

Where's the Money Going? Children's Museums Expenses

February 28, 2018

Museums have unique expenses, compared to other learning institutions. Exhibits and programs, along with the support it takes to operate these efforts, are often misunderstood among funders. Across children's museums, institutional size can determine how money is spent.

This Trends Report describes "normal" expenses for children's museums of different sizes, and how size may not affect how each institution operates. We explore how museum leaders can examine the efficiency of their operational spending and ways to approach base operations. This information can help museum leaders understand if their expenses are appropriate for their size and how peer institutions handle finances. Ultimately, museum leaders can use these data to advocate for their institutions.

In this report, we continue to use the size categories first discussed in Trends Report #1.1 and revised in Trends Report #1.7 to understand patterns in the children's museums' funding sources. To make the data clearer and help us make comparisons, we study children's museums' expenses in terms of Small, Medium, and Large institutions.

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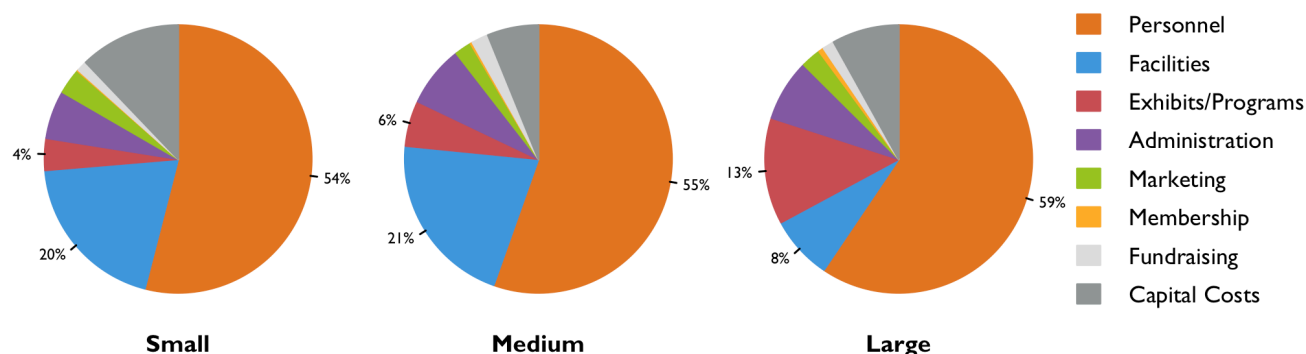


Figure 1. Average proportion of expenses for Small, Medium, and Large children’s museums in 2016.

Children’s museums have a wide range of expenses to operate their organizations. On average, personnel costs are by far the largest proportion of overall expenses. For Small and Medium children’s museums, respectively 54% and 55% of expenses are used for personnel salaries, benefits, and other staffing costs. Large museums spend just under 60% of their overall expenses for personnel (Figure 1).

At the other end of the expense spectrum, children’s museums uniformly spent very small proportions of their expenditures on marketing, membership, and fundraising.

Differences in Spending: Economies of Scale

When children’s museums are Small and Medium sizes, they spend a fifth of their funds on the operation and maintenance of their facilities. Meanwhile, Large museums spend less than half that proportion on their facilities. Instead, Large children’s museums tend to spend more on exhibits and programs, compared to exhibit and program expenses for Small and Medium museums (Figure 1).

This study shows that growing institutions – typically considered to be Small and Medium museums – allocate larger proportions of their funds to the most basic physical aspects of their institutions: the building and grounds. Large museums appear to reach a ceiling with their facilities expenditures, shifting more funds toward other important aspects of their operations, like exhibits and education programs.

Size Doesn’t Matter, in Some Ways

When we combine different types of expenses into categories that reflect general operational needs, children’s museums of different sizes tend to be quite similar. Base operations include all of the expenses necessary to run a children’s museum, including costs related to personnel, facilities, exhibits, and programs. Combined, base operations exceed more than 75% of overall expenses for all sizes of institutions (Figure 2).

ACM Trends Reports

The Association of Children’s Museums (ACM) is the world’s foremost professional member service organization for the children’s museum field. We leverage the collective knowledge of children’s museums through convening, sharing, and dissemination. ACM has partnered with Knology to create the ACM Trends Reports. Knology is a nonprofit that produces practical social science for a better world.

ACM Trends Reports are commissioned on behalf of our membership to help advance the work of this community. They seek to draw attention to emerging issues and opportunities for elevating the field, and help our members use data to become more accountable to their mission and fiscal responsibilities. A product of collaborative efforts to collect data, the Trends Reports are an effort to support ongoing, accessible dialogue. Our objective is for this approach to be an equitable and inclusive way for museum professionals to contextualize our work and use data to produce effective outcomes.

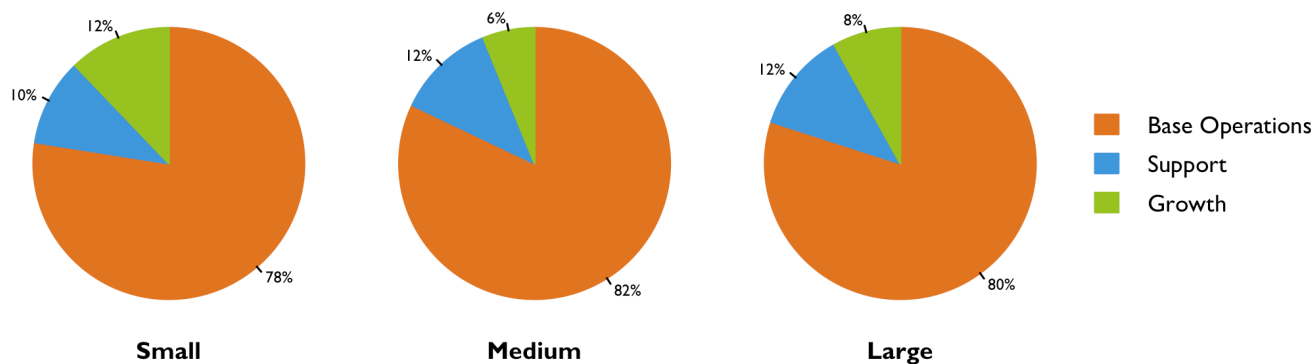


Figure 2. Average proportion of base operations, support, and growth expenses across all children’s museums types in 2016.

Note: Base operations include personnel, facilities, exhibits, and programs; Support includes administrative costs, marketing, membership programs, and fundraising; and Growth includes capital for exhibits and facility renovations.

Meanwhile, the proportion of expenses for support and growth are roughly equal for the remainder of funds. Support expenses consist of the functions that help the base operations to function, including administrative costs, marketing and public relations, membership programs, and fundraising. Growth expenses are capital invested in exhibits and facility renovations.

These data show that ACM members consistently spend the majority of their funding on the basics of running museums for children.

Are Children’s Museums Wisely Allocating Expenses?

Nearly all children’s museums in the US are nonprofits. The success of their operations is not typically measured by revenue production. However, there are some aspects of running museums that produce funds. Comparing costs and benefits can help children’s museums understand where to invest in support operations.

Fundraising is a central part of the support system for most museums. Data from the 2016 ACM Membership Survey show that all types of children’s museums allocate 1% to 2% of their funds on fundraising costs, excluding costs associated with salaries and benefits of fundraising staff. On average, children’s museums gain \$37 (Small museums), \$22 (Medium), and \$26 (Large) for every \$1 spent on fundraising, including annual giving, donations,

and other contributions. Experts consider an effective rate of return on fundraising to be between 0% and 15%, which suggests children’s museums are efficiently collecting contributions (Charity Navigator, 2016). Children’s museum leaders may want to consider both the costs of fundraising activities *and* the personnel costs of fundraising teams to better understand the return on investment of their support operations. Reporting on the cost effectiveness in fundraising expenses can greatly enhance an institution’s reputation in the philanthropic community.

The Key to Running Children’s Museums: Operations

Generally, museums have high operational costs and low program costs, compared to other nonprofits (Charity Navigator, 2016). Children’s museums are no exception, with large expenditures in personnel, facilities, exhibits, and programs. These aspects of operations are the foundation of running children’s museums.

Many philanthropists, grantmakers, and government funding sources misunderstand the operational funds required for museums to thrive. High levels of operational funds, often called overhead funds, are seen as a weakness or indicator of mismanagement. As a result, funders frequently set up children’s museums grants and giving

based on stipulations for impossibly low overhead rates. This pattern results in a cycle of starvation for museums and other nonprofits that shoehorn their budgets to fit funders' demands, as described by the classic Bridgespan study, "The Nonprofit Starvation Cycle" (Gregory & Howard, 2009).

We encourage leaders of children's museums to compare how your institution's expenses line up with those of your peers. For instance, are your facilities costs appropriate for a museum of your size? After you compare costs, you might revisit how you present and defend your expense decisions. A coalition of non-profit sector supporters, including Guidestar and Charity Navigator, have developed resources on The Overhead Myth (www.overheadmyth.com) for explaining and justifying operational expenses to funders and other stakeholders. As the operational needs of children's museums become increasingly clearer to funders and the public, so too will the value of these institutions.

About This Research

Proportion Approximations – The pie charts in Figures 1 and 2 show approximations of average proportions across museum types. Between a quarter and a half of museums provided data in each of these expense categories in the 2016 ACM Membership Survey, so we were unable to calculate averages with statistical certainty. As a result, these charts should be considered approximations. As more ACM members participate in the future, we will be able to more accurately study trends in children's museums.

Size Categories – For this Trends Report, we presented the children's museum size categories because the data offered meaningful distinctions among these types of institutions. In this case, we used the categories of

Small, Medium, and Large so that children's museums could compare their institution to averages across the sector. Previously, in Trends Reports 1.1 and 1.7, we also used categories called Small-Medium and Medium-Large for some institutions that did not neatly fit within the main three categories. To streamline the data in this report, we reclassified Small-Medium and Medium-Large museums into the Medium category, as they were within one standard deviation of the total expenses of Medium museums.

This report on spending funds does not present children's museum locale categories (i.e., City and Outside of Cities), as these variables did not offer data useful comparisons.

References

- Charity Navigator. (2016). Financial Score Conversions and Tables. Accessed February 7, 2018: <https://www.charitynavigator.org/index.cfm?bay=content.view&cpid=48#Rationale>
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- GuideStar Inc, Charity Navigator, & BBB Wise Giving Alliance. (2014). The Overhead Myth. Accessed February 7, 2018: <http://overheadmyth.com>

Started in 1962, the Association of Children's Museums (ACM) is the world's foremost professional member service organization for the children's museum field. With more than 400 members in 48 states and 20 countries, we leverage the collective knowledge of children's museums through convening, sharing, and dissemination.

Knology is a nonprofit that produces practical social science for a better world. Since 2012, the collective of scientists, writers, and educators has been dedicated to studying and untangling complex social issues.

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