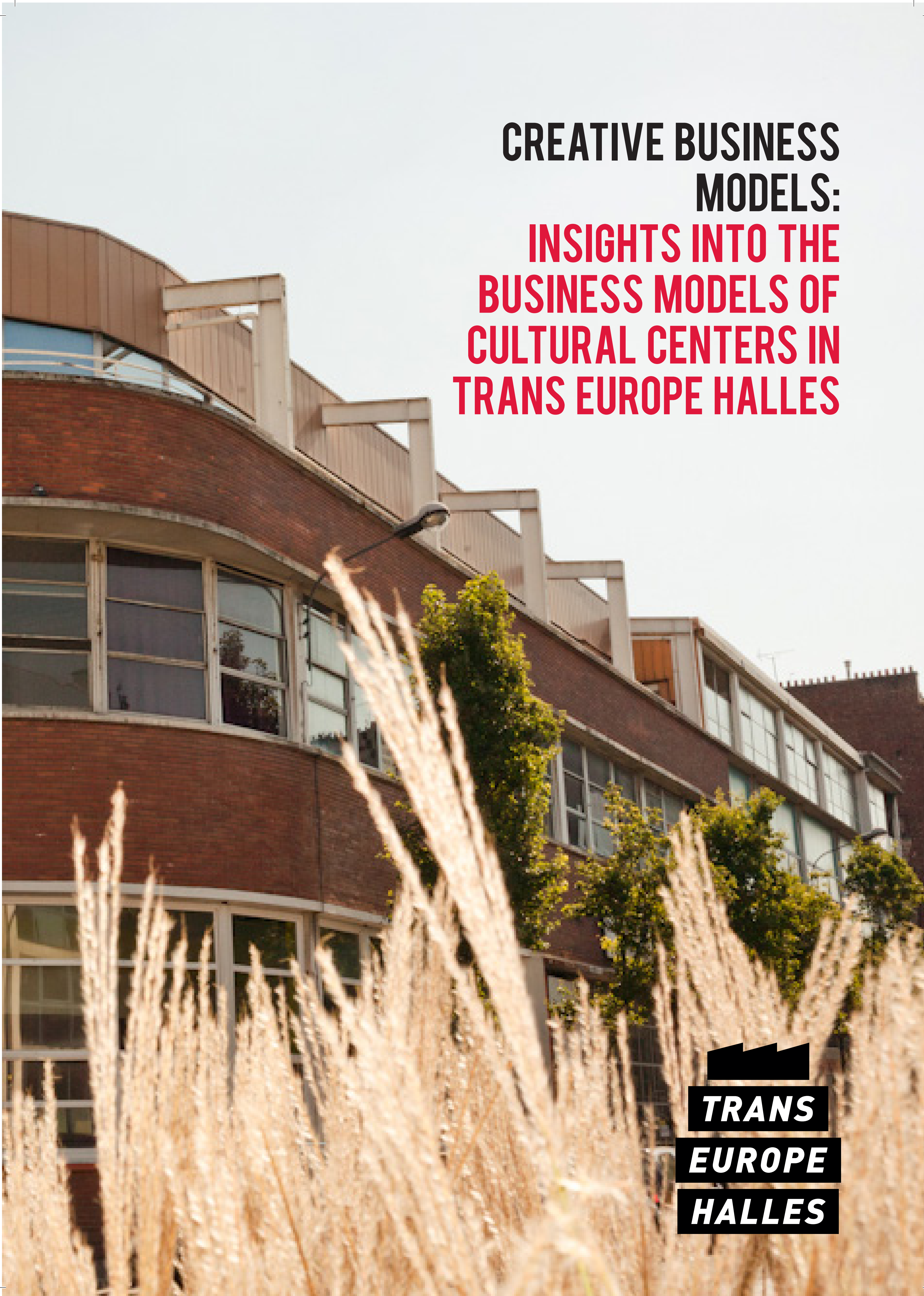
CREATIVE BUSINESS MODELS:

INSIGHTS INTO THE BUSINESS MODELS OF CULTURAL CENTERS IN TRANS EUROPE HALLES



TRANS EUROPE HALLES

Report based on the outcomes of the project “Creative Business Models for Creative Organisations” funded by Framtidens Lund, The City of Lund, Sweden.

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EXECUTIVE SUMMARY

This report aims to analyse first the notion of creative business models in cultural organizations and then to set the scene for understanding the state-of-the art and the adoption of innovative creative business models by the European independent cultural centres belonging to the Trans European Halles (TEH) network.

Specifically, this report aims to provide first evidences and insights of an on-going research project managed by the TEH in order to support the benchmarking and the adoption of business models for driving the improvement of the value creation mechanisms of the independent cultural centres of its network.

Using the population of the 45 independent cultural centres operating in 27 European Countries, the report provides first information and insights - derived from a qualitative survey - about the business, governance and organizational profiles of the TEH independent cultural centres, as well as their perception and orientation to elaborating, identifying, adopting and managing innovative creative business models and to qualitatively identify a feasible set of resources, assets and behaviours potentially driving market-orientation, performance improvement, competitiveness and sustainability.

This empirical research activity has been considered relevant and a useful introductory study towards the next steps of the on-going research project that aims to analyse and define specifically the various dimensions of the business model of the cultural organizations of the TEH network according to the theoretical modelling presented in this report. In the following, the main issues presented in this report are listed:

▪ Companies and organizations operating in the creative and cultural industries (CCIs) face significant challenges that can be outlined as follows: support of the public good, organizational investment, financial stability, marketing strategies, performance measurement and management systems, partnership strategies and business models innovation.

▪ Recently, great attention has increasingly been placed on the role and relevance of the business model and business model innovation to support and drive the improvement of organizational performance. However, most of the interest has been developed traditionally by multinationals, great corporations and more recently by dot.com and companies operating in the Information and Communication Technology (ICT) and e-business searching for improvements in their efficiency.

▪ Small or Medium Enterprises (SMEs) and organizations operating in the CCIs - although they are increasingly recognizing the relevance of elaborating and adopting business models - they still do not have structured initiatives in place. Indeed, cultural organizations' and SMEs' business models are fundamentally implemented and managed implicitly, i.e. without the use of formal approaches and tools.

▪ Different reasons contribute to the relevance of shaping sustainable business models in CCIs, which can be divided into two main categories. On the

Mejeriet, Sweden

one hand, cultural organizations are challenged to understand how they can achieve financial viability, without compromising their mission and/or not-for-profit values. On the other hand, according to the progressive evolution of the business landscape, they can position themselves in the ecosystems not only as providers of cultural activities, extending their audience, but increasingly they can play a major role as actors for social innovation and development, providers of cultural and creative services, and catalysts for change and performance improvements of organizations operating in other traditional sectors.

▪ Although business model innovation is recognized as being fundamental to creative and cultural organizations' success (Hume et al., 2006; Munoz-Seca, 2011; Munoz-Seca and Riverola, 2010, 2008; Zomerdijk and Voss, 2009), the approaches, the techniques and the tools for elaborating, implementing and managing specific and tailor-made business models in creative and cultural industries are still crude and often inadequate.

▪ The first explorative survey on the 45 independent cultural centres of the TEH network has provided relevant evidences and implications about:

▪ the nature and the typologies of the legal structures of the organizations;

▪ the location, ownership and the facilities of the physical building in which they operate;

▪ the most common types of activities and the related managerial activities as well as the types of services delivered to clients and customers;

▪ the economic and financial issues, such as annual budget, sources of incomes, sources of earned incomes, types of funding, bank loans, cash reserves and savings, and types of activities connected to the renting of the spaces;

▪ organizational governance, in terms of presence of a director, board of directors or trustees, and human resources involved in the delivering of the activities of the independent cultural centres of the TEH network.

PROJECT OBJECTIVES AND ACTIONS

The purpose of Creative Business Models for Creative Organisation research project was to investigate and take the first steps of attempting to answer the question: How can arts and cultural organizations increase their own income or resources to develop a more sustainable practice without compromising their vision, mission and not-for-profit values?

The Creative Business Models for Creative Organisations project was managed by Trans Europe Halles (TEH) in partnership with The Creative Plot (TCP) and supported by the Culture Department of the City of Lund, Sweden.

Trans Europe Halles (TEH) is a European based network of cultural centres initiated by citizens and artists that advocates and promotes culture, makes accessible its knowledge and encourages new centres and initiatives. With more than 80 members and associates all over Europe, the network functions as a dynamic forum for ideas, experiences and exchange, supporting its members and their communities. For Trans Europe Halles, the power of culture is in inspirational, transformative experiences that have the capacity to change people, perceptions and societies. Trans Europe Halles contributes to building a sustainable future for the independent cultural sector. www.teh.net

The Creative Plot (TCP) is a part of the Business Department's and Cultural Department's work to develop and create sustainability within the cultural and creative sector in Lund. TCP is a platform where the creative sector develops strong ideas together with academia and businesses, and where the results contribute to society in different ways. TCP runs a creative business incubator embedded in the innovation and entrepreneurial support structure and a helpdesk for culture organizations, projects, ideas and people. A research study made by Copenhagen Business School puts TCP in the forefront of incubation development. www.thecreativeplot.se

The projects objectives were:

▪ To commence on-going research focused on the investigation of the creative business models adopted by the TEH independent cultural centers.

▪ To commence an exploration and analysis about how to develop new business models and extend existing ones for arts and cultural organisations that are financially viable, realistic and sustainable.

▪ To explore ways in which arts/cultural centres and organisations can be enabled to improve their economic performance in a way that is truly beneficial

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to them and in the long term, their artists, audiences and communities.

▪ To develop a long-term project to understand, define, test and disseminate what are the most viable and suitable business models for arts and cultural organisations and seek support for this from the European Union's Creative Europe programme.

The projects actions were:

▪ A Creative Business Models workshop in Amsterdam entitled 'The Art of Making Money', which was part of a TEH new culture strategies conference.

▪ An on-line survey of Trans Europe Halles members' governance, structures, business activity and finances.

▪ The investigation of five (pilot) Trans Europe Halles members[1] Business Models and initial consultancy support to address current issues identified by them.

▪ A seminar in Pilsen, Czech Republic with the five (pilot) Trans Europe Halles members, the project managers and The Creative Plot Lund.

▪ Planning and preparation of an application to the European Union's, Creative Europe programme in order to develop and extend the project in the long-term.

▪ Literature research and analysis of current issues and trends on the business models of arts and culture organisations.

Based on the outcomes of the Creative Business Models-project, the 4-year long European project "Creative Lenses" was conceived. It was granted €2 million by the European Commission's Creative Europe programme and runs from 2015 to 2019. The Creative Lenses project gathers a partnership of 13 cultural organisations, universities, consultancies and networks and aims to strengthen and develop the business capacity and sustainability of European arts and cultural organisations.

STRONGER ARTS AND CULTURAL ORGANISATIONS FOR A GREATER SOCIAL IMPACT

Based on the outcomes of the Creative Business Models project, a big-scale project to research business models of cultural organisations was conceived. The project, called Creative Lenses, was granted €2 million by the European Commission's Creative Europe programme in 2015.

Creative Lenses is a four-year project (2015-2019) that seeks to make arts and cultural organisations more resilient and sustainable by improving their business models and developing their long-term strategic and innovation capacities.

The key question Creative Lenses seeks to answer is, what are the most viable and suitable business models for non-profit arts and cultural organisations to be more resilient and financially sustainable without compromising their artistic integrity, mission and values?

The project is a unique partnership of 15 European organisations, including cultural networks, cultural centres, universities, creative incubators, theatre companies, etc., to research and test new business models for the cultural sector.

The legacy of the project will be the know-how, tools and support mechanisms required for European arts and cultural organisations to strengthen their financial sustainability, so that they are more able to successfully deliver their missions.

www.creativelenses.eu

1. INTRODUCTION

TRENDS AND CHALLENGES FOR CULTURAL ORGANISATIONS

As a consequence of the economic changes as well as the European financial crisis, public funding and support for arts and culture has decreased dramatically across most of Europe since 2008. Arts and cultural institutions and organizations find themselves at a turning point where new ways of managing and funding culture need to be explored. It is now time to consider new models and funding systems. As the waves of budget cuts continue to hit, many are asking if it is possible to save costs while at the same time increase revenue without compromising their vision and values? Can restructuring how cultural organizations operate lead to increased efficiency and better management practices and how will the role of cultural managers evolve in the light of these structural changes? Most experts agree that these are challenging times, but the cultural sector is in a unique position thanks to its wealth of creativity and cultural products that it can utilise to survive the crisis, if it is ready to adapt its traditional models of governance to the values and behaviours of today's society (see: www.encatc.org; www.bozar.be). Cuts in funding have directly caused a reduction of cultural productions and activities and indirectly a decrease of cultural consumptions.

Cultural organizations are trying to replace these cuts through the development of new behaviours. In particular, to achieve growth and sustainability, scientists, professionals, companies and policy-makers argue that in the coming years the creative and cultural sector will face some major challenges. These challenges are based around key themes such as:

▪ Support of the public good, which includes delivering one's cultural and aesthetic mission, but also, being a good community citizen. In the area of support of the public good, organizations must be clear about why their institutions exist and whom they are serving: each organization must specify who its public are and what specific needs or wants they are uniquely positioned to satisfy for each segment of the public the organization hopes to serve. Most cultural organizations argue that they exist to serve their community, to support civic engagement and build social capital, but many continue to focus on fairly traditional, institution-focused efforts (increase science education opportunities for underserved audiences, preserve cultural treasures for generations to come, and so on). Relatively few institutions have made the effort to actually seek out their communities to ask them what it is they already have and what they might want, rather than need.

▪ Organizational investment, including building and nurturing staff, supporting a climate and culture for creativity, innovation, collaboration and research and development; In the area of organizational investment, organisations need to document the value of their current human resources of staff, trustees and supporters and then determine how they can nurture and enrich these resources. In a similar way, each organization needs to valuate such resources as intellectual property, collections, building a brand and entering into a process for systematically and annually enhancing these assets. Moreover, there is the issue to optimize the quality of the organization's personnel. The problem is that it is becoming increasingly challenging to find and retain good staff.

▪ Financial stability, including building organizational value and, when possible, generating annual financial surpluses that can be used to further support organisational learning and the public good. In the area of finances, organizations need to determine what are the key products and services their organization provides and determine how these products and services will be financially sustained in both the short and long term. Long-term sustainability requires the development of coherent financial strategies, including the development of multiple revenue sources delivered over diverse time frames. Serious business planning and prioritizing of the financial costs and benefits of an organizations' many activities is something that has only recently become commonplace with some organisations. Historically, cultural organizations – particularly government funded organizations – develops a budget every year and wait for their funder to allocate the necessaries monies.

▪ Marketing and Audience Development strategies and more popular artistic and cultural programming to increase the box office incomes (competing) (Colbert, 2001);

▪ Partnership strategies for attracting private donations and sponsorships and cooperating with other organisations in areas such as sharing services to reduce costs.

▪ Performance Measurement and Management Systems. In general, cultural organizations have not developed advanced performance measurement systems that highlight both cultural/economic performance and the external impact on the territory (Turbide and Laurin, 2009). This is particularly evident in the case of not-for-profit and public cultural organizations. This attitude could be explained by different factors: a) the intrinsic difficulties in measuring a symbolic value; b) the frequent inability to define the mission and the strategic goals, and consequently the difficulties in setting up a consistent performance measurement system; c) the presence of governance systems little oriented to the stakeholders, resulting in less attention to the external communications of the performances.

▪ Business Models Innovation. It is widely recognised of the importance to better understand and support business model management and innovation of cultural organisations in order to make their value creation capacity more sustainable and impactful. These dimensions are recognized as one of the main challenges facing creative and cultural organizations, and in particular the importance to rethink and – through practice-based activities – explore new ways of how culture organisations can operate and create value and then how to enhance and transform the way cultural organisations are thought and managed. Moreover, great attention should be increasingly paid on the identification of how to renew the capacity of existing working mechanisms of cultural organisations as well as to enable cultural organisations to develop more sustainable strategies for audience development, financial viability, resource management and operation management, with the aim to enhance their value creation capacity as cultural agents in society.

In the following sections, after a brief introduction of the concept of business model, we present the first results of an on-going research project focused on the investigation of the creative business models adopted by the TEH independent cultural centres.

2. CREATIVE BUSINESS MODELS: INSIGHTS INTO THE BUSINESS MODELS OF CULTURAL CENTRES IN TRANS EUROPE HALLES

BUSINESS MODELS: BASIC CONCEPTS

Business model has been defined and conceptualized with different focuses in existing literature. Amit and Zott (2001, p. 216) suggest that business model could be defined as "the content, structure, and governance of transactions designed so as to create value through the exploitation of business opportunities", and they further conceptualized it as activity-system "a system of interdependent activities that transcends the focal firm and spans its boundaries".

Osterwalder et al. (2005, p.3) proposed a definition as "A business model is conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm". Johnson et al.(2009) proposed that business model is consisted of four elements, including customer value proposition, profit formula, key resource and key process, taken together to create and deliver value. Other research describes business models as being focused more on the functional perspective, such as "Articulates the value proposition"; "Identifies a market segment and specify the revenue generation mechanism"; "Defines the structure of the value chain required to create and distribute the offering and complementary assets needed to support position in the chain"; "Details the revenue mechanism(s) by which the firm will be paid for the offering"; "Estimates the cost structure and profit potential (given value proposition and value chain structure) (Chesbrough, 2010).

While the concept and definition of business model are depicted differently, the prevalent proposal of the purpose of business model could be seen to creating and delivering value to customers. Zott and Amit (2005) proposed that business model is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams". Teece (2010) mentioned that the essence and purpose of business model is to define a manner by which the enterprise delivers the value to the customer, entices customers to pay for value and converts those payments to profit. He mentioned that it provides a structure and framework on which the business could logically create and deliver value to customers. It also outlines the architecture of revenues, and profits associated with the business enterprise delivering that value.

THE IMPORTANCE OF BUSINESS MODEL INNOVATION

Recently, great attention has increasingly been placed on the role and relevance of the business model and the business model innovation to support and drive the improvement of organizational performance. However, most of the interest has been developed traditionally by multinationals, great corporations and more recently by dot.com and companies operating in the ICT and e-business searching for improvements in their efficiency. On the contrary, SMEs and organizations operating in the creative and cultural industries – although they are increasingly recognizing the relevance of elaborating and adopting business models – they still do not have structured initiatives in place. Indeed, creative and cultural organizations and SMEs' business models are fundamentally implemented and managed implicitly, i.e. without the use of formal approaches and tools. Moreover, although business model innovation is recognized as being fundamental to creative and cultural organizations' success, the approaches, the techniques and the tools for elaborating, implementing and managing specific and tailor-made business models in creative and cultural industries are still crude and often inadequate (Hume et al., 2006; Munoz-Seca, 2011; Munoz-Seca and Riverola, 2010, 2008; Zomerdijk and Voss, 2009)

In the following sections, after a brief review of the business models of the creative and cultural organizations, using the population of the cultural centres of the TEH network, we draw first insights about the elaboration and adoption of business models in creative and cultural organizations as well as their perceptions and orientations to elaborating, implementing and managing new business models.

BUSINESS MODELS OF ARTS AND CULTURAL ORGANIZATIONS

Recent studies on business model have primarily focused on large organizations and operating traditionally in manufacturing or e-business. In contrast, there is a notable lack of research into the practices of small and medium-sized enterprises and organizations and particularly operating in the creative and cultural industries (Munoz-Seca, 2011). But, increasingly, in today's economic climate, the relevance of shaping sustainable business models is becoming a major challenge of creative and cultural organizations.

Different reasons contribute to this issue, which can be divided into two main categories. On the one hand, arts and cultural organizations are challenged to understand how they can achieve financial viability, without compromising their mission and/or not-for-profit values. As a consequence of the current economic changes as well as the European financial crisis, public expenditure for arts and culture has decreased dramatically. The progressive shift from public funding to philanthropy and private incomes on which cultural organizations increasingly now rely, requires an understanding of the way current business models can be enhanced and extended, and the ways in which it is possible to transfer skills and activate intra- and inter-sector learning mechanisms to supplement culture organizations with new competencies to achieve sustainability.

On the other hand, the progressive evolution of the business landscape with the realization those economic systems have to increasingly look for the creation of a constellation of value impacts, confers to cultural organizations a more proactive role. They can position themselves in the ecosystems not only as providers of cultural activities, extending their audience, but increasingly they can play a major role as actors for social innovation and development as providers of cultural and creative services and catalysts for change and performance improvements of organizations operating in other traditional sectors.

However, it is not valid to assume that, because business models of creative and cultural organizations do not have related formal approaches, tools and techniques, they do not identify and manage their business models, since both formal and informal approaches to the identification, adoption and management of business models have to be considered. Accordingly, we underline that business models can be elaborated, identified, adopted and managed in creative and cultural organizations, whether or not these processes are governed by the concepts or language of the for-profit, commercial sector.

BUSINESS MODEL MANAGEMENT AND INNOVATION FOR CULTURAL ORGANIZATIONS

Business model management and innovation is about reflecting and rethinking how an organisation creates value and organises its resources for value creation. It seeks to understand and transform the DNA of an organisation in order to achieve sustainability. Understanding business model is concerned with clarifying how an organisation can create and manage existing and new value generation streams. The main scope is to identify approaches and methodologies to support innovation as well as management practices to deliver sustainable performance. For cultural organisations, business model innovation and management goes beyond product and/

or process innovation and continuous business performance improvement, and aims to understand how to enhance and renew the way they operate and create value. Although there is a need to inform cultural organizations about how to analyse, shape and renew their practices, there is a general lack of data around the cultural sector and specifically about the challenges and characteristics distinguishing the business models of cultural organizations. Cultural organisations present specific features and traditional business rules cannot be simply transferred from the business world to the cultural world expecting that they work in the same way and with the same implications and benefits. In the following, on the basis of the Business Model Canvas, the main dimensions of a specific business model declined coherently for the cultural organizations are presented.

THE MISSION, THE VISION AND THE NEW ORIENTATION TOWARDS THE BUSINESS OF THE CULTURAL ORGANIZATIONS

Firms operating in any business must constantly ask themselves how they want to secure and foster growth (Shapiro and Varian, 2000). Growth can be achieved by various means, including extension of share of wallet, entry into new markets, franchising or others. In order to kick-start growth, companies need to set clear goals and strategies. For the cultural industry in particular, authors highlight the importance of developing feasible targets as a prerequisite for growth (Resch, 2011). In order to choose the right growth path, cultural organizations need to state their mission and identity, including their financial objectives. When these are clearly identified, entrepreneurs and managers can develop appropriate business goals. Hausmann (2009, in Resch, 2011) separates these business goals into two categories: first, there are economic goals, such as leveraging the revenue or increasing the profit margin. Second, there can be psychological goals, such as increasing brand awareness, changing customer perception, augmenting customer satisfaction, etc. Growth, however, can be achieved only when all necessary resources are available and efficiently used. Managers that develop an organizational growth model will improve their economic situation through increased income and improve their perception among customers and stakeholders.

Value Proposition as “Solution”

Which customer needs are we satisfying? What is the specific product/service?

Cultural organizations must enrich their business and develop it into an integrated value chain that offers solutions to their audience. Johnson, Christensen and Kagermann (2008) define a successful company as one that has found a way to help customers to get a job done. Kotler and Armstrong (2008) identify five product levels in regard to a customer’s product perception. These are the core benefit, the basic product, the expected product, the augmented product and the potential product.

Günter and Hausmann (2008, in Resch, 2011) apply this idea to the museum market and adapt it slightly. They argue that museums, for example, define several services as core products, such as the organization of exhibitions. Value added services, for example the cafeteria or the museum shop, add to the perceived value by their clients. Added services help the museum to distinguish themselves from competitors.

Klein (2005, in Resch, 2011) pays particular attention to the art institutions and highlights that the value perceived by a visitor to an art institution can also be non-tangible. He identifies three value categories. First: the core value of an art institution is the presentation of art as inspiration or refreshment. Second: the social value of an art institution lies in the fact that museums or galleries are often a place where people meet and come together to talk. Finally, art institutions offer a symbolic value. Visiting an art gallery, for example, can signal both an interest in art and one’s sophisticated nature to the outside world.

What all these arguments have in common is the central idea that there is more to creative and cultural organizations than simply selling an artwork.
A cultural manager must therefore realize that the value proposition of its organization lays not only in its core benefit (selling artwork or specific cultural products and services) but that there are several layers around it. These layers can be leveraged through value - innovation, variation, differentiation or elimination.

Munoz-Seca (2011) considers the value proposition of a cultural organization as a service that needs to be designed and implemented from the point of view of a customer experience. A customer experience approach looks beyond the specific cultural performance to design an interrelated set of events that will give each customer full exposure to activities and situations that enhance the understanding of the artistic endeavour.

Customer Segments as "Lovers"

For whom are we solving a problem or fulfilling a need? Who are the customers? Does the value proposition match their needs?

In cultural organizations, the users of the products and services cannot be considered as "normal" customers but they have to be seen as lovers of specific product, services and experience that the cultural organizations intend to provide. Accordingly, when targeting customers, managers of creative and cultural organizations must choose from a wide range of contacts. According to Hausmann (2009, in Resch, 2011) market segmentation is highly important: "In the art business this can be interpreted as whether a gallery, a theatre or a cabaret follows an undifferentiated approach when targeting clients and visitors, or if it approaches clients with tailored offers (p. 40)." She identifies various criteria in separating the market into customer groups. Among them, there are the following dimensions: (1) demographic and geographic criteria, (2) personality and lifestyle, (3) customer benefit and purchase behaviour, (4) social and economic status (Resch, 2011).

In creating these customer groups, the key tasks of creative and cultural organizations are to identify the most profitable customers and to decide on the customers who are worth the investment in time and money. According to Reinartz et al. (2004) companies often ignore the long-term profitability of customers that are initially expensive to acquire. Furthermore, they argue that accessing profitable customers does not always involve high acquisition costs because high-potential customers can be found across all income classes. This makes it difficult to identify high-potential customers.

Professionally targeting customers, therefore, describes the ability to identify and acquire those customers that generate the highest gross margin (Chen and Popovich, 2003; Reinartz et al., 2004; Rigby and Ledingham, 2004; Sabri, 2003). An advantage of this activity is that managers will no longer invest time and money in unprofitable customers. Accordingly, management must encourage a solution mind-set throughout the organization. Many cultural organizations, in fact, still find it difficult to move beyond thinking in terms of "technically superior" performance and take a customer-centric perspective instead.

Channels as "Access"

Through which channels do our customer segments want to be reached?

Recently, in innovation and strategic management studies, particular attention is provided to the notion of access, i.e. about the importance of developing an integrated cross-channel presence that considers customers' entire purchase journey instead of emphasizing individual purchase locations and channels. This seems particularly true for the CCIs.

In fact, in a customer-centric market like the creative and cultural products and services market, new customers are hard to find and can also be costly to acquire. Hence, increasing the share of existing customers plays a central role in the economic performance of such organizations (Verhoef, 2003). In the first instance, these organizations must attract sufficient attention to their products and services. Traditional methods can be used such as postal invitation cards, email newsletters or personal contacts. New technological opportunities help managers to reach new clients, for example web 2.0 applications, mobile marketing or viral marketing. In the second instance, once new clients are attracted to the offer, the managers need to ensure that customer loyalty among their clients remains high throughout. They may achieve this by implementing retention programmes, such as invitations to dinners, mutual art fair visits, artist studio visits or similar activities.

Other authors highlight the fact that an artwork's value proposition is not as apparent as it is with other products. Therefore, it is the task of the organization's communication concept to convey the value to the public, for example by referring to good reviews of the show, publicizing the number of visitors or claiming high demand for the artist. Advantages of this are that managers will increase their customer share by up- and cross-selling. Furthermore, retention programmes will increase sales through stronger brand perception by customers as they become aware of their special treatment.

Customer Relationships as "Education"

How will we get, keep and grow customers?

Management needs to ensure that the design of the customer relationships organization reflects and

Moritzbastei, Germany

reinforces the customer-centric focus. This may lead to dramatic re-organizations of the traditional marketing and contact functions towards radically new approach based on the notion of customer education. It may mean to provide information relevant to customers' specific needs at each point of the product/service life cycle, rather than relying on advertising, PR and personal setting that covers the waterfront. Moreover, management can be called to create much more collaboration between operations, marketing and sales functions and with the development and delivery teams, requiring that specialist teams concentrate on solutions and coordinate their approaches to specific customer needs.

Key activities as "Orientation towards the Customer Experience"

What key activities do our value propositions require?

Munoz-Seca (2011) considers the value proposition of a cultural organization as a service that needs to be designed and implemented from the point of view of a customer experience. A customer experience approach looks beyond the specific cultural performance to design an interrelated set of events that will give each customer full exposure to activities and situations that enhance the understanding of the artistic endeavour. Research (Hume et al., 2006) shows that often, cultural managers concentrate their efforts on performance as the means of delivering cultural and artistic value and content, often minimizing the importance of the service. In the performing arts, there is little attempt to design a service around the customer experience. Service design itself is rather rare in cultural organizations (Stuart and Tax, 2004). Most companies and organizations working in the field of service design in the performing arts specialize in the design of infrastructures and other technical means of delivering an excellent performance, such as lighting, acoustics, or stage design. Managers perceive technical delivery as the main driver of customer satisfaction and place more emphasis on it than on the delivery of value-added features. Customers, in contrast, divide the offering into two distinct phases: the cultural offering – core service and technical elements of the show – and the service offering – as entire experience. Emotional and experiential aspects are increasingly recognized as new key value drivers of repeat consumption in the performing arts (Hume and Sullivan Mort., 2010). Therefore, cultural organizations need to abandon the idea that the intrinsic value of their assets is sufficient for them to subsist and move towards the construction of a full customer experience. It would include, for example, a deeper understanding of authors' and performers' intentions, the circumstances of the production, the presentation of situations, modalities to better interact and share knowledge between "producers" and "customers" and "communities".

The design of a customer experience should start with the concept development. It needs to address the essence of the service, in other words the core message the service intends to provide. Customers/lovers experience a service through all five senses, and concept development crafts a set of activities that will create emotional connections through an engaging, compelling and consistent context (Zomerdijk and Voss, 2009, 2011). Then, there should be the stage of prototyping. It helps turn ideas into real services through testing, tuning and refinement of activities. The basic idea is to detect all the initial flaws of the service experience. Rehearsals in the performing arts are a classic example. Customer experience design requires simulations of the whole experience in order to anticipate possible problems. The third stage should be the service engineering. It serves two purposes. First, it sets up structures to assist in the service delivery problem-solving process. Second, it defines the meta-processes that determine the functional specification of the service. Following, a further key activity is the elaboration and implementation of the operational infrastructure. It should describe the activities required in order to bring a cultural product/service towards the mainstream. In fact, it should concentrate in the configuration of the operational variables. The setup of the operational variables defines the way the service has to be constructed. It addresses questions such as how many people are needed, how processes will behave, what the operational rules should specify, or what type of information is needed. Finally, there is the stage of service delivery. The main pillar of this activity is the human interaction and everything that is required to order to deliver an excellent service/performance.

Key resources as "Competence Configuration"

What key resources do our value propositions require?

The perfect fit between core competencies and products and services offered represents a unique advantage over competitors and is fundamental to the success of any firm. Core competencies can vary depending on the arrangement of the business model but will be found in a company's human resources, technology, products, facilities, equipment, channels and brand (Johnson et al., 2008). Here they create real value for the company and present unique competitive advantages. In order to leverage their core competencies, managers first need to identify them. Core competencies in a creative and cultural organization can be found for example in the management, human resources, social capabilities or selection of artists and professionals. Once identified, they can use them as success factors. Munoz-Seca (2011) specifically argues that cultural agents need three types of competences to deliver a satisfactory customer experience: domain competences, task competencies and inference competences. Domain and task competences relate to the knowledge needed to perform the task. Inference competences relate to problem-solving capabilities. A further competence strongly required is the risk-taking orientation. In cultural organizations, there must be an acceptance of the possibility of failure, as learning is achieved not only through problem solving but also through generating and implementing new ideas, which can result in failure. Failure is the best way to learn and every failure is a learning opportunity for the cultural agents as well as for the whole cultural organizations. Finally, the capacity to getting feedback from the service delivery and relay that feedback in the service design chain is of great importance. The basic idea is to having the capacity to transform, through a new stage of concept development, new features and services components. All this in order to develop a cultural offer that is more in tune with customers' unmet needs.

Key partners as "Cooperation and Coordination Configuration"

Who are our key partners?

Cooperation plays a substantial part in every business model. Cooperation can take on various forms: literature on cooperation distinguishes between horizontal cooperation (partnership among competitors on same level in value chain), vertical cooperation (forward/backward integration of value chain) and lateral cooperation (partnership among companies from different areas or businesses). Although experts warn against engaging too early in cooperation and claim that a lot of cooperation attempts fail, Hausmann (2009, in Resch, 2011) identifies the following advantages that cooperation in the arts and cultural market can bring: realization of projects through pooling resources; synergies and reduction of overlapping operations; enlargement of value proposition and improvement of quality; acquisition of new clients; brand and image transfer through cooperation between different industries (lateral); expertise and exchange of know-how.

Once cooperation and the other concepts are established, the creative and cultural organization has to start functioning within a network of partners. The priority is then to coordinate all the partners, with particular care over the potential transaction costs involved in operating the network. In relation to their partners, especially to the professionals, creative and cultural organizations may refer to explicit or implicit contracts. Explicit contracts can help to establish a firm relationship that both parties can rely on. In most cases, implicit contracts define the relationship between professionals and organization. These nonbinding agreements are based on trust, which is a liability in any coordination attempt. Of course, organizations that employ binding contracts will decrease uncertainty and leverage their income.

All this is particularly true for the cultural industries and organizations. Research and practice highlight that the designing and the delivering of a successful customer experience may require an integrated service experience, often deriving from a portfolio of institutions or organizations working together. It seems to emerge that cultural services are increasingly a co-production among a group of organizations and institutions and specific customers/lovers elaborating and providing a customer experience. This highlights the importance of selecting the key partners and to elaborate and operatively translate a new cooperation and coordination configuration. To attain its organizational objectives, increasingly cultural organization needs both to design and implement their specific business activities and to jointly design complementary actions together with other organizations and institutions. This approach cuts across sectors that could work together proactively. The idea derives from the successful experiences of the Thematic Festivals such as European Capital of Culture in order to provide a more comprehensive customer experience, generating new services proposal and develop collaborations with other industries or supply chains (tourism, agrifood, creativity, education) specifically related or not to the cultural industries. Governments and local authorities can play a crucial role in promoting this dimension of the business model for cultural organizations by helping them to find partners to create integrated experiences and by providing sources of knowledge for organizations that lack resources, particularly small and micro enterprises.

Revenue Streams

What is the revenue model? What are the pricing tactics? For what value are our customers willing to pay?

According to Johnson et al. (2008) the revenue concept is the blueprint showing how the company creates value for itself by offering its value proposition. Companies must optimize their revenue by extension into or integration of secondary businesses. Cultural organizations have long neglected the power of enhancing their revenue concept. A starting point for optimizing revenue can be identified within secondary businesses. Like tourist destinations, creative and cultural organizations could rent out their spaces for different services and initiatives, such as private dinner invitations or lectures.

Transferred to the art and cultural market, Hausmann (2009, in Resch, 2011) describes price variation as temporarily reducing or increasing the price of an artwork, for example based on the age of the buyer. Price bundling describes, for example, the idea of developing a scheme that guarantees one-off buyers a reduction of several percent on their next purchase in the gallery. Clearly, ideas for enhancing the revenue concept are extensive and only limited by the entrepreneurs and manager' imagination.

Organizations that develop a more attractive and diverse revenue concept will both gain new customers and retain old customers.

Cost structure

What are the most important costs in our business model?

This dimension describes all costs incurred to operate a business model. Specifically, cultural organizations need to decide whether to build

a cost structure that is more cost-driven, minimizing costs wherever possible, creating and maintaining the leanest possible Cost Structure, using low price value propositions, and extensive outsourcing, or

a more value-driven, i.e. less concerned with the cost implications of a particular business model design, and instead focus on value creation. Premium value propositions and a high degree of personalized service usually characterize value-driven business models.

3. CREATIVE BUSINESS MODEL BENCHMARKING: FIRST EVIDENCES AND IMPLICATIONS FROM THE CULTURAL CENTRES IN TEH

AIMS, DATA AND METHODS

On the basis of an on-going research programme initiated by the TEH with the aim to develop a benchmarking of the creative business models driving the improvement of value creation mechanisms of independent cultural centres, a first explorative European survey involving 27 Countries and 45 centres has been administered. We present in this section the first empirical evidences of this study.

The explorative survey allows to draw the first information and insights about the business, governance and organizational profiles of the TEH independent cultural centres, as well as their perceptions and orientations to elaborating, identifying, adopting and managing creative business models and to qualitatively identify a feasible set of resources, assets and behaviours and possible trends potentially driving market-orientation, performance improvement, competitiveness and sustainability.

This empirical research activity is considered a relevant preliminary study to implement the next research steps aiming at analysing and identifying the specific dimensions of a business model distinguishing cultural organizations.

Independent cultural organizations may differ widely in the central features of their businesses and there is no standardized theory that can be applied to distinguish one from another. We are aware that this heterogeneity could bias our results, but we considered this study as explorative in nature and the main insights are considered superior to the methodological and statistical limitations.

At operative level, in order to derive and test concepts, trace causal pathways and define new hypotheses, this first investigation has combined semi-structured interviews enriched with the collection of available secondary data. In particular, below the main investigated matters are outlined:

- The nature and typologies of the cultural organisations' legal structures;

- The location, ownership, size and the facilities of the physical building in which they operate;

- The most common types of activities and the related managerial activities as well as the types of services delivered to clients and customers;

- Economic and financial issues, such as annual budget, sources of incomes, sources of earned incomes, types of funding, bank loans, cash reserves and savings, and types of activities connected to the renting of the spaces;

- Organizational governance, in terms of presence of a director, board of directors or trustees, and human resources involved in the delivering of activities of the cultural centres of the TEH network.

The 45 centres that took part in the survey are considered to be representative of the full 56 current

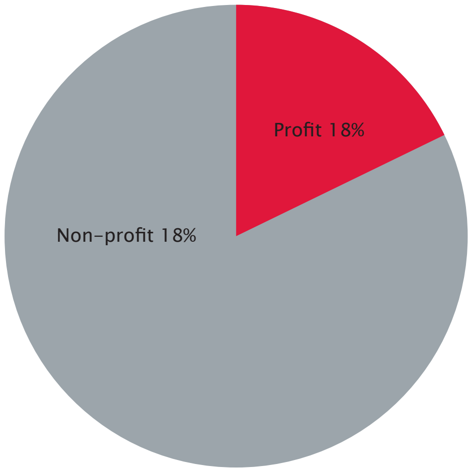

Figure 1. Profit and Non-profit main legal structure

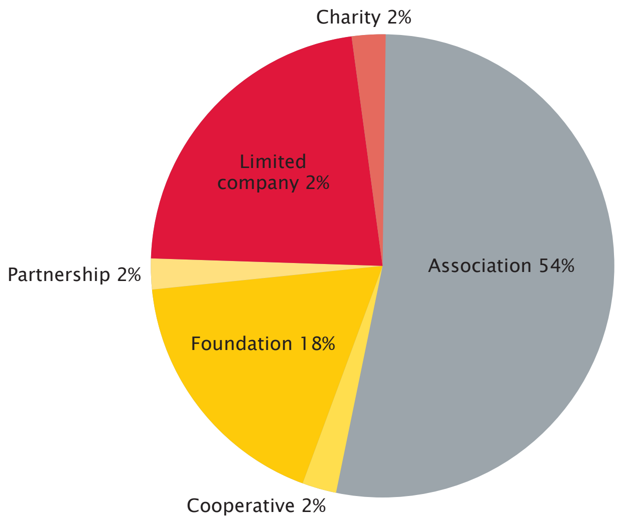

Figure 2. Types of legal structures

members of the network in terms of governance, structure, location, size, activities and programmes. In some of the survey findings, the results have been divided into geographic locations of Scandinavia, western, eastern and southern Europe. This has been done to investigate if are any major or significant differences or trends related to where the centres are located. For the purposes of this geographic classification, Scandinavia (7 centres surveyed) includes centres in Norway, Denmark, Sweden and Finland; Eastern Europe (13 centres surveyed) includes centres in the former 'Eastern Block countries (with the exception of East Germany) and former Yugoslavia; Southern Europe (9 centres surveyed) includes those centres in Portugal, Spain, Italy and Greece and Western Europe (15 centres surveyed) includes centres from the UK, Ireland France, Germany, Austria, Netherlands, and Luxembourg.

One of the TEH member centres, Melkweg from the Netherlands, has a budget of €12 million, which is over twice the size of the next largest centre in the network. With its income from just ticket sales being €6 million, including or excluding Melkweg from the survey results does change them quite considerably in certain areas. Therefore, some of the results are shown both including and excluding the Melkweg.

MAIN EVIDENCES

In terms of nature and typologies of the legal structures of the centres, the results highlight that 82% of the centres are constituted as "non profit" organizations, while 18% have a "for profit" legal structure (Figure 1). Specifically, 54% are associations, 18% are foundations, 2% are charities, 22% are limited companies and 2% are partnerships (Figure 2). These results seem to highlight a certain weakness of the legal structure of the independent cultural centres that may represent an obstacle in the case of a more-forwarded business-orientation. In particular, the form of "association" may be a signal of an organizational configuration still not mature and adequate to face effectively the current and future economic and socio-cultural scenarios.

In terms of the location, the ownership and facilities of the physical buildings in which they operate, it emerges that 91% of the centres are based in urban contexts, while only 9% operate in rural areas. More specifically, 53% of the organizations based in urban contexts operate in the city centre, while the remaining 38% operate in the city outskirts (Figure 3). This would confirm the attraction capacity of the great, urbanized area in which it is more likely that the talented class chose to live and where there are more opportunities for business to emerge. Usually, the premises of the TEH centres are old industrial building or public buildings that are converted into cultural centres. Their location can vary, but generally tend to be in suburban areas. The localization in urban areas can particularly represents an opportunity to promote networking and collaborations between the centres with other arts and cultural organizations of the CCIs as well as with business and public organisations.

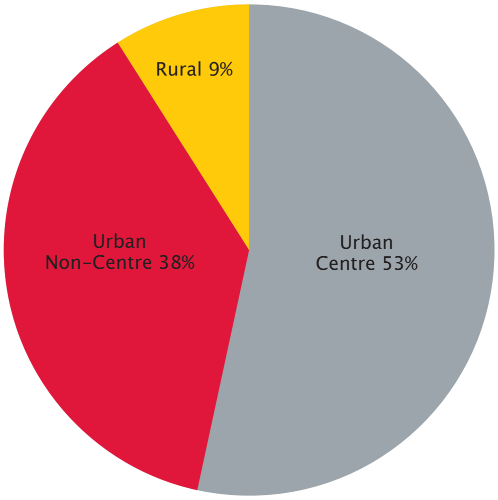

Figure 3. Urban or Rural

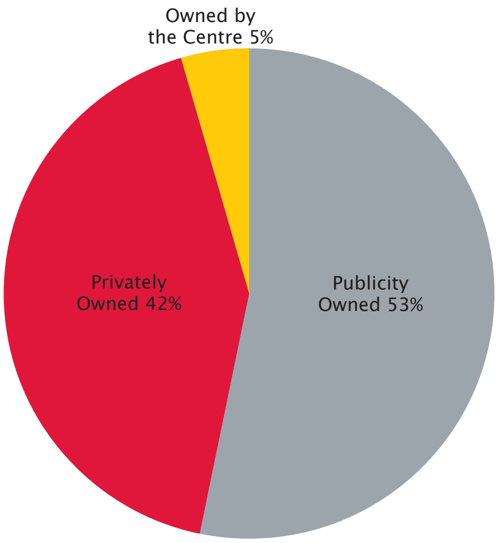

Figure 4. Building ownership

Figure 5. Paying rent for building

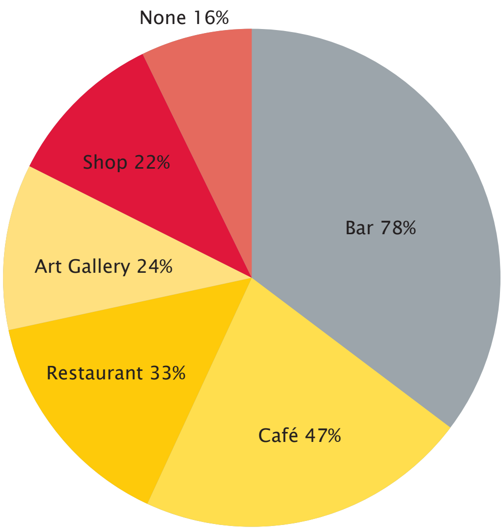

Figure 8. Catering and retail facilities

Regarding ownership of the physical building in which centres operate, the survey indicates that 53% are public owned, 42% are privately owned and 5% are owned by the centres themselves (Figure 4). Particularly important is the information that 58% of the organisations are obliged to pay a rent for the use of their building (Figure 5).

In terms of the size of the centres, the average is 6,295 m2. However, there is a wide range in the size of the 45 centres in the sample, from just 65 m2 to 73,500 m2. The two largest centres in the sample are both located in Scandinavia, which results in the average size for centres there being 17,558 m2. The next largest centres by location are those in southern Europe at an average of 4,689 m2 followed by those in western Europe at an average of 4,009 m2 and finally, those in eastern Europe at an average size of 3,904 m2 (figure 6 & 7).

Regarding the facilities of the buildings, 78% have a bar, 47% have a café, 33% have a restaurant, 22% have a shop and the 24% have an art gallery. Surprisingly, 16% do not have any of these facilities (Figure 8). This would confirm the need to give further attention towards the identification of further and different revenue streams beyond the commercialization of cultural products and services, and in particular the importance of the presence of the bar, café and restaurant that often represents a major source of income for a cultural centre.

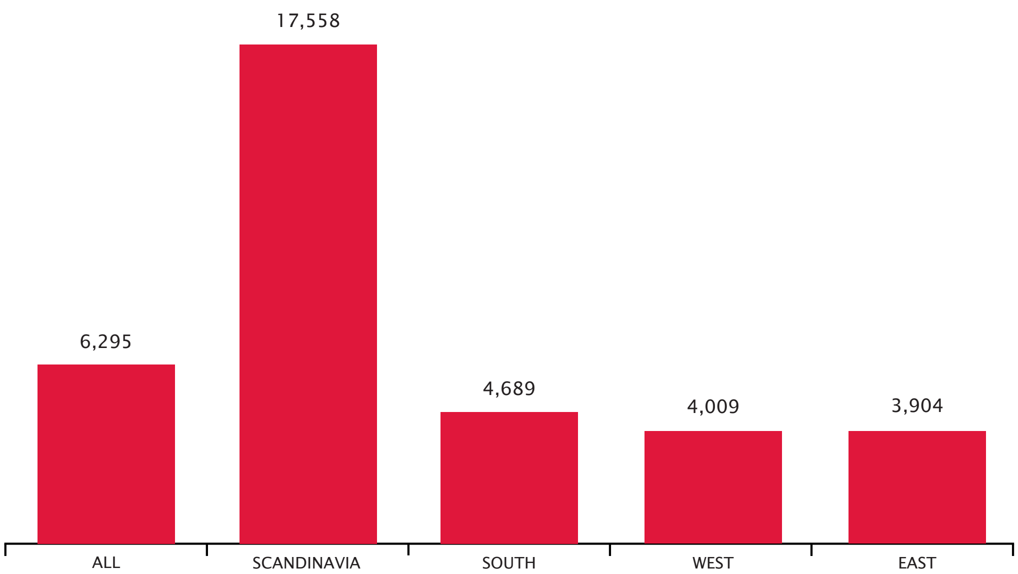

Figure 6. Size of building by European locations

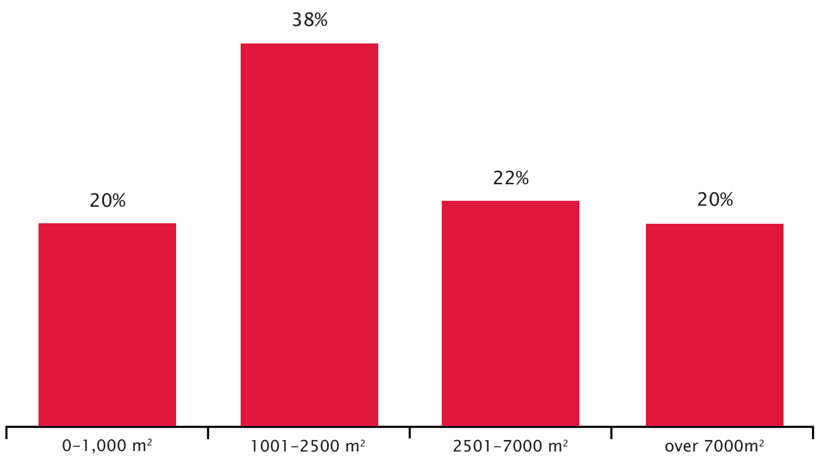

Figure 7. Range of building sizes

TEH members were also interviewed about the most common types of activities and the related managerial activities as well as the types of services delivered to clients and customers. Visual art, music, theatre, film/video and dance represent the artistic and cultural activities most developed by the TEH centres; then comes, clubs/party's, new media, outdoor festivals and storytelling (Figure 9). A related important data is that 24% of the organizations present or produce 10 or more types of activities. This evidence may highlight the need to focus on economies of scope in order to maintain a balanced level between cost structure and revenues.

The average number of performance and visual art events programmed by the centres is 200 per year. The western European centres programme the highest number at 295 per year, the Scandinavian's 273 and the eastern and southern Europeans 105 events per year (Figure 10.) In terms of participation and education programmed events, the average is 222 per year with the highest number (413) at the western European centres. The Scandinavian centres programme an average of 365 participation events per year, whereas the southern Europeans only programme 53 and the eastern Europeans, 39 per year. However, the southern Europeans programme the most visual arts events. The reasons for these large differences are most likely to primarily be the much lower levels of public subsidies that exist in in southern and eastern Europe and the more extreme effects of the European financial crisis in southern Europe.

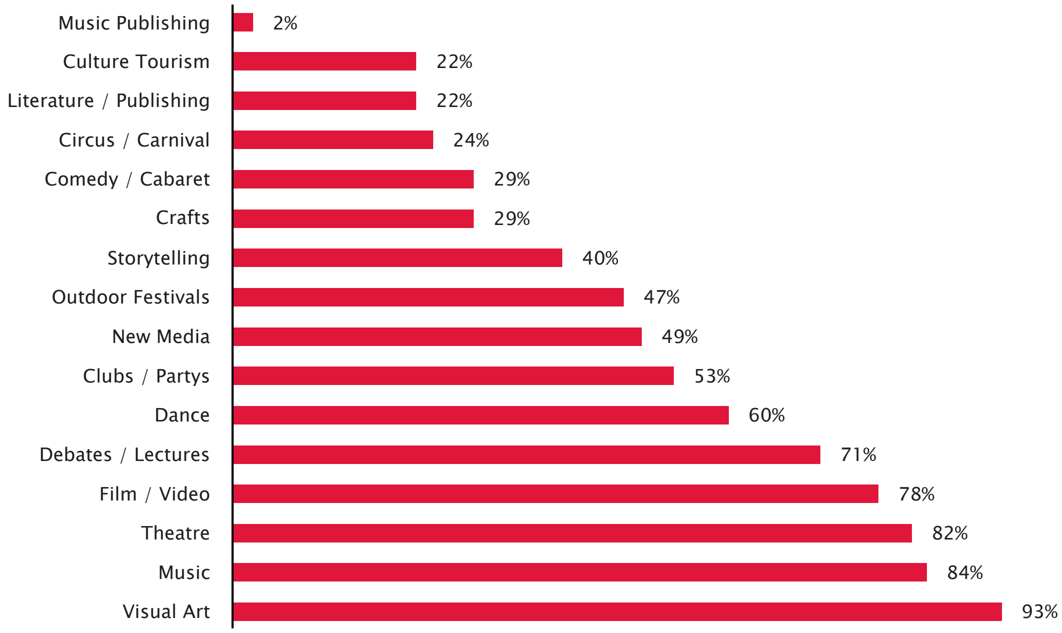

Figure 9. Art forms presented or produced

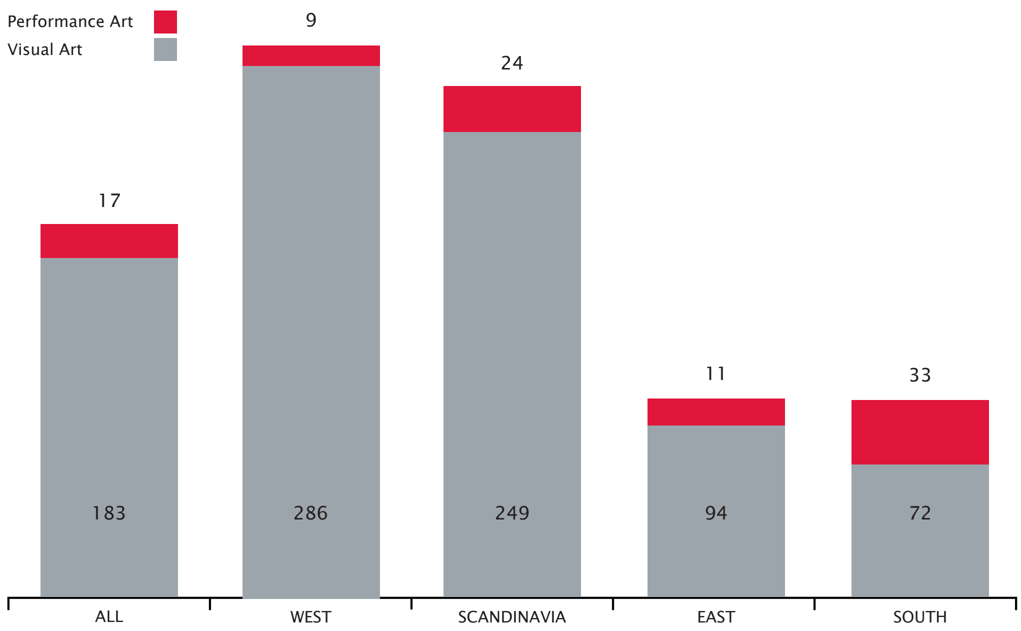

Figure 10. Performance and visual arts programme volumes by European region

In terms of the centres attendees, these can be divided into audiences for all types of programmed performance and visual arts events, participants of education programmes and visitors to private events and to the centres various facilities. The average annual attendance for all of the centres is 74,000 of which, 48,000 are audiences at programmed events, 4,000 are taking part in participation and education activities and 22,000 are visitors to private events and the centres facilities. The total, average attendees for western European and Scandinavian centres is over seven times higher than for the eastern and southern European centres. In particular, the eastern European centres have a very low number of visitors to their private events and their centres facilities (3,000) and the southern European centres have a very

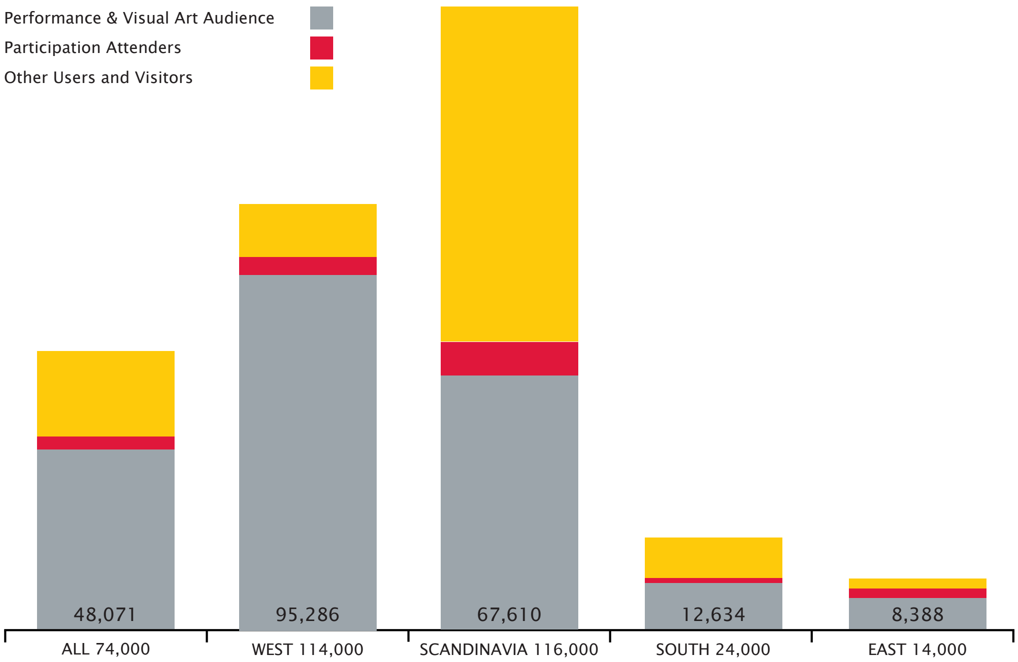

Figure 11. Attendance types by European region

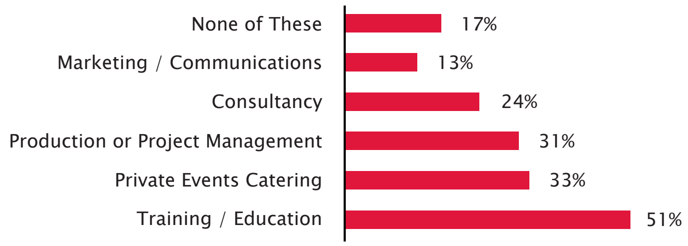

Figure 12. Service types delivered to clients and customers

low level of people participating in their education programmes (600). The Scandinavian centres have the highest average attendance at 166,000, followed by the western European centres with 114,000, the eastern Europeans with 24,000 and then the southern Europeans with 14,000 (Figure 11). The very high level of attendance at the Scandinavian centres can mainly be explained by the fact that two of them, being the largest centres by size in TEH, have a very large number of visitors to rented and private events and their buildings wide range of facilities.

It is of interest to note that southern, eastern and western European centres are approximately, on average the same size, but the western European centres have much higher attendance. This is primarily because the western European centres programme nearly three times the number of performance art events (286) as the eastern (94) and southern (72) European centres each year. And even if the Melkweg is removed from the western European figures, the western centres are still programming double the number of programmed performance events and attracting five times the number of audiences for them. It should be further investigated as to why the eastern and southern European centres do not programme more performance events. This could be due to a range of factors such as, low levels of public subsidy, low interest from audiences in certain art forms, lack of national artists in certain art form areas or simply the fear of taking the risk of programming more events?

Regarding the types of services delivered to clients and customers, training emerges as the most important service, with a percentage of 51% of organizations involved in these activities, followed by catering with 33%, project management with 31%, consultancy with

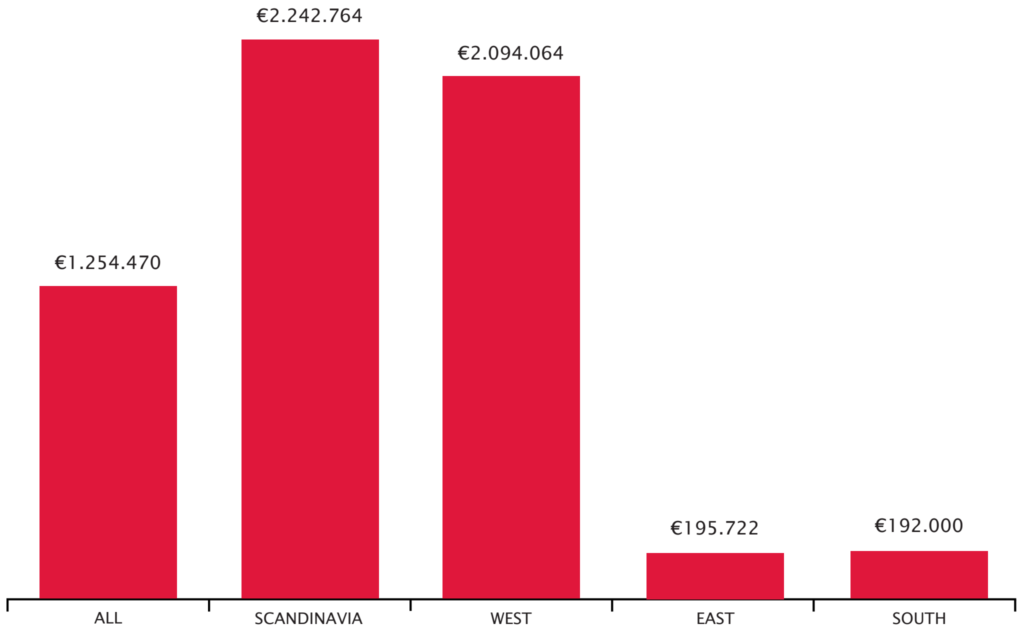

Figure 13. Annual expenditure by European regions

24% and then communication with 13%. 17% do not provide any of these services (Figure 12).

Analysing the organisations economics and finances, the first relevant insight that emerges is that centres had an average annual budget of €1.25 million in 2013 (€950,000 excluding Melkweg). However, there is a large discrepancy between the budgets of the centres in the different areas of Europe. The Scandinavian and western European organisations budgets averaged over €2 million, whilst the annual budgets of the organisations based in southern and Eastern Europe were only just under €200,000 (Figure 13).

78% of income is earned and 22% is contributed income (public and private funding). Earned income at 58% and 52% for organisations located in eastern and southern Europe is considerably lower than the 89% and 75% earned respectively by the organisations based in Scandinavia and Western Europe (Figure 14).

90% of the total organisations receive some form of public funding from national, regional, local or European sources, but this is lower for the eastern (78%) and southern (70%) European organisations than for the Scandinavian (100%) and western European (90%) organisations.

51% receive some funding from private trusts and foundations and 38% receive funding from private donations or crowd-funding (Figure 15).

In relation to the total income, 26% of all income is from rentals, 24% from ticket sales, 20% from public funding, 19% from catering, 5% from other services, 2% from sponsorship and 1% from retail, private grants and donations/crowd-funding (Figure 16). However, if you remove the Melkweg from the data the key total income figures change to, rentals 33%, public funding 24%, ticket sales 15%, catering 16% and sales of services 6%. Without the Melkweg included, the percentage of income from hires is much higher and from ticket sales much lower (even lower than from catering). This shows that the centres are perhaps increasing the hiring out their spaces and reducing their own curated programmes to reduce financial risk.

In terms of just earned income, rentals represent 34%, ticket sales 31%, catering 24% and sales of services 6% (Figure 17). However, if you remove the Melkweg centre from the data (Figure 18), the key earned income figures change to; rentals and hire of spaces 45%, ticket sales 20%, catering 21%, sales of services 9%.

In terms of just earned income, rentals represent 34%, ticket sales 31%, catering 24% and sales of services 6% (Figure 17). However, if you remove the Melkweg centre from the data (Figure 18), the key earned income figures change to; rentals and hire of spaces 45%, ticket sales 20%, catering 21%, sales of services 9%.

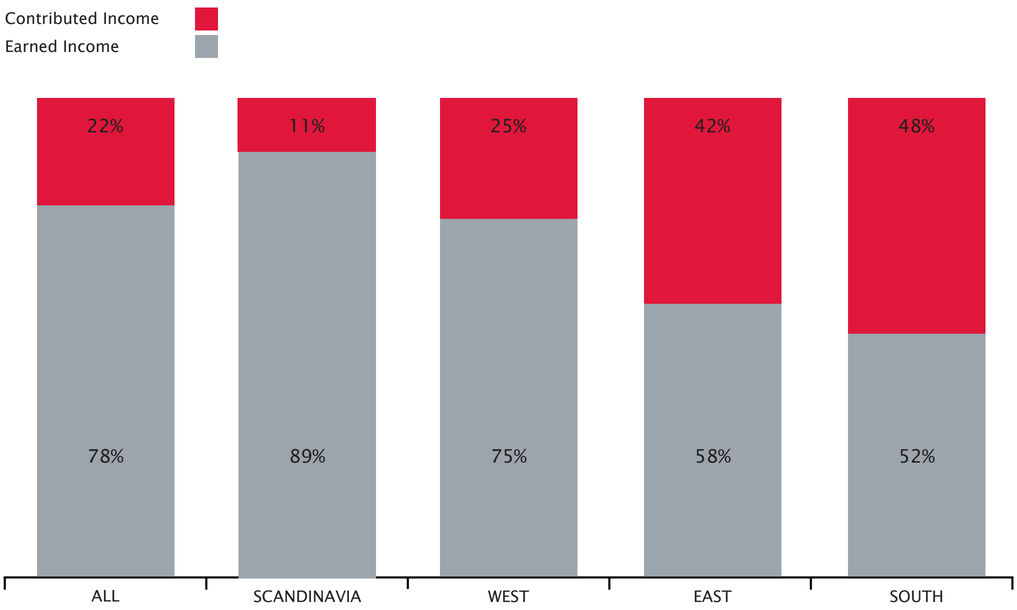

Figure 14. Earned and contributed income by European region

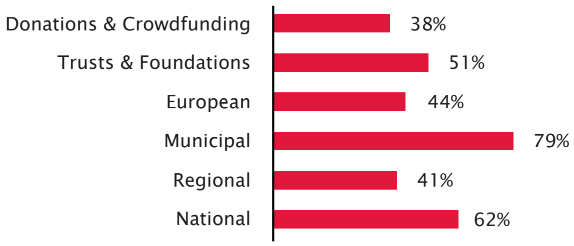

Figure 15. Types of contributed income received

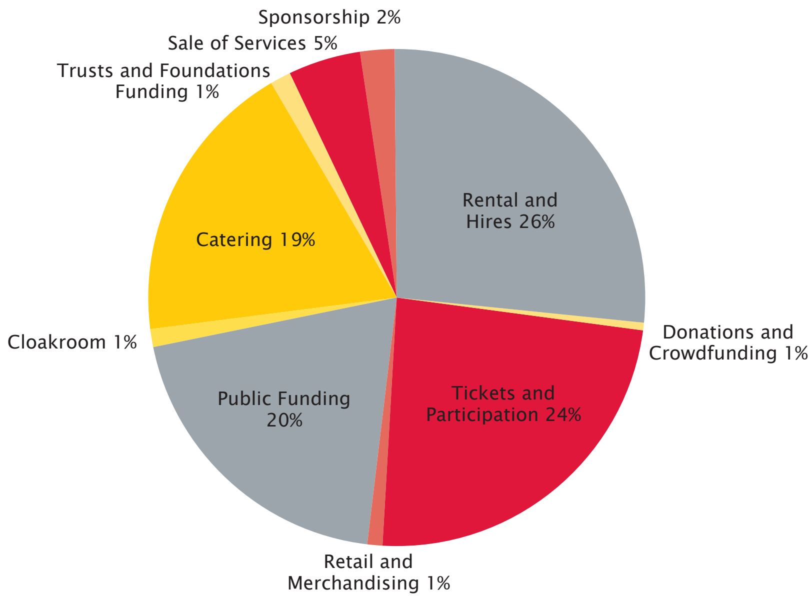

Figure 16. Total income sources

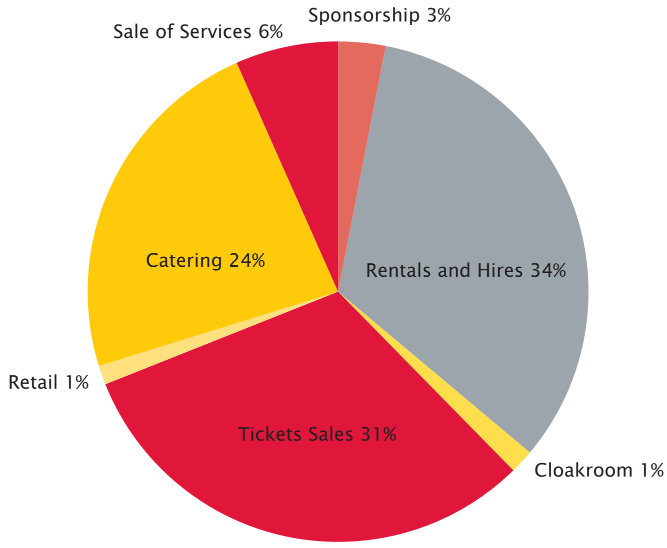

Figure 17. Earned income sources

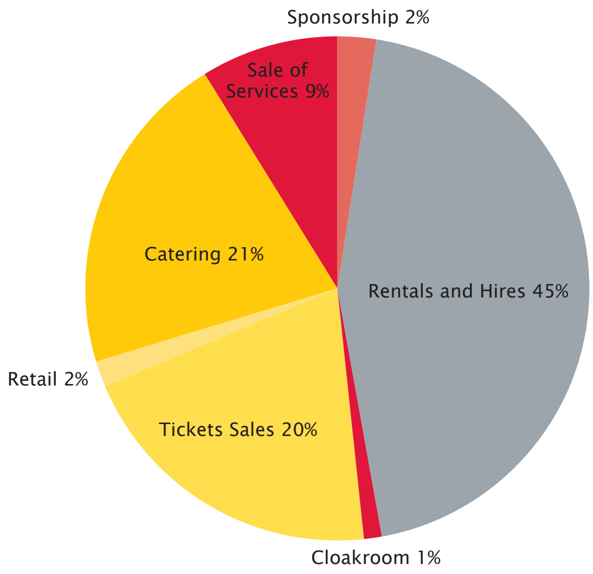

Figure 18. Earned income sources excluding Melkweg

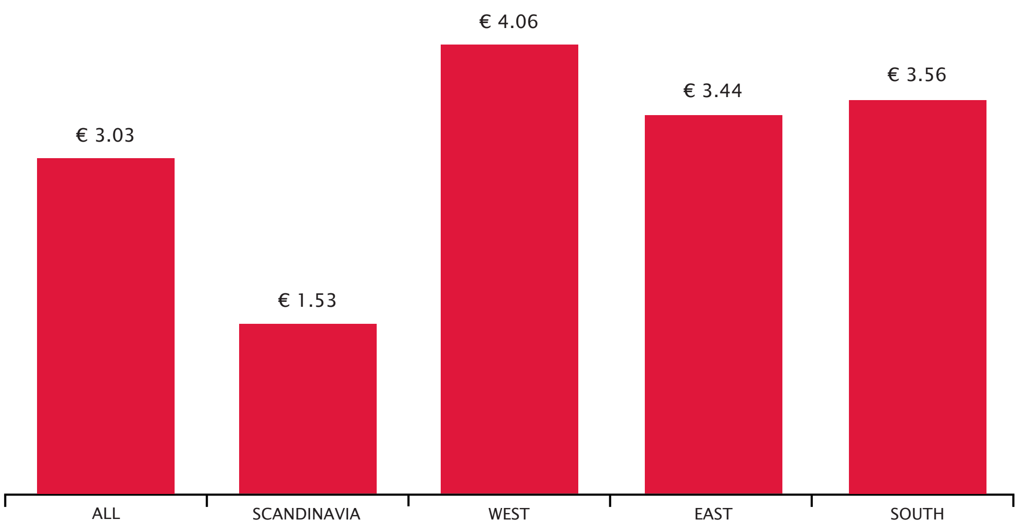

Figure 19. Subsidy per head by European region

Public subsidy per head (audience, participators and visitors) is an average of €3.03. This is extremely low in terms of average subsidy levels across Europe for public institutions and especially for specific art forms such as theatre, dance, classical and jazz music, opera and ballet. For example, in England, the Arts Council of England's overall subsidy per head was £14.16 in the financial year 2012-13 (source - Arts Council England research and data). The subsidy per attendance is highest in the western European centers at €4.06 and lowest in the Scandinavian centers at €1.53 (Figure 19). The reason this figure is so low is because the two largest centers in the sample data are located in Scandinavia and they both have a very large number of visitors to their facilities who are not attending events. The subsidy per head for the southern, eastern and western European centers is similar, ranging between €3.56 and €4.06.

Concerning renting of spaces, the results show that the centres rent or hire their spaces for a wide range of uses including, conferences (67%), arts and cultural events (62%), Corporate / private events (62%), training and education (62%) rehearsals (49%), artists studios (38%), media studios (36%), office space (31%) and catering services (31%) (Figure 20). The high percentage level for renting of spaces for arts and cultural events is related to the fact that many of the

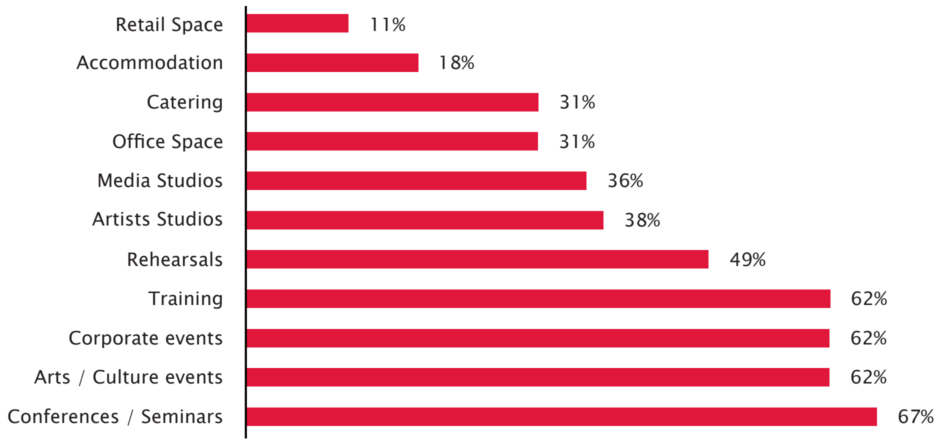

Figure 20. Types of renting and hiring of spaces

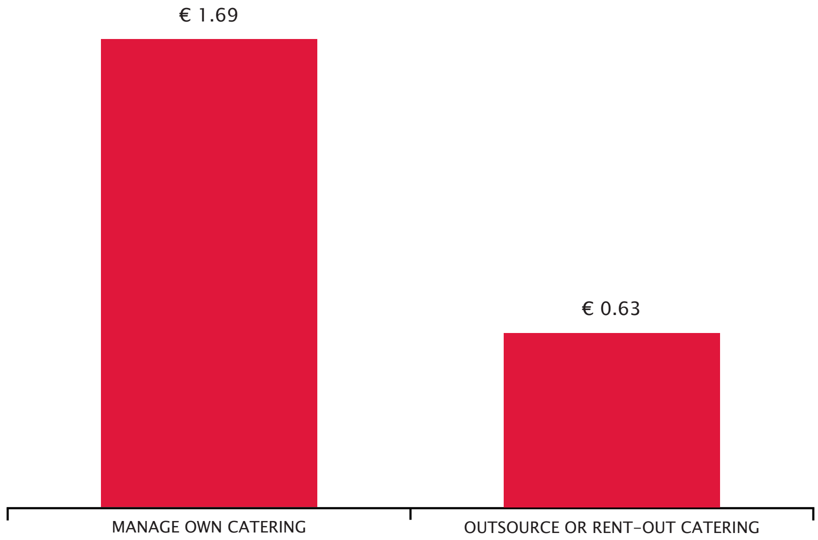

Figure 21. In-house versus outsourced catering

centres do not curate all of their own programmes due to both reduced public funding and/or to reduce financial risk.

66% of the centres manage and operate their own bar or café with 33% outsourcing them, but only 27% manage their restaurants. This is understandable as the running of a restaurant is more complicated, skilled and financially more risky than running a bar or cafe. Those centers that rent out their catering facilities earn €0.63 profit per attendance. Assuming a 25% net profit on turnover for bars and cafes (after covering cost of sales, staff and overhead costs), the net profit per attendance for the centers operating their own catering facilities would be €1.69. This appears to conclude that although it is a lot more work, managing your own catering in-house is nearly three times more profitable than outsourcing it (Figure 21).

For 2013, the average profit of the centres was €13,477, which is 1% of turnover. Clearly this is low by business standards but as the majority of the centres are not-for-profit (and many are not allowed to make a profit under their national laws), it is a reasonable result. However, only 22% of the sample centres made a profit with 78% either making a loss or just about breaking-even. The Scandinavian centres were the most financially successful in 2013 with an average profit of €52,587, followed by the eastern European centres at €36,010. On average, the southern European centres made an average loss of €7,173 and the western European centres made an average loss of €12,469 (Figure 22). There does

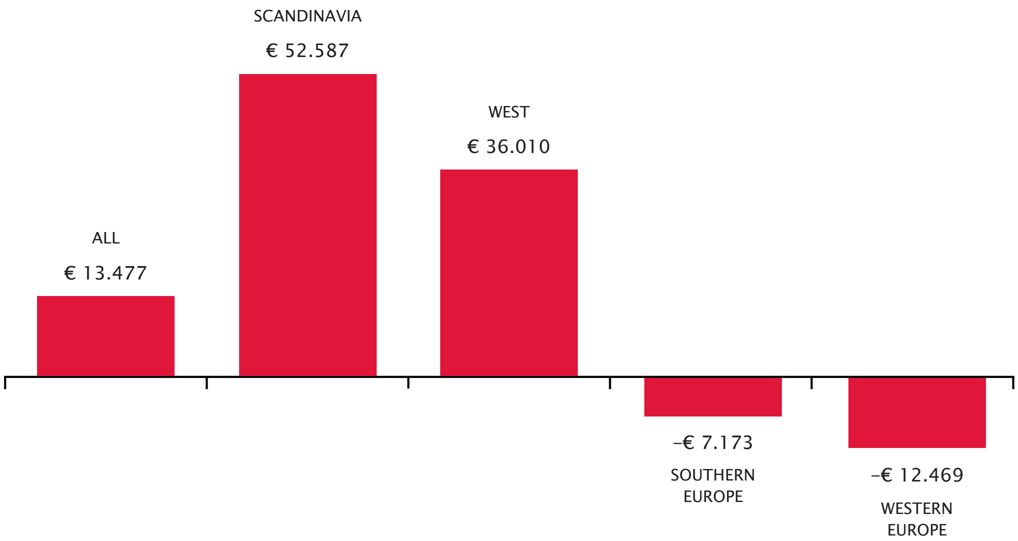

Figure 22. Profit and Loss 2013 by European region

Figure 23. Boards and Board Director's

appear to possibly be a relationship to the volume of curated events a centre programmes and financial performance. It may be that the less you programme, the less financial risk you take and that, 'over programming' runs the risk of spreading your core audience to thinly?

Analysing more specifically the relationships with the banking system, it emerges that 45% of centres currently have bank loans, with an average loan of €600,000. This may have a relationship to the cash reserve and savings of the centres: 65% of the centres have no cash reserve or savings while only 35% have cash reserve and savings. This illustrates the general lack of financial elasticity of the centres.

Finally, in terms of organizational governance, related to the presence of a director, board of directors or trustees, and human resources involved in the delivering of the activities of the centres, it emerges that the 86% of the sampled organizations have a director or a managing director, and the 81% have a board of directors or trustees. 54% of the board directors are paid (Figure 23). This may be surprising for those only familiar with the for-profit sector but in the not-for-profit sector is usual for board's to be voluntary (which is a legal requirement in some European countries). Therefore, the 54% figure is surprisingly high and relates to the fact that 18% of the centres are constituted with for-profit structures and many own for-profit structures to operate their commercial activities. Unfortunately, at present, it has is not been possible to trace relationships between organizational and business performance and managerial competences, as suggested by various scholars (Chandler and Hanks, 1994; Kelliher and Henderson, 2006).

In relation to human resources, the results show that the 93% of the centres have full and part time staff paid, 72% work with freelancers, and 86% employ volunteers (Figure 24). This confirms the typical labour-intensity of the sector. Indeed, despite the wide use of technologies, creative, arts and cultural organizations are still very labour intensive with many people involved in the organization and management of cultural events, services and activities. But the most relevant insight is that the prevalent model sees the

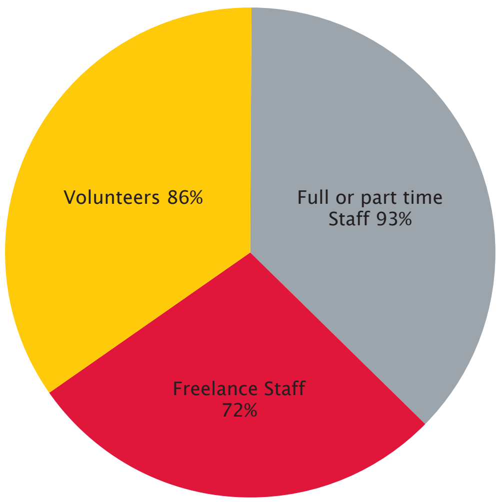

Figure 24. Percentage of centres that employ different staff types

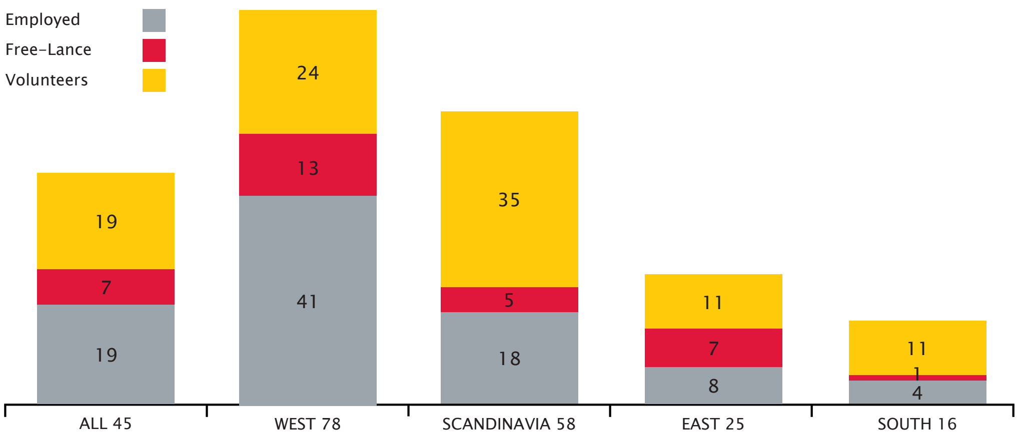

Figure 25. Number of staff types employed by European region

use of many people that work on a voluntary basis. Owing to the limited number of staff, significant pressure is often placed on employees to keep up a frenetic pace of activity, while being capable of performing multiple roles and functions, often in multiple functional areas, within the organizational context. In particular, in cultural organizations, it is unlikely that they will have the resources to employ specialists, tending instead to employ staff with generalist skill sets. In addition, it is worth to mention that due to the structure of cultural organisations there is generally a lack of career opportunities as well as low pay levels for those specialists working in other sectors.

On average, centres have a total of 45 staff including volunteers. This consists of 42% employed staff, 16% of free-lancers and 42% of volunteers. The western European centres have the highest average number of staff at 78, followed by the Scandinavian centres at 58, the eastern Europeans at 25 and finally the southern Europeans at only 16 (Figure 25). Volunteers make up the highest proportion of all staff in both the eastern and southern European centres, which both have an average of 11 volunteers. For southern European centres this represents 69% of all staff and 44% for eastern European centres.

From a general point of view, from our data it becomes evident that most cultural organizations may have long neglected the power of innovation in their business model. It seems that the focus of their efforts lay more on artistically sound performance rather than on the improvement of their business model to increase profits and therefore, sustainability. This behaviour has led to the current situation where many cultural organizations employ little management skill and make the bare minimum of margins or even a loss. In order to sustain and improve their businesses, cultural organizations should start to integrate economic aspects into their goals and objectives.

The quest for efficiency, effectiveness and maximization of profit in the cultural organizations' business does, however, not mean losing one's grip on their traditional goals. The future cultural organizations' goals are therefore three-fold: first, there is an artistic and cultural aspect; second, there is an economic aspect; and finally a socio/ethical aspect. The artistic and cultural aspects cover the artistic value creation in the cultural organizations. Working efficiently and effectively means to receive the approval of the organization's stakeholders. This goal is hard to measure and it is subject to an opaque and unclear valuation system. The economic aspect is not exclusive to an art gallery, since it is the most common feature of any business. It basically covers the goal of profit maximization, or, in other words, the most efficient use of resources to maximize return. But many arts and cultural organisations do not (and do not want to) see themselves as being a business or even in business, even if that is their reality. Probably a reflection on the understanding of the economic nature of independent cultural centres is necessary. This may conclude that cultural operators should start to embrace the idea that their business is like any other business, notwithstanding the perceived cachet of the product or service they are conveying to audiences and users. Currently, the majority of cultural organizations often lack a profit orientation, which can be seen by many of them inefficiently using their resources for little or no economic return. The final goal can be described as socio-ethical. These organizations are part of a sector that is mainly based on trust and personal interaction. That said, in order to sustain their business and create value in the market on a long-term basis, entrepreneurs and managers must ensure that they do business according to the accepted ethical standards and regulations of the sector. To earn credibility, not only among colleagues, but also among all of their stakeholders, cultural organizations must act ethically and responsibly.

4. EXAMPLES OF CREATIVE BUSINESS MODELS: CHALLENGES AND INSIGHTS OF THE CULTURAL CENTRES IN TEH

Five Trans Europe Halles members were selected to participate as 'pilot' organisations in the Creative Business models case study. These were:

- Vyrsodepseio, Athens, Greece.
- Mains d'Œuvres, Paris, France.
- Mortizbastei, Leipzig, Germany.
- Mejeriet, Lund, Sweden.
- Kaapelitehdas, Helsinki, Finland.

These centres key facts and figures can be seen below in Table 1.

The motivations, current situations and issues for each of the five pilots at the start of the project are analyzed in the following sub-sections.

VYRSODEPSEIO, ATHENS

"Because of the fact that Greece has cut all public funding for cultural industries since 2011; therefore, our way of producing art is somehow an extreme example on how to produce art in "difficult times".

Our case stands more or less (with a variation in practices and applied models) as the Greek example – in the sense that funding is cut for every independent organisation and we more or less face similar problems. Also, Vyrsodepseio could benefit hugely by the expertise of the consultants involved and by exchange of practices.

Vyrsodepseio is an evolving grass root project, a platform of networking between artists and activists/ citizens that straggle to give art a chance in the country that invented theatre.

Also, in terms of solidarity this would strengthen our effort. Please, note that funding is not the only problem independent spaces encounter in Greece. There are new politics evolved, laws that prevent us from making art along with public threat from the municipality of Athens that their intention is to shut all independent spaces in Athens (almost 100) on the grounds of theatre permits and health & safety. The law of permits dates back to the 1940's.

After our actions a new law was voted this year, but there is still uncertainty and fear that art is monopolised/ institutionalised".

	Vyrsodepseio	Mains d'Œuvres	Mortizbastei	Mejeriet	Kaapelitehdas
Legal structure	Ltd Company	Association	Ltd Company	Association	Ltd Company
For Profit	No	No	Yes	No	Yes
Paid Board	No Board	No	No	No	Yes
CEO/Executive director	Yes	Yes	Yes	Yes	Yes
Size m2	3,000	4,000	1,400	2,156	73,500
Location	City Non-centre	City Non-centre	City centre	City Non-centre	City Non-centre
Building ownership	Private	Public	Public	Public	Public
Pays rent	Yes	No	No	No	No
Has a bar or café	Yes – in-house	Yes – in-house	Yes – in-house	Yes – in-house	Yes – outsourced
Has a restaurant	No	Yes – in-house	Yes – in-house	No	Yes – outsourced
Events per year	72	100	510	400	460
Attendance per year	50,000	40,000	271,000	66,000	700,000
Number of art forms	8	8	9	8	12
rents out spaces	Yes	Yes	Yes	Yes	Yes (100%)
% of programme curated	75%	70%	40%	70%	0%
Provides services	No	Yes	Yes	Yes	Yes
Number of all staff	8	104	280	185	16
Employed	2	22	150	25	11
Free-lance	2	2	10	10	3
Volunteers	4	80	130	150	3
Budget	120,000	1,300,000	3,200,000	450,000	5,000,000
Public grants	No	Yes	Yes	Yes	None
Earned income %	100%	50%	100%	75%	100%
Bank loan	No	Yes	No	Yes	Yes
Reserves	No	No	Yes	No	Yes

Table 1.

MAINS D'OUEUVRES, PARIS

"Mains d'Œuvres is 13 years old, and over the past 2 years has accumulated a deficit. We are re-thinking our business model link with our activities at the moment, and thought that an external expertise will be really relevant for us.

We took already some measures such as firing people and re-defining our strategic objectives but it's still complicated to make change in a big organization. Our organization has a mixed economy based on public funding and own income but the project is still really fragile".

MORTIZBASTEI, LEIPZIG

"Moritzbastei is a big venue with diverse income streams. We don´t have any public funding and our legal form is a limited company. We are interested in developing new income models, optimising our staff management and improving our economic long-term strategies. We are currently thinking about how to develop our company / organisation to keep both our cultural focus and identity and our economic independence and stability".

MEJERIET, LUND

"We have made a loss in the last three years. In the last few weeks three staff members had to be fired and we now need to devote a lot of time into how to better organise ourselves in the future.

Our big challenges are to generate resources to release the potential of Mejeriet that we all know exists. There is no big mistakes in what we are programming etc., but we can do so much more. Examples are:

▪ Private funding and sponsorship for the existing as well as new activities

Suvilahti crowd, photo by Heikki Kouvo

▪ Develop programmes that involve young people and their active involvement, the volunteers, the music rehearsal rooms, the music education. With the right set up we can connect and develop them. Here we could develop project's that can get attract different types of funding.

▪ Renovate and expand the building for many needs

▪ Sell more in the bar/restaurant both at cultural events and run it on its own (the latter we do not really do at all, partly cause of lack of appropriate physical spaces)".

KAAPELITEHDAS, HELSINKI

"Kaapelitehdas is in the middle of changes and we would appreciate an outsider-insider's view on our processes and opportunities. We also feel that we have an interesting existing model with a clear bottom-up strategy for production and a network-based structure. With two existing centres and lots of prospects we could provide not one but several benchmarks for TEH".

Following completion of a questionnaire (see Appendix 1) by each of the Pilot centres, Paul Bogen visited them for two days to discuss and understand their current situation and issues. Consultancy or training was also offered to each Pilot centre and these were delivered at Vyrsodepseio, Mains d'Œuvres, Motizbastei and Mejeriet.

As all of the Pilot centres key issues concerned sensitive and/or confidential information and issues, it would not be either professional or appropriate to include them in this report. However, three of the Pilot centres wrote evaluations of their involvement in the project and have agreed for them to be included in this report. These are included below.

VYRSODEPSEIO EVALUATION

General impression

“Vyrsodepseio has very recently joined Trans Europe Halles and so when I heard about this new pilot project that aimed to give support and reflection on the finances and structural or any other major problem of our organisation, I immediately grasped the opportunity to apply.

Vyrsodepseio is a grass-root project launched in 2011 at the beginning of the Greek crisis in an attempt to create an alternative production model to the disastrous situation in the Arts in Greece with no State funding whatsoever for the Arts since 2011. Its structure has rapidly evolved and so is its financing and its activities. Although, it is one of the most avant-garde well know spaces in Athens, due to the financial situation in Greece the organisation has faced financial problems (since the very beginning). Actually, Vyrsodepseio is an empirical answer to the question: how to produce when there is zero state funding, very low audience spending capacity and zero capital back-up.

We took part in the project as it was crucial for us to see what ideas and solutions could be applied in our case that we considered very exceptional and therefore difficult. However, when we compared our organisation with the experience of other centres it turned out that we all face a lot of common problems. Of course, there are crucial differences between us but I felt that there is a lot to share and there is knowledge that can be documented and applied. Realising this during the Plzen meeting was of a great benefit and I sincerely hope we could have the possibility to meet the other centres again and have a follow up”.

First meeting in Athens

“Of course, our main focus and interest was the finances of Vyrsodepseio, but when Paul visited Athens, we also discussed issues such as:

▪ Identity of the space: what would be the main characteristic of the identity of Vyrsodepseio?

▪ Structure of the organisation

▪ Budget breakdowns and programming according to finances

▪ Parallel sources/ Alternative sources of income

Paul Bogen provided us with an incredible mass of information and as days went by I felt that the whole experience was exceeding my expectations by far. We ended up discussing details of the organisation’s site, where to better position our bar, etc. Paul was providing a wide range of ideas and study cases in the most imaginative way. During the first day together with Aghavni Giakopian we kept notes, asked questions and worked on budgets. However, as the meetings were exceeding the strictly financial area moving into programming, issues structure, etc. I invited more people to join the second day’s meetings (curator, tour manager and other collaborators)”.

Specific targets

“We set up specific targets and we made it a priority to complete them before Plzen [TEH Meeting 78, October 2014]. In particular we set the following tasks:

▪ To complete an EVS application to receive and send volunteers abroad. This is something we successfully completed and have been accredited as receiving and sending organisation. We have also contacted other members of the TEH to join the EVS network of volunteer exchange. This will be a great help for our organisation and before Paul Bogen’s visit I ignored its existence.

▪ To break down our budgets. Of course we kept our financial tracking but Paul explained ways to become more efficient so that the budgeting can become a useful tool for future decision making in programming. This kind of work was time consuming and one of our staff worked full time for almost a month under Mrs Aghavni Giakopian kind supervision to complete the task of revisiting last year’s budgets and breaking them down. It proved to be very helpful and I would greatly appreciate Paul Bogen’s comments on them as Plzen proved to be very short time for all of this to happen.

▪ Give emphasis on the major identity characteristic of Vyrsodepseio. We talked a lot about that and this reflection made me realise the importance of the international character of Vyrsodepseio. So, I decided to further develop international collaborations and to make this aspect of our activities a mark. During this period we have applied as partners in 4 “Creative Europe” applications, we co-organised with Antic Teatre (member of the TEH) a platform called “Cav_a”, an exchange platform between Catalan and Greek artists with performances and mobility of artists,

Mejeriet, Sweden

and we have developed a plan for international residencies. (Already, have 3 international residencies planned for year 2016 and we wish to create within our establishment housing possibilities.)

▪ Site changes: We realised that Greek "is Greek" to foreigners and so we revisited our logo, which is only in Greek and ordered for an English version of it. Then we changed our homepage and added English version of Vyrsodepseio and also the translation of the word Vyrsodepseio, which is "Tannery".

▪ Shift in programming in accordance with finance indicators. We have discussed a lot on how to combine vision with reality factors. And so, it was that the rentals and parties and TV productions that took place at Vyrsodepseio generated more income than our own theatrical productions. So, we decided to give emphasis on the activities that would provide sufficient income for the organisation to run and that we would limit down theatre co-productions that didn't make much of a profit. We launched into this idea and managed to rent the place to a film production company that shot the whole lot of a feature film in Vyrsodepseio.

Also, for the first time since 2011 I directed and co-produced with the International Festival of Dimitria (Thessaloniki) and the City Theatre of Athens and therefore presented there my new show beyond the walls of Vyrsodepseio.

I think that both my artistic "absence" from the space and the fact that we reduced substantially artistic work was probable a not so well balanced move, but the overall finances of the organisation improved dramatically and I felt like taking a holiday that I desperately needed.

▪ Tourism: Paul suggested alternative income sources also through collaborations with tourist agents, etc. This is something we have looked at contacted the right people but still need more time to develop

▪ Membership plan. We compiled a membership policy plan that is waiting for us to activate. However, we didn't actually launch it since this year our artistic activity is reduced as we are testing another way of doing thinks. We hope that the right balance will be achieved very soon.

Mains D' Ouvres in St Ouen, Paris

▪ Structure. Sorry Paul, no structural changes yet. I m still trying to understand the results of shifting our policy and to balance anew the two poles "Reality and Vision". As this has been a very vision-driven organisation it is not an easy task to come down to reality.

On the whole, this experience has been extremely rewarding. I would like to thank the Trans Europe Halles for giving us this opportunity and of course Paul Bogen and Giovanni Schiuma for the ideas and above all for asking the right questions".

MAINS D'OUVRES EVALUATION

Paul Bogen came to Mains d'Œuvres 2 days in July 2014. The purpose of participating to this project is that Mains d'Œuvres lives a financial crisis and needs to reinvent its model to be able to go forward.

10 members of Mains d'Œuvres's team participated in the workshop from technician, to programmer, producer or administrator. We discussed the very short time needs of the organization not to be bankrupted and also the more strategic issues for a long-term process.

The first aim was to involve the team in organizing activities to make money for the next 3 months in order to help the organisation to balance its budget for 2014 and also not to have cash-flow issues.

The proposals were:

▪ Getting memberships fee

▪ Renovation of the restaurant bar and organizing events

▪ Rentals of the concert hall for concerts or events

▪ Getting small private partners from our friends and family

▪ Raising the rentals of all spaces in focusing in one type of audience

Mains D' Ouvres in St Ouen, Paris

▪ Organizing multi-spaces parties

▪ Making art studio and new spaces in containers

People who were engaged on that project did some part of the proposals but not went deeper in those actions. The daily work came back quickly. Not everybody from the team was there also, and it was difficult to express and convince the others on the priorities. Some actions like organizing multi-spaces parties were organized.

The other strategic issues for the organization were:

▪ Workshop on vision and strategy for the future

▪ Structure of the management and process of taking decisions

▪ Administrative system

▪ Economical management, and tools for financial administration

▪ A tool for the restaurant

The director Camille de Wit organized the workshop and also a diagnostic of the situation between the team. We had a first meeting on September 29th to talk about the fear and the financial situation between the team and board. On January 9th after interviews of all team members by one person from the team, we have worked on the vision of the organization and also on the structure of management and process of taking decisions.

For the administration and economical management, not so many things have been done. The director has done the financial situation of the organization in August, and the board decided to declare of being insolvent to protect the organization. A lot of work had to be done at the end of the year in relation with this decision. The accountant and the director had to provide a lot of documents to the legal administrator.

The person in charge of the administration fell sick at the beginning of December so the director had to take some works in addition.

The workshop was helpful to point at the most important issues for the organization to face the re-construction of the project. It also points out the necessity of giving responsibility to all the members of the team and the board of the situation.

“We are working on a new building because the local council and new mayor decided to get back its building. The ideas develops in the workshop are helpful in building this new project”.

MORITZBASTEI EVALUATION

In this short section we will discuss why the Moritzbastei took part to the project; what happened during and after Paul’s visit in Leipzig and how it influenced our organisation.

“We took part to the project firstly because we had the possibility to discuss our issues with someone who is outside our organisation that can see things objectively and secondly, because we could have the possibility to learn from the experience of other centres, as we do often share the same problems”.

When Paul came to Leipzig in August 2014 we discussed several problems, such as:

- Drop of visitors to the Wednesday party;

- Risks dealing to the raise of the minimum wage;

- As a consequence of the raise of the minimum wage, the restructuring of the security service;

- General financial situation;

“We tried to learn from Paul’s experience in the Junction, asking him how he managed similar issues. During the discussion it has also emerged a very important fact: the Moritzbastei does not have a very clear VISION and MISSION. Paul organised a Workshop in which nine members of our organisation took part. After having compared the Moritzbastei to other cultural organisations, a very interesting comparison because it was numerically detailed, he introduced us to an exercise useful to find a clear MISSION and VISION. In a meeting, which took place on purpose a couple of months after Paul’s visit, we explained to almost our complete staff why we need to do such an exercise and how important it is. We enthusiastically planned to do it in January next year. Forty members of the stuff, divided into five groups, will take part in it”.

“It was not very easy to explain why we need to share this experience all together. But the meeting, which we had in October with the other members, convinced us that it was necessary. In Plzen, a very pleasant city in Czech Republic, on the occasion of the TEH Meeting, we met with the other participants of the project to discuss our problems and to see if something had changed since Paul’s visit. Hearing the other members talking about their issues, we had the feeling that our problems were not that grave. We understood that we have to keep on going like we always did. We just have to solve our Wednesday party problem and find out who we are and why we do what we do. We are conscious that it will not be easy but we are looking forward to do this exercise, as we are really excited about the outcome”

WHAT CAN BE LEARNT FROM THE FIVE CASE STUDIES?

Although the five centres that participated in the case studies were all very different from each other, there were some common issues and trends:

- None of the centres had an agreed, long-term plan or strategy and some did not even have a short-term plan.

- Many of them were spending most of their time ‘fire-fighting’ current financial and other issues and not future-thinking or being strategic.

- Issues about the leadership of the organisation and where and with whom this role and decision-making should lie between the boards, the CEO and the staff team.

- Concerns over the current financial situation of the centres from having no reserves, reducing income or no cash at all!

- Confusion about or issues with the organisational and staff structures, roles and responsibilities.

It appears, from the feedback and evaluation from most of the Pilots, that just a two-day consultancy visit was useful for them. Having an objective, outside-eye can be invaluable to organisations who are often are too busy and too involved in their projects to be able to have the time and distance to see ‘the bigger picture’ and what their priorities should be. This suggests that limited resources are required to assist arts and cultural organisations start the process of improving their business models and financial sustainability, but only if they are willing to be self-critical and then to action change.

Cable Factory, Night of the Arts2, Photo by Karoliina Eerola

With most of the pilots, the project resulted in them taking some specific actions that have produced some positive results. At Mejeriet, one of the issues was that the bar was not producing the level of turnover that should be expected from the size of audiences at their music concerts. The consultancy identified that the probable cause of this was the design of the bar, which resulted in a new bar being installed in the centre. The consultancy with Vyrsodepseio identified that working internationally and seeking European funding could be a strategy that should be pursued in light of the economic situation in Greece. This resulted in Vyrsodepseio receiving European funding for the first time in 2015 from three different projects.

Finally, what was the most interesting lesson learnt from the case studies is that the experience, skills, knowledge, motivation, energy and personality of an arts or cultural organisations leader(s), is perhaps, the most important factor in determining if it succeeds or fails. Particularly, for an arts or cultural organisation to be successful, it must have a vision and a clear one that can be articulated to all stakeholders. And this vision had to come from somewhere and someone, which is why the role of leader or leaders is so critical.

5. CLOSING REMARKS

This report has aimed to analyse first the notion of creative business models in cultural organizations and then to set the scene for understanding the state-of-the art and the adoption of innovative creative business models by the European cultural centres belonging to the Trans European Halles (TEH) network.

Specifically, this report has aimed to provide first evidences and insights of an on-going research project managed by the TEH in order to support the benchmarking and the adoption of business models for driving the improvement of the value creation mechanisms of the independent cultural centres of its network.

Using the population of the 45 independent cultural centres operating in 27 European Countries, the report has provided first information and insights - derived from a qualitative survey - about the business, governance and organizational profiles of the TEH independent cultural centres, as well as their perception and orientation to elaborating, identifying, adopting and managing innovative creative business models and to qualitatively identify a feasible set of resources, assets and behaviours potentially driving market-orientation, performance improvement, competitiveness and sustainability.

COMMENTS FROM KATARINA SCOTT, THE CREATIVE PLOT & THE CITY OF LUND.

We discuss art and culture a lot but almost never cultural business. Still we need to survive and with better possibilities, knowledge and self-sustainability we can fund and invest in what we want to, need to and be more independent. The project Creative Business Models for Creative Organisations gave us figures and facts to start with.

We as cultural operators and artists do much more "business" than we think. We create a lot of value, but we don´t always get paid for it and we need to improve our business models to survive.

Our existence is mainly driven by passion and commitment to support and change society and our offer to our participants, audiences and members is part of this value based mission. Despite this, many organizations drift away from their core purpose and value base, and then have to struggle to keep the teams together and preserve their legitimacy. Sometimes we lose sight of our heart or have to re-interpret ourselves. You are your organisation! The organisation is you?

To be able to work with and think cultural business we need to not just add on business knowledge and models, but safeguard and develop our value based missions and our organisations. We need to adapt business models and develop tools and methods that are in line with the needs of the value driven sectors.

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APPENDIX 1. PROFILING CREATIVE BUSINESS MODELS QUESTIONNAIRE

Is your cultural organisation engaged in strategic relationships/partnerships with other private and/or public institutions that are not artistic?

If YES please list the 3 most important relationships affecting your success and provide a short description of the nature and contents of such relations.

If NOT please articulate – if any – the reasons for such condition.

What are the most important value drivers of your organisation?

APPENDIX 1. PROFILING CREATIVE BUSINESS MODELS QUESTIONNAIRE

Please list the 5 most important success factors and obstacles/hampering factors influencing the capacity of your organisation to operate and produce an impact.

The 5 most important success factors:

The 5 most significant hampering factors:

What are the 3 most important lessons that you have learn so far that are helping to successfully manage your organisation?

How do you measure your success as a cultural organisation – do you have any measurement systems in place and if yes what are the most important indicators/measures that support or inform your decision-making?

APPENDIX 1. PROFILING CREATIVE BUSINESS MODELS QUESTIONNAIRE

Do you have a clear and codified written definition of the mission and vision or your organisation and if not do you have one implicitly and clearly articulated into your mind as well as in the mind of the board in charge of running the organisation? In addition do you have the list of the set of values inspiring the actions of your organisations? If yes please list them.

How would you define the value that your organisation is creating and for who?

How would you describe your audience and/or customer base? Can you provide segmentation and a classification of the kind of cultural services/products that you offer?

APPENDIX 1. PROFILING CREATIVE BUSINESS MODELS QUESTIONNAIRE

What are your sources of revenue? Can you classify and describe them?

What are your key activities and what are your core competences/knowledge base? In which competences do you excel and distinguish your organisation?

APPENDIX 1. PROFILING CREATIVE BUSINESS MODELS QUESTIONNAIRE

What are your key resources at the basis of your activities and from where they come from?

Do you have a financial and accounting system in place within your organisation, which helps you to understand your cost structure and income structure as well as the capacity of generating profits or losses?

Looking into the future please list the 3 most significant Challenges, Opportunities and distinctive successful factors your organisation is dealing with.

Do you think that you have in place a structured management system? If yes can you please describe what you believe the key components of such system are.


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