

# Scenario Planning in the time of COVID-19

Orchestras Canada/Orchestres Canada

May 29, 2020



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# Agenda

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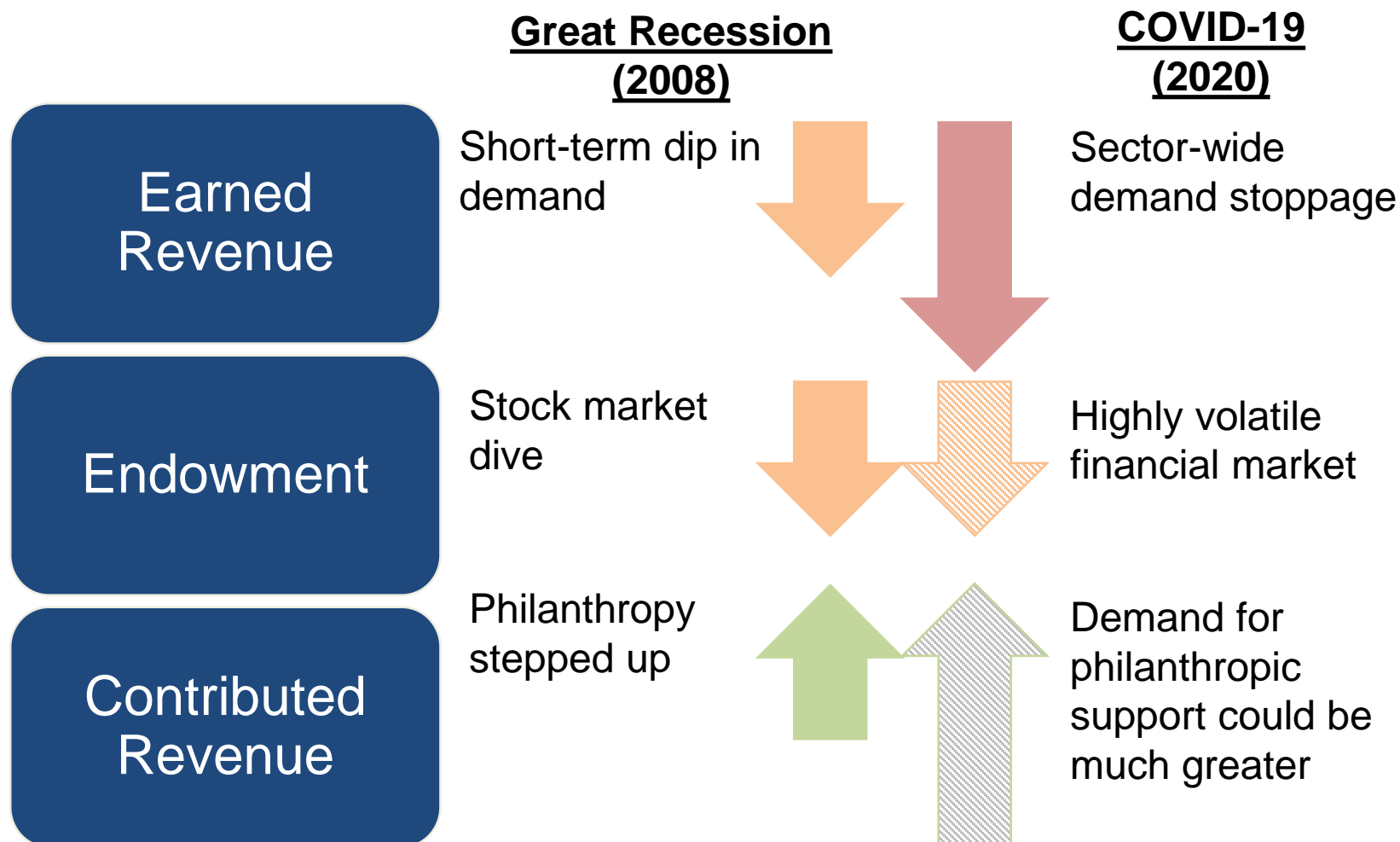
- What we know about the current crisis
- Planning and decision-making in this context
  - Phases of response
  - Key processes
- Scenario planning
  - Guiding frameworks
  - How it might work
  - Roles and responsibilities
- The hidden opportunity
- Questions and discussion

# The current crisis

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# COVID-19 vs. The Great Recession

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# Observations from the field

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- Returning to normal may be a longer, slower process than we initially anticipated
  - Evolving public health guidelines suggest we will be “raising the dimmer” rather than “flipping the switch”
  - In this transition period, ensuring audience, artist, and staff safety is an essential factor
- Once audiences are able to return, we may not necessarily see a return to historical earned revenue
  - Audience demand will be linked to, but not fully dictated by, public health guidelines
  - The transition may accelerate current behavioral trends in audiences
- Individual, institutional, and government funders are confronting new questions about how to respond

# Implications for philanthropy

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- Unprecedented stress on the ecosystem to provide cash is not a short-lived need
  - Government support has helped stem the immediate cash need
- Additional cash likely needed:
  - To relaunch and respond once the immediate crisis has subsided
  - To help organizations reorient to environmental change
- Given this, it is likely that philanthropic demand cannot meet capacity
  - Philanthropic sector will be challenged to fund in different ways

# Implications for boards

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- The Board's mission-focused, strategic, and fiduciary responsibilities remain critically important
  - **Mission-focused:** How do we assure fidelity to the organization's mission, while making space to think expansively about mission delivery?
  - **Strategic:** How is the current crisis supporting or shifting the long-term strategy of the organization?
  - **Fiduciary:** What are the implications of the crisis for the organization's balance sheet and cash needs? What are the risks the organization is managing against?

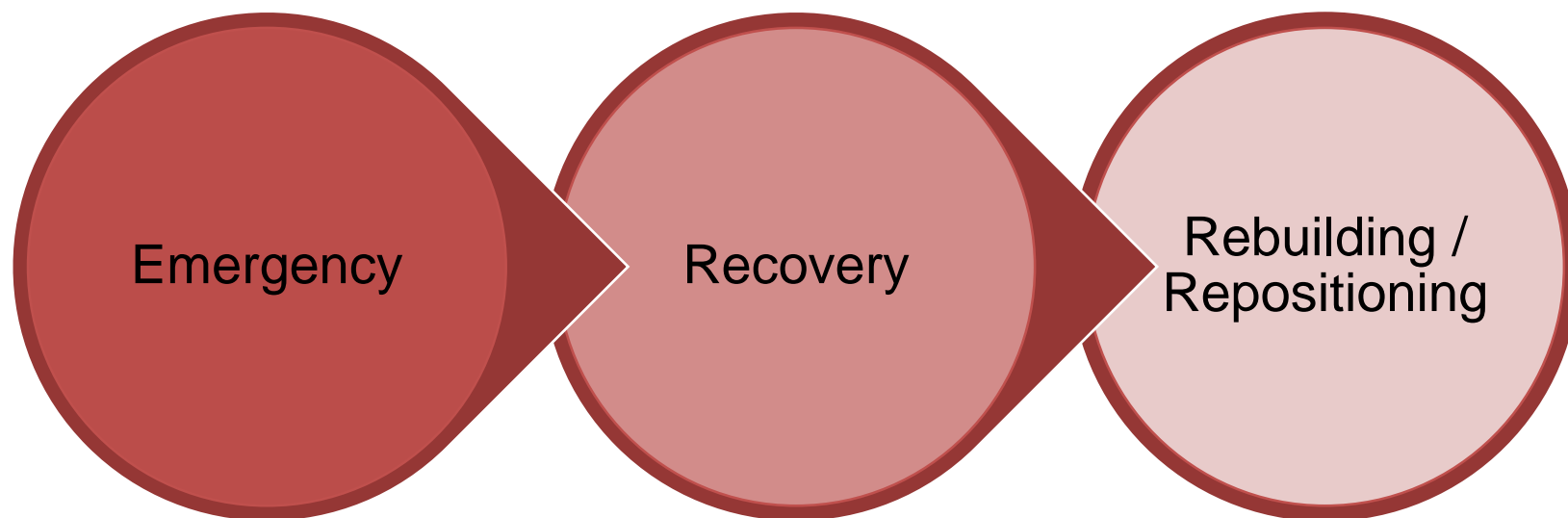
# Planning and decision-making for COVID-19

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# Phases of response

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# Characteristics of each phase

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## Emergency response

- Making immediate choices and cuts to stay alive
- Limited options for alternative programming
  - Primarily digital
- Lasts until we have line of sight into initial relaxation of social distancing guidelines
  - Originally thought to be June; likely longer

## Recovery

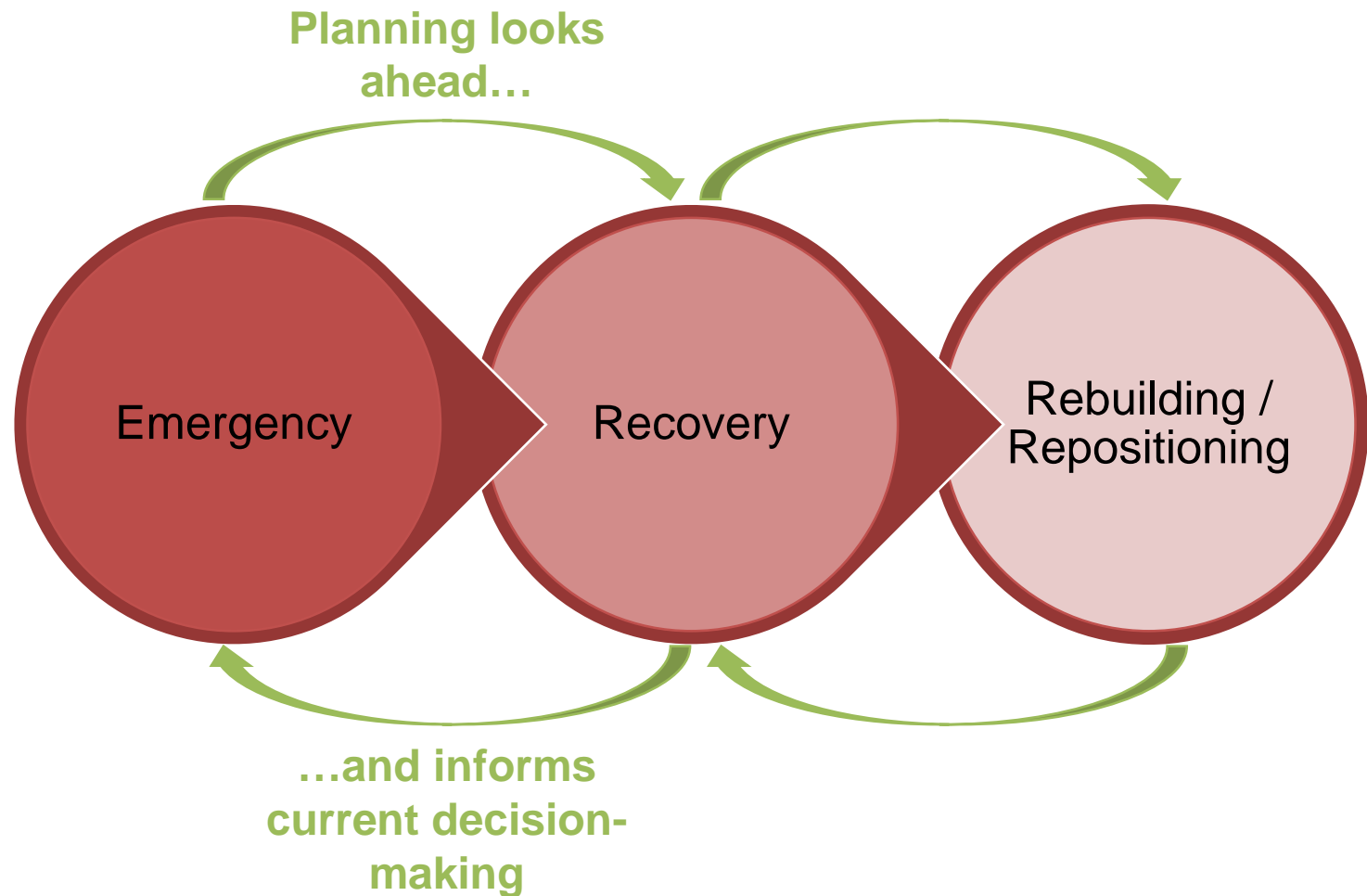
- Designing and launching a broader array of alternative programming
  - Continued digital / virtual offerings
  - In-person programs
- Lasts until we have line of sight into full relaxation of social distancing guidelines

## Rebuilding / repositioning

- Making organizational and programmatic choices as we calibrate to the “new normal”

# Implications for planning

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# Two key processes

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## Scenario planning

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- Informed by guiding frameworks:
  - Phases of crisis response
  - Grounding principles
  - Levers for planning
- Identifies budgetary, operational, and capital implications
- Tested through a cash flow and risk analysis lens

## Rolling quarterly projections

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- Alternative to detailed annual budget
- Supports ongoing decision-making in response to changing contexts
- Informed by key milestones and major moving pieces in the operating model

# Scenario planning: Guiding frameworks

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# Guiding frameworks

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- **Phases:** How will organizations' response to the crisis change over time?
- **Principles:** What are the core aspects of mission and vision that will ground organizations through the crisis?
- **Levers:** What factors will have a major impact on planning?

# Guiding principles

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- What is the core of your mission and vision you wish to preserve?
  - What do you see as your responsibility to your communities, art form(s), and artists?
  - What do you see as your responsibility to others in the ecosystem (e.g. to venues, partners, and collaborators)?
  - What are your organization's commitments to equity and justice? How will you preserve these?
  - Are there pieces of your current strategy that are critical to preserve?

# Levers for planning

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- **Public health conditions** set the timeline for each scenario and establish key parameters for operations and programming
- **Audience demand** drives earned revenue potential
- **Programming** responds to public health conditions and demand through the lens of shared principles



# Public health conditions

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- When and how will we be able to gather again?
  - In other words, when would your recovery phase start?
  - Will likely differ from province to province, city to city
- How will public health guidelines change over time?
  - How will we move towards full relaxation of social distancing restrictions?
  - How might a potential second wave of infections change this trajectory?

# Audience demand

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- How will audience attitudes impact demand?
  - Will audience members be **comfortable** attending events given the public health climate?
  - How will the **financial climate** impact attitudes to discretionary spending?
  - To what extent will audiences return to old patterns once they are **out of the habit** of attending?
  - How do audiences view your product in light of the **competitive market**?
- How will this change as you move from recovery to rebuilding / repositioning?
- What data could inform your understanding of demand over time?

# Programming

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- What does the intersection of public health and audience demand imply for programming?
- Across phases, how does programming look different than your usual artistic product?
  - Content
  - Partners or collaborators
  - Delivery format
  - Location

# Scenario planning: How it might work

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# The scenario planning process

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# Set the parameters

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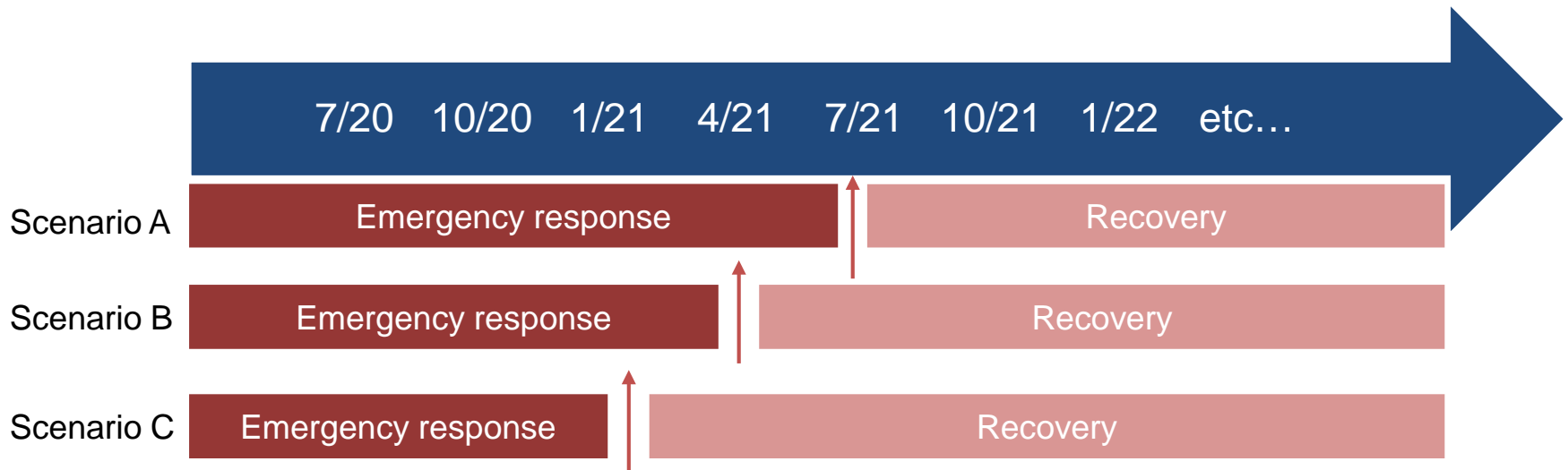
- Apply the frameworks to develop the parameters for each scenario:
  - What is the timeline over which you might move through the **phases**?
  - What will **public health conditions** look like in each phase?
  - How might **audience demand** shift over time?
  - Given these, and your **guiding principles**, what **programming** might you offer in each phase?

# A visual representation

	Emergency response	Recovery	Rebuilding/ repositioning
Public health	What choices would you make to respond to these conditions?		
Audience demand			
Programming			

# Where should I start?

- Start by running a worst-case public health scenario
  - Highlights the implications of fixed costs
  - Clarifies the cash needed to return to programming
  - Provides a baseline sense of capital need
- Define other scenarios by working backwards quarterly








# Identify implications

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- What are the implications for **budget and operations** for each phase?
- What are the implied **capital needs** in each phase?
- How do shifts in scale and timing of revenue, expense, and capital needed impact **cash flow**?
- What does the scenario imply for the organization's **long-term strategy**?

# Budget and operations

	Emergency response	Recovery	Rebuilding/ repositioning
Public health	Incremental expenses 		
Audience demand	Earned revenue shift  <ul style="list-style-type: none"><li>• Pricing models</li><li>• Realized attendance</li></ul>		New earned revenue model
Programming	Expense shift  <ul style="list-style-type: none"><li>• Incremental costs of new programming</li><li>• Potential cost savings</li></ul> Earned revenue shift <ul style="list-style-type: none"><li>• New programs and pricing models</li></ul>		New business model

Contributed revenue implications

**How skinny can you get?**

# Projecting contributed revenue

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- How do different donor groups define their relationship with you?
  - To what extent is their support programmatically driven?
  - Is their gift transactional or philanthropic?
- What does the historical behavior of your donor base tell you?
  - Size of gift over time
  - Retention and loyalty

# Capital need

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## Emergency response

- **Working capital**
  - Skinny operational footprint
  - New monthly expenses due to safety measures and digital programming

## Recovery

- **Working capital**
  - Adjusted operational footprint
  - New monthly expenses
- **Change capital**
  - Setup costs for safety measures
  - Testing and start-up costs for new programming

## Rebuilding / repositioning

- **Working capital**
  - New operating footprint
- **Recovery capital**
  - One-time liquidity reset to support rebuilding
- **Change capital**
  - Testing and start-up costs for new programmatic models
  - Repositioning support

# Deploying your own capital

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- How can your board-designated reserves support working capital?
  - Maintain at least one month of unrestricted operating cash (sized to future need, not current footprint)
  - **Do not include deferred revenue** in your working capital calculation
- Can you self-fund change capital?
  - Consider the benefits and risks of the maximum investment draw (for either permanently restricted or board designated endowments)
- Should you use a facility reserve for working capital?
  - Is your facility core to the mission and vision you are trying to preserve?
  - If so, preserve these funds—the needs are real, and the capital is often hard to come by

# Appropriate uses of debt

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- **Long-term** debt with low rates
  - e.g. Economic Disaster Impact Loan
- **Line of credit** that supports cash flow
  - Only appropriate in circumstances where your annual budget resolves and you have a plan for payback
- **Campaign financing** only for the amount of pledges received to date

# Cash flow

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## Emergency response

- Balance between earned revenue drop, anticipated contributed revenue, and new fixed costs

## Recovery

- Balance between anticipated earned and contributed revenue and new fixed costs
- Scale and timing of one-time Costs
- Implications for timing of capital infusions

## Rebuilding / repositioning

- Balance between new revenue and expense structure
- Scale and timing of one-time costs
- Implications for timing of capital infusions

# Long-term strategy

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- Given the current climate and the scenarios you have developed, what remains relevant?
  - The core values of a **strategic plan** might hold, but the strategies and tactics of that plan might need to shift
  - **Capital campaigns** or **facility expansions** might successfully continue if they respond to current needs and if the economic climate can support them



# Assess the scenarios

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- What are the **costs and benefits** of the programmatic choices in each scenario?
- What are the **potential risks** associated with each?
- Given these, is this scenario tolerable?
  - If not, what changes should be made?

# Costs and benefits

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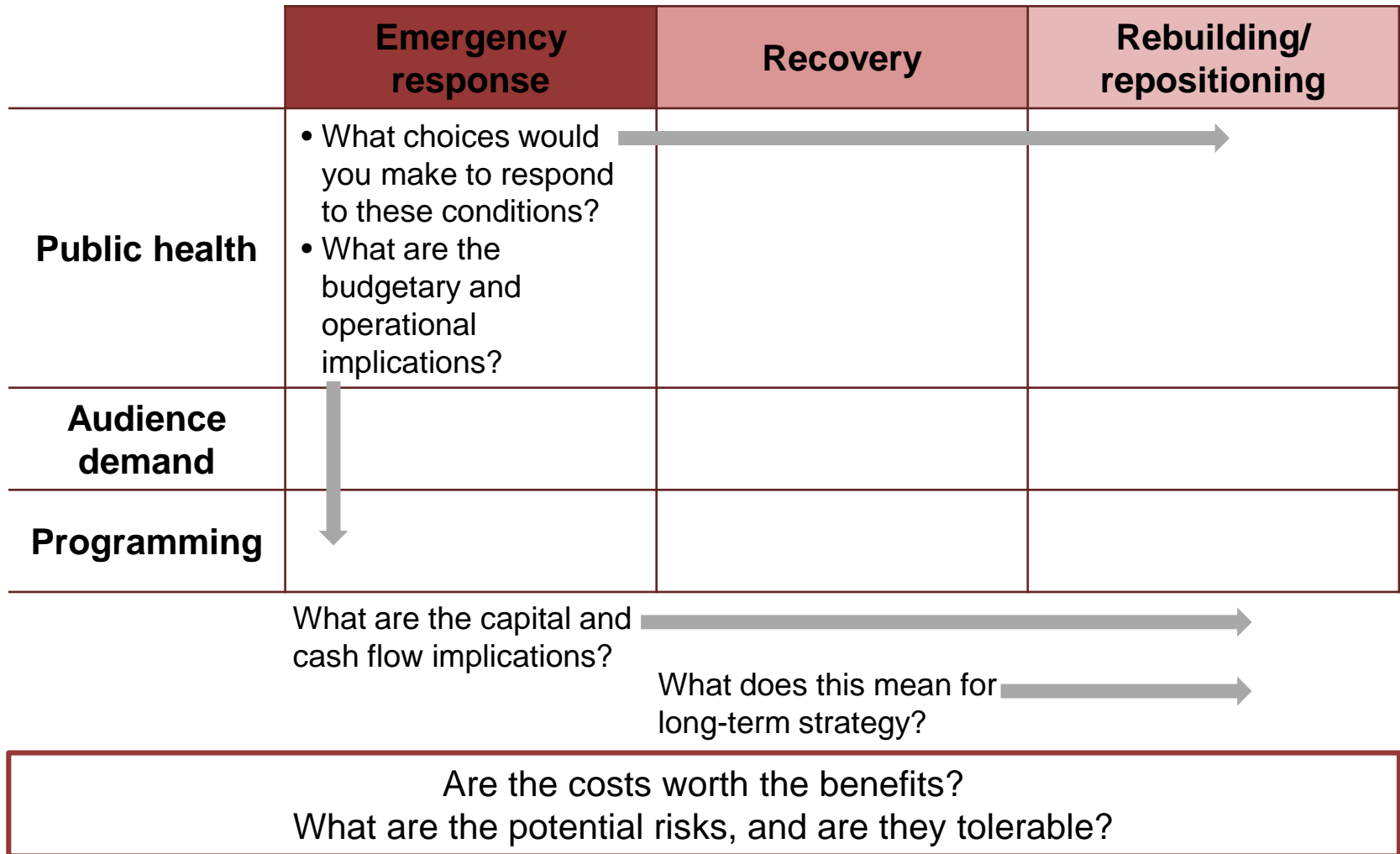
- What are the costs?
  - One-time investment to develop and launch
  - Ongoing direct costs
  - Implications for other efforts
  - Opportunity cost
- What are the anticipated **financial** benefits?
  - Earned revenue
  - Implications for contributed revenue
- What are the anticipated **non-financial** benefits?
  - Mission imperative
  - Artist or community obligation
  - Awareness or presence in the market
  - Testing new ideas
- Taken together, do the costs merit the benefits?
  - Is this the experience you want to offer your audiences and artists?
  - If not, what shifts would make the balance between cost and benefit worthwhile?

# Risks

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- For each scenario:
  - What if it costs more than you think? For programming, how might that shift your cost-benefit analysis?
  - What if you have overestimated audience demand?
  - What if the timing of the scenario is off – e.g. if the recovery phase needs to last longer than you anticipated?
- How might this shift the scale of capital needed?
  - What impact does that have for deploying your own capital vs. raising it?
- How would you respond to these risks in real time, as the scenarios unfold?
- How are you communicating these risks?

# Putting it all together



# Scenario planning: Roles and responsibilities

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# Who knows what?

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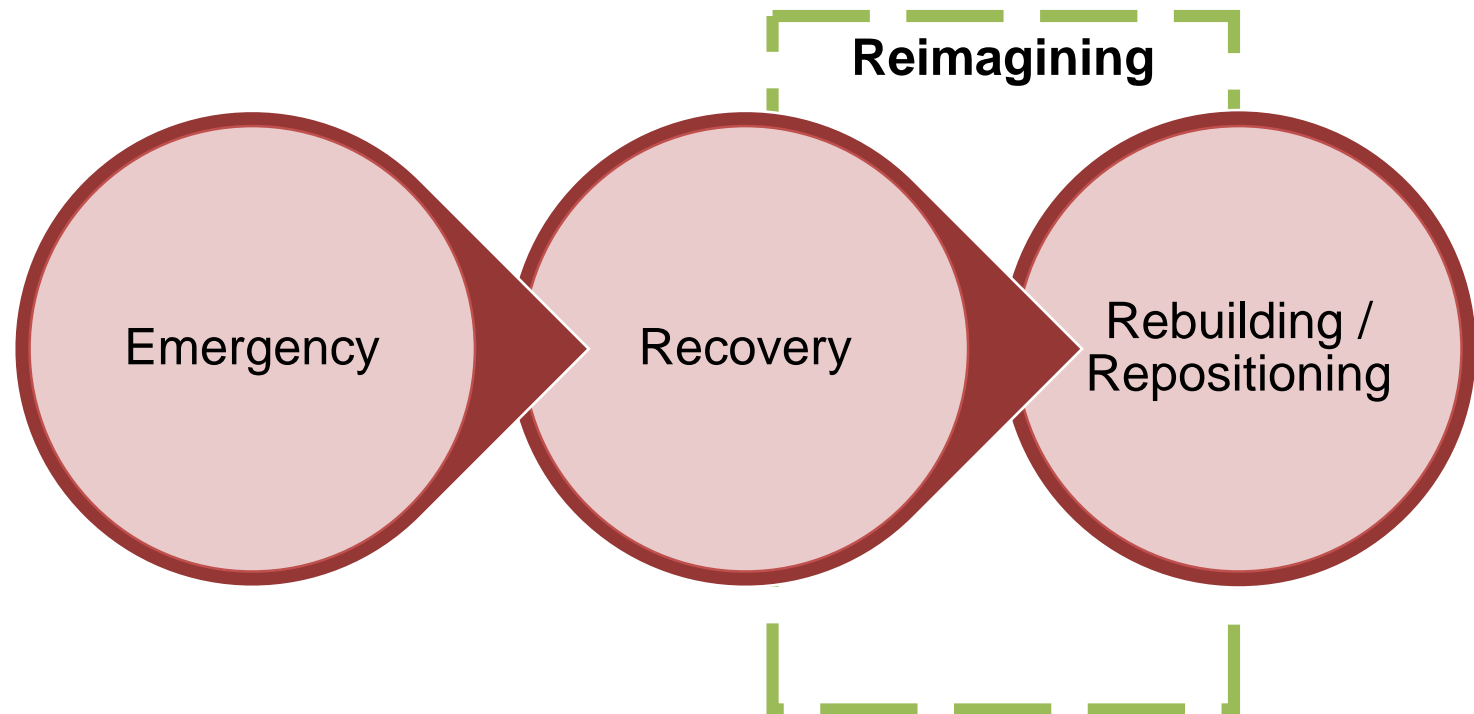
- Scenario planning should be a joint enterprise between staff and board leadership
  - Board members should help set parameters, especially around principles
  - Staff should drive the development of scenarios
- Assessing and monitoring risk is a critical responsibility of the Board
- Assuring long-term fidelity to the mission is also the Board's responsibility
  - Staff can articulate and share the difficult choices raised through this process; the Board needs to decide
- Results of scenario planning should inform ongoing transparent conversations with funders and supporters
  - What are the choices you have made, and why?
  - What are your critical needs?

# The hidden phase



# The fourth phase

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# Why reimagine now?

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- The sector has been talking about reimagining for a long time
  - Audiences do not fully reflect the communities we wish to serve
  - Eurocentric art continues to be prevalent
  - Partnerships and collaborations are often highly transactional
  - Business models do not adequately or sustainably support mission delivery
- At the same time, systemic barriers hamstring organizations
  - Prevalence of common practices and group-think
  - Lack of available capital
  - Lack of capacity
- How can we use this moment as an opportunity to address these issues?

# What would it mean to reimagine?

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- What could it look like?
  - Building relevance to broader, more diverse audiences
  - Creating stronger connections with communities
  - Developing more equitable relationships with artists and creatives
  - Forging new kinds of partnerships and collaborations
  - Transforming relationships with supporters and funders
  - Reflecting on new modes of mission delivery
- What would you need to know?
  - How would you need to change your organizational culture or structure?
  - How would you differentiate yourself in the market?
  - How would you monetize?
  - Where would you need to invest?
  - **How much more change capital would you need?**

# Questions?

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