

Vision for a Sound Future

Strategic Business Plan Summary

Fiscal years 2012-2015

November 2, 2011



We live in times of remarkably rapid change. As an arts institution with a more than 100-year history, the Minnesota Orchestra is faced every day with new realities that challenge traditional assumptions about how we operate and about the role we play in our community.

The Minnesota Orchestra Board of Directors has approved a strategic plan for fiscal years 2012-2015 that embraces change as a fundamental component of a thriving organization. Balancing great artistry with financial viability, our Vision for a Sound Future outlines three major tenets: to heighten our artistry and world-wide presence, to further develop our community connections through the expansion of Orchestra Hall and outreach initiatives, and to build a financially sustainable foundation.

The plan calls for us to capitalize on the renovated Orchestra Hall to attract new audiences, strengthen artistry and reputation through regular touring, broadcasting and new media, and engage with our community through intensive exchange and collaboration. We will develop new performance formats and content in our expanded Hall, and re-scope our number of concerts to align supply and demand.

We've also transparently identified within the plan significant financial issues and unsustainable fiscal practices the organization must resolve to ensure a sound future. Like most in the industry, our Orchestra has long been skillful in managing an out-of-alignment financial structure. Our way forward is clearly articulated: we need to align our cost structures with our realistic revenue generation capabilities. The strategic plan leads our organization to this alignment by 2013 through major expense reductions and ambitious but achievable increases in earned and contributed revenues while protecting our artistic reputation.

The ideas in this plan have been developed, tested and honed over the last 18 months in an organization-wide planning process that involved Board, management and administration, musicians and Music Director—each contributing in their areas of expertise. It is due to the commitment of our Board of Directors, the talent of our musicians, the professionalism of staff, the generous contributions of patrons and the passion of our audiences that we will achieve our goals.

And the end goal is a worthy one: an Orchestra of the new century that offers exceptional artistic experiences for audiences, connects with its community and operates in a fiscally sustainable manner. We invite you to join us as we build this sound future for the Minnesota Orchestra and our audiences of tomorrow.



Richard Davis
Board Chair, 2010-11



Jon Campbell
Board Chair, 2012-13



Michael Henson
President & CEO

Mission Statement

The Minnesota Orchestral Association
inspires, educates and serves our community
through internationally recognized performances of exceptional music
delivered within a sustainable financial structure.

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Executive Summary

The Minnesota Orchestral Association has many assets:

- rich history of artistic excellence
- strongly supportive local community, Board and management
- established local, national & international artistic reputation

Our organization faces economic barriers that prevent us from taking full advantage of these assets.

Current opportunities to create a sustainable model include:

- focus on artistic excellence and community service
- renovation of Orchestra Hall, to be completed in 2013
- new agreement with musicians in 2012
- opportunities for growth in income streams

The overall goal of this plan is to create a business model that supports **exceptional artistic quality** with **financial viability**.

Overview of Current Situation



Most of our assumptions have outlived their usefulness.

-Marshall McLuhan

National trends indicate a need for change

- Research shows a **nationwide decline in attendance of classical music**
 - Classical music event attendance decreased from 13% of all adults in 1982 to 9% in 2008. ⁽¹⁾

- **National arts giving is declining**
 - 2008 and 2009 saw a 12% decrease in overall giving to this sector. ⁽²⁾

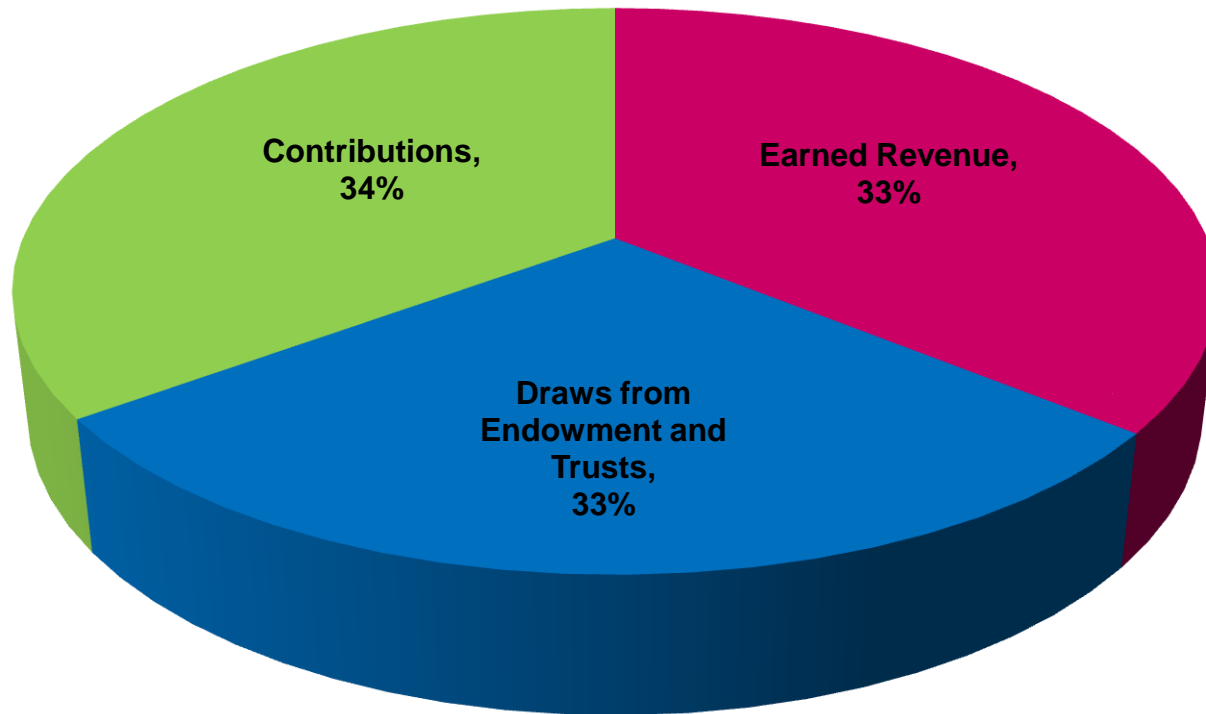
- **Orchestras across the nation are stressed**
 - Strike in Detroit, Chapter 11 bankruptcy in Philadelphia and deficits reported by major orchestras
 - 2011 League of American Orchestras conference focused on the need for change in the field. As League President Jesse Rosen stated in his keynote address: “Our commitment to performance excellence is not enough.”

1 – National Endowment for the Arts. “2008 Survey of Public Participation in the Arts.”

2 – The Center on Philanthropy at Indiana University. “2010 Giving USA report.”

Revenue comes from three income streams

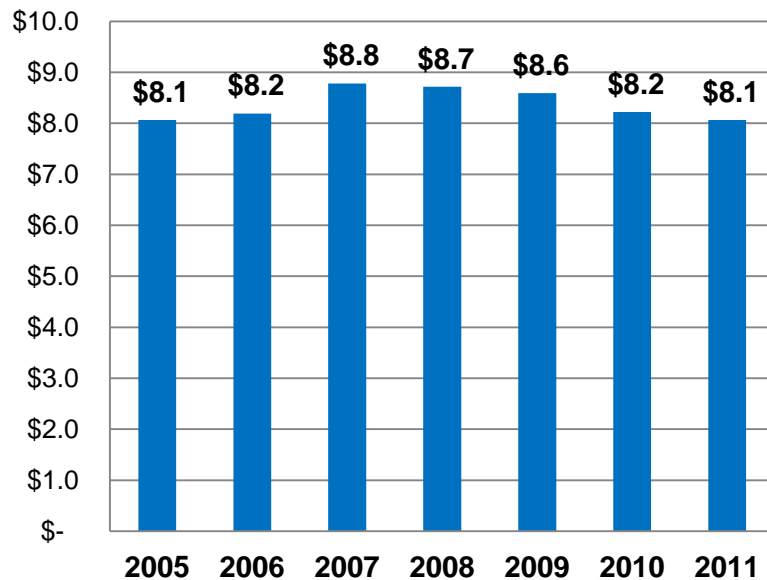
- The Minnesota Orchestral Association has three annual income streams
 - Earned income from concerts, rentals and related activities
 - Contributed income
 - Investment income from endowments and trusts



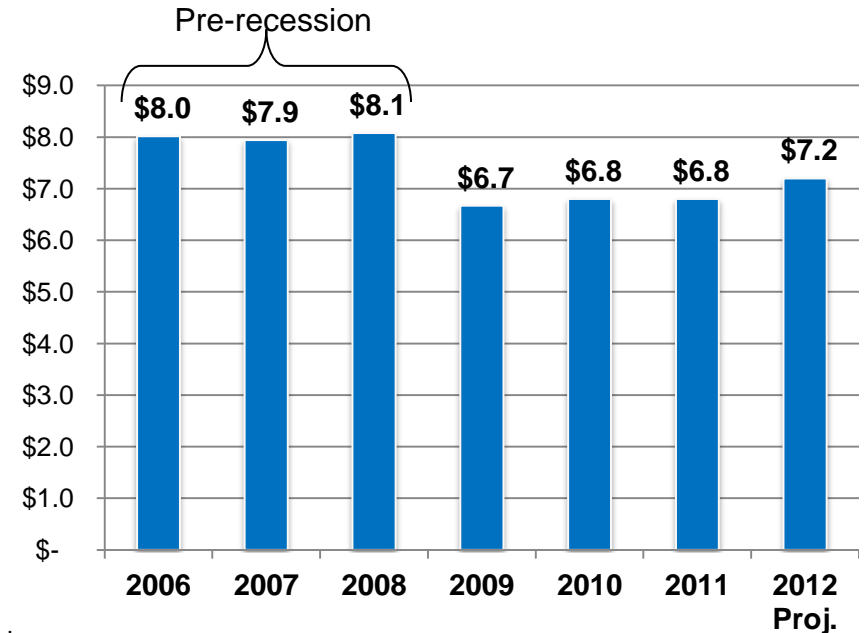
Income streams have been flat or declining

- Over the past 10 years, earned revenue has been essentially flat
- Contributed revenue dropped significantly in 2009 and is slowly increasing

Earned Revenue (\$Ms)



Contributed Revenue (\$Ms)

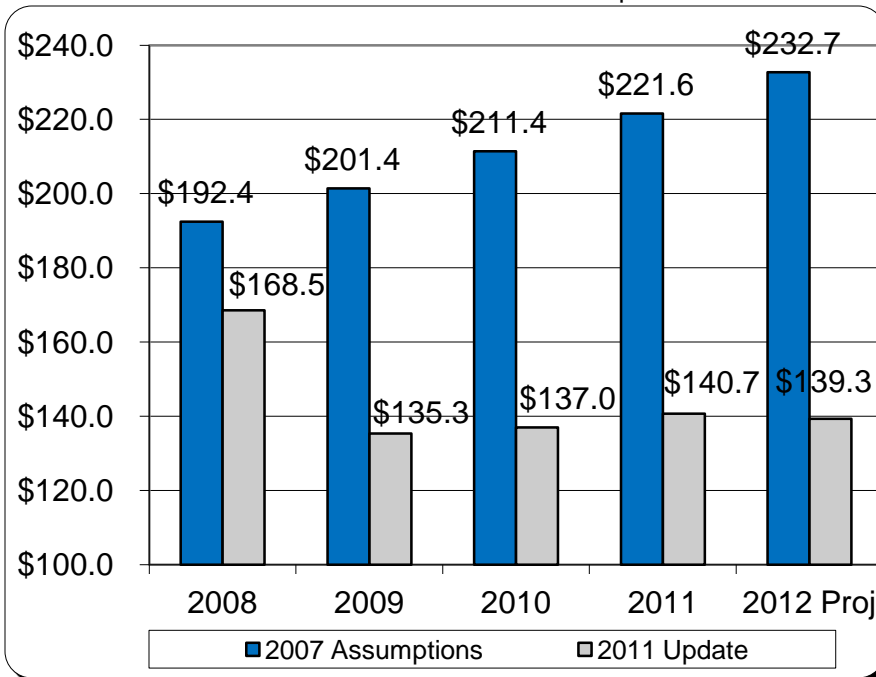


Figures above include ticket revenue, ticket fees and food & beverage income.

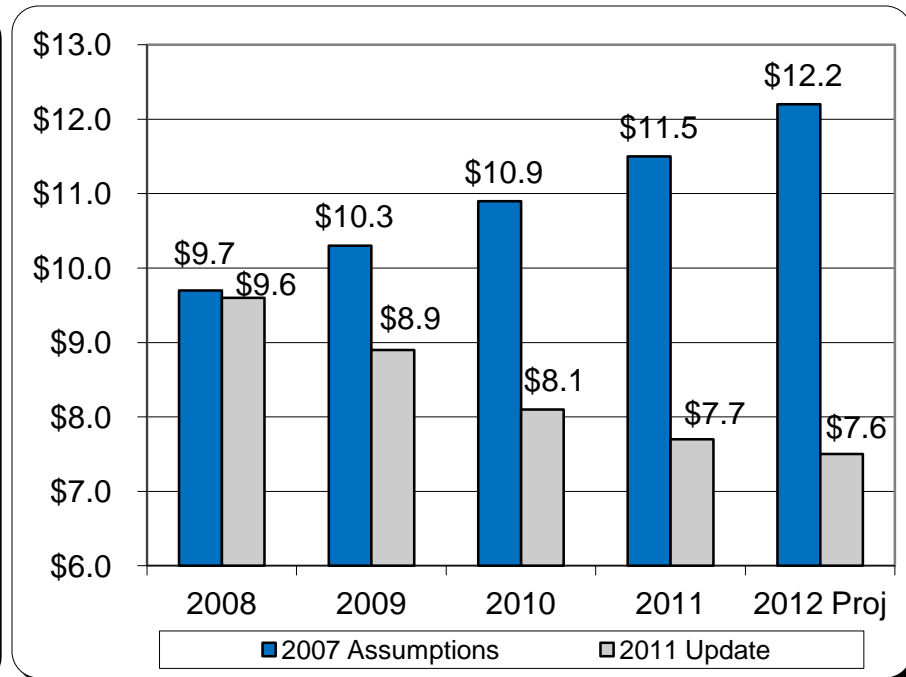
MOA's invested assets are lower than projected

- MOA's **invested assets** were 35% lower in FY 2011 than planned back in 2007
 - As a result, by FY 2012 projected draw amounts are \$4.6M lower than planned

Invested Assets Value in \$Ms

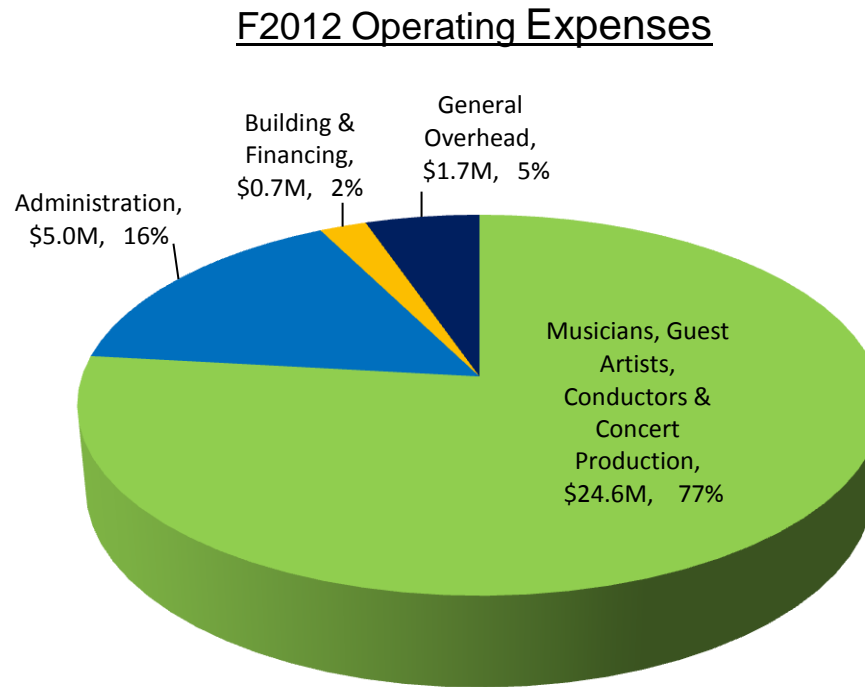


Expected Draw Amounts in \$Ms



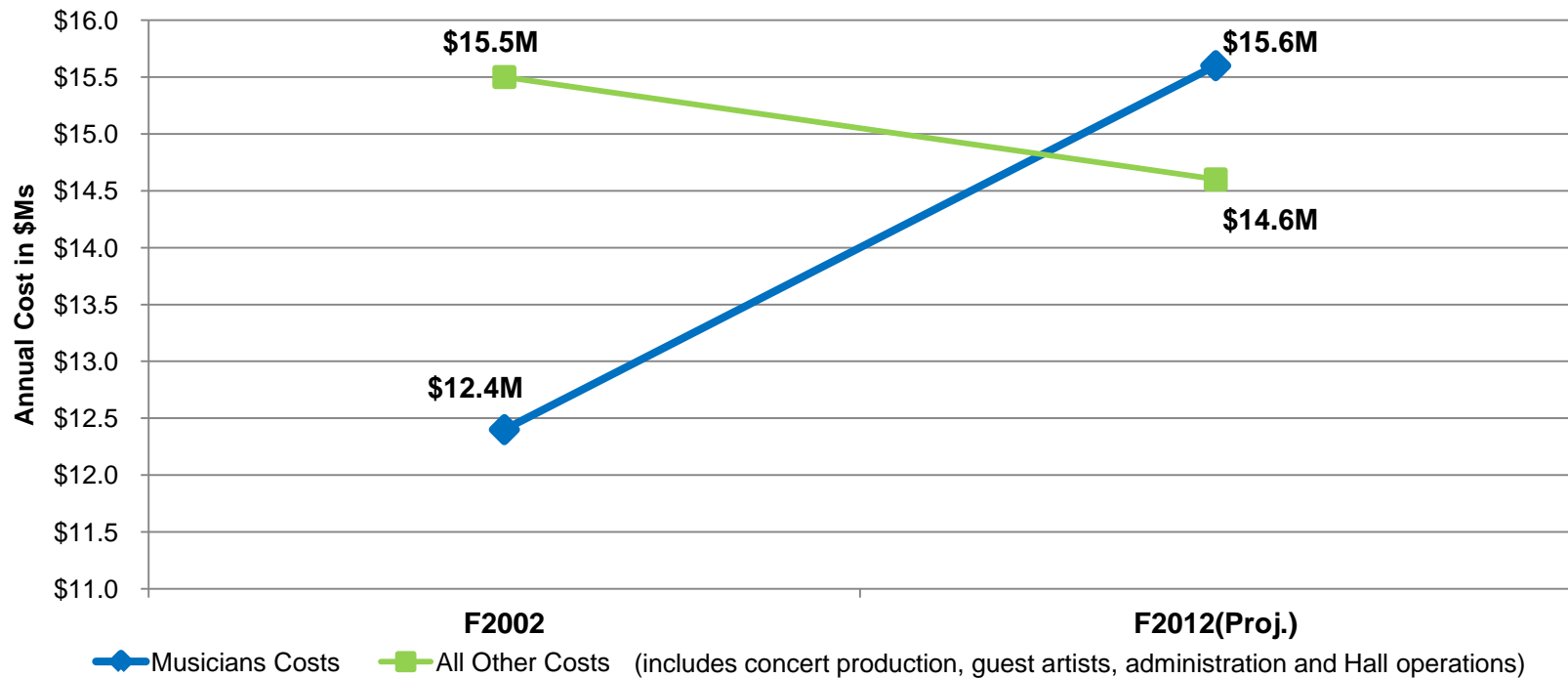
Nearly 80% of expenses are concert-related

- MOA's FY 2012 **operating expenses** are projected to be \$32.0M
 - Nearly 80% of the operating budget is for concert related expenses
 - 63% of concert related expenses are musicians' salary and benefit costs



Musician costs have increased vs. all other costs

- From 2002 through 2012, musician costs will have increased \$3.2M or 26%, while all other costs have decreased \$0.9M or 6%.
- The current contract period of 2008-2012 guaranteed 19.2% in salary increases.
- Meeting these contractual obligations during the recent recession has tapped the MOA endowment at a level that is not prudent to continue.



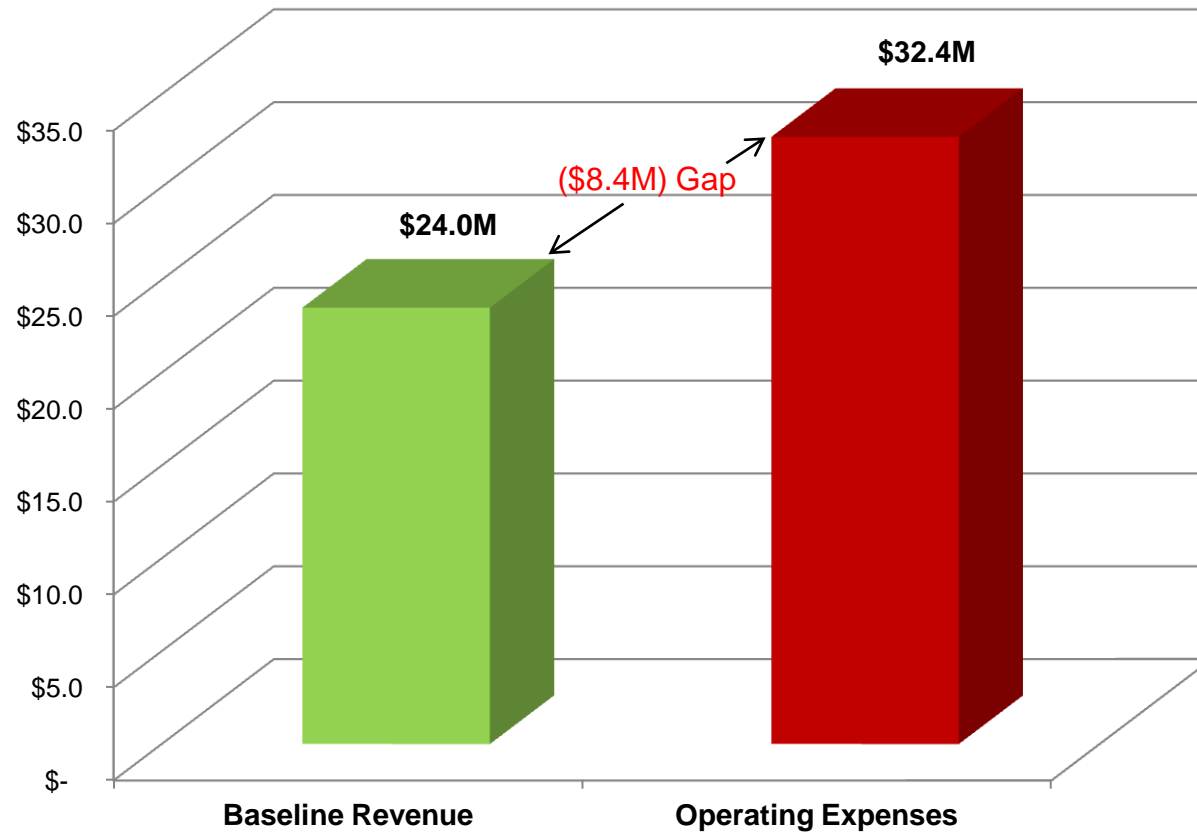
Note: Excludes touring and financing costs related to debt service

For more than 10 years, MOA has had an unsustainable financial structure

- The MOA has sought to bridge its financial gap using a variety of tools, expense management and borrowed money in the hope that these financial challenges could be resolved.
- In reality, these have been unsustainable practices which must be altered in our new business model:
 - Endowment draws averaging 9.4% annually
 - Recurring special fundraising efforts used to underwrite operations.
- The model was challenged before the recession, but the recession has exacerbated underlying structural issues.

A new sustainable financial structure is needed

- The current business model's operating revenue is nearly 30% lower than operating expenses, resulting in an (\$8.4M) annual financial imbalance



Achieving Financial Sustainability



Night in the Tropics concert

New income streams will help offset this imbalance

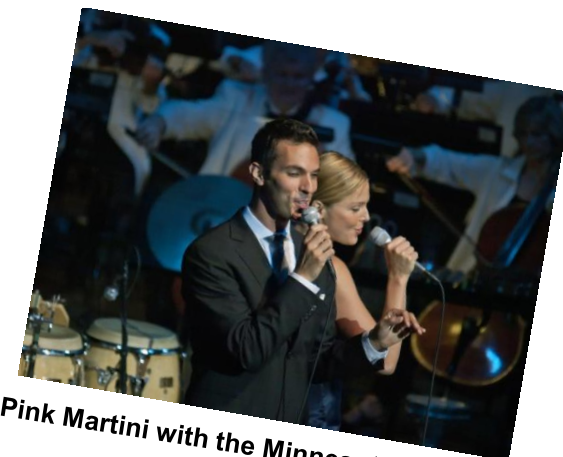
In the coming fiscal years, the Minnesota Orchestra will:

- Implement ambitious but realistic earned and contributed revenue increases
- Use the renovation of Orchestra Hall to attract new audiences and broaden revenue streams
- Re-scope concert series to align supply and demand
- Launch a new major gifts initiative to fund significant artistic projects
- Raise funds for a new endowment fund, with conservative limits for draws to protect donor contributions

Earned revenue strategies

Position Orchestra Hall as a comprehensive performing arts center for musical and entertainment excellence

Broaden scope of current program offerings to respond to customer interest



Pink Martini with the Minnesota Orchestra

Conduct comprehensive customer & market research

Expand corporate sponsorship

Align supply & demand of concerts at Orchestra Hall

Optimize revenue opportunities in renovated Hall: food/beverage sales, increased Hall rentals

Maximize ticket revenue through dynamic pricing & re-scaling of Hall

Respond to market trends in technology usage & social media



Sounds of Cinema Festival

Key Targets



Earned Revenue

	Key Targets	Deliverables
FY2012 (2011-12) • Last season in Orchestra Hall	<ul style="list-style-type: none"> ▪ Achieve 66% paid capacity ▪ Achieve \$8.1M concert revenue ▪ Achieve \$0.8M in hall rentals & community performance fees ▪ Achieve \$0.4M in tour fees 	<ul style="list-style-type: none"> ▪ Note: capacity reflects 2,450 seats in current Orchestra Hall ▪ Branding initiative ▪ Staff/resources aligned with business ▪ Plan for transition to Convention Center and back into renovated Orchestra Hall ▪ Test dynamic pricing
FY2013 (2012-13, transition) • Sept –May Convention Center • Summer 2013 in renovated Orchestra Hall	<ul style="list-style-type: none"> ▪ Maintain average per concert attendance and revenue in transition year ▪ Grand re-opening celebrations ▪ Maximize concert revenue 	<ul style="list-style-type: none"> ▪ Customer retention initiatives in transition year ▪ Continue to implement dynamic pricing ▪ Orchestra Hall capacity reduced to 2,100 ▪ Enhanced food & beverage business model ▪ Launch new brand & redesigned website
FY2014 (2013-14) • First full season in renovated Orchestra Hall	<ul style="list-style-type: none"> ▪ Achieve 80% paid capacity ▪ Achieve \$8.7M concert revenue ▪ Achieve \$0.9M in hall rentals & community performance fees ▪ Achieve \$0.4M in tour fees ▪ Achieve \$1.10 per person in concession spend 	<ul style="list-style-type: none"> ▪ Grand re-opening celebrations through fall 2013 ▪ R&D one concert format annually ▪ Continue to optimize revenue through dynamic pricing, ticket fees and other pricing strategies ▪ Achieve “glow effect” of \$200,000 in additional earned revenue from excitement surrounding the Hall renovation
FY2015 (2014-15)	<ul style="list-style-type: none"> ▪ Achieve 80% paid capacity ▪ Achieve \$8.8M concert revenue ▪ Achieve \$1.0M in hall rentals & community performance fees ▪ Achieve \$0.4M in tour fees ▪ Achieve \$1.14 per person in concession spend 	<ul style="list-style-type: none"> ▪ 2% revenue increase ▪ R&D one concert format annually ▪ Continue to optimize revenue through dynamic pricing, ticket fees and other pricing strategies

Contributed & invested revenue strategies

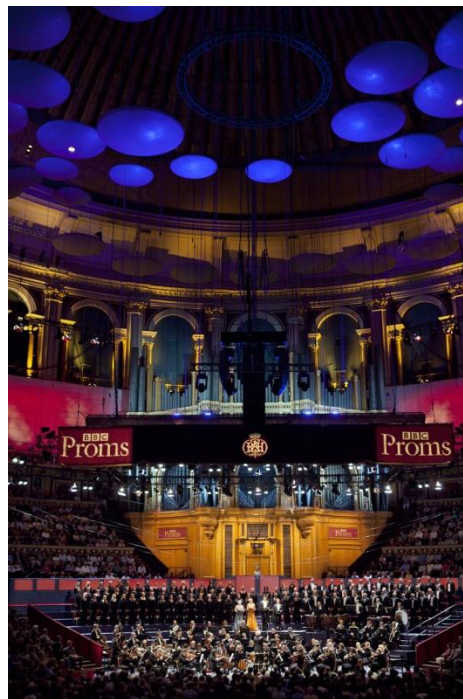
Invest in new technologies to engage donors

Increase Board giving

Strategically consider new programs to serve the community

Create sustainable 5% draw rates across all investments

Initiate Major Gifts program to raise funds for special projects & initiatives



2010 BBC Proms performance

Pursue innovative fundraising initiatives, such as Sustaining Guarantors, Crescendo Project and others

Raise endowment funds to build the organization for the long-term



Target Free Family Concert

Key Targets

Contributed Revenue

Key Targets		Deliverables
FY2012 (2011-12)	<ul style="list-style-type: none"> ▪ \$7.7M in Guaranty Fund ▪ \$1.4M from BFF Artistic &Ed. Initiatives ▪ Begin to raise major gifts for FYs 14, 15, 16 	<ul style="list-style-type: none"> ▪ 2% increase in annual fundraising ▪ Major gifts funding to underwrite major initiatives ▪ Focus staffing and resources on areas of growth ▪ Building for the Future public phase launches
FY2013 (2012-13)	<ul style="list-style-type: none"> ▪ \$7.4M in Guaranty Fund ▪ Transition from BFF Initiatives to Major Gifts effort ▪ \$0.7M in new Initiatives/ Major Gifts fundraising secured for FY13 ▪ Raise major gifts funding for FYs 15, 16, 17 	<ul style="list-style-type: none"> ▪ 2% increase in annual fundraising ▪ Major gifts funding to underwrite major initiatives ▪ Focus staffing and resources on areas of growth ▪ Building for the Future campaign continues
FY2014 (2013-14)	<ul style="list-style-type: none"> ▪ \$7.9M in Guaranty Fund ▪ \$1.8M in new Initiatives/Major Gifts fundraising secured for FY14 ▪ Raise major gifts funding for FYs 16, 17, 18 	<ul style="list-style-type: none"> ▪ 2% increase in annual fundraising ▪ Major gifts funding to underwrite major initiatives ▪ Focus staffing and resources on areas of growth ▪ Building for the Future campaign completed in December 2013
FY2015 (2014-15)	<ul style="list-style-type: none"> ▪ \$8.1M in Guaranty Fund ▪ \$1.8M in new Initiatives/Major Gifts fundraising secured for FY15 ▪ Raise major gifts funding for FYs 17,18,19 	<ul style="list-style-type: none"> ▪ 2% increase in annual fundraising ▪ Major gifts funding to underwrite major initiatives ▪ Focus staffing and resources on areas of growth

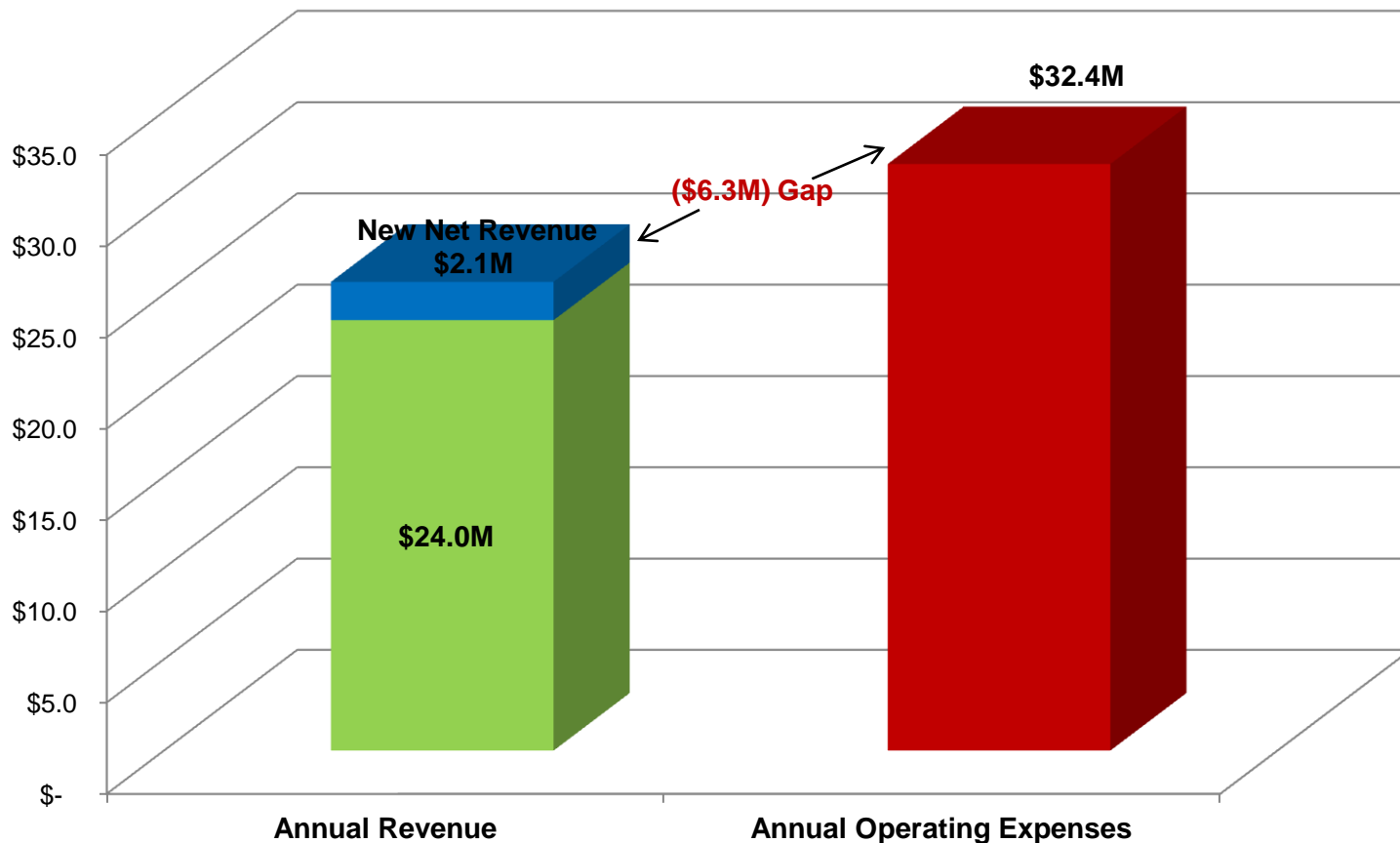
Key Targets

Endowment Revenue

Key Targets		Deliverables
FY2012 (2011-12)	<ul style="list-style-type: none"> ▪ Raise new endowment funds – both outright and planned gifts ▪ Plan for future with new investment advisors 	<ul style="list-style-type: none"> ▪ Add to new endowment with fulfilled pledges from previous campaigns, unrestricted estate gifts and BFF campaign contributions ▪ Work with investment advisors to ensure that investment returns meet or exceed benchmarks
FY2013 (2012-13)	<ul style="list-style-type: none"> ▪ \$12M in fulfilled pledges for new endowment ▪ 5% average draw rate in place across all MOA invested funds 	<ul style="list-style-type: none"> ▪ Work with investment advisors to ensure that investment returns meet or exceed benchmarks ▪ Ongoing planned giving and endowment fundraising efforts
FY2014 (2013-14)	<ul style="list-style-type: none"> ▪ \$15M in fulfilled pledges for new endowment ▪ Maintain 5% average draw rate in place across all MOA invested funds 	<ul style="list-style-type: none"> ▪ Work with investment advisors to ensure that investment returns meet or exceed benchmarks ▪ Ongoing planned giving and endowment fundraising efforts
FY2015 (2014-15)	<ul style="list-style-type: none"> ▪ \$18M in fulfilled pledges for new endowment ▪ Maintain 5% average draw rate in place across all MOA invested funds 	<ul style="list-style-type: none"> ▪ Work with investment advisors to ensure that investment returns meet or exceed benchmarks ▪ Ongoing planned giving and endowment fundraising efforts

Despite incremental revenue, an annual imbalance remains

- New initiatives provide \$2.1M of incremental revenue, but a (\$6.3M) annual imbalance remains



Further expenses reduction strategies are necessary

- New income generation at realistic levels is not sufficient to bring the MOA's finance into a true balance.

- All expenses within the MOA business model will be restructured, including:
 - Contract with musicians
 - Concert production
 - Administration
 - Marketing
 - Orchestra Hall running costs

- The MOA will address long-term obligations, including:
 - Payment of all long-term debt
 - Plan to resolve under-funding of defined benefit pension plans

Vision for a Sound Future



KPMB design for renovated Orchestra Hall, opening summer 2013

Change is the law of life, and those who look only to the past or present are certain to miss the future.
-John F. Kennedy

Highlights of the Vision for a Sound Future

With renewed financial sustainability, the Minnesota Orchestral Association will:

- Heighten artistry through excellent concerts at Orchestra Hall
- Utilize the renovated Orchestra Hall to better serve current patrons and reach new audiences
- Initiate national and international touring strategies
- Reach the broader public through broadcasting and media
- Create and build initiatives that engage more fully with our community, such as Common Chords, Fantasy Camp, Crescendo Project and others

Vision for artistic programming

Symphony orchestra of the highest artistic quality

Outstanding classical concerts in Orchestra Hall

National & international touring to significant venues

Live at Orchestra Hall series to feature popular & jazz artists



Pianist Stephen Hough and the Orchestra perform and record Tchaikovsky

Exceptional artistic leaders & guest artists

Vital summer & holiday festivals

New concert formats & content

Forward-looking digital and traditional media initiatives to reach broad audiences & raise visibility

Key Targets

Artistic Programming

	Key Goals	Specific programming
FY2012 (2011-12)	<ul style="list-style-type: none"> ▪ Celebrate final season in Orchestra Hall before renovation ▪ National touring ▪ Recording and downloads ▪ Broadcasts ▪ National & international touring strategy devised for 2013, 2014 & 2015 	<ul style="list-style-type: none"> ▪ Significant international guest artists ▪ Two-week Brahms festival ▪ Gala program to close Hall for renovation ▪ Tours to Carnegie Hall & Florida ▪ Record Sibelius symphonies, complete Beethoven piano cycle ▪ Continue regional, national and international broadcasting ▪ Reduced Sommerfest relocated to offsite venue
FY2013 (2012-13)	<ul style="list-style-type: none"> ▪ Vibrant programming at Convention Center and community venues ▪ Maintain Jazz, Pops & Young People's Concerts in appropriate venues ▪ Grand opening celebrations and Sommerfest in renovated Hall 	<ul style="list-style-type: none"> ▪ Significant guest artists ▪ Maintain broadcasting and recording, with adaptations due to venue change ▪ Optimize weeks for Convention Center and other venues, while Orchestra Hall is closed
FY2014 (2013-14)	<ul style="list-style-type: none"> ▪ Mark first full season back in the renovated Orchestra Hall ▪ Touring ▪ Recording and downloading ▪ New concert content & formats ▪ Broadcasting 	<ul style="list-style-type: none"> ▪ Grand re-opening concerts and festivities at Orchestra Hall ▪ Summer European festivals tour ▪ Multi-day New York City residency ▪ Continue Sibelius recording cycle ▪ Test new concert formats ▪ Continue regional, national and international broadcasting
FY2015 (2014-15)	<ul style="list-style-type: none"> ▪ Strong local concerts ▪ Touring ▪ Recording ▪ New concert formats 	<ul style="list-style-type: none"> ▪ Dynamic and varied programming at Orchestra Hall ▪ Summer European festivals tour ▪ New York performance ▪ Continue recording and broadcasting ▪ Test new concert formats

Vision for service to the community

Broaden audiences through school, family & community concerts

Hands-on learning opportunities for older students & adults

Enhance student learning through excellent Young People's Concerts & curriculum



Minneapolis 3rd graders attend a Young People's Concert

Partner with school districts and community organizations to support music programs

Common Chords Project brings the Orchestra to Greater Minnesota

Explore new earned income streams

Work with WAMSO & YPSCA to provide community access to great music

Key Targets



Service to the Community

Key Goals		Specific programming
FY2012 (2011-12)	<ul style="list-style-type: none"> ▪ Celebrate centennial of Young People's Concerts ▪ Launch Common Chords ▪ UPbeat expansion ▪ New programs for adult amateur musicians 	<ul style="list-style-type: none"> ▪ Hansel & Gretel to mark 100th anniversary in Nov. 2011 ▪ First Common Chords Projects in Grand Rapids in October 2011 & Willmar in May 2012 ▪ Bring UPbeat to the Anoka-Hennepin district ▪ Launch Fantasy Camp
FY2013 (2012-13)	<ul style="list-style-type: none"> ▪ Plan Young People's Concerts in community venues during transition ▪ Continue Common Chords ▪ Develop new initiatives 	<ul style="list-style-type: none"> ▪ Common Chords Project in Bemidji in April 2013 ▪ Planning for new initiatives to be launched in 2013-14 ▪ Explore potential new community partnerships, for example with healthcare or other community service organizations
FY2014 (2013-14)	<ul style="list-style-type: none"> ▪ Mark first full season back in the renovated Orchestra Hall ▪ Launch any new education and community initiatives ▪ Continue Common Chords 	<ul style="list-style-type: none"> ▪ First season of Young People's Concerts in renovated Hall ▪ Common Chords Project in Detroit Lakes in September 2013 ▪ Expand Fantasy Camp ▪ Launch additional new education/community programming ▪ Fully utilize opportunities of new Hall
FY2015 (2014-15)	<ul style="list-style-type: none"> ▪ Strong Young People's Concerts and outreach to Twin Cities ▪ Continue Common Chords in Greater Minnesota 	<ul style="list-style-type: none"> ▪ Excellent Young People's Concerts and programs in Orchestra Hall ▪ Common Chords Project in Hibbing in fall 2014 ▪ Evaluate continuation of Fantasy Camp ▪ Further develop and test new education/community programming

Vision for an expanded Orchestra Hall

Outstanding customer experience

New revenue opportunities

Greener, more energy efficient



Iconic design

New platform for engaging with the public

KPMB schematic design of Orchestra Hall overlooking Peavey Plaza

Dynamic, interactive interior & exterior spaces

Contributing to a thriving downtown Minneapolis

Opportunity for new programming in the Hall and on Peavey Plaza

Key Targets



An Expanded Orchestra Hall

	Key Targets	Deliverables
FY2012 (2011-12)	<ul style="list-style-type: none"> Detailed planning for Hall renovations Delivery of final design work Continue Peavey planning with City of Minneapolis 	<ul style="list-style-type: none"> Bid process controlled within budget Break ground for Hall renovation Re-site main office to new space Collaborate with City on Peavey Plaza design, operating entity, realistic project timeline and fundraising
FY2013 (2012-13)	<ul style="list-style-type: none"> Construction on Orchestra Hall Performances off-site Continue Peavey planning with City of Minneapolis Hall project fully funded by re-opening 	<ul style="list-style-type: none"> Orchestra Hall Grand re-Opening in summer 2013 Project finished on time and on budget Collaborate with City timeline on Peavey Plaza opening and operating framework
FY2014 (2013-14)	<ul style="list-style-type: none"> Capitalize on excitement around renovated space Review functionality of renovated Hall 	<ul style="list-style-type: none"> Innovative programming in new Hall Fundraising for BFF Campaign finished by Dec. 2013 Develop mechanisms for running Hall Complete 1-year lifecycle of Hall and adapt maintenance plans & procedures Collaborate with City to plan appropriate Orchestra events on Peavey
FY2015 (2014-15)	<ul style="list-style-type: none"> Capitalize on excitement around renovated space Develop long-term plans for Hall operations 	<ul style="list-style-type: none"> Innovative programming in new Hall Continue to adapt maintenance plans & procedures Collaborate with City to plan appropriate Orchestra events on Peavey

The Minnesota Orchestra and Orchestra Hall will be...

- A **symphony orchestra** locally, nationally and internationally renowned for artistic excellence.
- A **performing arts center** offering a variety of programming that broadens audiences and resonates with our community.
- An **educational resource** for students, teachers, schools and community groups.
- **Responsive to our community**, in offering accessible opportunities to engage with music inside and outside of Orchestra Hall.
- **Financially sustainable**, able to innovate and plan for a bright future.

The Minnesota Orchestra and Orchestra Hall



...inspiring, engaging, educating and serving our community for the next 100 years.