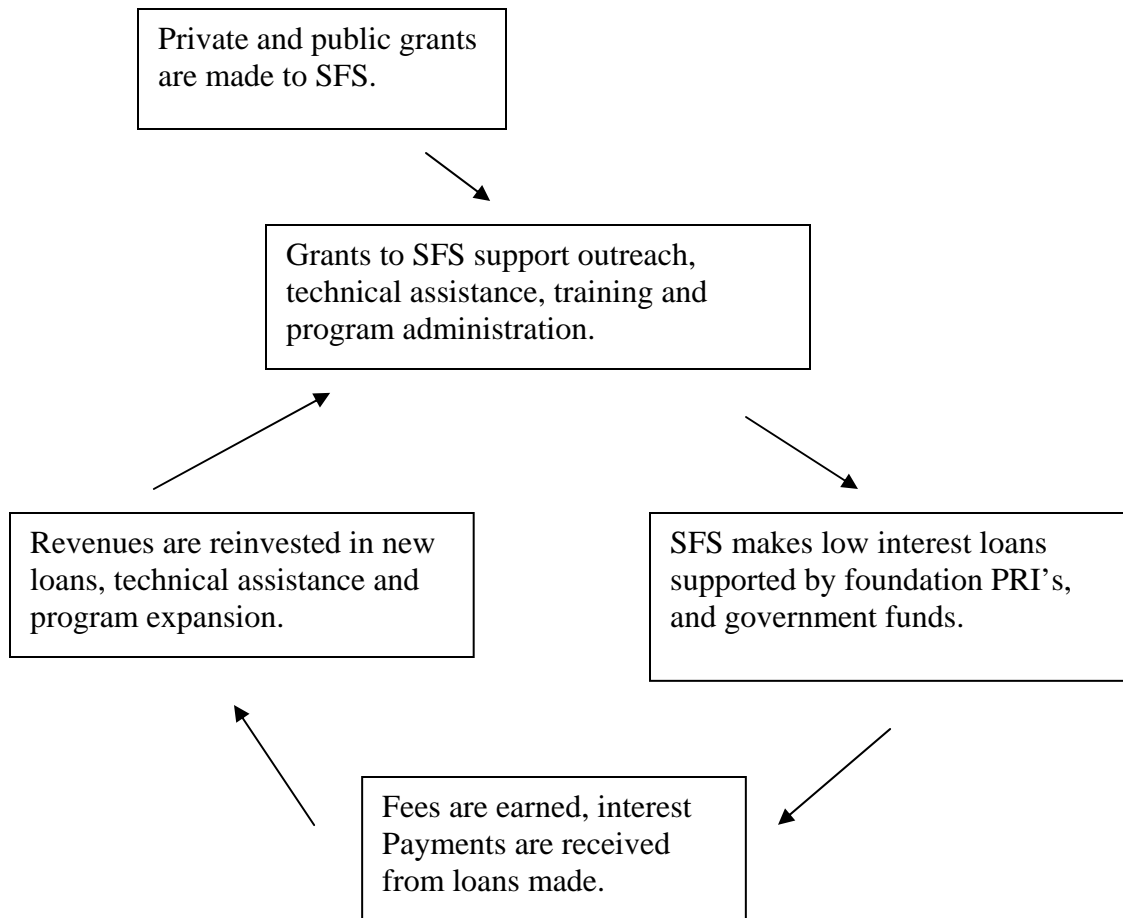
The *ArtBusiness* Initiative’s business model hinges on the receipt by Seedco Financial of grants and loans from private philanthropy and corporate donors, as well as public funds from government agencies.

In the *ArtBusiness* model, grants help to support the program’s outreach efforts, technical assistance, training and program administration. The *ArtBusiness* Initiative has been fortunate to receive support from such funders as the Carnegie Corporation and from the

¹⁰ Includes MoCA and Irondale in 2008. Irondale just closed, MoCA expected to close end of June.

Empire State Development Corporation (ESDC) targeted to minorities and women in the arts. ESDC recycled loan funds are a critical part of Seedco Financial's lending, as are private sector investments from Bank of Tokyo, Mizuho Bank, Bank of America, Wachovia Bank, North Fork and Bank Hapoalim, Bank Leumi and City National Bank of New Jersey.

In this model, loans made generate application and closing fees and interest payments, which are in turn reinvested in further services and loans.



The above model leverages funds received from Seedco Financial's donors and can continue and expand as long as the program makes sound loans. Thorough review of loan requests and careful analysis of the ability to repay is therefore vital and, thus far, the initiative has done extremely well in this regard. It has experienced a very low rate of defaults, with only one borrower failing. This is particularly impressive, given the state of the economy and the precariousness of arts ventures in any economy. In one study the average failure rate for

nonprofit arts organizations was found to be over 20 percent, significantly higher than the average failure rate for all nonprofit organizations of 2.3 percent.¹¹

Case Study: Dancing in the Streets

Conceived in 1983 at a kitchen table, Dancing in the Streets has a long and proud history as a vibrant member of the New York City arts community. Dancing in the Streets produces groundbreaking public performances and events that “explore the kinetic life and history of natural and architectural public spaces.” Performances seek to integrate the space into the dance and utilize themes that “express an aspect of the city.”

A current example was HIP HOP GENERATION NEXT, the June 14, 2008 free party in the Red Hook section of Brooklyn that “celebrates the community roots of hip hop as a creative and constructive catalyst for joyous artistic expression. It includes dance performances tracing hip hop's evolution from its African roots to newly emerging forms are the highlight of the six-hour event.”

The event was developed by Dancing in the Streets and is produced in collaboration with a number of organizations focused on the City's parks, the Red Hook neighborhood and the Urban Assembly High School of Music and Art.

While Dancing in the Street's mission is clear, until recently the organization lacked a financial plan. Like many nonprofits, it received support from multiple funders, including some that over time moved on to other interests. Cash flow difficulties produced a deficit and deferred payments led to high interest rates. While Dancing in the Streets sought over the long term to cultivate and engage individual donors, it needed to address shorter term, more immediate financial challenges.

Seedco Financial provided a loan which restructured and consolidated their debt, resulting in manageable payments and lowered interest rates. Getting the loan was not easy—Seedco Financial's scrutiny forced Dancing in the Streets to “make their financial case.” Today the loan application process is credited with strengthening the organization by requiring tough decisions, setting limits and establishing financial goals and targets.

Seedco Financial staff ascribes the high rate of successful loans to the design of the initiative itself. Several factors seem important:

- The high degree of interaction between Seedco Financial staff and prospective borrowers, through workshops, technical assistance and the rigorous application process, gives Seedco Financial a better than usual understanding of the particular business, its circumstances and its ability to manage the loan in question.
- Seedco Financial culls out and does not proceed with loans that fail to reach its standards. In addition, the extensive loan application process causes some prospective borrowers to reassess their position and take another hopefully more

¹¹ Hager, Mark (2001). “Financial Vulnerability among Arts Organizations: A Test of the Tuckman-Change Measures”, *Nonprofit and Voluntary Sector Quarterly*. 2001:30, 376.

appropriate route. Since the beginning of the initiative, 22 deals reached the application stage but were not completed. These potential loans totaled nearly \$5MM. In many more instances inquiries were made and a formal application was not pursued.

- The technical assistance provided makes borrowers stronger business planners and managers, thus more likely to make a go of it. Seedco staff believes that the provision of technical assistance to borrowers improves the likelihood of repayment.
- Over time, the Seedco Financial staff has gained a specialized understanding of art businesses and of the communities where applicants are located.

These factors, taken together, enable Seedco Financial to make unusually sound judgments about the prospects of loan applicants—they know the applicants, and the business they are in, quite well. The application process, which borrowers describe as both extensive and educational, looks at a number of critical aspects of the business:

1. The organization or business' historical financials, including grants and contributions, revenues earned, revenue trends, what sector it is in, the funding landscape, evidence of the organization's ability to adapt to changing conditions, and other factors. The analysis looks at where the business is today, where it is heading and its prospects for the future.
2. Prospects for the future in terms of the potential for increasing revenues or decreasing expenditures or both, is critical. Applicants must be able to articulate a convincing strategy going forward and have a business plan that is doable.
3. The quality of management, whether it is stable and experienced, and knows how, *as a business*, the organization works. Management must have a solid understanding of the business model, of what drivers move it towards or away from defined success.
4. If the organization is a nonprofit, the board of directors is critical—what role does it play, is it active, does it understand the financial aspects of the arts business?
5. Other factors can be important as well—whether and how much existing debt, the nature of the cash flow, whether management understands their revenue timing and operating costs.

Case Study: Inner Splendor Media

Inner Splendor Media, located in the Inwood section of Manhattan, is a small business dedicated to producing quality audio products that are uplifting in nature. Inner Splendor began in 2003 as a sole proprietorship and incorporated in 2006.

Inner Splendor has essentially two lines of business: photography and the production of music tapes to accompany meditation, relaxation, yoga practice and to aid sleep. The

company notes that its philosophy is to “keep it simple, to create audio products with purity and integrity of sound, vehicles that ultimately can induce meditation or deep relaxation.”

After some initial success, the company wanted to expand and found it had a good but somewhat limited credit history. Inner Splendor located Seedco Financial on a New York City website listing potential sources for loans and made application for a loan to underwrite the business expansion. Inner Splendor’s founder described Seedco Financial staff as both helpful and professional.

At the time of Seedco Financial’s loan, Inner Splendor was marketing three CD’s. Today that number has risen to twenty-five and revenues have increased by 250%. Inner Splendor’s compact discs are available online through their website and can be downloaded from iTunes. Ten percent of Inner Splendor’s profits are donated to nonprofit organizations.

Connecting with arts organizations is a critical function in the operation of the *ArtBusiness* Initiative. Through a number of efforts, Seedco Financial works to become acquainted with art businesses and to familiarize them with the financial services it provides. Mailings and e-mailings are sent to art organizations broadly, inviting them to contact Seedco for information on loans and comprehensive advisory and training services.

In addition, Seedco Financial works with partner organizations to offer free training workshops. The practice serves multiple purposes:

- The workshops provide valuable information for art businesses.
- They increase awareness of Seedco Financial’s services.
- The relationships begun at workshops are frequently the front door to further involvement between Seedco Financial and art businesses.

Seedco Financial’s partners in the *ArtBusiness* initiative in New York include organizations that work with and/or represent a wide range of artists and art organizations¹². Through these organizations, Seedco Financial is able to reach out to art organizations by attending meetings, describing *ArtBusiness* services and forming relationships.

We met with the Harlem Arts Alliance and the Brooklyn Arts Council¹³ and interviewed the CEO of LandAir Project Resources, a project development and management organization that works with “nonprofit, private, and government clients who are planning and implementing real design and construction projects.” In each case, the partner organization saw the *ArtBusiness* Initiative (and more broadly Seedco Financial) as a strong ally, positioned to assist their members/clients.

¹² Partners in New York include: Harlem Arts Alliance, Arts & Business Council, Lower Manhattan Cultural Council, New York Foundation for the Arts, Dance NYC, ART NY, Brooklyn Arts Council, Queens Council on the Arts, NYC Arts Coalition, Northern Manhattan Arts Alliance, Downtown Brooklyn Partnership- BAM Cultural District, and Alliance for the Arts, among many others.

¹³ Arts Councils throughout New York State re-grant funds received from the New York State Council on the Arts, provide services and provide a network for artists and organizations.

Specifically, Seedco Financial *Art*Business staff frequently attends the organization’s meetings and works with the partners to host and present workshops on financial planning, grantsmanship and other related subjects. The partners uniformly expressed confidence in Seedco Financial, noting particularly their ability to help art organizations navigate subject matter that is often foreign to them. In part, this ability is attributed to Seedco Financial’s familiarity with art organizations and their skills in developing relationships. Other potential sources of loans are less familiar, often do not know the art community and are rarely seen at organization meetings or events. As one partner put it, “Seedco Financial shows up.”

With a good deal of confidence, partner organizations make referrals to Seedco Financial for services and loans. In at least one instance, the partner helps further by pre-screening arts organizations, before making a referral, to assure that they are ready to be helped.

Case Study: Museum of Chinese in the Americas “MoCA”

Founded in 1980, MoCA, a 501(c)(3) organization, is the first full-time, professionally staffed museum dedicated to reclaiming, preserving, and interpreting the history and culture of Chinese immigrants and their descendants in America. The Museum welcomes over 150,000 visitors annually, including neighborhood residents, students and school groups from local and regional schools, New Yorkers, domestic and international visitors of diverse backgrounds and ages to its broad array of exhibits and public programs.

Located in the heart of America’s largest Chinatown, MoCA has been located on the second floor of a historic, century-old school building. In order to better serve its mission and constituents—over the last several years the museum has reached its maximum visitor capacity and has had to turn school groups and visitors away—preserve its collections and be at the cultural forefront as China emerges as a major player in the global economy, the Museum found it imperative to expand its facilities and operations.

The new space will house MoCA in a world class museum venue. Just over half of the \$5 MM construction plan will be financed through grants and contributions and the balance will be financed through loans from Seedco Financial and New York City Investment Fund (NYCIF). Seedco Financial’s loan of \$2MM is by far the largest made thus far in the *Art*Business Initiative.

MoCA is a prominent cultural institution in New York City’s Chinatown and the first museum in the United States that is fully dedicated to preserving and showcasing the history of Chinese-Americans. Seedco Financial’s loan to MoCA will enable it to complete construction of their new facility and launch operations on an expanded scale with 11 additional employees. A museum of this size and scale is much needed in the Chinatown neighborhood.

Technical Assistance

Art organizations come to Seedco Financial with a wide range of needs. Often, they cannot define those needs themselves and some describe themselves as “not very sharp on financial

matters and not very comfortable with them. We aspired, after all, to be starving artists.” Prior to the creation of the ArtBusiness initiative Seedco noted the special financial needs of art organizations:

TA engagements with this population indicate they need rudimentary financial literacy training, including basic financial statement analysis, planning and budgeting help. Furthermore, they need mini-business plans with specific milestones and marketing concepts they can use to work with industry experts to grow their businesses.¹⁴

Working with artists and art businesses can be difficult and the ArtBusiness initiative has taken up that challenge. Technical assistance provided by Seedco Financial works to fit the services available to the particular needs and sophistication of the arts organization. Technical assistance is described in terms of three levels of need: “basic technical assistance” is the ABC’s or 101 courses of basic financial and organizational concepts¹⁵; more “intensive” technical assistance for organizations whose leaders are more knowledgeable; and the services needed by organizations that are “loan ready”. To assist them through the process, Seedco Financial’s technical assistance consists of seminars and one-on-one consulting. ArtBusiness workshops address a range of topics, including Strategic Marketing, Strategic/Business Planning, Financial Management, Capital Projects and Access to Alternative Financing.

Financial management, for example, focuses on business planning, such as how to write a business plan, identifying new funding opportunities, debt readiness and fiscal systems. It also covers earned income ventures suitable for the arts such as licensing, arts education, concessions, and touring. *Strategic planning* focuses on the critical issue of space, programmatic expansions, and other such areas requiring long-term strategic planning. *Marketing* focuses on marketing strategies and tactics that arts organizations and businesses can implement to expand their market and clientele. Topics include audience development, events and marketing materials and will introduce innovative strategies such as marketing clusters of neighborhood-based arts groups.

Case Study: Bureau Blank

Bureau Blank is a small communications firm that bridges the art and business worlds by helping businesses and organizations communicate their identity or brand in clear and visually appealing ways. Bureau Blank’s consultants work with businesses and organizations to “tease out their story” and “tell it with meaning and impact” as they present it through websites, logos and other presentation methods.

Bureau Blank’s clients include start-up and established businesses, as well as nonprofit organizations. The firm is located in New York City’s Chinatown neighborhood.

¹⁴ A Support Strategy for Small Businesses - *Implications of Seedco’s Technical Assistance Initiative in Lower Manhattan after September 11, 2001*. Prepared for Seedco by Marla Pettinato with Leigh Graham June 2004

¹⁵ Several interviewees suggested that, for them, the basic training material was too rudimentary.

When founder Daniel Blank wished to add staff and grow the business, he turned to traditional lenders such as local banks, but found that the business' limited credit history posed a barrier. He contacted Seedco Financial and made a loan application, which was approved in what he describes as a smooth, efficient process. Bureau Blank is now expanding, hiring staff, purchasing equipment. One new client is Seedco Financial, which retained Bureau Blank to help update and revise its own Website.

The goals of technical assistance are to assist businesses and organizations to:

- Hone their business strategy
- Formalize what are in many instances informal business practices
- Help art businesses become primed for expansion

Often, art businesses come to Seedco Financial at difficult times. Seedco Financial's role is to help the business' leaders stabilize their business and then formalize their business practices, looking towards future growth. In limited instances, Seedco Financial is also able to make small grants to support the development of marketing or expansion plans. To date, Seedco Financial has provided training and consulting services to over 450 New York based arts organizations, hosted a major Arts Conference and over 20 ArtBusiness workshops.

The availability of loan funds and support for administration and technical assistance are critical. As noted previously, the *ArtBusiness* initiative has received support from funders such as the Carnegie Corporation and the Empire State Development Corporation (ESDC). Technical Assistance is critical to the success of the initiative and resources for TA are generally difficult to come by. The difficulty of securing these funds has inhibited Seedco Financial's ability to provide a full continuum of services and is a critical factor in considering geographic expansions.

ArtBusiness: New Orleans

In May 2007, with support from the American International Group, Inc. (AIG), Seedco Financial launched the *ArtBusiness* Initiative in New Orleans. AIG's support was critical in leveraging additional resources, developing technical assistance, and helping small businesses and nonprofit organizations more effectively utilize their financing options and increase chances for survival.

ArtBusiness: New Orleans is intended to fill critical gaps in support to art businesses and nonprofits severely affected by Hurricanes Katrina and Rita. Prior to the hurricanes, cultural workers in New Orleans numbered 15,000 and an estimated 11,000 workers lost their jobs post-Katrina. Uninsured losses to the cultural sector in New Orleans were estimated at \$80MM. The initiative has initially focused on providing access to 1) low-interest loans ranging from \$5,000 to \$200,000 and pass-thru grants through the Louisiana Business Recovery Grant and Loan Program administered by the Louisiana Recovery Authority and Louisiana Economic Development, and 2) comprehensive technical assistance.

In its first pilot year of operation *ArtBusiness: New Orleans* collaborated with the Cultural Economies Foundation, the Arts Council of New Orleans, the New Orleans Jazz and Heritage Foundation, Ashe Community Center, the Contemporary Arts Center and Xavier University and provided technical assistance to 141 arts-related businesses and art nonprofit organizations. As in New York, technical assistance addresses a range of topics, including accessing financial resources, debt management and market expansion, delivered by Seedco Financial and by a 10-member technical assistance provider network. Through its technical assistance activities, *ArtBusiness: New Orleans* has identified common technical assistance needs and established a cohort of five arts-related businesses and arts non-profit organizations to provide intensive, customized technical assistance.

Over the past year, Seedco Financial has also provided 64 grants totaling \$1.1MM to arts-related businesses and nonprofit organizations that create or promote New Orleans arts and culture, including a Mardi Gras Indian organization, local artists, art galleries, tourism businesses, and performing and visual arts nonprofit organizations.

Thus far, two *Art Business* loans have been made in New Orleans, totaling \$350,000, with additional loan opportunities expected. In addition to the anticipated interest in loans for working capital, marketing, refinancing expensive debt and business expansion, a new and potentially growing need for affordable financing for facilities acquisition is also emerging. As organizations and businesses are being forced to relocate, art businesses are increasingly faced with the decision of whether to make capital acquisitions or improvements to new spaces.

Case Study: The Contemporary Arts Center in New Orleans

Founded in 1976, the Contemporary Arts Center (CAC) is dedicated to the presentation, production, and promotion of art. With a vision of being “a multi-disciplinary arts center, nationally recognized as a leader in the presentation and support of contemporary arts, artists, and emerging art forms,” the center is home to experiments in painting, theater, photography, performance art, dance, music, video, education, and sculpture.

CAC is located in the Warehouse District, in a donated building. The area, which is becoming known as an “arts district,” includes the Ogden Museum of Southern Art, the National World War II Museum, the Louisiana Children’s Museum, and several smaller art galleries

Following Hurricane Katrina, CAC found that many smaller arts businesses had lost their accounting and bookkeeping staff or were dependent on accounting firms that had closed. CAC, which retained a core capacity of financial expertise, was able to help. It became clear that there would be a long term need for these services and CAC wanted to utilize its expertise to provide these services for arts businesses at below market rates. This help was important to the arts community and could be revenue producing for CAC.

Seedco Financial loaned CAC the working capital necessary to add staff and increase its capacity to assist others with their accounting and financial management. Seedco Financial also achieved multiple benefits: it helped to strengthen CAC and through CAC provided needed services to the arts community. With its added capacity, CAC will be a valued partner that Seedco Financial can turn to when providing technical assistance to arts businesses. Loan funds were also used to expand the hospitality services program through which CAC rents various areas/floors of the building for programs and events.

ArtBusiness in New Orleans is Seedco Financial’s first expansion beyond New York City. The approaches taken in New York, with modifications, have stood up in New Orleans, as they did when expanding beyond Lower Manhattan to the rest of New York City. Also, as in New York, Seedco Financial in New Orleans is combining technical assistance and below market loans and developing relationships with local partners in the art world. In any site, it is vital that start-up funding be available and in New Orleans this support came from AIG.

A major difference noted is a relative scarcity of TA that is specific to the arts community in New Orleans that is more available in New York. Real estate issues are more prominent as well. Developing earned income streams and diversifying revenue sources represent other gaps in expertise.

Seedco Financial anticipates further expansion of its *ArtBusiness* Initiative. Plans are underway to explore the feasibility of the initiative in Denver, CO where the arts and culture sector is a driver of economic development and integral to the cultural identity of Denver. According to the Denver Creative Vitality Index, arts-related retail sales are more than eight times the national average. There are over 2,400 arts businesses that employ over 13,500 employees.¹⁶ And, like New York and New Orleans, Seedco Financial has a well established presence in Denver.

¹⁶ Americans for the Arts (2008). “Creative Industries 2008: The 50 City Report”, March.

Findings

The *ArtBusiness* Initiative builds on Seedco Financial's history in helping nonprofits, small business and community organizations. The recipients of Seedco Financial's loans and technical assistance are small to medium sized businesses and organizations that are engaged in the arts. The program is in its third full year and has made loans to over 35 businesses and provided training and technical assistance to hundreds more. We interviewed Seedco Financial staff, art businesses that have received loans from Seedco Financial, partner organizations and reviewed available reports and publications.

The businesses and nonprofits in the *ArtBusiness* Initiative all have a unique story to tell. There are some commonalities in their stories, however, whether they are about dance or theater or music.

Consistently, borrowers reported that loans and support services received from Seedco Financial made a big difference in the trajectory of their business. Typically, they had been unable to borrow funds through banks or other commercial lenders and, without Seedco Financial's assistance, would have missed an opportunity to grow, to secure a new location or to stabilize their finances. The loans made were for several purposes, including refinancing and consolidating debt at lowered interest rates, renovating space, business expansion, providing bridge financing while waiting for grants or other revenues, and for working capital.

Borrowers in many cases are aware of their shortcomings as regards business practices and finances. They found the Seedco Financial staff to be patient and approachable, in sharp contrast to the more formal and depersonalized culture of even neighborhood banks.

Several borrowers noted the educational value of Seedco Financial's loan review process. To secure the loan they had to learn more about their own business, as a business, and learn how to articulate the business' needs and prospects. Seedco Financial required that they document their financial history, provide quarterly financial statements, a minimum of two years of financial projections and a business plan or narrative description of the project. Rather than an abstract classroom lesson, borrowers learned these and other skills in the practical, real-life setting of a loan application process.

One Seedco Financial borrower reported being glad that the loan process forced her to be more disciplined and prudent and, working with the organization's board of directors, she has for the first time established annual financial goals. She recognizes that a clear mission needs to be intertwined with a financial strategy and, like a number of arts organizations, the financial side of the business had become murky over time.

Interviewees noted that from start to finish the loan process took from several months to nearly a year. They all wish it could be quicker, of course, but some acknowledge that a good deal of time went by as they pulled together needed plans and financial information.

From our review of the initiative, our overall sense is that:

- The Seedco Financial loans **can and do make a major difference** for small to medium sized arts organizations. In several instances we were informed that the loan came at a critical moment, i.e. the organization was in trouble and needed to right its ship or the organization saw an opportunity to grow and develop, but needed financial support to take the next step.
- We heard, again and again, that for at least some of the borrowers **the loan application process itself is a learning experience**, forcing the applicants to organize their thinking, set goals, identify revenues and expenditures, develop a business plan and “make their case.” While the direct learning tied to the loan process was praised, several borrowers were less positive about the large scale workshops, finding them too rudimentary.
- In many instances Seedco Financial has had to address the special needs of art businesses and organizations. Not the least of these is **the inexperience of art business managers** in business and financial matters and, in some cases, a resistance to seeing themselves and their organizations in a business context. Some expressed that they had to embrace a “new way of thinking about ourselves...as a business!”
- Perhaps because financial planning and management are foreign to many artists, and their discomfort in that area is so palpable, several interviewees noted the importance of Seedco Financial’s skills in **building trusting relationships** with loan customers. These relationships contrast sharply with the more commercial atmosphere of a bank—Seedco Financial’s borrowers feel that SF is “on their side.” Partner organizations noted a high degree of comfort in making referrals to Seedco Financial, noting that SF seemed to be flexible and supportive, and committed to the success of art businesses.
- Thus far Seedco Financial’s *ArtBusiness* Initiative has had **only one default**, despite the challenges in the art business field and the often precarious standing of the art organizations. Seedco Financial staff link the high level of loan success to the high degree of interaction, both prior to and after the receipt of the loan.
- While most borrowers were effusive in their praise of the *ArtBusiness* Initiative, borrowers expressed frustration at **the length of time it took to get formal loan approval**, ranging from several months to nearly a year. Interviewees described a process that, to them, looked repetitive and often inefficient—new questions arising periodically and without warning; new documentation needed that had not seemed necessary weeks or months ago; information requested that had been submitted earlier. One described a process that seemed to be hurried—“I need such and such by tomorrow”—followed by what seemed like long periods of inaction. A borrower theorized that the front line staff person he was working with was getting new requests from higher-ups and that at each higher organizational level new questions were being raised. The frustrating delays

described above were not always the case, however, and other borrowers described an **efficient process** from start to finish.

Some communications problems may be involved in the “delay” issue. Specifically, it may be that borrowers were not sufficiently informed about how long the process would take and what it would entail and so were unrealistic in their expectations. Of equal concern, however, is the way in which Seedco Financial staff reportedly justified delays. Borrowers told of staff explaining delays by noting that they were “swamped” and the need for additional information as necessary to overcome internal opposition to the loan by management staff and the stringency of board approvals. Customers should not be privy to staff workload issues, nor should staff present themselves as championing the applicant’s cause against organizational opposition.

- Finally, the *ArtBusiness* Initiative appears to have the **potential for expansion** to other cities, if certain necessary preconditions are met. Specifically, start-up funding is needed, as is continuing sources of support for technical assistance and below market rate loans. Potential partners such as Arts Councils or similar organizations are needed to help Seedco Financial gain access and credibility in the art world. Networks of technical assistance providers need to be formed. Sufficient size and volume would likely be needed for Seedco Financial to be able to maintain dedicated staff devoted to serving this sector.

Recommendations

What we heard and saw in this review of the *Art*Business Initiative was overwhelmingly positive. Hence, most recommendations are to keep on doing what is being done or, at most, to do a little fine tuning.

Recommendation 1: Keep showing up.

Marketing the availability of loans and technical assistance is important, given the crowded landscape of lending institutions and small business education programs. The *Art*Business Initiative has a competitive edge because its staff is visible at art related events, has built relationships with partner organizations that have credibility and considerable reach and are familiar with the issues and challenges associated with art business. As the program continues to expand, maintaining the same degree of visibility may be difficult and other outreach strategies may need to be explored.

It is important to note that Seedco Financial is not just marketing its own services as it interacts with the arts community. Several borrowers noted that Seedco Financial brought them a new idea as well, best described as a new vision of their enterprise as a business entity and themselves as not solely artists but also entrepreneurs.

Recommendation 2: Improve communications about the loan process' requirements and likely duration.

As discussed, this is the primary area in which current borrowers were less than enthusiastic about Seedco Financial's performance. Anyone who has ever gone through a mortgage process has experienced the endless papers and signatures required, has noted that there is always one more piece of information and documentation needed, and can appreciate the frustration some Seedco Financial borrowers felt. Likely the process will always be time consuming and stressful, but there seems to be room for improvement, if not in the actual processing time than in communicating what to expect.

Recommendation 3: Maintain a balance between advocacy and analysis.

Art businesses are easy to root for. They are headed by dedicated, engaging individuals and they bring joy and culture to the world. It is hard to turn down a request for help from these struggling organizations, yet disciplined analysis is needed to assure that loans are sound and that art businesses receive realistic advice, however disappointing. Seedco Financial is currently well served by processes that require thorough analysis and multiple levels of approval before loans are made. The high rates of successful loans reflect this balance.

Recommendation 4: Continue to specialize.

Seedco Financial's portfolio is far larger than the *Art*Business Initiative. Likely some of the loans and technical assistance offered could have been simply cast as

additional small business advice and services, rather than small art businesses. While there may be some argument for not carving out the art businesses, our sense is that maintaining a *specialized focus on arts businesses* contributes to the initiative's success. Without meaning to stereotype, artists are, by their own description, a somewhat different breed. They entered their businesses with different motivations and work styles. Seedco Financial staff have benefited from their experience working with artists and become sensitive to the issues particular to that sector.

Recommendation 5: Consider the impact of program growth on the character of the program.

Several questions going forward will likely engage this successful initiative over time. In recent weeks, for example, Seedco Financial made two loans which together totaled \$3,265,000. The loans were each many times the size of the earlier average of about \$90-\$100,000 and in combination are about the size of all other loans made thus far. This illustrates how broad the category “small to medium” art organizations can be and may, in the future, raise questions about priorities. Further, if seven figure loans are to become more frequent, what are the implications for outreach strategies, the content of technical assistance and other functions?

The implications of geographic expansion are also important. Seedco Financial's partner organizations stressed the value of relationships, of having a Seedco Financial presence that is sensitive to the needs of art organizations and a recognizable face. Down the road it may be that maintaining that personal touch will be difficult given further expansion throughout New York City and beyond.

These challenges, of course, are common growth issues and exactly the problems most programs wished they had. They are the price of success.

Recommendation 6: Expand *ArtBusiness* when conditions are right.

Seedco Financial has already demonstrated that this initiative can be expanded to new venues, as witness its early successes in New York City beyond Lower Manhattan and in New Orleans. It has also learned that there are ingredients necessary to that success—partnerships, start-up funding, available technical assistance resources and others—which should be present before launching *ArtBusiness* in a new site. Experience has also taught that establishing Art Business takes time, relationship building and attention to capacity building. That said, expansion of the initiative is certainly warranted based on the experience to date and on the clear and common needs of arts organizations wherever they are located.

About Cornerstone

Cornerstone is a national organization that focuses on health, education, human services, and community development. Cornerstone is uniquely positioned to perform this assessment based on our extensive experience conducting similar projects. We have a long history of effective community planning and action and a good deal of experience assisting in strategic planning processes. Our approach reflects a commitment to encouraging communities to develop and carry out initiatives that are locally owned, carefully considered, fully informed, based on solid information, designed at a scale sufficient to achieve the results desired, and built around clear and measurable results.

We are appreciative of the high degree of candor and forthrightness of the individuals who contributed to our review and who informed the views expressed here.

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