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**A MARRIAGE OF CONVENIENCE: MUSEUMS
AND THE PRACTICE OF BUSINESS DOCTRINE
IN THE DEVELOPMENT OF SUSTAINABLE
BUSINESS MODELS**

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Abstract

The purpose of this paper is not to simply survey the various business models in the development and distribution of online museum content. The purpose is instead, to provide some reflection upon the marriage between business doctrine and museum mission and mandate to determine whether there is indeed, a point of equilibrium or harmony between them. There have been some great changes and distinct upheavals in the business world over the last five years. Various museums considered entering into the “dot.com” economy and some, in fact, experimented with it. With this economy evolving, museums, in this author’s opinion, are at an interesting crossroads. The type of economy is changing from a product economy to an experience economy and audiences/visitors becoming more demanding and less focused, due in part, to the diversity and sheer volume of entertainment available. Museums are, like never before, required to understand and expand their “market share” and compete for audience so that they are able maintain their relevancy. Ignoring or downplaying audience satisfaction in developing museum programming may no longer be an option.

The paper examines and defines the experience economy and outlines a four-factor test developed by Stephen Weil, against which the development and distribution of museum content may be benchmarked to determine whether this sort of new museum programming meets standards of “quality”. The four factors apply regardless whether the content being developed is an exhibition in the physical or digital environment. And they would certainly apply to determine whether a business model for the development and distribution of museum digital content was “sustainable”.

Résumé

La présente communication n’a pas pour seul objet de décrire divers modèles d’affaires pour l’élaboration et la diffusion de contenu muséal en ligne. En effet, elle vient aussi et surtout proposer une piste de réflexion sur l’association entre la doctrine commerciale d’une part et la mission et le mandat des musées d’autre part, et ce dans l’optique de déterminer s’il peut exister un point d’équilibre

ou un juste milieu entre les deux. Le monde des affaires a connu de grands changements et bouleversements au cours des cinq dernières années. Des musées ont bien envisagé de faire leur entrée dans la cyber-économie et, d'ailleurs, certains en ont fait l'expérience. Avec une économie en constante évolution, les musées se trouvent, de l'avis de l'auteur, à la croisée des chemins. L'économie est en train de passer d'un régime fondé sur les produits à un régime fondé sur l'expérience□ les publics internautes sont de plus en plus exigeants et de plus en plus éparpillés en partie du moins à cause de la diversité et de la quantité phénoménale des divertissements proposés. Les musées doivent plus que jamais comprendre et augmenter leur «□part de marché□ et obtenir de nouveaux publics pour être en mesure de justifier leur utilité. Les musées n'auront plus d'autre choix que de tenir compte du facteur de satisfaction de leurs publics dans l'élaboration de leurs programmes.

Nous examinerons et définirons ici l'économie fondée sur l'expérience et décrirons un modèle d'essai à quatre facteurs mis au point par Stephen Weil, modèle grâce auquel il est possible de baliser la mise au point et la diffusion de contenu muséal et de déterminer si le type de programme muséal envisagé répond aux normes de «□qualité□. Les quatre facteurs s'appliquent peu importe que le contenu soit monté pour une exposition physique ou pour une exposition virtuelle. Et ils pourraient certainement servir à déterminer si un modèle d'affaires pour l'élaboration et la diffusion de contenu muséal numérique est «□durable□.

Identifying the New Economy

The above is a tired phrase, perhaps due to the dot.com bubble having burst. We all thought that we had entered into the new economy in the late 1990s with the advent of the Internet and the so-called new business models driven by E-commerce. However, another theory of the “new economy” may be proving itself correct and the Internet may very well be a manifestation of this theory.

Tom Kelly (2001) , author of “The Art of Innovation” and general manager of the leading Silicon Valley design firm IDEO, refers to the new economy as the “experience economy”. Kelly discusses how businesses and services have come to resemble the experience of a theme park. The example used in his book is actually borrowed from noted authors Joseph Pine and James Gilmore: the development of the birthday cake from commodity to party experience (Kelly, 2001). That is, at its most basic level, the economy was based on the exchange of commodities. In order to bake a birthday cake we bought the individual ingredients. From there, cake mixes were invented and we moved from the commodity economy to the product economy. To enhance the birthday experience, we could also purchase cakes in a bakery, ready-made. But the experience economy takes the ready-made birthday cake and turns it into a birthday party service that understands how to entertain the consumer. Now, party companies organize birthday parties where the cake is one of many elements to the overall experience. According to Kelly, a classic example of this manifestation is the Chuck E Cheez birthday party extravaganza. (Kelly, 2001).

While it is not my intention to compare museums and theme parks or Chuck E Cheez birthday parties, Kelly nevertheless struck a chord with his audience at this year’s American Association of Museums Annual Meeting. This is perhaps true for two reasons. First members of the audience recognized their own personal response to how services are provided and what they, as consumers, enjoyed consuming in the experience economy. They, in effect, related exactly to what Mr. Kelly was describing because they had all experienced it. Second, at its most basic, museums are in the business of storytelling. And while the level of sophistication and purposes of museums may be lofty, museums do actively participate in the economy by providing an important service, albeit for reasons other than generating profit. Because museums are in effect, storytellers, audience responsiveness is considered a necessary element in measuring museum-programming success. Therefore, the experience of attending a physical or virtual exhibition must be more than simply consuming commodities or products. Audiences have come to expect more in the experience economy. They expect to be entertained by the entire experience of attending a museum for the purposes of visiting an exhibition and even more so by going online to visit one.

Defining “Sustainable”

What do we mean by “sustainable”? In the business world, the response is fairly simple. It means that the revenue generated by the activity is sufficient to cover its costs or better yet, that revenues exceed costs, thereby generating profit. This may be immediate or it may be an obtainable, realistic objective over time. “Sustainable” activity in the for-profit sector can also include activities that may generate losses but enhance the overall effectiveness of the operation so that the activities generating losses also generate public awareness or branding. These activities increase profitability over the long-term. Such activities are sometimes referred to as being “loss-leaders”.

In the non-profit world, and in particular with regard to museums, the response is more complex. The overall benefit of the activity in enhancing the quality of the institution is perhaps a more appropriate and thorough measure of whether a particular activity is “sustainable”. Stephen Weil, in “Making Museums Matter” developed a four-factor test to determine whether a museum is organized and carries on activities in such a way so as to obtain maximum excellence and quality. First, part of Weil’s theory is that in order for a museum to achieve a high level of quality, a museum must have a clearly expressed *purpose*, one that holds longevity, and is reasonably attainable.

“Ambiguity is inevitably fatal to the excellence of a museum...” (Weil, 2002)

Purpose breeds accountability and ensures that there are means by which one can determine whether resources have been expended appropriately. (Weil, 2002). The purposes of the museum should be reflected in all of its endeavors and should be used as a means of measuring overall performance.

Second, Weil states that purposes and *capability* are the two pillars of a quality museum. (Weil, 2002). Capability is defined to include resources, whether fiscal, physical or human. Weil’s third factor is the museum’s overall *effectiveness*. Has the museum made a difference or created an impact with its targeted audience? This is a very difficult factor to assess. It is, according to Weil, one of the hardest criteria to measure in general for

the non-profit sector since, unlike the for-profit sector, generating income or cost recovery is not in and of itself an indication of success. (Weil, 2002).

Finally, Weil's fourth factor is *efficiency*. Weil argues that it is the least important factor, however, he states that "efficiency is not unimportant and waste cannot be condoned". (Weil, 2002). In other words, museums, while not being preoccupied with operating efficiently should be sufficiently mindful of it so that entire programs are not compromised due to wastefulness. It may be argued further that if there is a way to increase efficiency so that a museum actually saves in the costs in running one of its programs and if these savings can be used to fund more programming that assists in meeting the museum's overall purpose, enhance its capability or increase its effectiveness, then all the better.

Putting the Model Through Its Paces: the Elements of a Classic Business Plan

In order to determine whether an idea in business might be successful, most often, the idea is put through a series of tests or analysis to determine its potential. Most often the results of these tests appear in the business plan. The purpose of a business plan is to provide a rationale for the undertaking of an activity. In the for-profit sector, it is a means of proving that an activity can over time generate profit. In the non-profit sector, the rationale can be composed of elements that include financial benefits too. (Silbiger, 1999). However, in reference to Weil's four factors, good museum/non-profit business models should also prove that the activity or undertaking enhances the overall quality of the museum to make it a "good" one.

It is from this perspective that the museum community grapples with the development of business models and the purpose why the below section of this paper holds, perhaps, the greatest potential conflict for museum administrators. That is, it is extremely difficult to marry business concepts that are very much based on profit generation and market saturation with the necessary objectives and outcomes flowing from the overall mission/mandates of museums and ensuring that such missions/mandates are carried out

to create a “quality” institution. Nevertheless, the experience economy may be the driving force pushing museums to become more “business savvy” in market development and revenue generation – whether such revenue comes from ticket sales, product development, online or otherwise, or by attracting greater investment by sponsors or donors.

Classic business plans have seven basic elements: market analysis, competitive analysis, consumer analysis, distribution channel analysis, marketing requirements, economic analysis and revisions. (Silbiger, 1999). This discussion will focus on the first four.

The first, and arguably the most crucial element of a plan is an assessment of the “market”. This is a basic analysis of the overall playing field for a particular undertaking. In this section the overall model is not being assessed at a granular level. Instead, a snapshot is being gathered to determine the overall size, strength and potential of the market. In non-profit terms, market analysis speaks to Weil’s first and third factors, that being purpose and effectiveness. If the results of the market analysis are weak because there is little interest in it by the museum visitor or if the perception by the museum visitor or patron is negative, then continuing to carry out activities in this “market” may mean that the museum’s purpose is not being fulfilled and/or that the overall effectiveness of the activity will be greatly reduced. For an indepth analysis of the viability of licensing museum images to various commercial markets, reference should be made to CHIN’s market study entitled, “Like Light Through a Prism: Analyzing Commercial Markets for Cultural Heritage Content. See http://www.chin.gc.ca/English/Intellectual_Property/Commercial_Markets/index.html

The second element of the plan is determining the competitive analysis, that is, “who is out there doing what and where”. Competitive analysis determines whether your museum may be “good” at the initiative in question, whether your museum has the necessary resources to carry out the initiative successfully, whether your museum can compete with other like museums if trying to capture a commercial market and why other museums are carrying out similar initiatives poorly or potentially better than yours. For this reason, CHIN will be publishing a forthcoming study that analyses the pricing and costs associated with the digitization of cultural content, produced by the National Initiative for

Networked Cultural Heritage (NINCH). Competitive analysis truly speaks to Weil's third factor, capability. If your museum does not have the resources, whether fiscal, human or physical, then the initiative will not be successful, thereby affecting the overall quality of your museum.

The third element is an assessment of your audience, in business terms referred to as a "consumer analysis". In business terms again, if the product is not marketable or if consumers do not need the product then it will not sell. However, as with complex businesses, museums provide various programming to various different audiences. This granularity should be reflected in the business plan so that audience identification is clear at the outset. For these reasons, CHIN has undertaken profound audience research. First, in developing the Virtual Museum of Canada interface, focus group testing was a key element in its design. Second, on a more substantive note, CHIN has undertaken audience research that was presented in a workshop a ICHIM 2003 conference and will be published on the CHIN web site in the coming months.

Audience identification is a requirement so that the experience being provided to the museum visitor is tailored to the specific audience identified in the plan, based on age, interests, physical needs etc. Most importantly, by identifying audience requirements at the outset in the plan, you will provide a means of measuring success of the initiative in question because if the target audience enjoyed, learned from and attended the exhibition, the overall purpose and effectiveness of the museum will have been met. In the online environment, audiences have a shorter attention span and cannot be held captive physically. They can log off whenever an exhibition stops interesting them. Therefore, audience research is especially important when developing online exhibitions to ensure that your audience sticks with the exhibition and benefits from the overall experience.

The fourth element is determining distribution channels for the undertaking. That is, how to get the audience to consume museum programming and associated product as part of the overall museum experience. While classic museum programming may not be distributed outside the museum, the generation of museum products, as part of the overall experience may require distribution in order to be considered a successful undertaking. Furthermore, developing joint exhibitions that travel from one museum can most

definitely be considered as a means of distributing museum programming. Finally, distribution in the Internet environment is key; taking into account, search engine registration, advertising, key and hyper-linking. Distribution speaks to Weil's third and fourth factors, that is effectiveness and efficiency.

Once the business plan has been developed, the strategy to implement it follows not far behind. A business strategy (Silbiger, 1999), that includes a five-year outlook and implementation plan is crucial to ensure the success of the business. In museum terms, depending on the initiative and especially where revenue generation is part of the purpose of the initiative, this is also the case. Business strategies often include assessments of the overall structure of the organization that will be seized with the responsibility of implementing the plan and strategy, a detailed implementation strategy, skills required to fulfill the initiative, staffing requirements, internal communication and information flow requirements, overall business style or culture identification. According to expert business strategists, these elements must all coincide and feed into the purposes of the organization or company. (Silbiger, 1999). While assessing such strategic requirements falls outside the scope of this paper, given its importance, it would be a grave omission not to at least make reference to it.

Issues to Consider in Creating Sustainable Business Models for the Development of Museum Content in the Experience Economy

This writer's experience in developing such business models has dictated the random list below:

- Distribution and effectiveness of the initiative. Over the last nine years, there has been and continues to be much discussion about collaborating with other like institutions in developing digitization initiatives. Depending on the nature of your internal operations and the degree of branding that your museum may have, it may be more effective to act alone or in concert with others. Before a decision is made whether to "go it alone", an assessment of the overall market and in particular an

assessment of the power of your museum's brand in that market place will be necessary to make an informed decision.

- Collaborating with others in digitization initiatives may mean collaborating only at the distribution level. While you may have assessed that your museum has sufficient branding to develop a niche in the market place, it may be that you lack the distribution channels necessary to carry out your program effectively and efficiently or that you lack the necessary capability in-house to do so. Carving a “deal” with a distributor that agrees to maintain your museum's branding and not dilute it by combining your offering with others may meet your needs.
- Control the Quality. If collaborating with other museums or in the event that your museum licenses out the development/digitization and distribution of its content to a third party, the degree of your museum's control over the quality of the overall product is key to ensuring that your museum's overall quality is maintained. Handing the responsibility of the fulfillment of the initiative to a third party should not include the relinquishment of control how the end product is created, or consumed and experienced by the visitor or consumer.
- Never loose sight of the big picture. The overall purpose of the institution, especially in the development and distribution of digitized cultural content must be omnipresent to ensure that the initiative maintains the institutions' overall quality. If an initiative includes the generation of revenue, it should also maintain a balance to ensure that a museum's educational and public policy objectives continue to be met.
- Where the objective is to generate income. In the event that one of the main objectives in any new initiative or project that your institution is considering is the generation of revenue so that in the end, the project breaks even or generates profit for the museum, keep in mind basic market or business doctrine. Don't expect revenue generation to hit the break-even point within six months. In even the healthiest of business plans, considerable upfront investment is required to see any return on investment. This is especially true in the Internet environment. Keep in

mind that successes at amazon.com came only after several years of posting losses. It has been the experience of this author that museum business-related endeavors have the potential of generating profit but that investors and most importantly, executives within the museum must be patient.

- Although structure is an issue most often addressed at the strategy stage, where a non-profit organization seeks to generate revenue from a particular initiative, structure becomes primordial. Governance and legal structure of the body charged with the responsibility of carrying out the initiative can affect third party investment opportunities, levels of taxation and how a museum might benefit from the revenues generated.
- And last but not least, know your audience! Keep in mind the overall audience/visitor/consumer experience provided by a potential collaborative or third party effort. Figure out the audience most important to your initiative/project or program and assess the potential success of this experience for a targeted audience before you start into your initiative. This may directly impact the overall effectiveness of your initiative. Keep in mind that focus group testing may not be sufficient and can provide skewed results. If the audience/visitor/consumer is not having an experience in visiting your content, it may be that your initiative is not meeting its full potential. Do not hesitate to change your approach if this is the case.

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