



Rethinking Nonprofit Theater

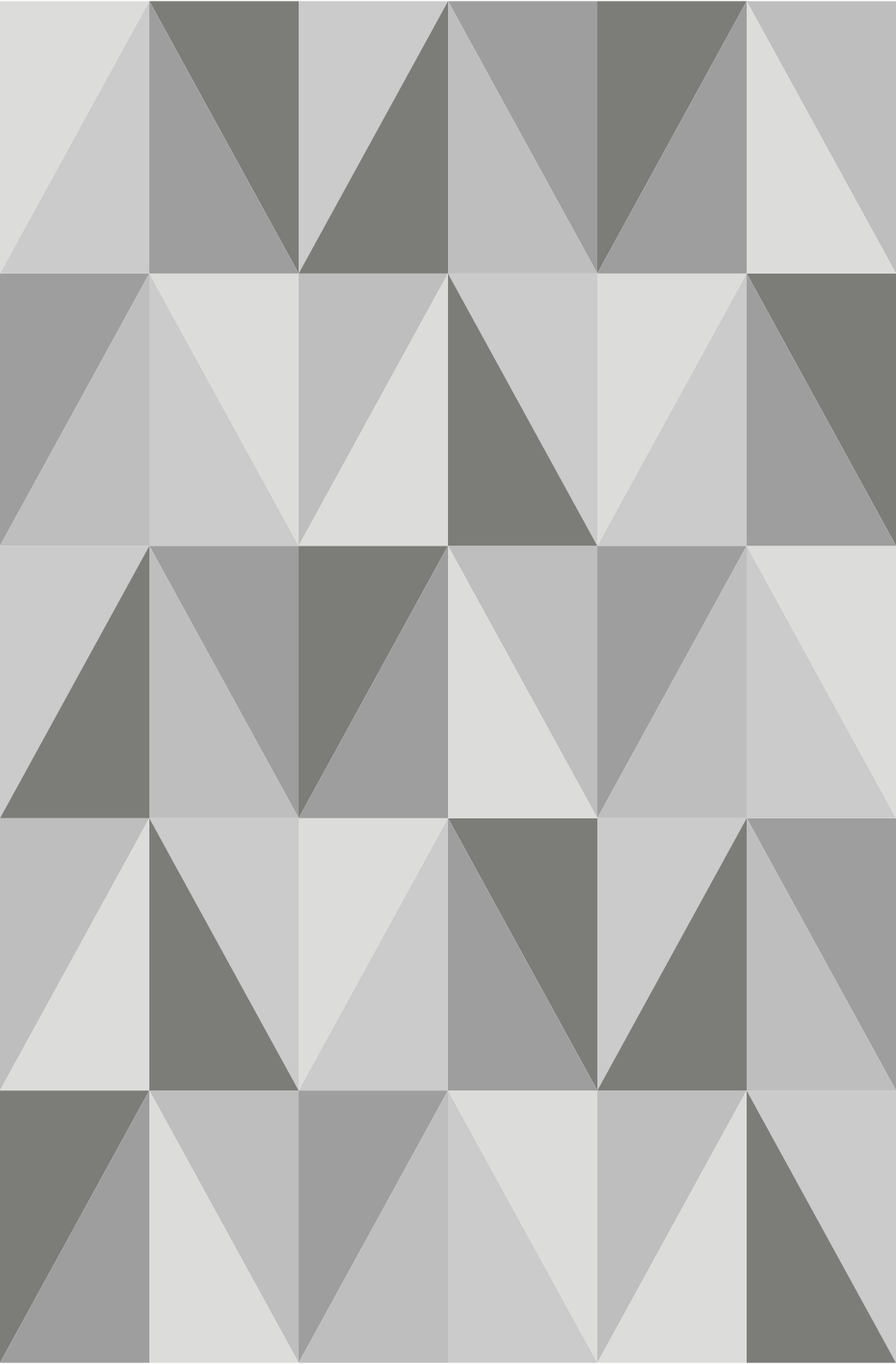
JEFF LEITNER

Jeff Leitner
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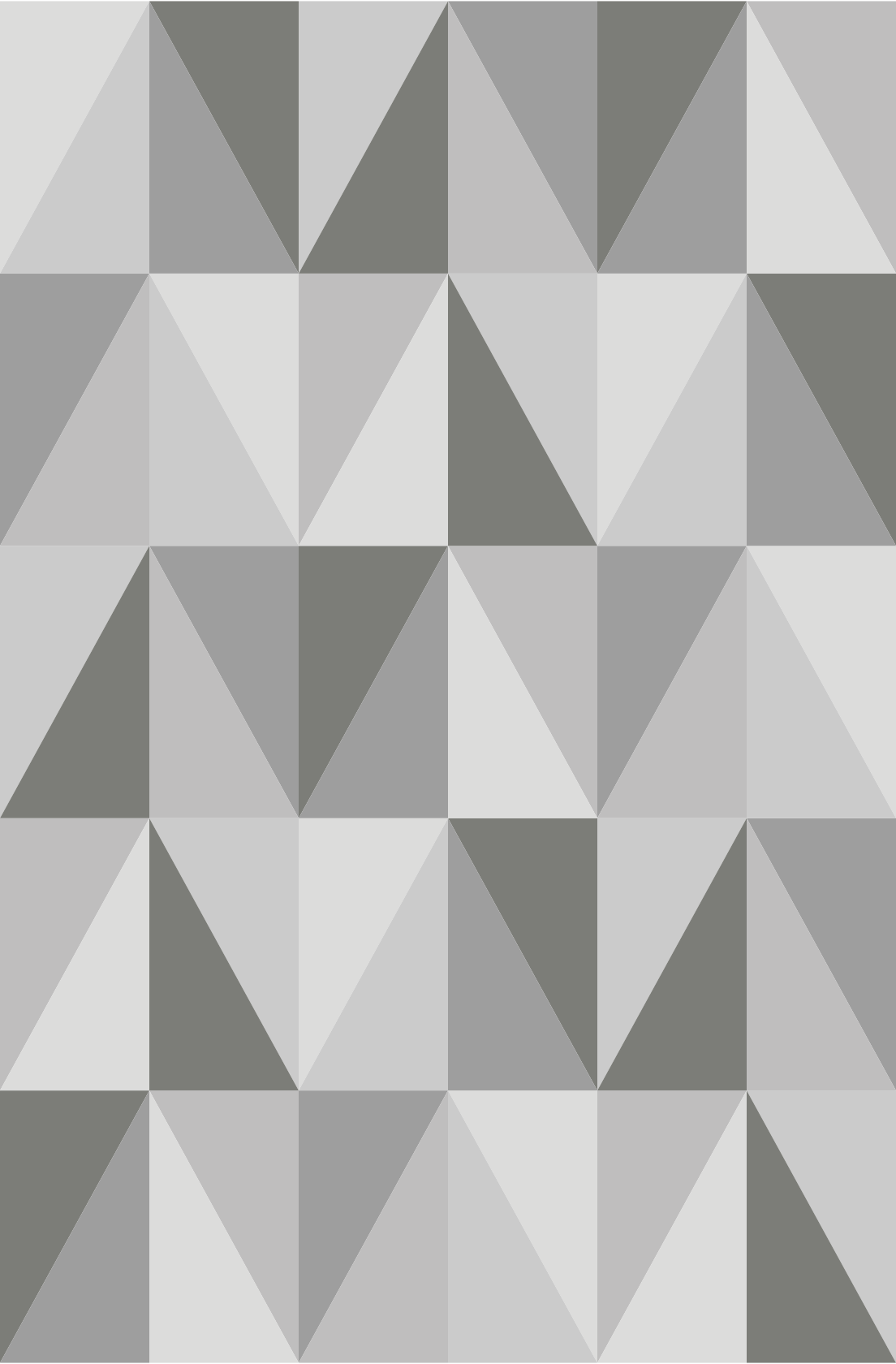


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Maybe this is misplaced nostalgia, but few Americans now believe that the arts — in schools, cities, or nationally — are a marker of a healthy community or thriving society.

OVERTURE



Let's start with what this document is: It's one person's take on the present and possible future of nonprofit theater in Chicago and the US.

I am not part of the theater world and have no specialized knowledge or experience, outside of a few years as the board chair of a nonprofit theater more than two decades ago. Before that, I helped two theater organizations make an unsuccessful bid for The Chicago Theatre, but I didn't gain — or at least retain — any useful insights into how theaters are funded or run.

Virtually everything I know about the history, health, and model of nonprofit theater comes from the last few months of reading reports, papers, articles, and op-eds and from recent conversations with more than a dozen people who know more than I do about how theaters, government, and philanthropy work.

But I suspect that my inexperience gave me an advantage in this project. As almost everything I learned was new to me, I saw conventions, patterns, and possibilities that are probably much harder to see from inside the industry. The theater world is relatively small, tight-knit, and collaborative, increasing the likelihood that industry professionals all see — and don't see — the same things.

On the other hand, it's possible that my inexperience in the sector led me to misunderstand something I read or heard, so I

apologize now for anything I get wrong. And if I do, I hope my conclusions still hold and are helpful.

Now let's talk about what this document isn't: it's not about raising more money for the current model of nonprofit theater.

There are probably dozens of efforts underway to crack that nut — at the federal, state, and local level, engaging untold numbers of industry professionals, advocates, and consultants. In fact, every theater professional I talked to for this project was actively involved in one or more of these efforts.

Instead, this is about replacing the current model of nonprofit theater with something better. I'll make the case that the current model is irreparably broken in both glaringly obvious and more subtle ways. And I'll offer up a new model that I believe achieves the same ends and preserves the same values.



Let's start by looking back to the early 1960s, when W. McNeil Lowry at the Ford Foundation first promoted what we now know as nonprofit theater. I won't provide a comprehensive history, as other people have done it, and we just need the broad strokes.

Up until the late 1950s, nearly all theater in the US was commercial, so revenues were exclusively dependent on ticket sales. Theaters were incentivized to do shows with broad, popular appeal, as those were more likely to sell tickets and produce revenue. This is still the model for Broadway and most touring productions.

But Lowry worried about what that meant for American theater. If theaters were wholly dependent on ticket sales, why and how would they mount new works, produce new playwrights, and take artistic risks? If the whole industry were playing not to lose, where would great American theater come from?

Lowry and the Foundation wanted theaters to keep producing Shakespeare and Chekhov, mount new and innovative works, increase the number and diversity of shows, and engage the public in important social issues. They also wanted to build up a professional managerial class, grow theater beyond New York City, and expand art schools to produce more talent.

To do all this, they needed a new financial model, one that diversified revenue and incentivized risk-taking. Nonprofit theater — which looks so obvious in retrospect — was a revelation. Ticket sales would be supplemented by other revenue, namely support from donors, foundations, and government.

Up to today, the model has been hugely successful. There are nonprofit theaters in every large and mid-sized American city, with more than 200 in Chicago alone. The mix of revenues varies, but it's somewhere in the neighborhood of 50% from ticket sales, 30% from donors, and 20% from foundations, corporations, and government.

Before we move on, let's stop and consider the internal combustion engine. Don't worry; I know even less about internal combustion engines than I do about theater. But here's what I do know: when internal combustion engines were introduced to the market, they were a technological marvel. An economy

and society built on the horse and buggy were transformed: mass mobility, an expansion of commerce, agricultural efficiency, an aviation industry, military advancements, new forms of recreation, and changed cities. The internal combustion engine was an inarguable good — or at least it was.

So goes nonprofit theater. The nonprofit model unlocked something magical. It launched what we now know as the theater industry, created thousands of jobs, provided opportunities to generations of new talent, and engaged millions of people sitting in the dark. And it dramatically changed the who, what, where, and how of American theater. Lowry and the Foundation created their own version of the internal combustion engine, and it was remarkable — or at least it was.

I won't give you a comprehensive accounting of everything that's wrong right now in nonprofit theater. If you work in the field, you know the problems better than I do. But I'll hit the highlights.

- Foundations and government aren't as supportive of nonprofit theater as they used to be. There are several important reasons for this — some of which are obvious and some of which aren't. But I'll get into all that in the next section.
- Donor attitudes and behaviors are changing. People still give money to causes they believe in, but the how and why they give is different. There is a whole lot written about this, so I don't need to expand on it here.

Except to say that new wealth — fortunes made in the past 20 or so years — increasingly appears to be disruptive money rather than institutional money. By that, I mean that the people who made their millions or billions by disrupting industries are less inclined to support society's blue-blood institutions, like symphonies and art museums. Instead, they want to spend their money like they made their money: investing in novel ways to meet society's needs. Sure, there are still rich people who pay to put their names on hospitals, but there aren't as many as there used to be.

- Audience behaviors are changing. Again, there has been a whole lot written about this — about what audiences want, when they want it, and how they want to consume it. These changes are what has likely doomed the season subscription model, which was a great innovation in nonprofit theater. You don't need me to recap all that here.

But there's another subtle, less discussed change underway. I first observed it in my friends playing fantasy football. But now it seems to be increasingly prevalent and I'm hearing smart people begin to talk about it. In short, audiences are paying less attention to entertainment and more attention to the by-products of entertainment.

For example, fewer people are watching NBA games. But more people are paying attention to the NBA — through shows about the NBA on TV, podcasts, and social media. Every day, there's another story about who's hot, who's not, who's unhappy, who's getting a new contract, and who's being traded. And you can watch, listen, and read all of it without are cheaper than people. knowing the rules of basketball.

It's as if *Variety* had supplanted the film industry. The same is true for late night talk shows on TV, which get relatively small audiences when they air but big audiences for clips on YouTube and other social media.

- Society's values have changed. This is way too big a topic to cover in this report, but there's one shift I want to call out. The arts are no longer discussed in the US as an intrinsic good. Maybe this is misplaced nostalgia, but few Americans now believe that the arts — in schools, cities, or nationally — are a marker of a healthy community or thriving society.

Yes, there are advocates for arts in the schools; I've worked with them. But they're arguing for the arts because the arts are good for kids and not because the arts are good for America. It's about ROI, not our souls or our democracy. A few years ago, I did a project for something called the IFACCA, an organization of national arts and culture ministers from around the world. Believe me, arts and culture are way more important in other countries — to reinforce national values and to signal an advanced society — than they are here.

- Labor costs are a real problem. There are a few things going on here and if you work in nonprofit theater, you know more about them than I do. But I want to call out two particular challenges.

One, labor costs in the theater were always a ticking time bomb. As Williams Baumol and Bowen wrote in 1965, labor costs come down when new technologies replace workers. In other words, computer programs, apps, and robots are cheaper than people. The American auto industry

is competitive in part because there is more automation and fewer autoworkers. But nobody has figured out how to do live theater without actors. And I'm not sure anybody really wants to try.

Two, nonprofit theater has long benefitted from the willingness of talent and back-office workers to provide discounted labor. Unlike the assembly line at GM, theater is a passion. People have been willing to make less money just to be part of it. And while that may still be true, increases in the cost of living make it much harder to justify. Increasingly, theaters are having to pay closer to market rate — if not market rate — to attract and retain employees.

If nonprofit theaters were to do what every other type of business does when labor costs rise, namely hike prices, nonprofit theaters would almost certainly price themselves out of business. Sure, fancy art galleries make it work — with small, well-to-do audiences — but nobody goes into nonprofit theater to entertain hedge fund managers.

- The current model of nonprofit theater is inflexible. I'll talk more about this later, but with funding from government, foundations, corporations, and individual donors in decline, nonprofit theaters have nowhere to pivot. Instead, even the best, most forward-thinking theater executives are talking about how they might get the usual suspects to do more.
- Finally, the natural response to a financial squeeze is to do less — fewer shows, smaller casts, fewer rehearsals, fewer bells and whistles, etc. But in a marketplace where nonprofit theater is fighting for its life and struggling to retain its

relevance, less is a problem. Consumers expect more and they'll look elsewhere for it. Quality is table stakes and audiences aren't terribly forgiving.



This report is the product of many, many hours of conversations with people inside and outside nonprofit theater.

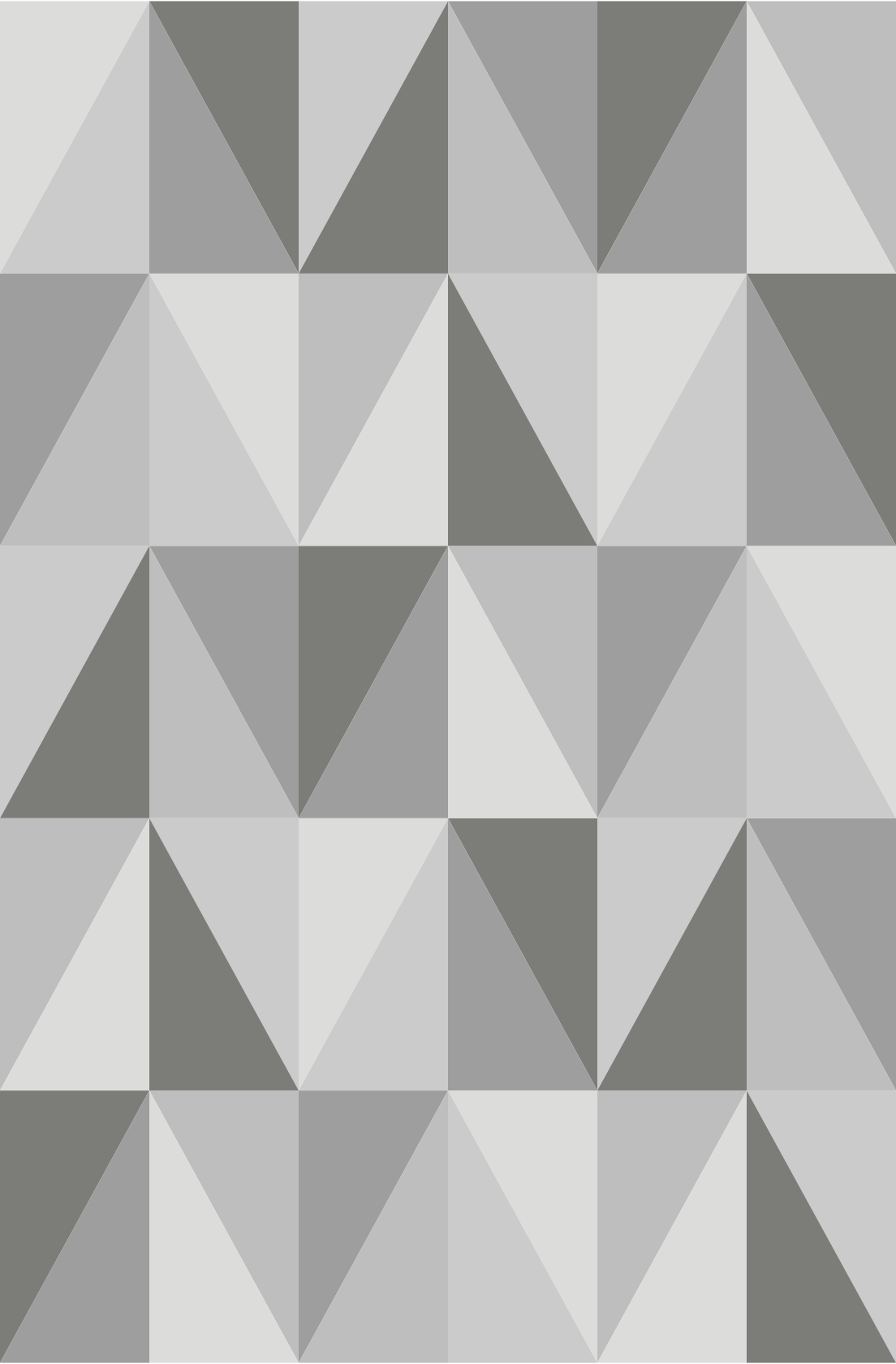
- I'm grateful to my working group for their time and willingness to participate in yet another effort to save nonprofit theater: Angel Ysaguirre of Court Theatre, Brooke Flanagan of Steppenwolf Theatre, Kate Lipuma of Writers Theatre, Roche Schulfer of Goodman Theatre, and Diane Whatton of Lookingglass Theatre, who helped me organize this initiative.
- Thank you also to Audre Kapacinskas of s2g Ventures, Caitlin Caspersen of Good Chaos, Claire Rice of Arts Alliance Illinois, Dan Lurie, Eve Childs of the San Diego Foundation, Jen Novak of Jen Novak Design, Kendra Freeman of the Metropolitan Planning Council, Marc Lane of The Law Offices of Marc J. Lane, Mary Kate Daly of Lurie Children's Hospital of Chicago, Matt Leighty of Grant Flow, Mike Orlove of the National Endowment for the Arts, Sonny Garg of the Center for Expanding Leadership and Opportunity, Stephanie Pace Marshall, Steve Edwards of Koya Partners, and Tasha Seitz of Impact Engine. If I've neglected anyone, I'm sorry.
- Finally, thank you to the many friends who have helped me think this through.



A word about spelling: You've no doubt noticed that I use "theater" in place of "theatre," unless it's part of a proper name. If you're in the industry, this probably bothers you. If it's any consolation, I do know the difference. But there are more of us than there are of you.

When we look back at this time,
I'm guessing we'll find that Black
Lives Matter was good for America
and bad for nonprofit theater.

ACT 1



As with the internal combustion engine, the proliferation of the nonprofit theater model has had some problematic, unintended consequences. The good news is that — unlike with the internal combustion engine — none of those consequences are rising sea levels or the possible end of human civilization. The bad news is that the consequences are now threatening the future of hundreds of theaters across the US.

Some of these consequences will be obvious to anyone in the industry. Others won't be, as they've emerged subtly over the past 70 years.

- Nonprofit theaters are too dependent on funders who aren't particularly enthusiastic about supporting them — namely governments and foundations. There are a few reasons for the fading enthusiasm, none of which are your fault.

One reason is just historical. The late 1950s and early 1960s were a very different time in American history. We were in the midst of a post-war economic boom and had both the resources and appetite for building a world-class arts sector. It was Camelot. Now we're in the midst of whatever the opposite of Camelot is.

Government and foundation support depend on the public buying a narrative about how essential theater — risk-taking theater — is to a great society. And nobody is really making that case anymore, at least not successfully. In the absence of

that narrative, critics of government spending generally and government spending on the arts specifically have won the day. Even though government budgets are bigger than ever, the slice of the pie for the arts is smaller.

I don't know if it comes up in every meeting about the future of nonprofit theater, but it came up in every meeting I was in: The US should adopt a European model, in which governments support artists directly. Alas, that's never going to happen. It's not aligned with America's free market, individualistic values, and it looks like European governments may move in our direction.

Foundations are also losing their stomach for funding the arts. Of course, there are still foundations who give tens of millions to theaters, but the philanthropic sector generally is focusing more and more on social justice or whatever the priority *du jour* is. When we look back at this time, I'm guessing we'll find that Black Lives Matter was good for America and bad for nonprofit theater.

What about corporations? Yes, corporate grants and sponsorships have helped fill the void left by governments and foundations. But as anyone taking corporate money can attest, that money isn't particularly well-aligned with artistic risk-taking, and those budgets are the first ones cut when profits are down.

This is important: no matter what corporate giving officers say, funding for the arts is only tangentially aligned with corporate interests. Funding priorities that are better aligned with genuine corporate interests will always prevail. There is

no triple bottom line. As the founder of Kahn Academy said a decade ago, “Something is always on the bottom.” And I’m sure that’s never nonprofit theater.

- Even in the heyday of funding for nonprofit theater, there was an odd string attached. In short, they gave you money to take artistic risks and then when you did, they worried that you were “elitist.” Imagine that: Avant-garde, postmodernist German playwrights only appeal to a small audience, which is better educated than the general public.

So governments and foundations made you prove you weren’t elitist. In exchange for funding, they asked you to reach out to broader audiences in schools and underserved communities. I’m all for arts programming in schools and underserved communities, but that programming has nothing much to do with artistic risk-taking. Instead, it’s a tonic for the problems of inaccessibility and inequity — which are real but different than McNeil and the Ford Foundation’s original intent. It’s as if a school hired a Spanish teacher and then chastised him for not speaking English.

Now 70 years in, nonprofit theaters are judged and funded for lots of things that have nothing to do with artistic risk-taking: the aforementioned programming in schools and underserved communities, direct economic impact, indirect economic impact on restaurants and parking, tourism, anchoring the creative economy, etc. Nonprofit theaters aren’t just theaters now but complex organizations that have to scratch a lot of public itches to get funding.

And if that weren’t bad enough, most of these itches are itches valued by the more progressive half of the American

electorate. This reinforces the idea that theaters — particularly theaters that take artistic risks — are for liberals and don't deserve public support. Ultimately, trying to combat elitism just reinforced elitism.

- Here's the most surprising unintended consequence, at least judging by my conversations over the past few months. As we've discussed, the point of the nonprofit model was to enable risk-taking theater. Theater is the end, the ultimate goal of the nonprofit model.

But now that theater has been tasked with things like improving educational outcomes, healing communities, increasing tourism, boosting the secondary tax base, and enabling creativity, theater has become the means. Theater isn't an end but a tool that government and foundations can use to do things they care more about.

Don't believe me? Look at the metrics you're held to in your grant applications. Look at the stories you have to tell to get funding. They're rarely stories about risk-taking art; they're stories about students reached, residents engaged, jobs created, and dinners sold.

This is happening to the arts everywhere. As I said earlier, advocates for arts in the schools aren't talking about self-actualization, but about test scores and vocational training. So why not make STEM into STEAM, when they're both about economic opportunity and the job market?

Of course, much of the problem is the silly overreliance on metrics, generally. But that's for another report.

- The whole ecosystem of organizations that have emerged to support nonprofit theater are competing with nonprofit theater for resources.

I'm talking about organizations like the League of Chicago Theatres, the Illinois Arts Alliance. Americans for the Arts, and the Theatre Communications Group. And there are pro-theater government agencies fighting for their own funding, including the National Endowment for the Arts, the Illinois Arts Council, and Chicago's Department of Cultural Affairs and Special Events.

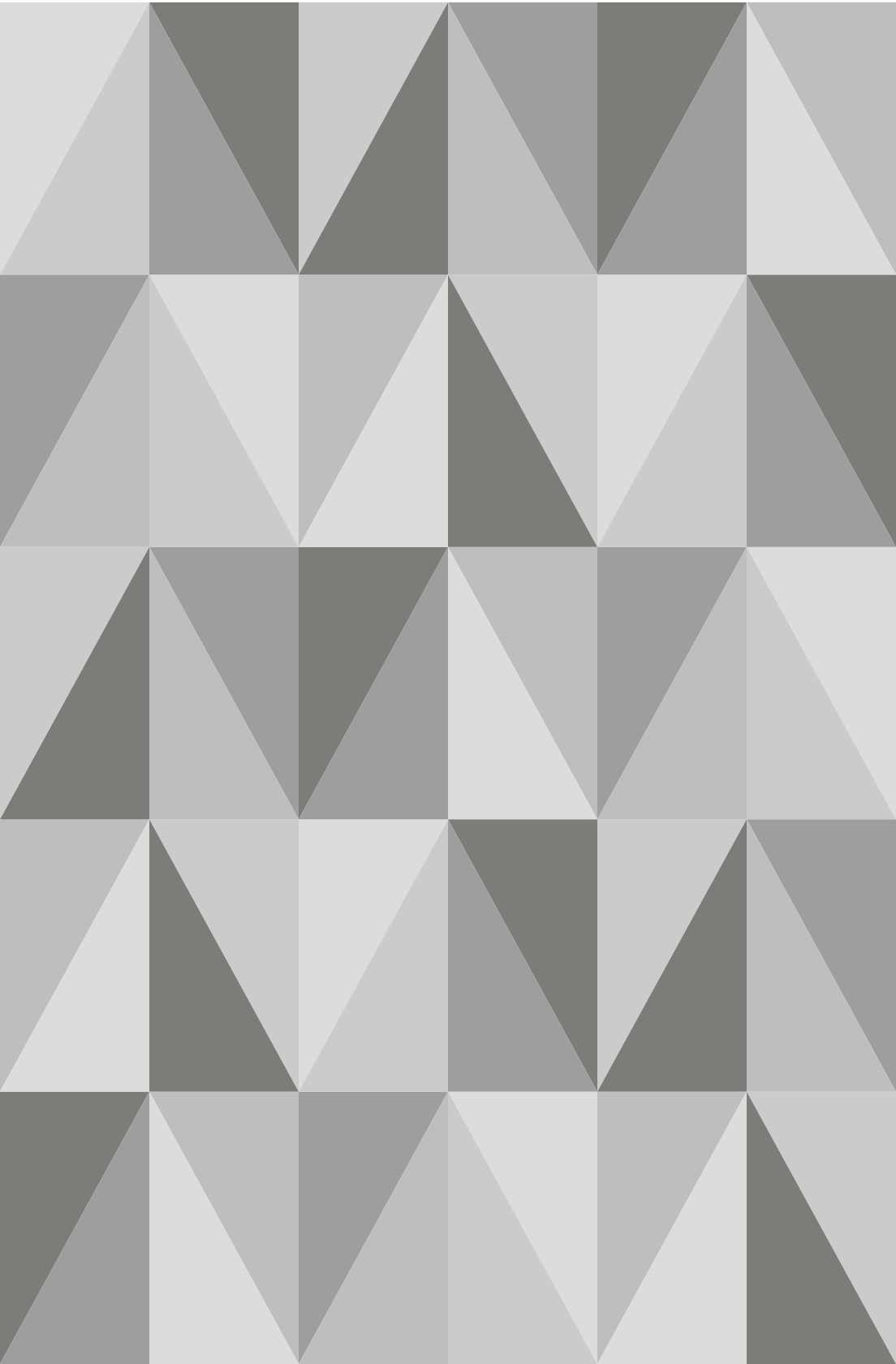
The result is that these organizations have set the public narrative, such as it is. Instead of talking about risk-taking in art, nonprofit theaters are talking about what's best for the sector. And the people who run theater organizations are enlisted over and over in efforts — like this one — to save the industry.

- I've observed an interesting effect of the decline in institutional support — at least in Chicago. Theater executives can't count on the "systems" of government or philanthropy to support them, so they pin their hopes on individual decision-makers. Sure, the City (or the State or federal government) may not be particularly supportive of the arts, but maybe the new commissioner or new director will be. Thus, solutions aren't structural, but dependent on people who change jobs, change priorities, or get fired. Predictably, a key decision-maker in Chicago was fired during this project.

I understood the problems with the nonprofit model when I began to see it as a kind of methadone — to break theater's

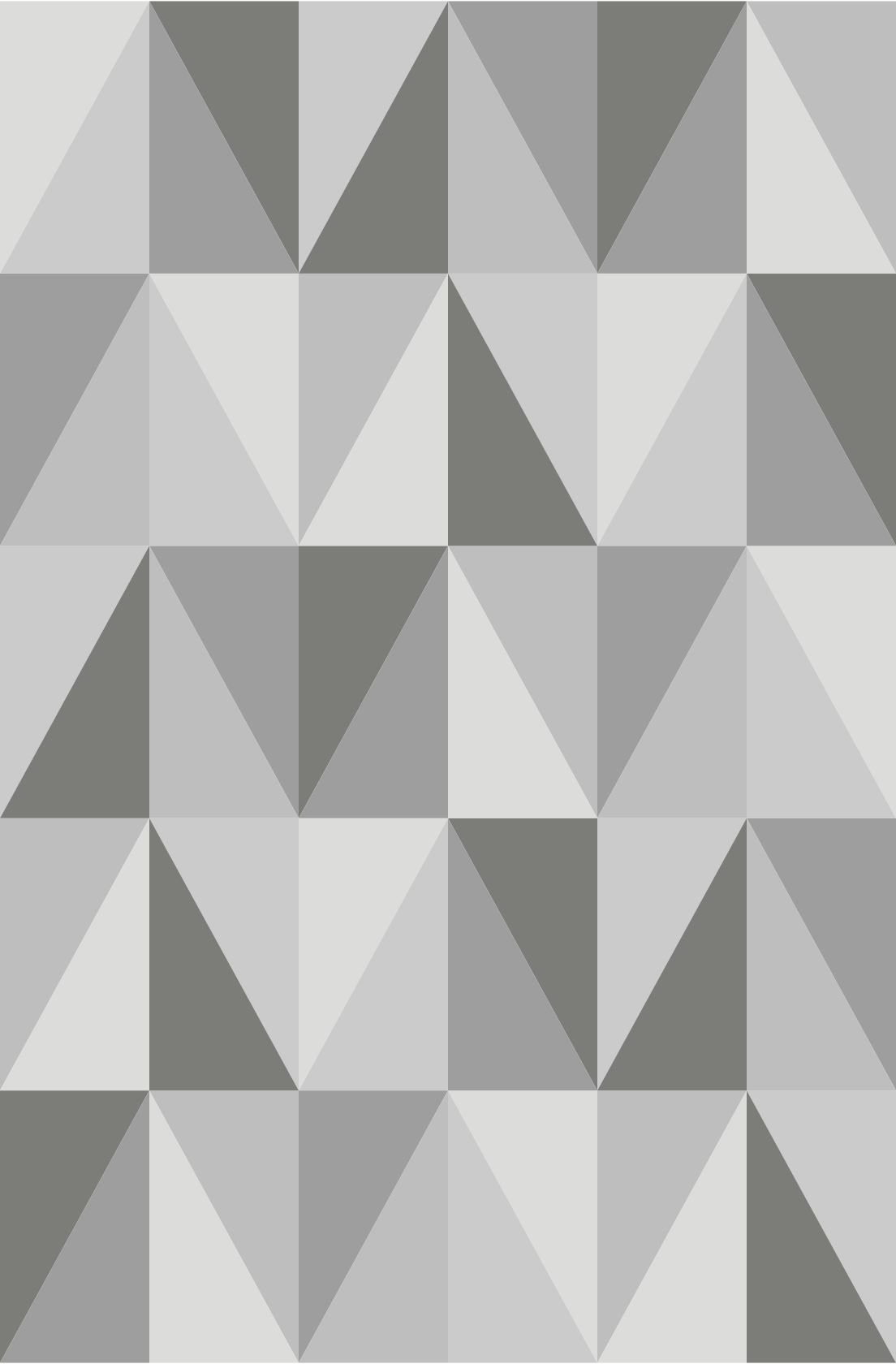
complete dependence on the heroin of ticket sales. Sure, the metaphor is a bit dramatic. But you're in theater, so you'll be okay.

Methadone would be fine, except there's less methadone available; getting methadone requires you to make compromises you don't really want to make; and securing the methadone takes so much time, so much effort, and so many resources that you don't have the bandwidth to find other solutions.



So nonprofit theaters are stuck in
unhealthy relationships and subject
to the shifting winds of political,
economic, and social priorities.

ACT 2



Candide is exhausted and discouraged. Once a happy soul, he has been flogged, robbed, and enslaved, and has barely survived war, earthquake, tsunami, fire, and the Inquisition. With the little money he has left, he and his companions buy a small farm outside Constantinople.

That's where we are now. It's time to restore hope. And let's start by nailing down the essential elements of a new model for nonprofit theater.

- The centerpiece of our new model has to be live theater. It's non-negotiable: live performances for in-person audiences. The art form is more than 2,500 years old, and we won't be the ones to kill it. Brooke Flanagan of Steppenwolf Theatre said something in one of our conversations and it stopped me cold: "At the core of what we do, we are torchbearers for live storytelling. We connect to the primal. This is us gathering around the fire and telling our stories to each other. This is about history repeating itself and us not feeling quite so alone because people hundreds of years ago were going through the same things. Our practice isn't as central to democracy or civilization as it once was, but there's a potency that has persisted over time." Yes, please. Let's do that.
- In our model, the end has to be theater. As we've discussed, theater has become a handy tool for helping other people do *their* jobs — from keeping students in school to boosting tourism, from luring diners into local restaurants to making

corporations look relatable. But contorting yourself and diluting your mission in exchange for money is a lousy strategy. Theater itself has to be the point.

- In our new model, theater has to be nonprofit. There are all sorts of good reasons to be nonprofit — from the lofty ambitions of McNeil and the Ford Foundation to more pragmatic considerations like tax breaks. I was sold when I read an interview with commercial presenters who complained that nonprofit theater has all the advantages, like donor bases and mailing lists. If you'd been in the conversations I've been in over the past few months, it would be hard to reconcile what I've heard with the idea that nonprofit theater is the golden child. But let's lean into it.
- In our model, theaters have to have self-determination. For too long, nonprofit theaters have staked themselves to institutional funders, counting on them to help theaters survive and thrive. But as we've discussed, that fundamental relationship is problematic — in part because institutions are losing interest and in part because the aims are misaligned. So nonprofit theaters are stuck in unhealthy relationships and subject to the shifting winds of political, economic, and social priorities.

There are well-intended people — academics like Richard Florida, urban planners, and arts advocates — who call for public investment in arts and theater districts. They argue that they attract everything cities want: commercial investment, young professionals, and new housing stock. And they're probably right. But investments like these are increasingly rare. For one, cities like Chicago don't have

the resources or political will to do that kind of proactive urban planning anymore. For another, most every other industry is lobbying government and making the same kind of argument—an investment in what they do will boost tourism, the tax base, and the city’s national reputation.

Here, nonprofit theater would be wise to take a cue from its commercial cousin: surviving and thriving should depend on what you do, rather than on what others do for you.

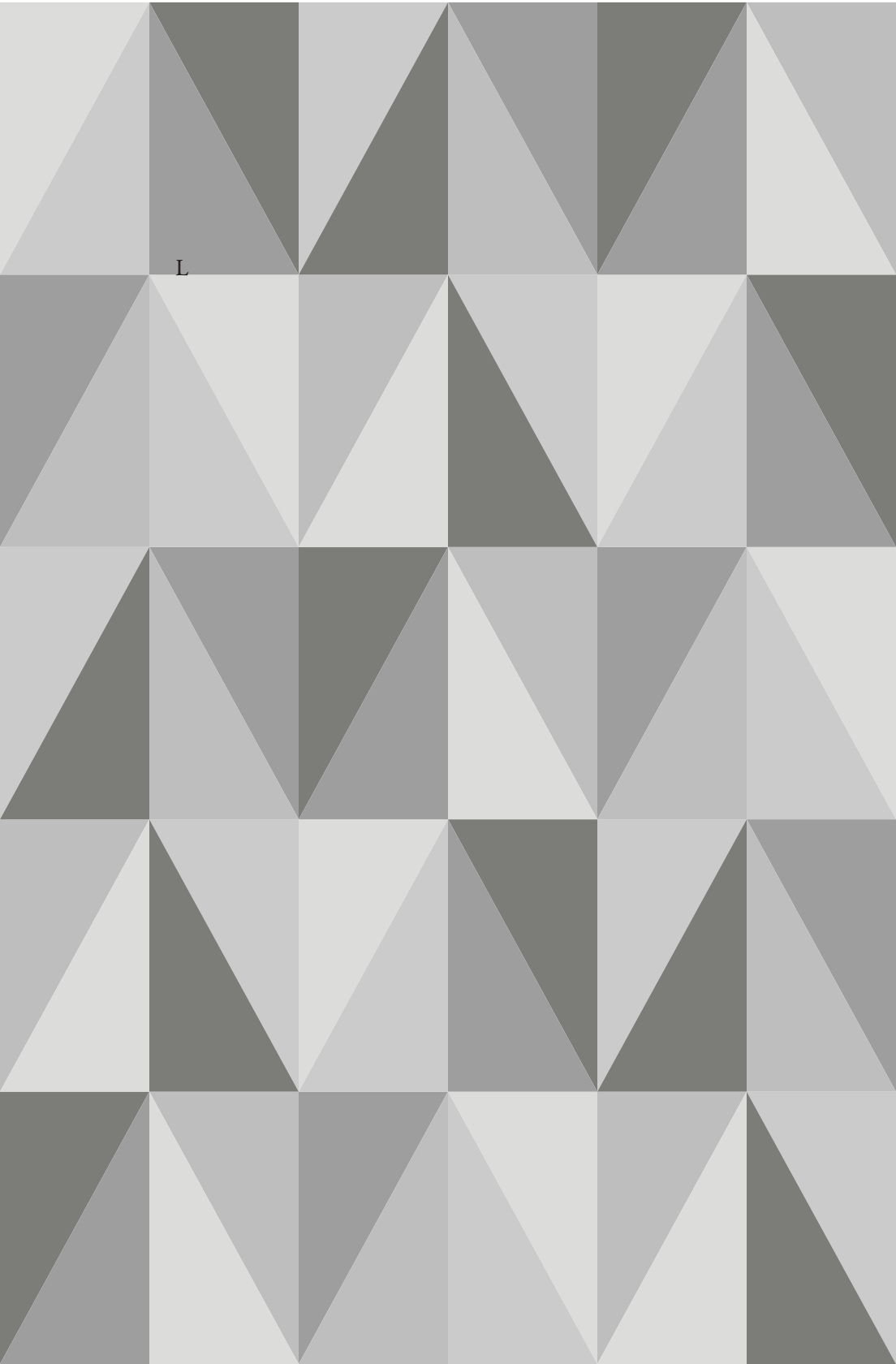
- In new our model, the revenue has to be diversified. First, McNeil was right, in that theaters wholly dependent on ticket sales are wary of taking artistic risks. Broadway in 2024 is Exhibit 1. Contrast what’s playing on the big Broadway stages right now — *Wicked*, *Moulin Rouge*, *Sweeney Todd*, and *Juliet* — with what’s playing on the big non-profit stages in Chicago. Second, smart organizations diversify their revenue to better ride the waves of changing tastes, shifting values, and fads. Self-determination and diversified revenue mean you can zag whenever you need to.
- In our model, the end has to be long-term sustainability and not just meeting current expenses. I know that sounds crazy, as the vast majority of nonprofit theaters are barely making ends meet. And to make matters worse, endowments — nonprofit theater’s standard tool for long-term sustainability — are getting harder and harder to raise money for. We have to think about long-term sustainability anyway, because dreaming big opens up more possibilities than thinking about making payroll.
- Some of you might say that the features I’ve spelled out thus far — live theater, theater as the end, nonprofit status,

diversified revenue, and long-term sustainability — aren't particularly controversial. Great, that means we're on the same page. But I also believe that the new model has to facilitate investment. By investment, I don't mean investment as a metaphor, as in investing in our children or investing in our future. I mean it literally; I mean people giving money to organizations with expectations of financial return.

Let me tell you, that's where this project got hard. Nonprofit theaters — even the biggest, most successful ones — don't have the kind of P&Ls that inspire investment. And then there's the whole artistic risk thing, which makes financial risk even riskier. So every time I had a conversation about this, the MBA version of investment became the MSW version of investment. Making money somehow morphed into doing good. But I absolutely mean making money, which I'll elaborate on in the next section.

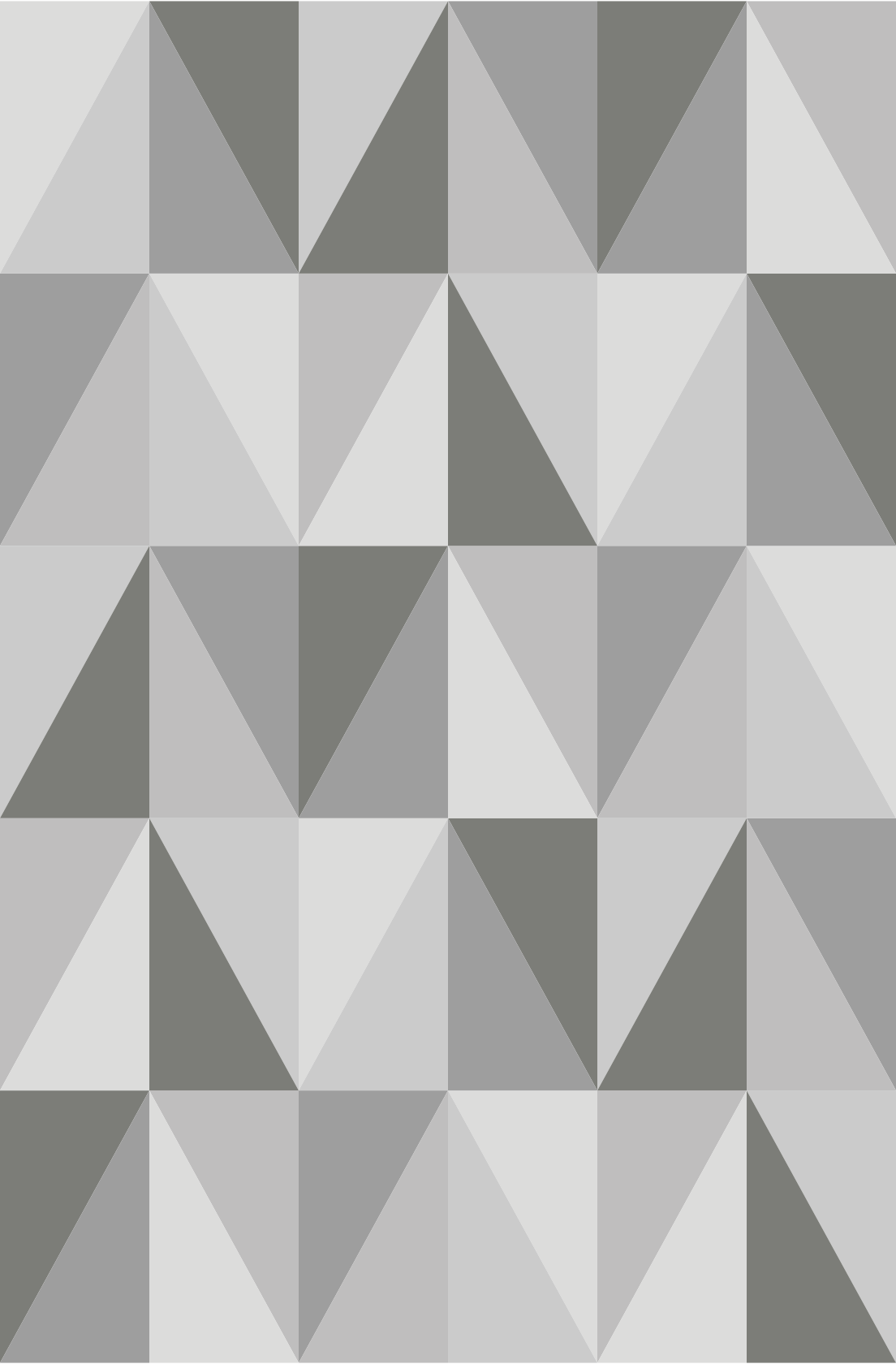
One last thing about the new model: it's not intended as one-size-fits-all. We might assume that McNeil and the Ford Foundation developed a new nonprofit model for everybody. But they only made grants to 17 theaters around the country before they stopped making grants to theaters altogether in 1971.

Similarly, this new model will make more sense for some theaters than for others. But ultimately, if I'm right, the principles will be reinterpreted by lots of theaters. After all, reinterpreting is kind of your thing.



I suspect that very few people who run nonprofit theaters negotiate on the golf course, but this is what deal flow looks like.

ACT 3



While it's not a true story, Ponce de Leon is said to have started his search for the Fountain of Youth near present-day St. Augustine, Florida. He was hopeful of finding it there, they say, because of the lush landscape and natural springs.

My St. Augustine was impact investing. I started there — and was redirected there repeatedly — because it looks so appealing in theory. There are hundreds of billions of dollars in capital from institutional investors, private equity firms, pension funds, philanthropies, and retail investors seeking both social and financial returns. A fraction of that would set up the entire nonprofit theater industry for another 70 years of success.

But I don't buy it. As with the triple bottom line, I think it's largely a mirage. There is a very narrow application of impact investing I think is real: Institutions and individual investors don't want to support — or be seen to support — organizations that do bad things, like trafficking labor or destroying the planet. But I'm wary of the lofty promise of investments in doing good.

Here are some numbers. Two-thirds of impact investors say they want market-rate returns. "Get my broker on the phone! Tell her that I want to do good and make money. And make sure she knows that I'm not willing to make less money just to do good." The median return for an impact fund is 6.4%, compared with 7.4% for a non-impact fund. So 67% of impact investors — the

very people who have bought into the idea of social and financial return — say they don't want to sacrifice that 1% difference.

I want to make two more points about this —

- Impact investing is counterintuitive. We invest to make money. And the people who help us invest that money — institutional money managers and retail brokers — get paid and make their bonuses on our financial returns, not on how much good we do in Botswana or on Chicago's West Side. If the impact investing industry is serious, they'll change their incentive structure to reflect both objectives.
- As the vast majority of nonprofit theaters are scrambling to make payroll and pay their bills, how would they pay a 6.4% or 7.4% return on investments? Under the present model, where would they come up with the extra money to pay that vig?

Don't be discouraged; I'm not abandoning you here. We're walking towards a solution with an even higher upside than impact investing. But first, we need to talk about disaggregation.

In business schools, it's said that there are only two ways to make money: aggregation and disaggregation. For those of you who got MFAs instead of MBAs, I'll explain.

- Aggregation is bringing together all the various elements related to a business under one umbrella. Starbucks, for example, invests in coffee growers, roasting plants, trucking and logistics, and obviously, coffee shops.

- Disaggregation is the opposite — breaking the various parts of a business into separate enterprises. Gaming, for example, really took off when companies like PlayStation made gaming consoles and other companies like Naughty Dog and Square Enix made the games.

Generally, nonprofit theaters are aggregated companies. The only exception I could think of are small theater companies that don't have their own performance spaces and have to make deals with organizations that do. But for the most part, everything that happens in a nonprofit theater is under a single umbrella.

Everybody works for or contracts with the theater. All products and services are developed and provided by the theater. And all revenues — from ticket sales, merchandise sales, donations, and grants — are generated by the theater. I asked one of the nation's most successful and sophisticated nonprofit theaters how many separate nonprofit entities they had, and I was surprised to learn there was just one. That's super-aggregated.

Nonprofit theater didn't have to evolve this way. Art museums and art galleries don't make their own art. The Sundance Institute doesn't produce its own movies. I'm guessing nonprofit theater evolved this way because foundations and governments liked the idea of creating cultural institutions, housed in symphony halls and opera houses, and because executive and creative directors liked the idea of controlling everything about the theater experience. So it evolved to be the standard operating model.

Now we need to disaggregate. We need to break nonprofit theaters into two organizations — one that develops, produces,

and sells tickets to live theater and one that does virtually everything else. The first one would remain a nonprofit, taking artistic risks and taking advantage of tax breaks. The second one would be a for-profit, taking on investors and making money to support the nonprofit. In short, we're replacing foundations, corporations, and governments with the free market.

In the words of an expert I'll come back to in a minute, we need to "separate out the nonprofit's core competencies and underutilized assets." Here's what he means: There are all sorts of things nonprofit theaters are either good or great at, like developing artistic talent, putting on shows, and building audiences. But there are all sorts of things you're not particularly good at, like capitalizing — really capitalizing — on successful shows and loyal audiences.

I'm sure I've offended some of you. I'm sure you think you're great at capitalizing on hit shows and on creating brand extensions to deepen relationships with your fans. But not even the best of you has multi-year development deals with Netflix or are selling branded merchandise at Macy's. I don't say this to humble you, but to show you the ceiling you're nowhere near.

Let me address one more objection you might have before we dig into the details. You might tell me that some theater companies already have their own for-profits, like the Definition Theatre on Chicago's South Side, which operates a small business incubator. Or you might point to Dave Eggers' 826 tutoring nonprofit, which runs quirky retail stores to help fund their operation.

What I'm talking about is fundamentally different. I'm not talking about launching a for-profit to support your nonprofit. I'm talking about spinning out things you already do into a for-profit that can take outside investment, do what you do better, generate more revenue, and pay investors.

The key is something called the L3C. I'll go into more detail below, but here's the general idea: Your nonprofit theater can have a for-profit subsidiary that runs everything that isn't live theater. The for-profit subsidiary can do whatever for-profit companies can do, namely take on investors and generate profits.

The L3C was developed specifically for organizations like yours. Technically, it's a business structure, like a corporation or an LLC. It has been around for about a dozen years, but is only available in eight states, including Illinois. (If you're reading this in one of the 42 states that doesn't have L3Cs on the books, you can still do this.) The L3C is surprisingly underutilized, with only about 2,000 in the whole country.

I'm not an attorney or an accountant, but I spent some time with Marc Lane, the Chicago lawyer who wrote the Illinois L3C legislation. Here's what I learned —

- When you look this up, you'll find that the official name of the L3C is the low-profit liability company. But there's no limit to how much profit the L3C can make; the name derives from its purpose.

- The L3C should be a subsidiary of your nonprofit. It doesn't run alongside you but sits beneath you. This means that you and your board have the final say on what it does and how it does it.
- The L3C has to advance your mission and have a charitable or educational purpose. I ran the lawyer through some of my ideas for the for-profit — which I'll share in the next section — and he said it's likely they'd qualify.
- The L3C is where you'd house big ideas, resources, and assets that go beyond the scope of a nonprofit theater. For example, museums are forming L3Cs to develop and launch immersive experiences. This way, museums — which are dealing with many of the same funding and audience challenges that you are — can offload the financial risk of a new venture.
- Your nonprofit should remain the majority shareholder, but your L3C can take on institutional and individual investors. Just as importantly, it can generate revenues to pay investors the kind of returns they expect. But here is where the L3C blew my mind.

You may have found that increasingly foundations are looking to make investments rather than give grants. Or maybe you haven't, as until now investments weren't really on the table for nonprofit theaters. Here's the foundations' rationale: if they make an investment and help an organization build capacity, they won't have to make ongoing grants to fund operations. The Ford Foundation, for example, says that a million-dollar, program-related investment is the equivalent of \$5 million in grants. They're banking on their investment

being “catalytic capital” — an investment that attracts other investments — so they don’t have to do all the heavy lifting themselves.

With an L3C, foundations’ investments are characterized as grants. I know that sounds technical but let me explain why it’s so important. Foundations are limited in the kind of financial risks they can take. If they spend too much of their money on risky investments, they lose their nonprofit status. But when they invest in an L3C, their investment counts as a grant; investments in your L3C don’t count against their cap on risky investments.

Now let’s talk about the L3C itself.

- Start-ups are risky. Nine in ten shut down early and fail to pay back their investors. But your L3C wouldn’t be a conventional start-up. It would be an extension of your theater, which already has lots of fans, season ticket holders, donors, and allies in foundations and corporations. From the jump, the L3C would be trading on your reputation and your brand. No wonder for-profit theater is jealous of you.
- I’ve talked about labor costs before, but there’s something I didn’t address directly: As a nonprofit theater, you don’t have your pick of the labor market. You can only hire people who are willing to take a lower salary to work within the financial constraints of a nonprofit.

That’s one of your challenges in striking deals with Netflix or Macy’s. Nobody in your organization has that kind of deal-making experience.

If somebody did, you couldn't afford them. As a for-profit company, the L3C can address this. Not only could you cast a wider net for business talent, but you could use compensation models that make sense in the for-profit world.

- I'm sure you've thought of this by now, but you've already got a lot of potential investors: the individuals, institutions, and corporations you're currently asking for donations, grants, and sponsorships. But rather than asking them to help you keep your doors open, you're offering them the opportunity to own a piece of your business.

Imagine that rather than passing the plate, you're making an investment pitch. Rather than ask your board members for a give or get, you're asking them to buy in. I suspect that very few people who run nonprofit theaters negotiate on the golf course, but this is what deal flow looks like.

And remember what I said about new wealth being disruptive money rather than institutional money? This is even better, as you're asking people who made lots of money to invest in something that makes money.

Finally, let's be honest, you're cool. You don't offer the potential return of ETFs or CDOs (whatever the hell those are), but you offer the opportunity for people to be investors in organizations they love. I know absolutely nothing about the restaurant business, but I own a very small piece of a Jewish deli in Chicago's western suburbs. I've never made a penny on my investment, but I take everybody there and nod a lot when the majority owner explains his plans to tweak

the menu. You'd be offering your fans a qualitatively different relationship to your theater, the kind that is now only available to your board — kind of.

- You've no doubt heard about the big shift underway in philanthropy, specifically the explosion in assets held by private foundations and donor-advised funds. As of right now, it's estimated at \$1.9 trillion — equivalent to the gross national product of Spain. These aren't your parents' foundations, with their *noblesse oblige* and floors of program officers. Generally speaking, they're more like investment houses looking for undervalued assets and scale. I suspect your L3C would be more attractive — particularly if it's doing bold and novel things — than your current nonprofit.
- You've undoubtedly partnered with a corporation. And why not? They have things you want: sponsorship dollars, brand affiliation, or a bunch of employees and clients for group ticket sales. But these partnerships are tricky — like trying to use a US plug in a UK outlet. That's because corporations and nonprofit theaters have different interests and measures of success.

Some corporations, including all big corporations, have created offices to manage these partnerships, with names like corporate social responsibility, community relations, and community affairs. That should make for more and better partnerships. But as I said before, corporations aren't primarily interested in things like CSR, community relations, and community affairs.

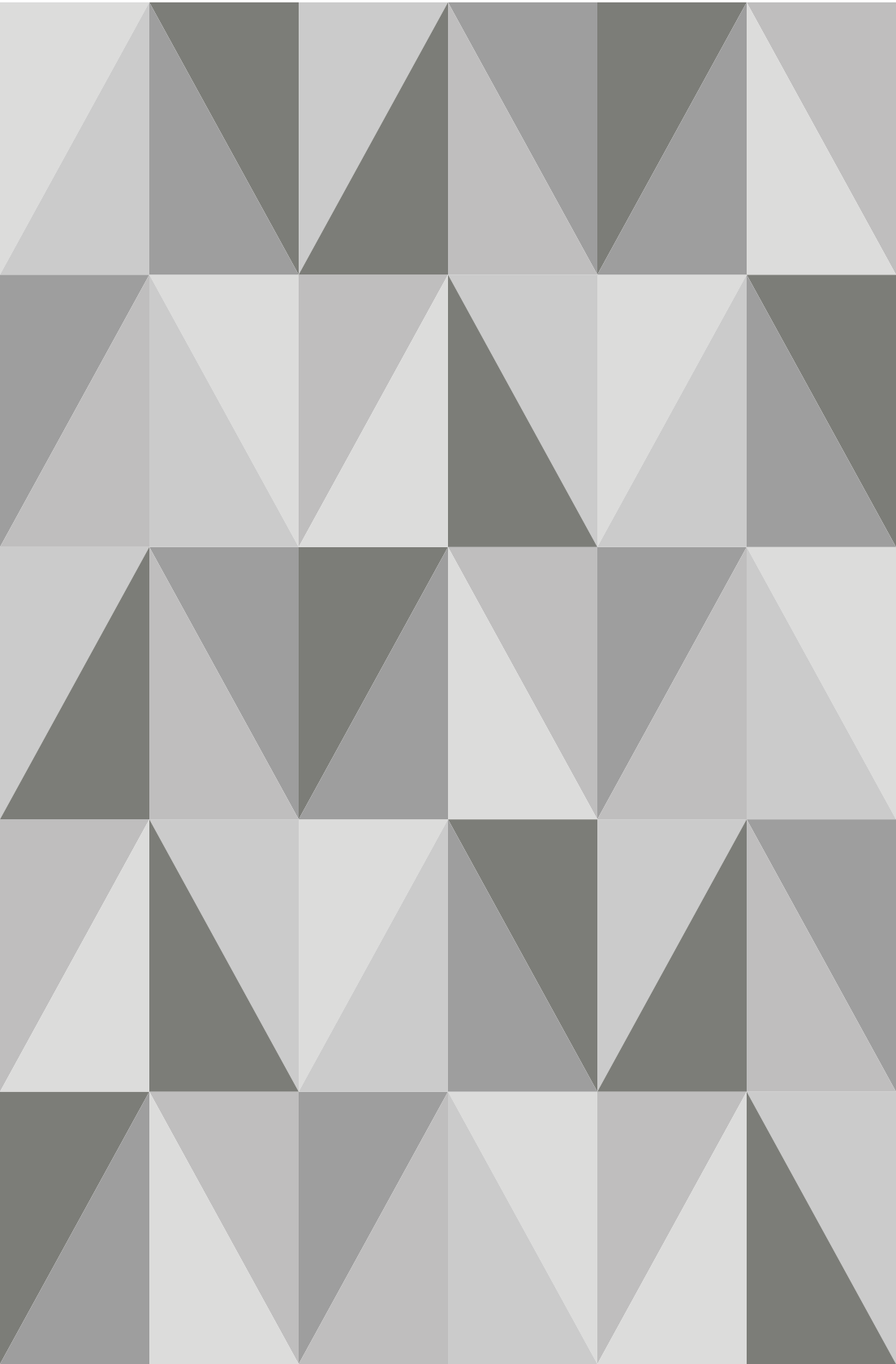
And so the executives in those offices, no matter how well-meaning, imaginative, or experienced — generally aren't empowered to create the partnerships they want to.

I suspect your L3C would make this easier. You wouldn't have to try to align different interests and measures of success. You would be speaking their native tongue.

- Right now, there's an advantage to a theater being in the city center — whether in an officially designated theater district or just close to other theaters, hotels, and public transportation. But I'm not so sure that's as true when there's an L3C in the mix. It's not hard to imagine investors being attracted to a theater that has its own local market.

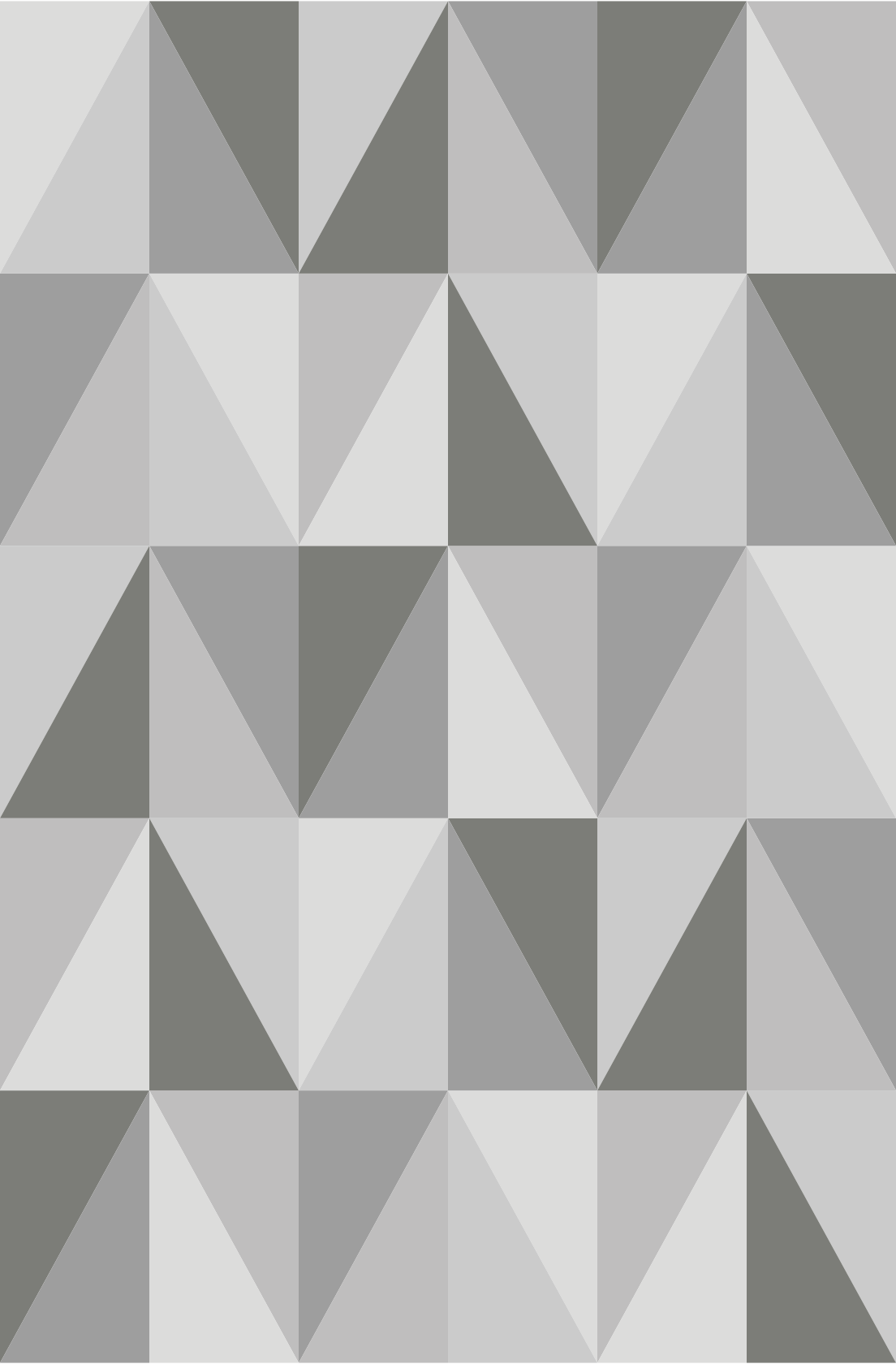
From where I sit, which admittedly is not where you sit, the L3C lines up pretty well with the criteria I laid out for our new model — it has to be about live theater; theater has to be the end and not the means; theaters need to retain their nonprofit status; the model has to increase your self-determination; it has to produce diversified revenue streams; it has to facilitate long-term sustainability; and importantly, it has to enable real investment.

Now that wasn't so hard, was it?



There are lots of people buying Tupac
t-shirts who have never heard his
albums or seen him perform.

FINALE



Finally, this is an addendum of sorts — a mash-up of random ideas that may be helpful to you now that you're business moguls.

1. Let's look to Disney, as they are — and have long been — the undisputed leader in spinning entertainment into gold. Former CEO Michael Eisner directed the company's growth from 1984 to 2005 using what business schools call the “flywheel,” a way of thinking about squeezing all the value you can out of big risky investments. In short, hit movies spawn theme parks, which spawn merchandise.

This isn't just about selling t-shirts after a show. It's about thinking through the whole audience experience from the jump: Once the show's a success, what will we do with that momentum to extend the theater's return? I don't think you have to wait until you have your own *Hamilton* to do it; smaller shows that really resonate with an audience probably have their own brand extensions.

I'm way out of my league here but let me give you an example. Let's say that you're staging an original show about a civil rights leader — not Dr. King or Harvey Milk, but somebody who most of us have never heard of. Ticket sales are just OK, but the protagonist really strikes a chord with a segment of your audience.

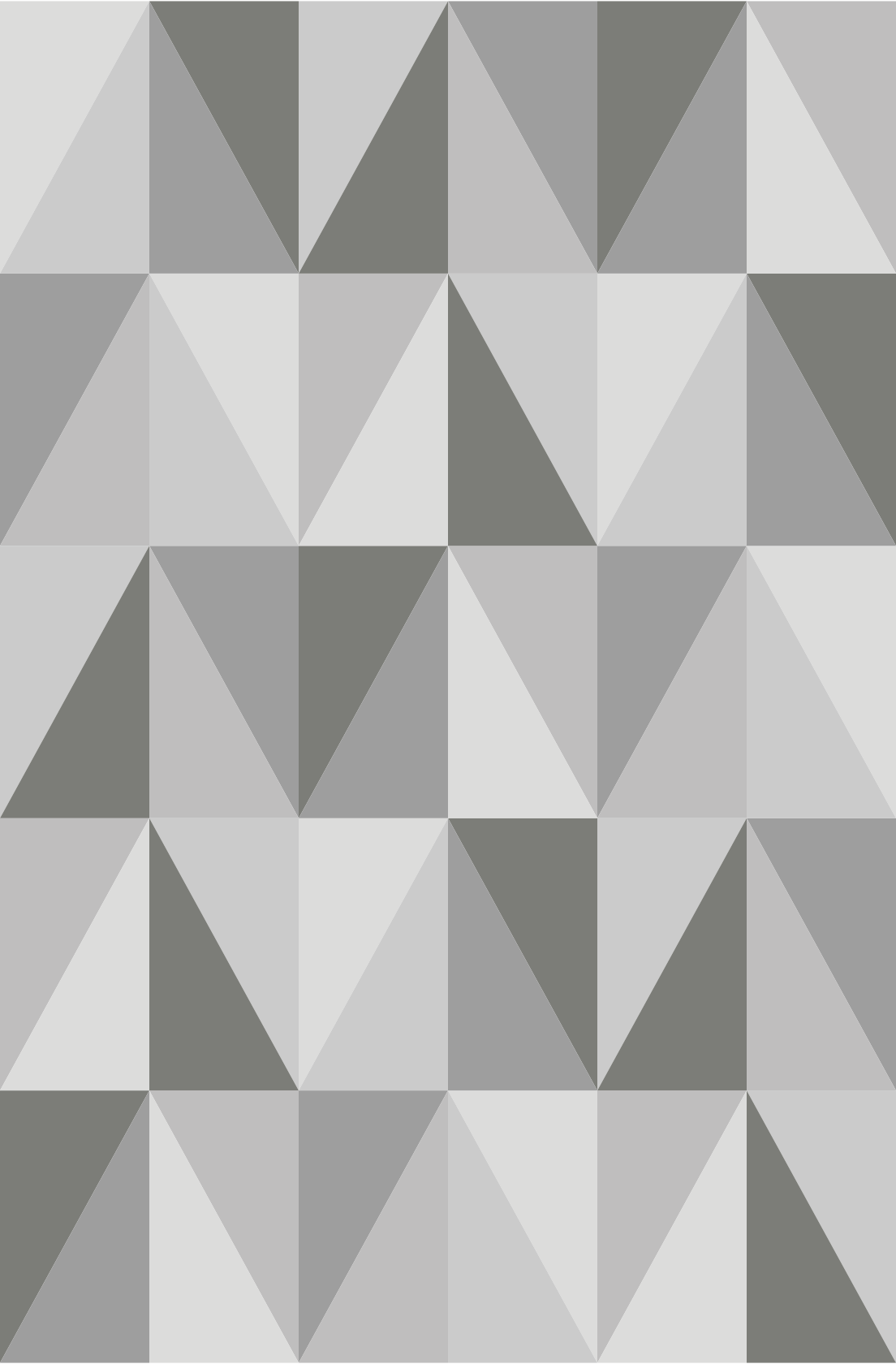
Your L3C can capitalize on that. You can produce merch that affirms their identity. You can partner with a filmmaker

to produce a documentary about the protagonist for one of the streamers. With the flywheel, it's not about more ticket sales but about the other ways you might capitalize on the show, its characters, or its theme. Every show can be Cinderella™. The best part of it is that you can extend your reach and return far beyond the people who buy tickets to the show. There are lots of people buying Tupac t-shirts who have never heard his albums and or seen him perform.

2. I've been thinking about what you're already doing that you might move over to your L3C. Here are two:
 - I'm sure you're already making deals with Broadway or Hollywood. Or you're wishing you were. In either event, those deals should be done through your L3C, where you can take real investment and pay the kind of dealmakers who will maximize your return.
 - You're awash in talent, in both employees and contractors. You can open a professionally managed bureau through your L3C to give that talent a platform for speaking, teaching, and training. I'm imagining executive directors talking about arts management, playwrights teaching the secrets of content creation, actors training executives on how to present, and set designers giving tips to interior designers. Everybody's looking for a few extra bucks and your brand and L3C can help.
3. I've also been thinking about things that you're not doing (or probably even thinking about, I'd guess) that you could do with an L3C. Here are three —

- Every successful theater is good at identifying nascent talent. And with your brand and profile, there's no reason why your L3C couldn't represent them. Who better than a theater to vouch for up-and-coming actors and playwrights? You could build a portfolio of talent for ads, TV shows, movies, and other theaters — funded by investment and run by talent professionals. If you don't want to do it yourself, your L3C could partner with an established agency. Remember, you're cool and people want to be associated with you.
 - You're probably doing your own marketing. But you'd probably do it better if you had more money to spend on talent and channels. You could move your marketing over to your L3C, hire more experienced people, and do all the things that soft drink companies do. And you could make money by providing marketing services to other organizations. Again, you're cool and people want to be associated with you.
 - As long as we're capitalizing on your cool, let's talk about brands. Your L3C should make it easier for you to co-brand. For one, corporate brands understand money-making a lot better than good-doing. And your L3C and the dealmakers who work there could get you past the corporate social responsibility folks to where the real authority lies.
4. Let's close by thinking through a few of the things you'll need to do to take advantage of the new model.

- You'll definitely need a lawyer (and probably an accountant) who is familiar with this relatively unknown legal structure. As I said before, the L3C has to advance your mission and have a charitable purpose. So you should talk to the attorney before launching any of the things I spelled out.
- And you might want to re-think your board. If you're a small theater, your board is probably hands-on, doing anything from stuffing envelopes to providing free legal advance. If you're a larger theater, you undoubtedly have a give-or-get requirement, as donations are critical to your survival. But if you're creating an L3C, maybe your board has a different orientation — maybe they're more entrepreneurial and are helpful in launching and building businesses.
- I think the new model has the potential over time to change how nonprofit theaters work. But in the meantime, you should absolutely take advantage of what the smartest among you are experimenting with — things like co-productions, partnerships with for-profit theaters, and dynamic pricing. But ultimately, unshackling your theater from the vestigial limitations of the nonprofit model will have the biggest effects on its sustainability and long-term success.





Rethinking Nonprofit Theater

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