

**EXETER CITY COUNCIL
REPORT TO: SCRUTINY COMMITTEE ECONOMY AND EXECUTIVE
DATE OF MEETING: 5 MARCH 2015 AND 17 MARCH 2015
REPORT OF: MUSEUMS MANAGER & CULTURAL LEAD
TITLE: PROPOSAL TO ESTABLISH A MUSEUM SHOP AT RAMM**

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council Function

1. What is the report about?

1.1 This report describes a proposal to set up a shop at the Royal Albert Memorial Museum and through its operation generate income which will help support service delivery in the likely scenario of a reducing core budget.

2. Recommendations:

2.1 That Scrutiny Committee - Economy note the 5 year forecast Profit & Loss figures and agree the payback period for the investment requested; and

3.1 That Scrutiny Committee - Economy recommends as a supplementary request the addition of £68,000 to the Capital Programme to enable the fit out and set up of the new shop.

3. Reasons for the recommendation:

- This new income generation initiative will increase the sustainability of the museum service.
- By exploring museum collections and Exeter's history for retail inspiration and product development, it will contribute to the city's unique destination offer.
- A shop at RAMM will enhance the visitor experience, extending dwell time in the museum and the city centre.
- A distinctive offer will make the shop a attraction in itself, driving footfall and encouraging other secondary spend, in for instance the cafe (where the Museum in addition to a fixed rent, receives a percentage of turnover).
- It will also meet customer expectations of leisure attractions extending their visitor experience by offering tangible 'take home' memories.

4. What are the resource implications including non financial resources.

4.1 Significant staff management time will be involved in the development, set up and early operation of the shop. There will be ongoing involvement to ensure a 'good fit' with the

Museum with planned exhibitions and events informing merchandising. Input into continuing product development will also be required to keep the sales offer fresh for repeat visitors which are an important part of RAMM's audience.

5. Section 151 Officer comments:

5.1 The figures have been reviewed by finance and the capital and revenue costs noted along with the projected income figures. If approved the income and expenditure will be added to Museums budgets in future years, which will result in a reduction in the overall cost of the Museum.

6. What are the legal aspects?

6.1 No legal implications.

6.2 Commissioned work and procurement of materials/equipment associated with the shop set up should be in accordance with the Council's standing orders.

7. Monitoring Officer's comments:

7.1 This report raises no issues for the Monitoring Officer.

8. Report details:

Current position:

RAMM's retail activity is currently limited to a small range of items sold from gondolas (free standing display units) in the Garden Entrance Reception area. These are wheeled, which allows them to be moved downstairs to create social or gathering space for receptions, private views and corporate hire. Goods sold include exhibition related books, guides, soft toys, badges, pens, pencils, bags, postcards etc.

Growth of this activity is restricted by the available space and staff time. Retail duties are not part of any one job description role. The Museum receptionist currently deals with purchases although the principal function of their job description is to act as an information point for visitors, ticket sales, first point of call for telephone enquiries etc. Stock selection and management is currently being undertaken by members of the Audience Development Team as an addition to their much wider range of core activities. The lack of staff dedicated to retail development is a critical consideration in growing this area of business, and is referenced later in this report.

RAMM's lack of a specialist museum shop is frequently commented on by visitors. One of our independent visitor research questions (2014) asked visitors about areas for service improvement. Answers highlighted customer expectations that a buying or browsing opportunity forms part of their experience of a leisure/visitor attraction. 50% of respondents said they would be 'quite' or 'very' likely to buy something from a bigger shop. As a factor determining the choice of a visit it may even drive a proportion of decisions.

Background:

At planning and even construction phases a museum shop featured as part of RAMM's development plans for many years. It was during preparations for re-opening that its viability was questioned. This followed investigation into other museums' retailing activities. In summary this showed that:

- Many national museums have very profitable retail trading, based on their very high profile, large visitor throughput, bespoke merchandise and constant flow of foreign tourists.
- In contrast, regional museum shops often struggled with their profitability due to lower numbers, a greater proportion of resident/repeat visits spending less and in the case of local authority run organisations, high overheads, especially staffing. Some museums (including Exeter in the past) had experimented with 'leasing out' the shop but this often resulted in a poor 'tie in' with the Museum, diminishing the visitor experience. This was a particular concern given the City Council's commitment and high level of investment in the RAMM project.
- Shops in independent museums were considered important generators of income but operated on more commercial lines with experienced retail staff.

Using these findings a report was prepared for the Members' Steering Group supporting the development project. Taking into account the set-up costs of establishing a shop and the uncertainty around its potential profitability, Members decided to minimise the Council's exposure to risk by not proceeding with a museum shop, although it was agreed that on opening, RAMM should continue to monitor the situation and revisit the opportunity if appropriate. This has led to this report. Meantime space formerly allocated to the shop was 're-purposed' as the Garden Meeting Room which available for external hire (requiring only cleaning/provision of refreshments), has generated a steady income flow.

Elsewhere visitor 'secondary spend' is still recognised, within the museum sector, as an important potential source of income. Finding ways of encouraging and unlocking this spend has also been explored by other museums. Officers have looked at work recently undertaken by Leeds Museums & Art Galleries (a local authority service) across their range of sites. Working with specialist retail consultants they have completely redeveloped their shops: transforming spaces, stock, staffing and operation from an unprofitable to profitable activity, generating useful income to support their core services.

Key features of the shops:

- Consistency of visitor experience with careful match between the shop and the brand/environment of the museum (settings and collections).
- Development of unique lines, high quality range of goods (only available through these outlets).
- Distinctive range of products (offering choices additional to high street)
- High end as well as 'pocket money' offer (the former offering greater profitability).
- Strong stock selection and management.
- Dedicated sales (rather than customer service) staff to drive business.
- Adopting a commercial focus and operating practice.

Business Plan Development

Arts Council England, Major Partner Museum funding enabled RAMM to engage the same consultants to visit Exeter and museum to make an assessment of its retail potential. Their view, particularly given the city's strength as a retail and visitor destination, was that RAMM had strong potential to develop a shop that both enhanced the visitor experience, drove additional footfall and potentially benefitted other areas of secondary spend such as the cafe.

A Business Plan was commissioned from the retail consultant outlining the necessary key steps required to develop and set up a retail operation at RAMM. These are factored into the financial projections that form part of the Business Plan.

- **Location:** The space identified for potential new shop is Gallery 5 which has 96.201m² floor space. (Its location is ground floor, Queen Street level, facing visitors as they turn left in the entrance hall). This position in the building would provide the shop with good visibility to visitors leaving and entering the Museum. It is close to the cafe and is a space that can be separately secured when other events are being held at RAMM. Committing this space to a shop will result in a loss of exhibition space, and an area sometimes used for corporate hire but this will be offset by the generation of a strong income stream important to the museum's long term sustainability.
- **Shop environment and retail design concept:** In installing/fitting out a shop the plan identifies the need for a bespoke retail concept creating a unique retail experience that builds on and complements RAMM's brand. This is important to the consistency of the visitor experience.
- **Retail staffing:** Crucial to the plan's implementation is the recruitment of an experienced retail manager, with a background in buying. Other dedicated staff with sound retail sales background will also need to be recruited. Based on experience elsewhere, the plan emphasises the importance of avoiding 'dual purposing' staffing with museum teams, as the tension between different types of duty frequently results in a lack of commercial focus and commensurate drop in sales.
- **Product offer:** Unique ranges will provide the shop with its own retail character distinguishing it from high street competitors and encouraging return purchasers. Creating a bespoke line of products inspired by the museum's architecture, collections or the history of Exeter itself will build on and exploit the commercial potential of the shop's setting in the Museum. The range also needs to have a selection of different gift lines at a variety of price points.
- **Marketing and public relations:** The business plan includes an allocated sum for profile raising to cover the launch of a shop. The Garden Reception gondolas will be retained to extend retail opportunities and there will be visual 'reminders' introduced into galleries.
- **Support costs:** Continuing specialist input of the consultant in the development phase of the project is also factored into the business plan.

Timescale: Subject to all the approvals, tapering of existing exhibition commitments, design, installation, recruitment etc it is envisaged the shop will open in September 2015.

Costs

The financial requirements of this proposal will require a supplementary budget request to the capital programme of £68,000. Other expenditure costs will be held within a separate revenue cost centre which will also receive income less profit, enabling clear financial monitoring.

The forecasted sales and business plan has been developed based on two possible scenarios.

The first of these is based on the Average Transaction Value and conversion rate achieved in the first six months for the Leeds Art Gallery shop. This is a conservative forecast based on the following considerations:

- Communicating the new retail offer with a unique offer aimed at developing the destination shopper market and RAMM visitors.

- The recruitment of sales staff with skills to convert footfall through excellent standards and service.
- The conversion rate (visitor numbers divided by sales transactions). 10% is purposefully low and below what might be expected (23-25%), to create a cautious financial projection. For the same reason, the second more optimistic scenario with increasing conversion rates increasing in years 2 and 3 has not been used to outline this proposal.

A small profit is forecast in the first six months (part year) of trading with a significant increase in year 2 and upward trends in subsequent years.

Projected Five Year Direct Profit (after deduction of direct expenses and depreciation)

Year One (half year)	Year Two	Year Three	Year Four	Year Five
£1,320	£39,060	£121,150	£130,600	£145,130

The Profit & Loss forecast shows that return on investment is forecast to be achieved by month 21 of operation.

The set up costs for the shop are set out below.

<u>Description</u>	<u>Capital</u>	<u>Revenue</u>
Shop Fit Out	£68,000	
Staffing Costs (Full year)		£70,000
Retail Training		£1,050
Staff Recruitment		£500
Stock (Full year)		£35,000
Marketing		£3,000
Consultancy Support		£4,000

9. How does the decision contribute to the Council's Corporate Plan?

- 9.1 This proposal is an income generating initiative intended to improve the future sustainability of Museum services.
- 9.2 The Museum contributes to the corporate objective 'Provide great things for me to see and do' as part of the cultural and retail destination offer that attracts visitors to the city centre and the quality of life mix that delivers inward investment.

10. What risks are there and how can they be reduced?

- 10.1 As with all commercial ventures, future profitability is the principal risk. In order to mitigate this risk, external retail advice has been sought drawing on the experience of shops in similar museum settings. A five year profit & loss projection has been produced; setting out all associated outgoings, including overheads, together anticipated income.
- 10.2 The project will be carefully monitored to check how its performance conforms with the expected five year plan. Variance will be examined and action taken to address their cause.

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

11.1 The Museum shop will be within the setting of RAMM so the project itself creates no new impacts on these social issues.

12. Are there any other options?

12.1 In an earlier decision before RAMM reopened in 2011, Members chose not to invest in a Museum shop and this option remains, although it would close down an important avenue enabling the museum to diversify its income and explore use of its assets for commercial development.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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