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## TO SELL OR NOT TO SELL?

# *An introduction to business models (innovation) for arts and cultural organisations*



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**To Sell or Not To Sell? An Introduction to Business Models (Innovation) for Arts and Culture Organisations**

***IETM Toolkit***

**by José Rodríguez**

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# Foreword by IETM

Artistic and cultural organisations – especially those working as non-profit organisations – are experiencing increasing pressure to become more business-minded and to achieve economic sustainability. While ‘business models’ and related terms, largely used in the corporate sector, are more and more used in the non-profit sector as well, many professionals from the artistic field believe that increased attention on financial performance would negatively affect the implementation of artistic activities. Independently of what our opinion is in this regard, the reality is that arts and cultural organisations need to balance the generation of value with their mission if they want to continue existing.

Now the good news: business models are not about complex financial formulas and overwhelming strategic theories, and financial viability does not necessarily clash with the fulfilment of an artistic (and/or) social mission. The core of most business models is quite straightforward: if an organisation has a way to create, deliver and capture value, it has a business model. And the most important characteristic of a successful business model is that it is viable and sustainable.

This toolkit aims firstly to clarify the key concepts and definitions related to business models and business models innovation, possibly overcoming prejudices in the process; it then proposes a business model canvas tailored to the specific characteristics of arts and cultural organisations, and illustrates how some cultural organisations across Europe have successfully innovated their business models.

No matter how financially stable your organisation is, discussing your current (and future) business model is a healthy activity that you can practice regularly with your own team, and we hope this toolkit will help you do that. No doubt that such a discussion can sparkle good ideas – and positive changes may very probably follow... You’re welcome to give your feedback and share your results and questions through the IETM online forum and during our next meetings!

# About the Author

José Luis Rodríguez is the Director of Communications at Trans Europe Halles (TEH), a Europe-based network of cultural centres initiated by artists and citizens. He has worked here since 2014, previously as Network Manager.

He has a ten-year background in project management and communications, working for international public and non-profit organisations, operating in the areas of arts, international cooperation, innovation and education, including for the Spanish Agency of International Cooperation for Development (AECID), the Embassy of Spain in the Czech Republic, Instituto Cervantes in Rome, Triple Helix Association, Latin-American Network of Innovation Parks, etc.

His interest in business model innovation was awakened while working at the La Salle Innovation Park Madrid (2008–2010). There, he read the internationally acclaimed book ‘Business Model Generation’. Since then, he has been involved in several projects concerning the sustainability of arts and cultural organisations. The latest projects he’s been working on are TEH’s ‘Creative Business Models’ (2014–2015), in collaboration with the Swedish incubator of creative businesses The Creative Plot; and the European Union-funded project ‘Creative Lenses’ (2015–2019), involving a unique international cross-sectoral partnership to research, test and implement business model transformations and innovations for arts and cultural organisations.

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# Preface by the Author

If you are reading this publication, it is because you are looking for ways to improve the financial sustainability of your arts and/or cultural organisation. Your organisation, like most of the organisations traditionally operating in the arts and cultural sector, is probably a non-profit, but you intuit or even understand that 'non-profit' doesn't necessarily mean 'for-loss'. You know that, from a management point of view, there aren't many differences between for-profit and non-profit organisations, and that both need financial and other types of resources to continue their activity.

We all are aware that the arts and cultural sector is facing huge challenges, but our sector is not the only one suffering from issues such as public funding constraints, increased competition, technological digitalisation, market globalisation, the need for cross-sectoral collaboration, shifts in the way people consume and approach products and services, the increased need for consumers and audiences, a fast-growing demand for experiences over simple products or services, etc.

The current social and economic climate is pushing the arts and cultural sector – amongst others – towards an unavoidable need to change and adapt to a paradigm shift driven by technology and globalisation. And in this climate, innovation – specifically business model innovation – can play a key role in helping our organisations continue delivering value to society.

'To Sell or Not To Sell?' is a publication aiming to introduce and clarify some key concepts around the topic of business model innovation, for cultural managers and other arts professionals interested in increasing the resilience of their organisations. It takes a practical approach, which is why you will find short texts and various other types of content, such as illustrations, videos, quotes, checklists, practical advice, etc.

The text is divided into six sections. It starts with an introduction to the main challenges currently facing arts and cultural organisations. The second chapter explains why all organisations, including cultural ones, have a business model even if they are not aware of it and how the difference between non-profit and for-profit organisations seems to gradually fade when we come to speak about mission-driven organisations and social businesses. Chapter three and four introduce the concepts of 'business model' and 'innovation' respectively, and end with some comments on the importance of

business model innovation. Chapter five introduces the author's personal approach to business model innovation for cultural organisations through a Business Model Canvas specifically designed for arts and cultural organisations. The final chapter includes four case studies of business model transformation and innovation picked from the experiences of respondents to an IETM call issued in late 2015.

To ease the readability of the toolkit, bibliographic references have been removed from the main text and are included in the reference section at the end of the publication.

I hope you will find the text interesting and that, at the very least, you learn a few new and useful things about business models and how they can be designed and transformed – perhaps with a little pain.

...And if the management lingo you'll find here – and the ideas behind it – don't appeal to you, just keep in mind this famous quote by Peter Drucker, and go and do something more enjoyable with your time: 'Never subordinate the mission in order to get money. If there are opportunities that threaten the integrity of the organisation, you must say no.'

*Audentes fortuna iuvat. Vale.*

# 1

## *Introduction: A Changing World*

In order to change an existing paradigm you do not struggle to try and change the problematic model. You create a new model and make the old one obsolete.

Richard Buckminster Fuller

We live in a dynamic and increasingly complex world. Over the last decades, globalisation and the rapid development of information technologies have caused a shift in the global economic structure; passing from traditional product-based manufacturing towards a knowledge-based economy, in which services and innovation occupy a more decisive role in social and economic development than ever before.

The knowledge-based economy is a system of production and consumption in which intellectual capital is the primary resource, and the value of both organisations and individuals relies on intangible assets (as opposed to physical capital, natural resources, low skilled labour, etc.). This type of economy is therefore reliant on the role of knowledge and information technology, as an enabler of knowledge distribution, in driving social wellbeing.

Borders don't exist anymore for the global economy. As a result of technological development, the boundaries separating sectors are probably not valid anymore. And even the borders between for-profit and non-profit organisations are blurring. Our world is an open space where organisations and individuals are free to operate in increasingly interdependent contexts.

The changes in our globalised and technological world affect all aspects of our lives. Employment is not what it used to be. Life-long employment is not common anymore. Many people are continuously changing jobs every few years, and career shifts are now more widespread than before. Working trans-nationally is common-place for millions of professionals.

Thanks to technology, education is slowly but radically changing. As educational models change, more radical changes are expected to occur over the coming years.

The way we consume is also different. We make more informed choices and rely on the experiences of other consumers. Big organisations and states are losing the power they used to have over all aspects of our lives.

Regarding information, big media don't have total control over the news anymore. Information comes from many independent media platforms and individuals. Now everyone can have a voice, and can reach millions of people in a few seconds.

The low costs of production are making technology more accessible to an increasing number of people. The democratisation of technology is empowering individuals and small organisations outside of the technological industry.

Additionally, technology and digitalisation have set the direction of contemporary societies towards a more collaborative

socioeconomic model; collaboration probably being one of the most important values for the new economy.

Organisations that don't collaborate are sentenced to perish. But collaboration should not be understood as it was before. Nowadays, collaboration is considered to be multi-sided. Organisations sincerely willing to cooperate will have to do so with other organisations in the same sector, as well as in other sectors, and with their audiences and clients. Open innovation approaches are directing more and more organisations towards involving their stakeholders in the co-creation of processes, services and products.

Paradoxically, as collaboration increases, competition is also tougher than ever before. Organisations of all kinds must continually re-invent themselves to survive in a hyper-competitive environment. This means that they are forced constantly to explore new ways to better serve their clients and audiences.

In the new world, the old rules don't work anymore. Every day, we hear about big organisations being challenged by small start-ups and being put outside of the game. Innovation and resilience should now be fundamental traits of every organisation, as key features in responding to future challenges.

The arts and cultural sectors are – just as all other sectors – highly influenced by these macroeconomic forces. As our world is rapidly changing, everything becomes more complex and inter-related. And these changes demand that we run organisations in a different way. Possible actions to be taken include:

1. Building new skills and capacities;
2. Identifying new funding and financing streams;
3. Developing new cross-sectorial relations;
4. Developing stronger relations with their community/audiences;
5. Engaging in cooperation, exchange and sharing models.

However, cultural organisations are often undercapitalised as well as undermanaged, which adds complexity to the task of innovating working practices and business models.

Managing transitions requires a high level of leadership and management skills, to keep the organisation going under the current business model while adapting to a new business model that is still under development. The following pages aim to offer some hints for organisations ready to take up the challenge.

# 2

## *Business Models For Those Who Don't Only Do Business*

## 2.1. CULTURE AND BUSINESS

Over the last years, we have witnessed a significant shift in the European economy. The general economic downturn has also impacted the public support of arts and cultural organisations through policy changes, funding cuts, etc. The vulnerability of the sector has been exposed. Funders started to call cultural players to embrace certain concepts and practices from the business sector as a way to reduce their dependence on public grants. This is where the concept of the business model comes in, introducing the apparently taboo word 'business' into the cultural sector. Many cultural organisations react adversely to this concept, proclaiming that they are not businesses, and therefore business rules shouldn't be applied to their work.

However, the truth is that behind the term 'business model' lies a very useful conceptual tool for any organisation, no matter whether it is a business enterprise, a social company or a non-profit organisation. If an organisation has a way to create, deliver and capture value, it has a business model. And the most important characteristic of a successful business model is that it is viable and sustainable. Non-profit organisations and for-profit organisations alike need to provide their users with valuable services and products. Besides they have to be accountable to their funders: governments, foundations or private donors. Having a well functioning business model definitely helps.

All organisations have a business model. It might just happen that it hasn't been explicitly designed, but rather adopted by unconsciously copying models from other organisations in the same sector. This practice was quite common during the industrial era, in which business models were perpetuated until a significant change – in most cases technology-driven – materialized and changed the playing rules of the sector. In the past, business models were taken for granted, and most of the organisations in the same industry used the same business models. For them, it was not important to explicitly design business models, even if implicit business-model innovation brought significant advantages to some companies.

All this dramatically changed with the emergence of the internet and the eruption of online businesses, which used an entirely new and revolutionary technology. In the initial stages, these internet start-ups needed to figure out how to make money out of their work. That was the moment when business models were placed at the core of business innovation. Nowadays, social, economical and technological hyper-quick changes create a very unstable and unpredictable environment for all types of organisations. Business models don't last as long as they used to in the past. New affordable technologies allow new players to emerge all the time, and in many cases, they radically refuse to play by the same old rules of the industrial era. That's why business model innovation is a new strategic imperative for all organisations.

There is no reason to exclude those operating in the social and cultural sectors.

Additionally, it is worth saying that even the notion of hermetic sectors that don't interact with each other has become obsolete. The new contemporary paradigm requires all types of organisations – public, non-profit and for-profit – to cooperate across sectors and working fields to acquire a more holistic approach to reality, and to tackle more efficiently the pressing problems that our societies are currently facing at all levels: social, cultural, environmental and economic. The borders between sectors are fading, and former prejudices are quickly shifting into more tolerant patterns. In today's diverse organisational environment we can find for-profit social enterprises pursuing the common good; the Grameen family of companies founded by the Nobel Peace Prize winner Muhammad Yunus, non-profit organisations with for-profit legal structures – 34% of the cultural centres members of Trans Europe Halles have at least a for-profit legal structure – and for-profit companies with very compelling social responsibility policies, such as Microsoft, Google or Walt Disney Company (whether such policies are actually just PR exercises is a question that goes beyond the scope of this publication).

## 2.2. BUSINESS MODELS AND NON-PROFIT ORGANISATIONS

For decades, the relationship between non-profit organisations and governments has been considered complementary, as partners in carrying out the delivery of public goods and serving public needs. This is particularly true in the case of cultural non-profits involved in artistic and cultural activities that would never have found the desired financial sustainability without sufficient funding from public administration, such as most of the performing arts, from classic opera productions to contemporary live art.

In fact, non-profit organisations are traditionally defined as bodies of individuals who associate for any of the following three purposes:

- a) To perform public tasks for which there is a demand that neither the state nor commercial organisations are willing or able to fulfil.
- b) To perform public tasks that have been delegated to them by the state.
- c) To influence the direction of policy in the state, the for-profit sector, or other non-profit organisations.

However, as already mentioned, the lines separating for-profit and not-for-profit organisations are becoming increasingly blurred, and their relationship with governments should probably be revisited.

Non-profit organisations operating in the arts and culture sectors have traditionally had some traits that could still be considered characteristic today:

- a) They are driven by a mission and not by profit-making.
- b) They have difficulties generating a surplus from their core activities.
- c) They are dependent on public funding.
- d) They are undercapitalised and, if they have any reserves, these are usually very small.

Of all the characteristics of the non-profit cultural sector mentioned above, the most peculiar one is its high dependency on public and private funding to provide them with sufficient resources to implement their activities. This critical dependence on resources has enormously influenced the sector's business models and has proved to be a high-risk option.

Experience shows that when governments at any level, whether local, regional, national or international, decide to change their funding priorities and - as we have recently seen in many European countries - reduce their financial support to the cultural sector, organisations have to find ways to adapt to the new context. The financial cuts in culture have left many cultural organisations with a broken business model that will need to be redesigned.

The first step when an organisation finds itself in an entirely new situation, such as the current one, is to analyse that situation, and to start changing mind-sets. This is probably the main challenge that many cultural organisations are currently facing.

The second step is to rethink the organisation's business model in order to understand and clarify the processes underlying it. As public funding for arts and culture is unreliable and might be reduced in the future, cultural organisations should revisit their funding portfolios, diversify them and look at more innovative ways to generate income.

## 2.3. BEYOND NON-PROFITS: MISSION-DRIVEN ORGANISATIONS

The non-profit status of an organisation is a choice made by its founders, and it is a voluntary one. The biggest difference between a non-profit and a for-profit organisation is that the former has prioritised a mission - which is assumed to be of general public interest - over profit maximisation. For non-profits, money is not a priority, but one of the many available means to deliver their mission, alongside volunteering, bartering, etc. (which are incidentally also utilised by for-profits). As stated before, every organisation that delivers value has a business model, whether it is explicit or not. What a business model essentially does is to turn ideas into money or other types of value for the organisation so it can continue its activity.

In the cases of both non-profit and for-profit organisations, a business model is a sustainable way to deliver products and services. As I understand it here, the word sustainability refers to the ambition to survive over time and continue providing value in a successful manner. I would like to stress here the above-stated idea that the main difference, economically speaking, between non-profit and for-profit organisations is what they do with the surplus that they generate. While non-profits are obliged to reinvest their profits in the mission and activities of the organisation, for-profits are expected to share profits among owners and shareholders, although this is not always the case (a company such as the audio equipment corporation Bose reinvests its profits in product research and organisational development).

In both non-profit and for-profit, having a clear mission brings distinct advantages for organisations concerning strategic definition and planning. Besides this, in the case of non-profits, an outstanding mission can also help to attract employees, volunteers, partners, funders and clients. It can motivate, align and firmly engage employees to the extent that they accept lower salaries than the industry average because working for an organisation promoting or embodying the values they believe in is already rewarding. It also brings some financial advantages such as tax exemptions for mission-related activities. At the same time however, it can add some extra complexity to the business model of these organisations. They may require so-called multi-sided business models, in which the primary beneficiaries of the services are not the ones paying for them. We also find these types of models in the social sector, where companies and organisations are providing services to beneficiaries that don't directly pay for the services, since the government pays for them; or in the online business sector, in which it is very common to access services that are free to a great number of users because other users are paying for more advanced services (Freemium model).

In spite of the added complexity of their models, the non-profits can take advantage of their clear and motivating missions which serve as active innovation boosters, since they push organisations to focus their attention on improving or developing activities that enable the accomplishment of that mission. And, as many examples demonstrate, innovative organisations have clear advantages when compared with others in the same area.

Meanwhile the non-profit sector today faces an increasingly competitive environment, with a growing number of organisations competing for less and less public funding. No wonder non-profit cultural organisations are experiencing increasing pressures to become more business-minded and to focus on financial outcomes as a way to achieve economic sustainability. While many professionals in the sector believe that this increased attention on financial performance is affecting the implementation of their activities and the accomplishment of the organisation's mission, arts and cultural organisations need to put increasing efforts in pursuing the generation of income while accomplishing their primary mission if they want to continue existing.

Historically, the idea of the 'mission-driven organisation' has been associated with the non-profit sector, but this idea has been changing throughout the last decades. Many for-profit organisations proclaim themselves to be mission-driven or even start non-profit ventures. In fact, mission-driven businesses are a subset of social enterprises, an idea that is not new, but has increasingly captured the attention of a more mainstream audience attracted by socially-aware businesses.

Western customers today are more aware than ever of the social and environmental impact of the products and services they buy and consume. They have become more sophisticated, and they don't accept as easily as in the past the conditions under which companies produce and deliver their goods, which are usually the direct result of profit maximisation and cost-cutting strategies.

Entrepreneurs and business owners are also more conscious about the social and environmental consequences of their organisational practices, and many of them pay closer attention to ethical issues related to their businesses. Instead of focusing only on their finances, certain companies have started giving more consideration to the social, economic and environmental impacts. These three elements form the framework called the Triple Bottom Line (TBL). The TBL intends to advance the goal of sustainability by combining three interrelated dimensions of business performance, the so-called 3 Ps:

- Profit: the economic value created and the positive externalities.
- People: good practices regarding labour and the community.
- Planet: sustainable environmental practices.

While still driven by profits, mission-driven businesses like social enterprises attempt to sustain themselves by delivering products and services that aim to achieve socially, communally, environmentally or culturally positive outcomes and, at the same time, allow the organisation to support itself with its own revenue. In contrast to traditional non-profit organisations that are dependent on contributed income (public and private grants, donations, etc.), social enterprises base their activity on earned income.

By providing products and services that deliver social value, social enterprises invalidate the differentiation between customer and beneficiary that distinguishes for-profit from non-profit organisations. For social enterprises, the customer and the beneficiary are the same. Social value and commercial revenue are not incompatible: meeting the needs of a community and building a sustainable business can, in some cases, go hand in hand. This observation doesn't supply an argument against public grants and subsidies, but shows that they should be efficiently distributed to support those areas in which products and services with actual value for society cannot achieve commercial viability.

We can now understand how combining non-profit and for-profit structures can be a plausible option for many organisations in the arts and culture sector. They can develop a hybrid business model that combines for-profit and non-profit legal structures, establishing subsidiary organisations that work together to maximise resources and achieve viability while delivering the organisational mission (e.g. a non-commercial venue starts a for-profit structure that runs the bar or restaurant in its premises, so the profits can be reinvested in less profitable areas, such as community arts activities, or used to balance the budget for core activities).

# 3

## *Understanding Business Models*

### 3.1. BUSINESS MODELS: SOME DEFINITIONS

Since the beginning of 2000s the phrase 'business model' has been one of the most-used buzz phrases in the corporate sector, and it has also become quite popular in the non-profit sector. When people first hear the expression 'business model' they tend to imagine very complex financial formulas and overwhelming strategic theories but, believe or not, the core of most business models is quite straightforward.

A business model is a vital concept determining the success of any organisation. However, despite its importance, there is no consensus regarding its definition and for many people in the arts and cultural sector the concept remains vague and unclear.

The term 'business model' was informally coined by those working in the technology industry, specifically in the late 1990s among the emerging internet companies. It was then quickly adopted by practitioners and scholars all around the world. The first academic definitions of the term are also dated at the end of the nineties. However, this does not mean that business models didn't exist before the internet revolution.

Of course, business models existed before, but they were not designed in the same systematic way and using the well-defined, repeatable processes that they are today. For organisations, the approach to business models was then more intuitive, and the business model was not explicit, but became clear only after the economic results were delivered. The same thing still happens today in certain sectors, especially in the non-profit, in which many small organisations operate without being aware of having a business model. These teams work under a series of underlying assumptions that are continually tested against reality. The fact that an organisation continues operating and delivering value is the best proof that the business model is working.

But when did business models become explicit artefacts? The American management guru Peter Drucker is considered the precursor of many concepts that were further developed by other authors after him. This also seems to be the case with the 'business model' concept. In 1993, Drucker published a little book entitled 'The Five Most Important Questions You Will Ever Ask About Your Organisation'. In his book, Drucker proposes a strategic framework for non-profit organisations in the form of five questions grounded in his management theories that should help improve the performance of any organisation (non-profit, government or business). These five simple – yet not always easy to answer – questions were:

1. What is our mission?
2. Who is our customer?
3. What does the customer/user value?
4. What are our results?
5. What is our plan?

The answers to these five questions should help any organisation find their direction and start acting on it.

In 2002, writing about the importance of business models and commenting on Peter Drucker's five questions, Joan Magretta stated that business models are, 'at heart, stories that explain how enterprises work'. For her, a business model tells a logical story explaining who your customers are, what they value, and how you will make money in providing that value.

Stories don't come out of the blue, but are always variations and remixes of pre-existing stories. And so are successful business models - in most cases, nothing but variations on other successful business models, representing a better way of doing things than the existing alternatives. Indeed, successful business models 'may completely replace the old way of doing things and become the standard for the next generation'.

According to Magretta, business models can be divided into two parts: the first part includes all activities related to making something (design, production, etc.) and the second part includes all activities associated with selling something (finding customers, distribution, service delivery, etc.). Very simply said, a new business model may end up:

- a) Designing a new product or service based on the target customers' or users' needs; or
- b) Finding better ways (processes) of making a product: building, storing, distributing, selling, etc.

One of the most popular definitions of the term 'business model' is the one proposed by Alex Osterwalder and Yves Pigneur: 'A business model describes the rationale of how an organisation creates, delivers and captures value'. In other words, 'A business model describes the value an organisation offers to its customers and illustrates the capabilities and resources required to create, market and deliver this value and to generate profitable, sustainable revenue streams'.

It should be noted that in the performing arts field, the term 'customer' is puzzling. 'Customers', like audiences, risk being an abstract concept until a performance is finally presented to the public, or a venue has run meaningful surveys and analysis of its audiences. In addition, the value delivered by arts and cultural organisations concerns not only their (paying) audiences (which we could, to a

certain extent, call 'customers'), but a larger group of stakeholders: the local community, a larger part of society, digital audiences, etc.<sup>1</sup>

Finally, and to simplify a bit, a good business model should:

1. Be aligned with the vision and mission of the organisation.
2. Be packed with self-reinforcing elements that make it internally consistent.
3. Be robust enough to endure over time, but flexible enough to adapt to new situations.
4. Have, at its core, one or more sound value propositions based on actual needs of the stakeholders (as explained in Chapter 4, 'stakeholders' basically include the staff and volunteers of the organisation, the artists, the funders and donors, and other stakeholders).

#### More definitions of 'business model'

- An architecture for products, services and information flows, including a description of various business actors and their roles; a description of the potential benefits for the various business actors; and a description of sources of revenues. Timmers (1998).
- A business model is the method of doing business by which a company can sustain itself, that is, generate revenue. The business model spells out how a company makes money by specifying where it is positioned in the value chain. Rappa (2000).
- The organisation's core logic for creating value. The business model for a profit-oriented enterprise explains how it makes money. Linder and Cantrell (2000).
- A business model depicts the design of transaction content, structure, and governance so as to create value through the exploitation of new business opportunities. Amit and Zott (2001).
- A description of roles and relationships of a company, its customers, partners and suppliers, as well as the flows of goods, information and money between these parties and the main benefits for those involved, in particular, but not exclusively, the customer. Bouwman (2002).
- The ways of creating value for customers and the way business turns market opportunities into profit through sets of actors, activities and collaborations. Rajala and Westerlund (2005).

<sup>1</sup> For a deeper understanding of the complexity of 'audiences', see G. Tomka, ['Audience Explorations: Guidebook for hopefully seeking the audience'](#)

## 3.2. BASIC COMPONENTS OF A BUSINESS MODEL

*'The real voyage of discovery consists not in seeking landscapes but in having new eyes.'*  
Marcel Proust

Scholars and authors researching and working in the field of business models have suggested different components for a business model based on their own understanding and definition of what a business model is. There is no consensus regarding how many and which elements should be included in a comprehensive analysis of a business model.

Osterwalder and Pigneur suggest a model with nine components. A 'value proposition' meets the needs of one or more 'customer segments'. The value proposition is delivered to customers through communication 'channels', distributors and sales channels. The value successfully offered to the customers is returned to the organisation in the form of 'revenue streams'. 'Key resources' are the assets required to provide and deliver the previously described elements by performing 'key activities'. Some activities are outsourced, and some resources are acquired outside the enterprise by turning to 'key partners'. All these business elements result in the 'cost structure' (they are visualised in their well-known business model canvas – see page 21).

For Amit and Zott, a business model should focus on three areas: content, structure and governance.

Casadesus-Masanell and Ricart distinguish two sets of elements: a) the concrete choices made by management on how the organisation should operate, including compensation practices, procurement contracts, location of facilities, assets employed, and sales and marketing initiatives, etc., and b) the consequences of those choices, including policies, assets, and governance structures.

Other authors think that a business model should essentially answer the following seven questions: who, what, when, why, where, how and how much.

For Mark Johnson, business models consist of four interlocking elements, which, taken together, create and deliver value: customer value proposition, profit formula, key resources and key processes.

Bearing in mind all these different perspectives we could point out four essential components within any business model: value proposition, customer/user segments, infrastructure (resources and processes) and a viable revenue model.

**Value proposition**

The value proposition plays a central role in almost all the different definitions of business model.

A value proposition summarises the main reasons why a customer or user pays for or uses a certain service. It explains why and in what manner our services or products deliver specific benefits to our users and why they prefer you over other options. A value proposition is not a slogan or a catchy sentence, but a list of key features or benefits that explain why what you offer is important to the people who, for example, buy your tickets or attend your open air performances; or why a public funding body has chosen to fund one of your projects. The value proposition is, in a way, a promise of the value that will be delivered to and experienced by our stakeholders.

A well-crafted value proposition is essential to any business model, and it doesn't matter whether we talk about individual entrepreneurs, start-up organisations or already established organisations, for-profit or non-profit organisations. All of them depend on a clear and focused value proposition to determine the successful and financially viable delivery of all the components of the business model.

It is important to keep in mind that crafting a value proposition is not about marketing, but about analysing, understanding and answering the (latent) desires of your potential beneficiaries, funders and costumers or users/audiences.

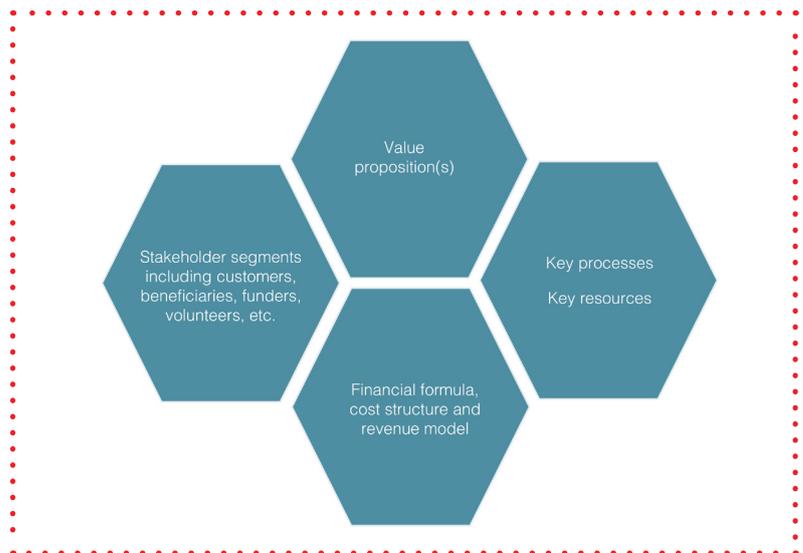
**Customers/users/audiences**

Customers/users are groups of people that a given organisation aims to reach and serve. These groups can be formed based on needs, interests, behaviours, lifestyle or other factors.

In the case of arts organisations, this crucial group of stakeholders is better called audience. Traditionally, the audiences of the arts have three main motivations: entertainment, personal fulfilment and learning, and/or social participation. Whatever the specific motivation of the audience (if not a combination of the three), it is evident that without audiences, no performing arts company or venue will survive for long.

When it comes to audience development in the arts and cultural sector, three strategies are often mentioned:

1. To broaden audiences: to increase the number of participants within already existing audiences.
2. To deepen audience engagement: develop the relationship with the already existing audience segments in order to strengthen their commitment to the organisation and its services or products.
3. To diversify audiences: to reach audience segments that are not the ones the organisation has traditionally worked with.



*The basic components of a business model*

It should also be acknowledged that arts and cultural organisations often deliver services and activities which benefit the community in which they are based: let us think for example about an exhibition or performance organised in the public space, which engages passers-by and can enhance exchanges among people living in the same neighbourhood but rarely getting in contact with each other (as well as reaching out to people who normally wouldn't enter a cultural venue to attend a performance or visit an exhibition). In addition, some artistic organisations include in their mission the achievement of specific social goals (e.g. delivering artistic workshops for children or work with elderly people in their performances, which use the arts to improve the health and well-being of individuals and communities). So, according to the specific case of each organisation, the concept of 'audiences' can be considered in its larger sense, as including actual and possible audiences; or even be coupled with the terms 'communities' and 'mutual exchange'.

### **Infrastructure**

The infrastructure includes:

- a) The resources the organisation has or can access, such as people, knowledge and information, technology, products, equipment, partners, funding, brands, etc. required to deliver the value proposition to the customer or user.
- b) The processes such as design, development, sourcing, manufacturing, marketing, hiring and training by which an organisation creates and delivers the value proposition.

### **Revenue model**

Simply put, a revenue model is nothing more and nothing less than the way an organisation makes money. Business models and revenue models are often confused, but they are two different things.

## **3.3. BUSINESS MODELS AND REVENUE MODELS**

The terms 'business model' and 'revenue model' are often equated and confused, but they are not the same thing. The term 'business model' is used recurrently as a synonym for revenue or income. But, in fact, the revenue model is only one of the several components of the business model. It can be defined as the structure through which an organisation monetises the value proposition that it offers to its customers or users. Explained in a simpler way, it answers one of the most vital questions about the business model: How will the organisation make money or capture value so it can continue delivering its mission?

However important, other elements of the business model are not less crucial, such as the need to build a customer value proposition based on actual/ latent needs of the people the organisation intends to serve. A well-structured business model will include – among the rest of components – a clear and tailored revenue model which will ensure the organisation's financial health.

There are many different revenue models, and each sector has its specific revenue models based on their type of activity and stakeholders. Traditionally, the arts and cultural sector has had its specific way to get resources. Some of the most common are:

1. **Public funding:** a form of financial support provided by governments with the aim of promoting economic and social development. It can come in various forms, such as grants and interest-free loans.
2. **Donations:** monetary contributions or gifts given by individuals or organisations to benefit a cause, group of people or organisation.
3. **Volunteering:** an activity consisting in providing services for no economic gain. The volunteer gives her/his time and skills for the benefit of others with the reward of her/his personal or professional development.
4. **Patronage:** a recurrent support (usually financial) given to an artist or organisation to sustain his/her activity on a full-time basis. Patrons are usually individuals, but the internet is allowing new ways of patronage which are influenced by crowd-funding online platforms (see for example Patreon.com).
5. **Bartering:** a system of trading goods and services between two or more parties without the use of money. Bartering is the most primitive means of exchange, and it continues being used by individuals, companies, and non-profits alike.
6. **Crowd-funding:** a way to raise money by asking for small contributions to a large number of people. This model became

quite popular thanks to the internet and its potential to reach enormous amounts of potential funders.

7. Time Banking: an alternative exchange system in which the unit of value is the service provided by one person during one hour (or another time unit). The service/time provided is recorded and can be exchanged for the same amount of time of a service provided by someone else. Time-based currencies have a great potential for building communities and create additional social benefits for their users.

However, it is becoming more and more common for arts and cultural organisations – and the non-profit sector in general – to adopt revenue models from the business sector. A sample of the most common revenue models is included in the box at page 18.

### 3.4. STRATEGY AND BUSINESS MODELS

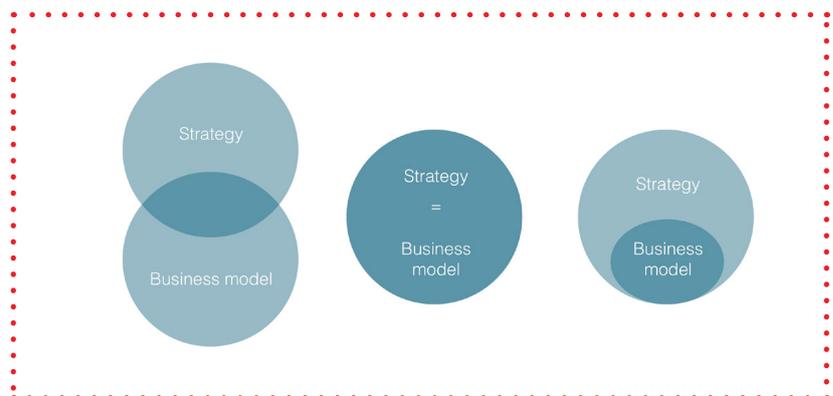
There are many definitions of 'business model'. And the same applies to the term 'strategy'. This makes it difficult to explain how exactly they are linked. For some authors and practitioners, strategy and business model are more or less the same thing. For others, strategy is an element of the business model. And for others still, it is the other way round: the business model is an essential component of the organisation's strategy. The diagram below provides an illustration of this.

Since both concepts are intertwined, and too important to be left ambiguous, it is useful to make an effort to understand the nuances that differentiate them. If we understand, as we have done until now, that a business model is a system that connects beneficiary or customer needs, relevant value propositions, resources, processes, etc., it is because it reflects an overall strategy of the organisation.

A strategy is much more than designing a business model. A strategy sets the plan or path to follow to position an organisation in a unique and valuable way, and to achieve its goals. The strategy defines direction, objectives, steps, processes, changes and performance targets for implementing a chosen strategic goal, including one or several business models to achieve it. Strategy is about efficiently allocating the resources of the organisation so that it can position itself where it wants to be. A business model is a system or platform that enables, among many other elements, the execution of the strategy.

Together with the strategy, including the organisation's vision and mission, the business model is at the core of any organisation. It describes the system that allows an organisation to create and deliver value to its users or beneficiaries while obtaining value in exchange to continue working in a sustainable way.

Inspiring visions and missions are the central elements around which strategy and business model are articulated. The simplest definition of a vision is what the future looks like. A vision is not about the present or where your organisation is now, a vision is about where you want to be in the future. Therefore, a vision must inspire and motivate those who are to implement it.



*Different understandings of the relationship between strategy and business model*

It has to be relevant to the organisation itself to be credible and actionable. Having an inspiring, realistic and achievable vision is the first step in formulating a strategy and designing a successful business model. It sets the direction for the organisation and provides a good foundation for future plans.

However, the best of the visions won't be very useful if the values of a given organisation don't match it. Indeed the beliefs, values, principles and practices of the organisation – including those of the employees, leaders, clients, audiences and other stakeholders – are critical to guiding the vision and creating the culture of the organisation.

This shows how organisational vision, values, culture, strategy and business models are complementary and their integration is critical for achieving success. It helps us understand that it is not enough to replicate a certain business model that another organization is successfully implementing. A business model must be integrated into the organisation's culture. I would even say that it is the culture of an organisation that shapes its business model.

## 3.5. BUSINESS MODELS AND BUSINESS PLANS

Business models and business plans are not same thing. As I have mentioned before, a business model describes how an organisation manages to provide value for its clients in a sustainable way. It includes the organisation's relations with stakeholders (artists, funders, beneficiaries, partners, etc.), the revenue model, the processes in place to deliver its mission, etc.

A business plan, meanwhile, details the opportunities that the organisation is seeking to take advantage of, and how this will be done. A business plan translates the business model into a series of strategic actions and forecasts their impact, whether it is artistic, social, financial or other. This means that the business model is at the centre of the business plan. In fact, the business plan is entirely dependent upon the business model, and will have to be adapted if the business model of the organisation changes.

In essence, a business model is more of a conceptual tool than a financial one, while a business plan will pay close attention to the economic issues concerning the strategy of the organisation.

More than ever cultural organisations must be able to adapt to the changes in the sector and the increasingly complex ways in which audiences experience – access, enjoy, and (co-)create – artistic and cultural content. This is the reason why both business models and business plans have to be dynamic management tools that are periodically revised, so they can allow organisations to adapt rapidly when required.

*A sample of the most common revenue models in both physical and online activities*

Most of these models were developed in the business sector, but have also been successfully adapted to the non-profit sector.

1. Traditional Retailer: The traditional retailer sells products and services directly to buyers at a commission from the actual cost.
2. Low-Cost Retailer: This is a variation of the traditional retail model. The retailer operates on tiny margins and relies on very high volumes of sales.
3. Premium Retailer: In this model, the retailer operates with very high margins by providing the added value of a prestigious brand.
4. Renting or Leasing: The customer pays for a service or to use a product for a fixed period of time. This service is often offered as an alternative to purchase. Both renting and leasing have been widely used by the vehicle industry.
5. Penalty Charges: Used independently or to complement the previous one, this model allows use of a service or product under certain conditions that might easily not be met. When the customer defaults, the service provider charges high margin penalties. Parking meters, video game and home video rental services profit from this model.
6. Subscription Model: This model has a number of variations but in essence it can be described as a recurrent payment once in a predetermined time period (days, weeks, months, years) for a service or the usage of a product. Its aim is to secure the customer on a long-term contract.
7. Licensing: This model is most commonly applied to innovations that involve sophisticated technology protected by intellectual property agreements. Licensing intellectual property can result in high gross margins for the owner.
8. Cost-Plus: In this model, the selling price is determined by adding a percentage commission to the cost of producing the product or service. This model is often used in outsourcing or business-to-business transactions in which both parties are willing to share the risk of creating the product.
9. Advertising: Both newspapers and magazines have used this model for a long time, and websites use it today. All kinds of publications have a major capacity to attract readers with specific demographic characteristics that match the characteristics of the organisation's target groups.

10. Razor and Razor-Blade: This model involves initially selling a product for a low price to generate revenues from complementary products that the primary product requires to be useful. The classic example is Gillette. The company sells cheap razors in order to sell blades at a high margin.

11. One-Time Up-Front Payment plus Maintenance: This model adds a little variation to the previous. For the product to continue functioning properly, complementary products need to be replaced and/or additional maintenance services paid.

12. All You Can Eat: This model offers unlimited use of a product or service over a fixed period of time for a flat fee.

13. Freemium: This is a revenue model in which a product or service is provided free of charge, but charges apply for premium features or functionalities of the same product or service.

14. Reselling data: This model requires first attracting end users with a free product or service, and then selling on user information to third parties.

15. Intermediation Fee: A commission is paid by the seller to an intermediary every time a referral leads to a sale.

16. Pay As You Go: This is a usage-based model in which the usage of the product or service is monitored, and the client only pays for what s/he consumes.

17. Mobile Phone Plan: This is a predictable, recurring base fee charged in exchange for a certain amount of committed usage, with additional charges – often at much higher marginal rates – if the customer uses more than their allotted amount.

18. Auction: This can take different forms, but its key features are that the price of the product or service is not fixed in advance; the final price is determined via competitive bids.

19. Micro-Transactions: This successful model came into vogue with online computer games. The customer is asked to create an account and links a credit card to it so small transactions – sometimes less than 1€ – can be made to buy digital goods very easily.

20. Franchise: An organisation pays royalties for the privilege to deliver the products or services of a well-established brand in a particular sector.

21. Volunteering: Provision of services for no economic gain. The volunteer gives her/his time and skills for the benefit of others with the reward of her/his personal or professional development.

### 3.6. MULTI-SIDED BUSINESS MODELS

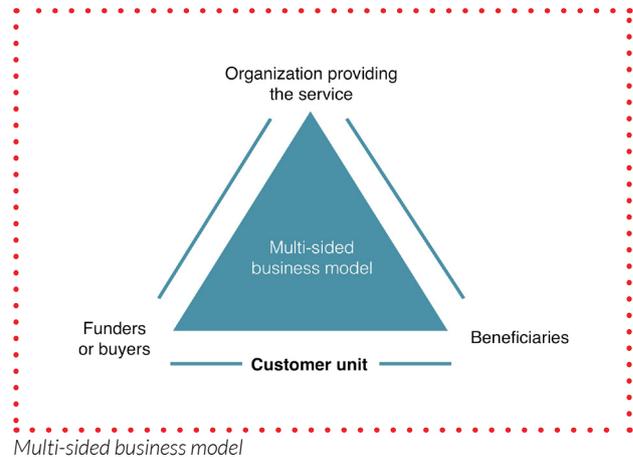
In most common business models used in the commercial sector, the end users of a product or service are also the ones paying for it. However, this is not always the case. Exceptions can easily be found. For instance, products and services targeting children have an end user without buying capacity, and a buyer, the parents. In these cases, an organisation targeting kids will have to analyse the relationship between the two components of the customer unit (buyers and end users) to efficiently present their products or services.

Similarly, in the non-profit sector, we find that most of the revenue of an organisation doesn't come from the direct beneficiaries of the services, but from third-party sources like governments, foundations, etc. Business models addressing this peculiarity are called multi-sided or third-party funded. They add complexity to the model by dividing the traditional customer unit into two different segments:

1. Beneficiaries: These are the target groups that the organisation is providing services or goods to, and don't pay directly to get the service or product.
2. Funders or buyers: These are third-party agents like governments, foundations, individual donors, etc. that fund an organisation so it can fulfil its mission by providing services or products to the end users or beneficiaries.

The case of arts organisations adds an extra layer of complexity since the beneficiaries are sometimes paying for part of the good or service they enjoy, while the rest is partly paid for by funders, donors or sponsors (for example in the case of a performance whose costs are partly covered by public subsidies).

When designing or analysing the business model for a non-profit organisation, both these components of the customer unit need to be tackled separately. End users and donors have different needs, and the value propositions they are offered will also have to be different, as well as the channels the organisation uses to communicate and deliver the services to them.



*Multi-sided business model*

### 3.7. INCOME STREAMS: CONTRIBUTED AND EARNED INCOMES

One of the keys to organisational survival is the ability to acquire and maintain resources. Resources are not exclusively financial, but the financial ones are usually one of the main concerns for cultural organisations, as an imbalance between revenue and expenses might seriously affect their programs and activities, and ultimately threaten their survival.

Volatility of income and high dependence on public funding for cultural organisations might be reduced through a well-planned diversification of revenue streams; particularly by equalizing reliance on earned income and contributions. Moreover, multiple sources of income may lead to a more innovative culture within organisations, and better responses to changes in the environment.

The ideal situation for non-profit arts and cultural organisations would be to obtain revenues from a well-balanced mix of contributed and earned income streams. A first step is to clarify the difference between the two.

#### **Contributed income**

Contributed income is cash or in-kind resources that are given to the organisation in the form of a gift or grant. The most common contributed income streams for non-profit organisations are:

- Government funds. These can be fundraised at local, regional, national and international levels.
- Private funds. Contributions from foundations and other private grant-givers.
- Corporate contributions. In these cases, companies contribute cash to non-profit organisations so they can achieve their goals. In this kind of exchange, there might be a marketing-related interest for the donor.
- Private donations. A gift made by an individual to an organisation. These are commonly in the form of cash, but they can come in other forms, such as real estate, goods, etc. A donation-based variant is crowd-funding, in which a large number of people contribute cash to a project or venture. There are several types of crowd-funding: rewards-based, equity crowd-funding, etc.
- Volunteering. Driven by a personal motivation and/or the organisation's mission, a person performs a service willingly and without pay. Both donations and volunteering are characteristic for the non-profit sector.

- In-kind and bartering. These types of exchanges refer to goods and services that an organisation obtains from another organisation at very low or no monetary cost in exchange for other products or services that the organisation can produce or provide.

#### **Earned income**

The term 'earned income' refers to direct exchanges of products or services for monetary value within market conditions. The dilemma for many arts and cultural organisations is: how to engage in earned income generating activities without compromising the core artistic and creative mission of the organisation?

Essentially, earned income for non-profit organisations is two-fold:

- Mission-related services and products: any profitable products or services that directly relate to the organisation's mission and contribute to its achievement: box-office, membership fees, sales of services, etc.
- Mission-unrelated services and products: these commercial activities refer to the provision of services or goods sales that are not directly related to the organisation's mission, or are offered to customers that are not the usual beneficiaries of the mission, but can generate revenue to subsidize internally activities which are related to the organisational mission. Some of the most common are: facilities renting, merchandising sales, consulting, catering services, etc.

Sarah Thelwall<sup>2</sup> suggests that in order to generate income, artistic and cultural organisations can rely on two basic categories of assets:

- Tangible assets include buildings, collections and archives; these can generate income through, for instance, ticket sales, retail activities, catering and hospitality, renting out spaces and collection items etc.
- Intangible assets can be divided into five types:
  - o Products and services ('second order activities', very close to the core activity of the organisation but easier to scale: if a venue's first activity is hosting exhibitions, the secondary activity can be the publication and sale of related books and catalogues);
  - o Research (e.g. an arts centre creating partnerships with universities to conduct joint research);

<sup>2</sup> S. Thelwall, 'Why does the balance between grant and earned income matter?'; in K. Dalborg and M. Löfgren (ed.), 'The Fika Project. Perspectives on Cultural Leadership', Göteborg, 2016

o Partnerships and sponsorships (actively engaging the sponsors in the process and values delivered by the organisation they support);

o Public sector contracts in other sectors outside culture (e.g. a performing arts company that bids for a contract to deliver public utility services in the field of health and education);

o Donors and patrons (conceived as a bi-directional activity and active engagement, as in the case of sponsors and partners).

While all these activities have potential for generating additional income (and can even have creative potential, according to Thelwall), engaging in any of them requires a real investment in terms of time and human resources and a change in the way of working; they can also impact the audience reach and change the way the organisation is perceived. Organisations should therefore consider carefully the different options, how they fit with the available resources and with the overall mission and core values.

### 3.8. BUSINESS MODELS VISUALISATION

A business model has to be easily understood, communicated and remembered.

It is important to comprehend that a business model is a system. It can be more or less complex, but in any case, it remains a system made up of several components that are tightly interconnected and reciprocally influence each other. This system's dynamics are not always easy to represent using the linear text, which is the most traditional and familiar form to express ideas. Instead, the cognitive benefits of visual representation are well known and scientifically proven. In the case of business model design, visualization can help to make ideas clearer, and to understand the interconnections and relationships of the elements within the system.

One of the most popular tools for designing and developing business models using visualisation is the Business Model Canvas (see next page). It was developed by Osterwalder and Pigneur in 2009 to help entrepreneurs, start-ups, and organisations to innovate in their business models. It rapidly gained attention and recognition among practitioners because it is a very visual, collaborative and easy-to-use tool (for a definition of its elements see chapter 3.2).

After Osterwalder and Pigneur, other authors have simplified the canvas or developed it further by eliminating, adding or changing elements as well as using different forms of matrix, tables or mind maps. Search on the internet and you will find many different versions of the Business Model Canvas. What they all have in common is the use of a one-page diagram that focuses attention on how

all the elements of the system fit into a working whole. This brings some advantages:

a) It is very easy to work with in groups;

b) It is very concise, and it forces prioritisation of ideas and careful selection of the words used to describe them;

c) Compared to a business plan it is easier and faster to write and update;

d) It allows you to design as many variations and alternatives as you like, to compare and combine;

e) It is easy to share with others and facilitates conversation, etc.

Designing and developing a business model is not an individual task. In fact, business model innovation triggers individual and organisational challenges, and should be considered a team sport. To get the best results, idea generation processes should be developed in both formal and informal group collaboration. Ideally, the first step when starting work on a business model should be to gather a team to explicitly discuss the organisation's model. In this process, sharing ideas, communicating and exchanging knowledge is vital, and graphic visualisation can help to extract implicit mental models from the individuals taking part, and align the whole team. Moreover, visualisation usually provides a flexible, provisional and playful framework to boost innovation.

#### *VIDEO: Business Model Canvas Explained*

Duration: 2:19

This video is an overview of the Business Model Canvas, a tool for visionaries, game changers, and challengers designed by Alex Osterwalder and Yves Pigneur. The Business Model Canvas is a simple-to-use, visual strategic management and entrepreneurial tool. It allows you to describe, design, challenge, invent, and pivot a business model.

<https://www.youtube.com/watch?v=QoAOzMTLP5s>

# The Business Model Canvas

Designed for:

Designed by:

On:

Iteration:  %

 <h3>Key Partners</h3> <p>Who are our Key Partners?          Which Key Partners are we relying on?          Which Key Partners are we acquiring from partners?  <small>Partnerships and alliances can reduce risk, increase resources and capabilities, and create new opportunities.</small></p>	 <h3>Key Activities</h3> <p>What Key Activities do our Value Propositions require?          Which Key Activities are most important?          Which Key Activities do partners perform?  <small>Key Activities are the most important actions a firm must perform to make its business model work.</small></p>	 <h3>Value Propositions</h3> <p>What value do we deliver to the customer?          Which customer needs are we addressing?          Which customer needs are we satisfying?  <small>Value Propositions describe the benefits a customer receives from your organization.</small></p>	 <h3>Customer Relationships</h3> <p>What types of relationships does each of our Customer Segments want to have with us?          Which types of relationships are we establishing?          How are they integrated with the rest of our business model?          How costly are they?  <small>Customer Relationships describe the ways in which a company creates value for individual customers.</small></p>	 <h3>Customer Segments</h3> <p>For whom are we creating value?          Who are our most important customers?  <small>Customer Segments are the distinct groups of people or organizations that your organization aims to reach.</small></p>
 <h3>Key Resources</h3> <p>What Key Resources do our Value Propositions require?          Our Distribution Channels? Customer Relationships?          Revenue Streams?  <small>Key Resources are the most important assets a firm must possess to make its business model work.</small></p>	 <h3>Key Resources</h3> <p>What Key Resources do our Value Propositions require?          Our Distribution Channels? Customer Relationships?          Revenue Streams?  <small>Key Resources are the most important assets a firm must possess to make its business model work.</small></p>	 <h3>Channels</h3> <p>Through which Channels do our Customer Segments want to be reached?          How are we reaching them now?          Which Channels are most effective?          Which ones are most cost-efficient?          Which ones are most compatible with our business model?  <small>Channels are the ways in which a company communicates with and reaches its Customer Segments to deliver its Value Proposition.</small></p>	 <h3>Channels</h3> <p>Through which Channels do our Customer Segments want to be reached?          How are we reaching them now?          Which Channels are most effective?          Which ones are most cost-efficient?          Which ones are most compatible with our business model?  <small>Channels are the ways in which a company communicates with and reaches its Customer Segments to deliver its Value Proposition.</small></p>	 <h3>Channels</h3> <p>Through which Channels do our Customer Segments want to be reached?          How are we reaching them now?          Which Channels are most effective?          Which ones are most cost-efficient?          Which ones are most compatible with our business model?  <small>Channels are the ways in which a company communicates with and reaches its Customer Segments to deliver its Value Proposition.</small></p>
 <h3>Cost Structure</h3> <p>What are the most important costs inherent in our business model?          Which Key Resources are most expensive?          Which Key Activities are most costly?  <small>Cost Structure describes all costs incurred to operate a business model.</small></p>	 <h3>Cost Structure</h3> <p>What are the most important costs inherent in our business model?          Which Key Resources are most expensive?          Which Key Activities are most costly?  <small>Cost Structure describes all costs incurred to operate a business model.</small></p>	 <h3>Revenue Streams</h3> <p>For what value are our customers really willing to pay?          For what do they currently pay?          How are they currently paying?          How much does each Revenue Stream contribute to overall revenues?  <small>Revenue Streams describe the ways a company generates revenue.</small></p>	 <h3>Revenue Streams</h3> <p>For what value are our customers really willing to pay?          For what do they currently pay?          How are they currently paying?          How much does each Revenue Stream contribute to overall revenues?  <small>Revenue Streams describe the ways a company generates revenue.</small></p>	 <h3>Revenue Streams</h3> <p>For what value are our customers really willing to pay?          For what do they currently pay?          How are they currently paying?          How much does each Revenue Stream contribute to overall revenues?  <small>Revenue Streams describe the ways a company generates revenue.</small></p>

[www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)

[www.businessmodelgeneration.com](http://www.businessmodelgeneration.com)

# 4

## *A business Model Canvas for Arts and Cultural Organisations*

Osterwalder's Business Model Canvas, in its original form, is an excellent tool to design and conceptualise the transformation of business models for business organisations. Its simplicity and ease of use have contributed to make it a common reference for organisations all around the world.

However the Business Model Canvas doesn't perfectly fit the requirements of non-profit organisations or public institutions, as these don't understand value in the same way as commercial organisations. Non-profits and public institutions often provide services that don't fit into the market dynamics, also because – among others reasons – beneficiaries and customers don't correspond. These, among other characteristics explained in previous chapters, make business models of non-profit organisations more complex than those of for-profit organisations.

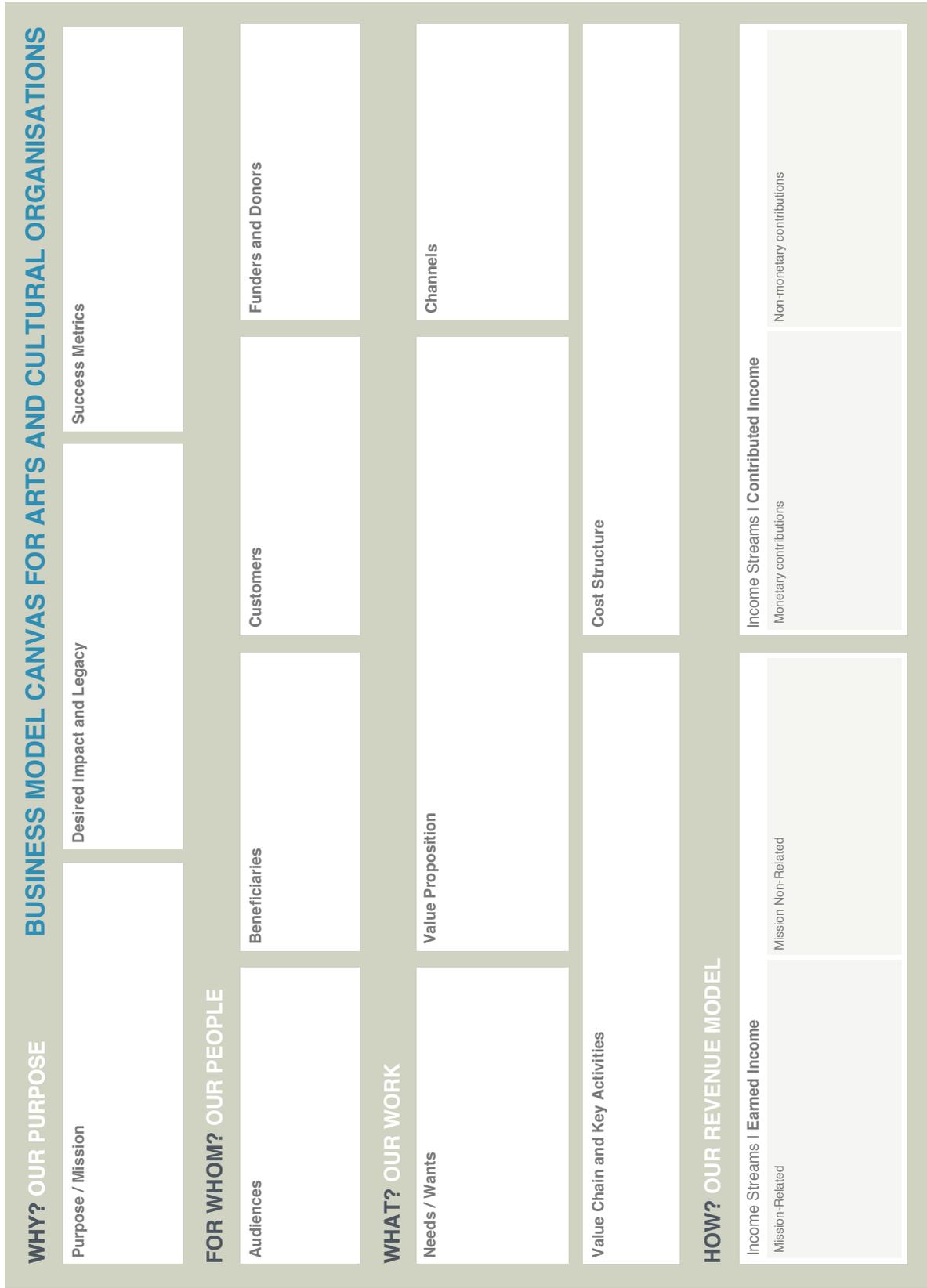
Bearing in mind the specificities of arts and cultural organisations, and using as a base the Business Model Canvas, we will suggest here a business model canvas that includes concepts and terms of common use in the non-profit sector, and that we think can better suit artistic and cultural organisations. The new canvas is presented below and repeated in the next page in bigger size, if you want to print it out (please note that it is also presented in the following pages with more details and examples).

The basic structure of the canvas is based on 4 key areas:

- **Why? Our Purpose.** This refers to long-term strategic decisions.
- **With Whom? Our People.** This refers to the five basic groups of stakeholders for non-profit cultural organisations: Staff and Volunteers, Artists, Audiences, Funders and Donors, and Other stakeholders.
- **What? Our Work.** This refers to the services and products that the organisation delivers, how they are delivered, what key activities are necessary and what their costs are.
- **How? Our Revenue Model.** This refers to the sources that the organisation uses to capture value and attract resources. It is divided into earned income (mission-related and mission non-related) and contributed income (monetary contributions and non-monetary contributions).

This canvas can be used to design a business model for a new cultural organisation or to transform an existing business model. Please keep in mind that you might need to use one business model canvas for each project or service implemented by your organisation and that you will need a value proposition for each group of stakeholders.

BUSINESS MODEL CANVAS FOR ARTS AND CULTURAL ORGANISATIONS			
<b>WHY? OUR PURPOSE</b>			
Purpose / Mission	Desired Impact and Legacy	Success Metrics	
<b>FOR WHOM? OUR PEOPLE</b>			
Audiences	Beneficiaries	Customers	Funders and Donors
<b>WHAT? OUR WORK</b>			
Needs / Wants	Value Proposition		Channels
Value Chain and Key Activities		Cost Structure	
<b>HOW? OUR REVENUE MODEL</b>			
Income Streams   <b>Earned Income</b>		Income Streams   <b>Contributed Income</b>	
Mission-Related	Mission Non-Related	Monetary contributions	Non-monetary contributions



What follows are some basic questions that will help you brainstorm about your business model during your working session:

### 1. Why? Our Purpose

#### a) Purpose / Mission

- Why do we exist?
- What do we do?

#### b) Desired Impact and Legacy

- What impact do we want to have?
- What value do we want to bring?
- What will our legacy be?

#### c) Success Metrics

- How do we measure our impact and success?
- What are the targets for reaching our goals?
- Who sets the targets and who defines the indicators for measurement?

### 2. With Whom? Our People

#### a) Artists

- The artists we work with and for: who are they, how do we engage with them, and how do we ensure the best possible conditions for them (to work, develop their artistic skills, achieve life-work balance, enjoy a safe working environment and fair paying conditions...)?
- Other artists: how do we ensure that the work we do contributes to a vibrant artistic community (locally, nationally, internationally)?

#### b) Audiences

- Which are the main target groups for our core services and products?
- What are their main characteristics?

#### c) Staff and Volunteers

- Who is working for us, and how? (working conditions, motivation, sustainability of the situation...)
- Who are our volunteers, why do they support us, and what do we offer them in return?

#### d) Other Stakeholders

- What other stakeholders are key to our mission: the community we're based in, the people who indirectly benefit from our activities (without accessing them), customers of non-mission related service, public institutions not directly supporting the arts, policy makers, suppliers...?
- What are their main characteristics?
- How do they enrich our value proposition?

- What types of relationships should we build with them?

#### e) Funders and Donors

- Who is funding our activities through grants, subsidies or other form of public or private support to projects or activities, so that other people can benefit from them at a reduced cost or no cost at all?
- What are their main characteristics?

### 3. What? Our Work

#### a) Needs / Wants

- What exactly does each group of our stakeholders need or want, and why?
- How often do they expect our services to be delivered?
- What level of quality are all our stakeholders expecting from us?
- What will happen if some of our stakeholders don't get our services?

#### b) Value proposition

- What exactly do we offer to our stakeholders? (remember that we should devise a value proposition for each stakeholders group...)
- How does it meet our stakeholders' needs or wants?
- What value does it provide to our stakeholders?
- What is so unique about it?

#### c) Channels

- How do we communicate with our different stakeholders group?
- How will our stakeholders hear from us?
- How do we deliver our services and products?
- How will they purchase them?

#### d) Value Chain (*the set of activities performed by an organisation to deliver its services or products*) and Key Activities

- What are the key activities we have to perform in order to deliver our services?
- What resources are involved in performing our key activities?
- How are these activities sequenced?

#### e) Cost Structure

- Which key activities represent a significant expense to our organisation?
- What are the key fixed costs derived from our activities?
- What are the key variable costs derived from our activities?

#### 4. How? Our Revenue Model

##### a) Income Streams | Earned Income

- Mission-related

What is our income derived from services rendered and products sold which are related to our core mission (tickets sold, registration fees, memberships, government contracts, etc.)?

- Mission non-related

What is our income derived from services rendered and products sold which are not related to our core mission (catering services, facilities renting, merchandising, consultancy, etc.)?

##### b) Income Streams | Contributed Income

- Monetary contributions

What funding is given to the organisation in the form of grants or gifts?

- Non-monetary contributions

What contributions are given to the organisation which don't involve any monetary exchange (volunteering, bartering, etc.)?

Essentially, this new customised canvas for the cultural sector has the following advantages when compared to Osterwalder's canvas:

1. It has a section dedicated to the long-term purpose of the organisation and its impact, which is essential to non-profits.
2. It acknowledges the diversity of the stakeholders involved in non-profit dynamics: artists, audiences, communities, funders and donors, customers of non-mission related activities, etc.
3. It regards the key activities implemented to deliver the mission of the organisation as components of a value chain and not as isolated activities.
4. It differentiates the income sources based on their relation to the organisation's mission, and the monetary or non-monetary nature of the exchange (see chapters 3.3 'Business Models and Revenue Models' and 3.7 'Income Streams: Earned and Contributed Incomes' for reference).

**BUSINESS MODEL CANVAS FOR ARTS AND CULTURAL ORGANISATIONS**

Organisation: \_\_\_\_\_ Version: \_\_\_\_\_

*To Sell or Not to Sell by Jose Rodriguez*

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**WHY? OUR PURPOSE**

<b>Purpose / Mission</b> Why do we exist? What do we do?	<b>Desired Impact and Legacy</b> What impact do we want to have? What value do we want to bring? What will our legacy be?	<b>Success Metrics</b> How do we measure our impact and success? What are the targets for our goals?
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**WITH WHOM? OUR PEOPLE**

<b>Staff and Volunteers</b> Who is working for us, and how? Who are our volunteers, why do they support us, and what do we offer them in return?	<b>Artists</b> Who are they, how do we engage with them, and how do we ensure the best possible conditions for them?	<b>Audiences</b> Which are the main target groups for our core services and products? What are their main characteristics?	<b>Funders and Donors</b> Who is funding our activities through grants, subsidies or other form of public or private support?	<b>Other Stakeholders</b> What other stakeholders are key to our mission: community, customers of non-mission related service, public institutions not directly supporting the arts, policy makers, suppliers...?
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**WHAT? OUR WORK**

<b>Needs / Wants</b> What exactly do our stakeholders need or want? Why is it important for them? How often do they expect our services to be delivered? What quality are our stakeholders expecting from us? What will happen if our stakeholders don't have our services?	<b>Value Proposition</b> What exactly do we offer to our stakeholders? How does it meet our stakeholders' needs or wants? What value does it provide to our stakeholders? What is so unique about it?	<b>Channels</b> How do we communicate with our stakeholders? How will our stakeholders hear from us? How do we deliver our services and products? How will they purchase them?
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**Key Activities and Value Chain**  
 What are the key activities we have to perform in order to deliver our services? How are these activities sequenced?

Research & ideation	Production	Distribution <small>social marketing</small>	Programming	Exhibition	Promotion <small>social marketing</small>	Education
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**Key Resources and Cost Structure**  
 What resources (tangible and intangible) are needed or involved in performing our key activities?  
 Which key activities represent a significant expense to our organisation?  
 What are the key fixed costs derived from our activities?  
 What are the key variable costs derived from our activities?

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**HOW? OUR REVENUE MODEL**

<b>Income Streams   Earned Income</b> Mission-Related What is our income derived from services rendered and products sold which are related to our core mission (tickets sold, registration fees, memberships, government contracts, etc.)?	Mission Non-Related What is our income derived from services rendered and products sold which are not related to our core mission (catering services, facilities renting, merchandising, consultancy, etc.)?
<b>Income Streams   Contributed Income</b> Monetary contributions What cash is given to the organisation in form of grants or gifts?	Non-monetary contributions What contributions are given to the organisation without involving any monetary exchange (volunteering, bartering, etc.)?

Organisation:

Version:

*To Sell or Not to Sell by Jose Rodriguez*

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### WHY? OUR PURPOSE

**Purpose / Mission**  
Why do we exist?  
What do we do?

**Desired Impact and Legacy**  
What impact do we want to have?  
What value do we want to bring?  
What will our legacy be?

**Success Metrics**  
How do we measure our impact and success?  
What are the targets for our goals?

### WITH WHOM? OUR PEOPLE

**Staff and Volunteers**  
Who is working for us, and how?  
Who are our volunteers, why do they support us, and what do we offer them in return?

**Artists**  
Who are they, how do we engage with them, and how do we ensure the best possible conditions for them?

**Audiences**  
Which are the main target groups for our core services and products?  
What are their main characteristics?

**Funders and Donors**  
Who is funding our activities through grants, subsidies or other form of public or private support?

**Other Stakeholders**  
What other stakeholders are key to our mission: community, customers of non-mission related service, public institutions not directly supporting the arts, policy makers, suppliers...?

**Needs / Wants**  
What exactly do our stakeholders need or want?  
Why is it important for them?  
How often do they expect our services to be delivered?  
What quality are our stakeholders expecting from us?  
What will happen if our stakeholders don't have our services?

**Value Proposition**  
What exactly do we offer to our stakeholders?  
How does it meet our stakeholders' needs or wants?  
What value does it provide to our stakeholders?  
What is so unique about it?

### WHAT? OUR WORK

**Key Activities and Value Chain**  
What are the key activities we have to perform in order to deliver our services? How are these activities sequenced?

Research & ideation	Production	Distribution (B2B Marketing)	Programming	Exhibition	Promotion (B2C Marketing)	Education
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### HOW? OUR REVENUE MODEL

**Income Streams | Earned Income**

**Mission-Related**  
What is our income derived from services rendered and products sold which are related to our core mission (tickets sold, registration fees, memberships, government contracts, etc.)?

**Mission Non-Related**  
What is our income derived from services rendered and products sold which are not related to our core mission (catering services, facilities renting, merchandising, consultancy, etc.)?

### Key Resources and Cost Structure

What resources (tangible and intangible) are needed or involved in performing our key activities?  
Which key activities represent a significant expense to our organisation?  
What are the key fixed costs derived from our activities?  
What are the key variable costs derived from our activities?

### Channels

How do we communicate with our stakeholders?  
How will our stakeholders hear from us?  
How do we deliver our services and products?  
How will they purchase them?

### Income Streams | Contributed Income

**Monetary contributions**  
What cash is given to the organisation in form of grants or gifts?

**Non-monetary contributions**  
What contributions are given to the organisation without involving any monetary exchange (volunteering, bartering, etc.)?

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TO SELL OR NOT TO SELL?

# 5

## *Business Models (and) Innovation*

I suppose it is tempting, if the only tool you have is a hammer,  
to treat everything as if it were a nail.

Abraham Maslow

## 5.1. UNDERSTANDING INNOVATION

Nowadays everybody talks about innovation as if it was a new concept, but innovation is as old as humankind. Humans are naturally driven by curiosity and an unlimited desire to explore and improve the world. Innovation is a process of practical problem-solving that results in some impact at society or market levels. In order to exist, innovation requires creativity, which is seen by most experts in the field as the process of developing ideas that are novel or original.

One of the most influential economists of the twentieth century, Joseph Schumpeter, is the precursor of the concepts of innovation and entrepreneurship as we understand them today. In 1942, Schumpeter developed a theory explaining why innovation is the most critical dimension in economic development and change in capitalist economies. The search for profit and the threat of competitors force entrepreneurs and companies to innovate continually without ceasing in a process called 'creative destruction', a concept actually derived from Marxist theory. Schumpeter popularized creative destruction as the essence of capitalism and described it as 'a process of industrial mutation that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one'. For him, 'carrying out innovations is the only function which is fundamental in history' and the entrepreneurs – Schumpeter was probably also the first economist to theorize about entrepreneurship – are the agents that drive innovation and economic development by 'doing things that are already being done in a new way'.

To better explain the concept of innovation, Schumpeter divided the innovation process into four dimensions: invention, innovation, diffusion and imitation. The invention process encompasses the generation of new ideas. The innovation process is about the development of new ideas into marketable products and processes. The diffusion process is when new products and processes spread across the potential market and start to be imitated by competitors.

Innovation thus can be defined as the application of new knowledge that results in new products or services, processes, etc., or the substantial improvement of some of their attributes.

Schumpeter's theories are still relevant, and they have great resonance with students and businesspeople today. Several economists have stated that the 21st century is going to be 'the century of Schumpeter', and they don't seem to lack reason. Governments and companies all around the world consider innovation and entrepreneurship to be the most efficient treatment leading to economic recovery after the financial crisis of 2008.

Since the term 'innovation' started attracting attention in the 1950s, organisations have explicitly embraced it for the vital role it could play in their businesses as a way to crush competitors, and help them gain a leading position in their industry. Historically, the corporate sector understood innovation as an industrial and technological process, known as 'hard innovation'. Nowadays, it is acknowledged that innovation goes far beyond that reductionist approach and that non-technological innovation – known as 'soft innovation' – is as important as hard innovation.

Soft innovation is primarily concerned with changes in processes, organisational structures, management models, sensory perception, customer experience, product or service differentiation, marketing, business models, etc., as well as the new combinations of existing technologies and processes.

Now we know that for all types of organisation – non-profit organisations as well as for-profit companies – innovation represents a significant opportunity not only to survive and develop but also influence the direction of its sector, and to have a positive impact on society. Innovation has proven to have a significant influence on social issues in the form of social innovation, which has been defined as 'the process of inventing, securing support for, and implementing novel solutions to social needs and problems'.

The importance of soft innovation, especially for the cultural sector, lies in its capacity to enhance the audience experience.

*VIDEO: Stefan Gross-Selbeck: Business model innovation - beating yourself at your own game*

Duration: 12:11

In this TED talk, business transformation expert Stefan Gross-Selbeck distils the unique qualities of today's most successful start-ups and shares strategies for replicating this spirit of hyper-innovation and disruption in any business.

<https://www.ted.com/watch/ted-institute/ted-bcg/stefan-gross-selbeck-business-model-innovation>

## 5.2. TYPES AND AREAS OF INNOVATION

An innovation can fall into one of the following three categories:

- 1) It can improve
- 2) It can renew
- 3) It can disrupt

Let's see these three types of innovation in more detail:

- **Efficiency innovations:** Those that produce the same product but more cheaply, such as automating credit checks. This kind of innovation doesn't involve many risks, usually fits the current business model of the organisation and doesn't affect existing markets.
- **Sustaining innovations:** Those that turn products or services into better ones. These enhancements help to keep a business competitive, such as new product features and service improvements.
- **Disruptive innovations:** Those that result in a very different value proposition to the ones previously available. This type of innovation develops new value propositions and helps to create new opportunities.

These three types of innovation can be applied to certain areas in any organisation, that at their most basic are:

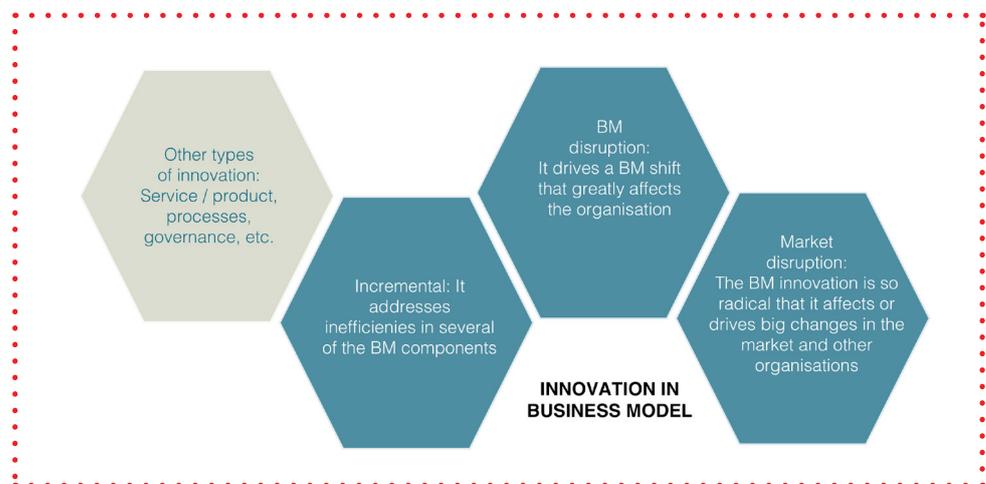
- **Products or Services:** The introduction of an improved version of a pre-existing product or service, or of entirely new goods or services.
- **Processes:** Innovation in this area involves changing internal processes to make them more efficient.
- **Organisation and Governance:** This area of innovation focuses on decision-making processes as well as on organisational dynamics and structure.
- **Business Model:** To innovate in the way an organisation creates, delivers and captures value is a very challenging and risky endeavour because it requires changing the main principles upon which an organisation operates. Business model innovation also entails changes in the organisational processes.

**VIDEO: Saul Kaplan - Business Model Innovation**

Duration: 1:55

Saul Kaplan is the founder and chief catalyst of the Business Innovation Factory, a real-world laboratory for exploring and testing new business models and social systems. In this short video, Saul Kaplan explains why business models are increasingly important for transformational change in all sectors.

[https://www.youtube.com/watch?v=\\_BQitH1zocw](https://www.youtube.com/watch?v=_BQitH1zocw)



The effects of business model (BM) innovation

## 5.3. AREAS OF INNOVATION FOR ARTS AND CULTURAL ORGANISATIONS

Cultural organisations have some particular characteristics that differentiate them from organisations operating in other sectors. These are some areas on which it may be useful for them to focus innovation efforts.

**1. Art-form development.** Free use of creativity, as well as inter-disciplinarity and collaborations are central to the development of all art forms. These elements are probably the core of what we could call the 'research & development' of the arts. By exploring new ideas, combining artistic expressions and new technologies, art forms are advanced and adapted to the needs of both the artists and their ever-evolving audiences.

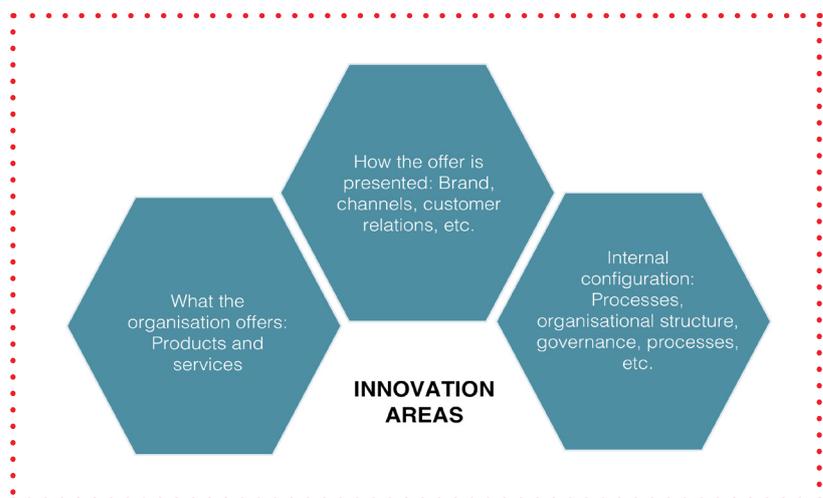
**2. Audiences.** Audience development is much more than simply attracting people to an organisation / venue / performance. It is rather about connections with fellow citizens, genuine exchange and 'togetherness,' embarking on a journey to understand audiences and connect with them according to the organisation's own mission and values<sup>1</sup>. Marketing and educational programs are some of the most popular areas for audience development in the cultural sector (although not the only ones).

**3. Distribution.** Not being able to attend a cultural event in person doesn't necessarily exclude you from the artistic experience. Thanks to technology, access to culture is not limited to live performance and experience anymore. Digital technologies have introduced new channels and marketplaces for the creative industries (Youtube, Soundcloud, Etsy, etc.). Alternative forms of distribution are being explored by arts and cultural organisations all over the world on both sides of the chain by both producers and consumers.

**4. Value Creation:** As everyone in the sector knows, cultural organisations might create value in many different ways and for many different types of beneficiaries; not just for those who consume their services directly, but for society as a whole. Moreover, the value of the artistic and cultural experience is hard to measure through objective indicators and in the short term. Innovation in this area could relate to cultural organisations developing indicators and models for measuring the value and impact of their activities in the long term (even if they're not requested to do so by their current funders); or collaborating with funders to improve current indicators for measurement.

**5. Business Models.** Very broadly speaking, business model innovation happens when innovation is applied to at least two of the components of a business model simultaneously. Many arts and cultural organisations are implementing innovative strategies to deal with adversities and, in their efforts, they are also exploring new business models by re-thinking holistically (audiences, distribution channels, revenue streams, etc.) the way that they are operating.

Crossing all of these dimensions is another key theme, technology, which can help overcome the traditional constraints imposed by physical location, thereby expanding the audience reach of cultural organisations. Technology can also increase the revenue potential of arts and cultural organisations through digital innovations, as it has been in many other sectors since the late 1990s. Technology has traditionally taken art forms in new directions: photography, cinema, electronic music... More recently, the Internet and social media have revolutionised cultural marketing, and shown their potential to better engage existing audiences and attract new ones. Practice and research show that audiences are prepared to pay for high-quality digital experiences and it's worth exploring to what extent performing arts can benefit from that trend.



<sup>1</sup> see G. Tomka, 'Audience Explorations' (cit.)

## 5.4. BUSINESS MODEL INNOVATION

*One does not discover new lands without consenting to lose sight of the shore for a very long time.*

André Gide

Business model innovation is a system-level or holistic activity when compared to other areas of innovation, such as product or processes innovation. This means that it focuses on the organisation as a whole.

Although risky regarding results, business innovation is usually not a highly intensive capital activity, meaning that it doesn't require big financial investments, and it represents a good opportunity for organisations to innovate, especially in times of economic or technological change. It might sound counter-intuitive, but periods of economic turmoil and transition create significant opportunities. Organisations might take advantage of these circumstances to:

- a) Reduce their costs
- b) Revisit their portfolio of partners and collaborators
- c) Increase their focus on their essential activities
- d) Introduce new organisational practices
- e) Rethink their value propositions and business model

The business model innovation process is not only analytical or theoretical, but should also involve challenging existing and new assumptions in a practical way, through structured experimenting and testing. Finding the right new business model requires analysing not just one but as many alternatives as possible. A trial-and-error methodology will prove whether assumptions lead to a successful improved or new business model or not, before the new model is implemented. Moreover, since what is sustainable today might not be tomorrow – funding streams dry up or shift focus, user habits change, etc. – every business model should be considered temporary, and organisation leaders should keep a continuous proactive attitude towards business model innovation.

When redesigning their business model, many organisations mainly focus their efforts on improving or changing their revenue model. However, we should not forget that business model innovation is also about rethinking the value proposition that we are offering our audiences, including potential new ones, as well as rethinking the very concept of audiences. It is therefore fundamental to revisit the needs of audiences, and question whether or not the organisation is satisfying those needs. It is also important to explore other technological and organisational possibilities that might exist.

### *Internal and External Factors Influencing Business Model Shifts*

**External Conditions:** There are constraining factors, such as economic shifts, changes in consumer behaviour, new artistic or cultural trends, technological disruptions, etc. that make it necessary to pursue new business models. The business models that work today may not work tomorrow. Some of these factors add dynamism to the sector, such as digitalisation, collaborative economy, etc.

**Culture of the Organisation:** Quite often external factors alone are not enough to implement a business model shift. What happens inside the organisation is also important. Some of the most crucial steps towards business model transformation and innovation involve:

- a) The existence of a culture of collaboration not only inside the organisation but also outside;
- b) Flat hierarchies that leverage employees' ability to work as a team;
- c) Comfort with experimentation and failure;
- d) A supportive leadership that understands the value and risks of business model innovation.

**Individual innovator:** The role of the individual innovator is paramount when it comes to business model innovation. Their main role is to start conversations within the organisation about the benefits of a new business model and what a future, more sustainable business model could look like. Here are some tools for the individual innovator to start those conversations:

- a) Making the right connections between employees, management, the board, etc.;
- b) Mapping the current business model of the organisation and sharing it with the rest of the team so everyone can be on the same page during the process;
- c) Focusing on value creation for all stakeholders of the organisation, from beneficiaries to funders, passing by customers/users and partners.

### *Innovation barriers and drivers*

If an organisation commits to innovating, there are four key areas they might focus on to drive innovation:

- **Leadership:** The leaders and the organisation as a whole have to be aligned around the importance of innovation. Leaders and managers need to be open to new ideas and their implementation, not only in words, but by action, such as allocating time to reflect and work on innovation, and providing their team with the time and resources to do the same. If leadership lacks the right spirit and motivation, any innovation effort will surely be doomed to fail.
- **Culture and values:** An organisational culture that prioritizes openness and collaboration and is not afraid of risk and failure will have more chances to succeed on innovation. Consider failure as an approach to exploring new opportunities for the organisation, and try to avoid stigmatizing unsuccessful risk takers.
- **People and skills:** Innovation goes beyond individuals, it is a social process, and it should not be restricted to a selected group of individuals within the organisation. The more employees are involved in the innovation efforts of the organisation, the better the results will be. Everyone contributing to the mission of the organisation can be creative, and you never know where a good idea will spark. The talent within the organisation has to be nurtured without exception. In addition to the commitment of the staff, innovation also requires the right competencies to succeed, and the organisation has to invest in the innovation skills of employees (creativity being one of them).
- **Processes and tools:** Innovation doesn't happen spontaneously, but requires a systematic approach and supporting tools to enable idea generation, management, and elaboration. Exploration, divergence, and rectification are common paths in the creative and innovation processes, and all critical assumptions should be tested before further development. Without the right processes and structures in place, the wrong ideas might be prioritized, leading to wasted time and resources.

Possible barriers to innovation relate to different issues:

- **Internal resistance due to fear and misunderstandings:** the leaders of the organisation, even if they acknowledge the need for a BM shift, don't want a new business model because they fear that BM innovation would bring more work and trouble to the organisation, increase their workload, and/or would be very expensive (which is not always the case). They may also fear that a new BM would put the current business at risk. Subjective fears may also influence employees or collaborators, who may fear that status quo defeaters and innovators won't last long in the organisation (they will leave or be fired).
- **Low priority:** the management focuses on the products and services the organisation creates and the organisation is too busy generating content to reflect about innovation. They want to avoid cross-sectorial influence and collaborations.
- **Little room for manoeuvre:** the operations of the organisation are designed to work under the limiting pattern of public funding: writing applications, spending the awarded grant according to the approved plan and reporting. Also, when BM innovation is put forward, the organisation may not devote enough time or resources to it, thus making it fail.
- **Bias in evaluation:** use of the same metrics to measure the new business model.

### *Ten areas of innovation for any kind of organisation*

In 2011, the innovation consulting firm Doblin made public the method it had been using to help its clients innovate for the last fifteen years. It offers quite a comprehensive framework for systematically tackling innovation inside any organisation and is an essential tool for innovators all around the world. The method takes into account ten areas of innovation, which can relate to the internal configuration of the organisation, the product it offers, or the way the offer is presented. You can find more details here: [https://www.doblin.com/dist/images/uploads/Doblin\\_TenTypesBrochure\\_Web.pdf](https://www.doblin.com/dist/images/uploads/Doblin_TenTypesBrochure_Web.pdf)

## 5.5. SIX STEPS FOR BUSINESS MODEL INNOVATION FOR CULTURAL ORGANISATIONS

### 1. Prepare

- Get backing from the leadership team of your organisation, including board members. Without this support, business model innovation cannot happen.
- Write a plan and allocate time and resources for the process.
- Build a diverse team integrated by relevant staff members.
- Appoint a champion for the process.
- Create a safe environment for exploration and experimentation. It is a good idea to separate the business model innovation process from your current activity. New ideas could interrupt, disrupt or even cannibalise your current business model.
- Inform all your staff and board members about your plans and update them regularly on the business model innovation process.

### 2. Understand

- Collect as much data and information as you think is necessary about your current business model (key assets, financial information, processes, organisational capabilities, etc.).
- Visualize your current business model using the business model canvas for arts and cultural organisations presented in this publication, or the one that you like the most (Strategizer's business model canvas, lean canvas, etc.).
- With all the information gathered, reflect collectively about your current business model, trying to spot its strengths and weaknesses.
- Share your findings with other members of the staff, board and stakeholders to gather extra input.

### 3. Explore

- Look everywhere for solutions to improve or innovate your business model: interview users and clients, analyse the value chain of your activity and specific niche, identify those activities generating surplus, analyse organisational processes, new technologies, etc.
- Involve other persons in the process from within your organisation or outside. Users and clients insights are the most valuable

input in this process.

- Unleash creativity: Ideate new potential solutions to address the key challenges that your current business model is facing.
- Keep a holistic approach, and pay attention to ALL the components of the business model, as they are linked.

### 4. Design

- First of all, bear in mind that the design process is not linear, but something you will probably need to go back to several times in order to advance.
- Design a new business model canvas for each one of the potential solutions you have identified.
- Adjust, reconfigure, redefine and combine all the potential solutions and visualise them in new canvases.
- Be sure to define and articulate a strong value proposition for your audiences, users, clients and other stakeholders.
- Don't forget to check the interrelations between all the business model's components.

- Select and prioritise the best potential solutions that you have identified.

### 5. Test & Learn

- Now, more than in any of the previous stages, you will need to allow your team to experiment and fail.
- Prototype and test the assumptions behind your potential solutions.
- Do it as quick and often as possible.
- If assumptions are not confirmed, learn and iterate the process.
- If assumptions are validated, learn and develop further.

### 6. Implement

- Adopt and execute the new business model.
- Get feedback and validate the new business model.
- Improve and adapt the new business model.
- Repeat the whole process when necessary.

# 6

## *Reality Check*

The following pages present a few cases of cultural organisations that are currently innovating their business models. The interviews, selected from those collected via an online survey by IETM, provide an overview of approaches, challenges and first results that may inspire you.

## CASE STUDY 1: PROMOCULTURA

Empoli, Italy

[www.promocultura.it](http://www.promocultura.it)

### What does your organisation do? How is it financed?

PromoCultura is an Italian cooperative company based in Empoli, Tuscany, providing high-quality cultural services since 1998, such as the management of libraries, as well as the promotion and enhancement of cultural and artistic heritage.

The company employs 74 professionals, most of them on a part-time basis, and operates in many libraries as well as in a few historical archives belonging to the ReaNet documentary network (Empolese Valdelsa and Valdarno Inferiore territory). It offers similar services in the Pistoia, Florence and Pisa districts.

As far as museums are concerned, PromoCultura manages the ticket offices, the receptions and the educational activities of the main museums of the Sistema Museale 'Le Terre del Rinascimento' ('Land of the Renaissance' network), such as the Museo Leonardiano and Leonardo's Birthplace in Vinci.

It also manages a cinema and a few tourist offices of the Empolese Valdelsa territory, as well as the design and implementation of different kinds of educational projects.

The organisation's income derives mainly from public bodies outsourcing and awarding the management of services, or the designing of projects, and to a lesser extent from private customers.

### What problems, challenges or needs did the organisation face that led you to look for a business model-related solution?

Generally speaking, since there have been substantial cuts in Italian public spending in the past few years, the cooperative has had to deal with the situation by 'doing more with less' while providing services of the highest quality. Its business model is thus founded on the integration of services and staff, in order to manage effectively and sustainably museums, libraries and archives, while meeting our customers' possible requirements.

In 2013, PromoCultura was awarded the management of the cinema 'La Perla', in Empoli. In the past three years, under the management of the company, premieres, shows, cultural events and workshops for adults and for schools have been organised in the cinema. For a long time before 2013, the cinema risked being shut-down, due to lack of customers and very high operating costs.



photo: courtesy of PromoCultura

### How did you implement the solution?

All the services of PromoCultura are organised – both while designing and carrying them out – bearing in mind the potential users' needs and our customers' requirements. In particular, it has been possible for the company to keep the cinema open – and lively – thanks precisely to the financial innovation operated in its business model. This was done by integrating the services and staff that PromoCultura provides at the Empoli library (situated just beside the cinema) with those of the cinema.

PromoCultura's model is founded on:

- Being highly flexible and adaptable to many different situations and to the possible needs of its (present and future) users;
- The ability to respond to and fulfil people's ever-changing needs regarding learning and information;
- Its staff's ability to assure a high quality of content aids and set up positive and effective relations with the users;
- The ability to carry out the tasks by maintaining a strong continuity of action and ensuring the continual presence of its staff;
- The ability to ensure high-quality administrative management at the same time as low cost services;

- A constant and continuous commitment to increasing our territorial entrenchment, in order to enhance the potential of the Empolese Valdelsa territory and its communities' projects and activities. In the last two years, the organisation has transitioned from being 100% dependent on public funding to designing and developing services directly paid by the end users that now generate 10% of the total turnover of the company. These services include some self-funded initiatives, such as the cinema, and the School of Creativity which in these two years has doubled its activities.

**What were the most important results and key learnings of the process in terms of organisational structure, financing, public funding, internal processes, staff, audiences, ticket sales, services and other products, etc.?**

For PromoCultura, the most important result on the one hand is the great synergy that it has been able to create between different activities and different cultural services, in terms of staff's funds and expertise.

And on the other hand, how those synergies have expanded quite naturally, sparking off a change in our users' approach regarding the services PromoCultura offers, in terms of attitude and demand.

As far as the financial aspects are concerned, PromoCultura has not only been able to implement economies of scale thanks to its integrated model, but also to bring into contact and mix different kinds of audiences that did not share anything beforehand.

As far as PromoCultura's business model is concerned, its main strengths now are:

- Introducing organisational innovations into the management of museums and libraries, within tradition and international regulations;
- Providing integrated reception services;
- Programming our educational services, designing them for different kinds of audiences;
- Allocating special resources to its staff's non-stop training, in order to meet the demand for new professional figures;
- Introducing and developing new technologies. This is done in two ways: 1) By using technology to share information and collect data inside of the company. 2) By investing resources over the last 2 years into finding new tools to offer more services based on technology, such as social media marketing, developing mobile applications for cultural institutions, including gamification in its activities.

- Increasing the cultural offer of its territory by staging temporary events.

**Do you have any recommendations for other organisations facing similar situations?**

For PromoCultura, the best advice based on its own experience is to invest in and continuously train your staff. It makes organisations more efficient and effective, and keeps employees at a very high motivation level.



*photo: courtesy of Promocultura*

## CASE STUDY 2: ASSOCIAZIONE CULTURALE KHORAKHANÈ

Abano Terme, Italy  
[www.khorakhanet.it](http://www.khorakhanet.it)

### What does your organisation do? How is it financed?

Associazione Culturale Khorakhanè is a cultural association that promotes culture in several forms: music, design, theatre, respect for the environment, youth employability. It is based in Abano Terme, a municipality of 25 000 inhabitants in the province of Padua.

For years it has been financed by grants supplied by the European Union, some local institutions (Veneto Region, municipalities), private foundations. In 2015 the association founded a cultural centre (named I'M Lab) in the city, which offers space for the organisation's work teams. These teams function as specialised start-ups in different areas of the creative industries (and others) including design, music, visual arts, marketing and communications, environmental sustainability, catering services, etc.

The cultural centre has three spaces: the co-working area, the events area (which includes also a bar and a restaurant) and the woodworking area. Additionally, Khorakhanè has also started a social vegetable garden, where more than twenty people rent plots.

### What problems, challenges or needs did the organisation face that led you to look for a business model-related solution?

For nine years the organisation was supported by a group of friends who worked as volunteers, but after winning a subsidy for the development of a cultural start-up, the organisation had to be re-thought and re-built, in order for those people to be hired as employees. So the members had to find a reliable solution to ensure a stable future for the association.

### How did you implement the solution?

The organisation decided to split into several separated business areas which are financially independent. This means that each of them has separate accounting with its own costs and earnings, and is expected to contribute to the general expenses of the whole organisation. Khorakhanè oversees the start-up period of each single area and helps to set it up in the first period of its life. The association provides professional advice (including accounting, management, team-building, etc.) and training for the start-ups so these can further develop and become sustainable.

### What were the most important results and key learnings of the process in terms of organisational structure, financing, public funding, internal processes, staff, audiences, ticket sales, services and other products, etc.?

At the moment the whole process of re-structuring is in the middle of its development; the cultural centre opened recently, in January 2015. For the time being, the business model that was designed to overcome the transition period is working as foreseen: it guarantees the best commitment of all members of the organisation because each one is responsible for their own area.

In 2013, Associazione Culturale Khorakhanè was awarded as one of the most innovative organisations in Italy by a bank foundation. The award of 80,000€ allowed the organisation to design the new business model, and to plan and then implement it.

Currently, the association has a yearly turnover of around 300,000€ and is financed by its own activities and private funders. They are going to show their business and organisational model to new associations that are interested in setting up or reorganising their structure.

### Do you have any recommendations for other organisations facing similar situations?

When facing similar challenges, Khorakhanè recommends:

- Building a strong organisational culture based on trust.
- Reflection is key when designing a new business model and writing a business plan. Spend as much time as needed in this phase before moving on.
- Get external training for your staff and hire professional advisors when needed. These can bring new ideas and approaches to your daily work.
- Staff selection is fundamental, especially with young people. You might spend resources training a person who will leave the organisation unexpectedly.
- Solve conflicts as soon as they emerge. Don't wait.
- Fundraising is essential for social projects. If you can afford it, hire a professional fundraiser.



photo: courtesy of Khorakhané

## CASE STUDY 3: TRANSIT KULTURINKUBATOR

Stockholm, Sweden  
[www.transitsthlm.se](http://www.transitsthlm.se)

### What does your organisation do? How is it financed?

Transit is an art incubator, financed by Stockholm County Council Cultural Department, supporting and working with professional artists in film, music, contemporary theatre and dance, design and visual arts. Twenty-five to thirty professional freelance artists have applied and been accepted to Transit. In the incubator they are offered office space, events such as workshops/seminars and coaching.

Transit has developed, together with professional artists, a business/organisation development method called Organic Process Method, used as a tool to analyse and structure artistic organisations and management to develop an economically sustainable artistic organisation.

### What problems, challenges or needs did the organisation face that led you to look for a business model-related solution?

Transit is facing the same challenges as the rest of society. Artistic competences are not valued the same as technical competences, especially in Sweden. For Transit, finding a business model for artistic organisations is not so challenging, as the arts have their own business models. The problem arises when creative businesses are put into models that don't work for them. The arts don't behave as other products or services when exposed to the market. And at the same time, the public funding system for the arts is obsolete and doesn't accept that arts and cultural organisations can also have different business models, not just the traditional ones. As far as public funders are concerned, arts organisations are not allowed to make a profit if they get public funding.

This is why Transit has designed and developed a method specifically for professional artistic organisations, creative freelancers and independent artists: The Organic Process Method. The method has been tested for the last four years and has emerged as an important tool and platform for the development of independent artistic organisations. The method operates under the assumption that business models are linear and, on the contrary, arts and culture are organic. As a result, arts and traditional business models don't fit well together.

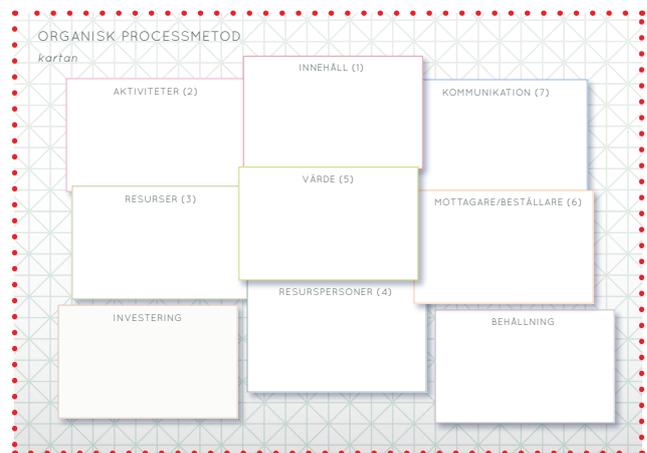
Transit is now looking for ways to combine this method with a financing model for arts organisations which focuses on the artistic work instead of adhering to the 'traditional' market-driven models.

### How did you implement the solution?

Transit is now in the process of developing this work.

### What were the most important results and key learnings of the process in terms of organisational structure, financing, public funding, internal processes, staff, audiences, ticket sales, services and other products, etc.?

The most important learning is that to develop a sustainable artistic organisation you need to regard, start from and focus on the artistic work, and NOT as in traditional business models, start from the market.



Translation:

ORGANIC PROCESS METHOD - Map  
 Activities (2) | Content (1) | Communication (7)  
 Resources (3) | Value (5) | Receiver/Client (6)  
 Investments | Resource Persons (4) | Balance



photo: courtesy of Transit Kulturinkubator

## CASE STUDY 4: HET NIEUWSTEDELIJK

Leuven, Belgium  
[www.nieuwstedelijk.be](http://www.nieuwstedelijk.be)

### What does your organisation do? How is it financed?

Het nieuwstedelijk is a theatre company. Its income comes from different sources:

- 68% of its income: subsidies from the Flemish Government and 3 cities we have a tight connection with (Leuven, Hasselt, Genk)
- 19%: tickets / sales fees performances
- 4%: co-productions
- 6%: fundraising

### What problems, challenges or needs did the organisation face that led you to look for a business model-related solution?

Het nieuwstedelijk was growing fast (as of 2010), due to a few successful performances, and its move to a new workspace/performance hall in Leuven. The subsidies from the government were rather minimal and not at all sufficient to cover the basic costs. The organisation needed more financial 'power' and started to engage more people from its community (politicians, academics/students, business leaders, etc.).

### How did you implement the solution?

Het nieuwstedelijk engaged somebody for 1 day a week. This person started a 'Friends of' program. The company's Friends were invited to the performances, and were offered special benefits, e.g. introductions, personal service for ticket reservations, meet&greet with the actors and musicians, etc. These Friends were important to increase the company's network and to find people who were willing to help the organisation financially and logistically.

### What were the most important results and key learnings of the process in terms of organisational structure, financing, public funding, internal processes, staff, audiences, ticket sales, services and other products, etc.?

The financial result is that after 5 years of work, the company increased its turnover by 50.000€ in 2015.

Other results are that key-people know about the company and what it does. These people appreciate Het nieuwstedelijk's work

and are willing to 'defend' its case with politicians and other important stakeholders. Relationships with these stakeholders are based on conversation and mutual respect.

Positive results were:

- Interesting new formats were established (De Stand der Dingen: debates after our performances, a yearly fundraising dinner...);
- Audiences increased from 1,000 tickets sold in 2010 to 8,000 tickets sold in 2015;
- Against all odds, public funding increased (this was our experiences in 2010-2016).

The key learnings are:

- You need patience and perseverance;
- Collaborations with stakeholders need to be based on a shared story;
- The artistic staff needs to be convinced and needs to collaborate;
- The board needs to work with you;
- The technicians/production staff need to be flexible (extra workload);
- We needed to improve our knowledge on 'technical' financial issues about taxes/fiscal benefits for companies.



Photo: courtesy of Het nieuwstedelijk

## CASE STUDY 5: SHAREMUSIC & PERFORMING ARTS

Gränna, Sweden  
[www.sharemusic.se](http://www.sharemusic.se)

### What does your organisation do? How is it financed?

ShareMusic & Performing Arts is an international arts organisation working with artist development and pioneering the performing arts. It organises and leads courses in performing arts and create performances. ShareMusic & Performing Arts inspires through workshops and lectures and run cooperation projects all over Sweden and internationally. The work is rights-based and follows the UN Convention on the Rights of Persons with Disabilities and is also clearly tied to the global agenda 2030 as regards inclusion and sustainable development.

The organisation works with many target groups – disabled and non-disabled, children and adults, professionals and nonprofessionals. Inclusion and participation are its foundation, and the performing arts are the tool to achieve them.

Regarding its finances, ShareMusic & Performing Arts combines public core funding from regions in Sweden, project funding and own earned income.

### What problems, challenges or needs did the organisation face that led you to look for a business model-related solution?

A couple of years ago ShareMusic & Performing Arts faced a difficult funding situation. The organisation had two options: close down or expand its work.

### How did you implement the solution?

ShareMusic & Performing Arts decided to use external support and applied for a grant so it could hire an experienced consultant from the business sector who took a proper look at the work of the organisation. We made a business plan together and discussed possible pathways to develop, what we were lacking in terms of resources – not only money –, and became aware of our strengths and potential for the future. It became clear that we could face a better future. We outlined a plan which was not a small step but rather grand.

### What were the most important results and key learnings of the process in terms of organisational structure, financing, public funding, internal processes, staff, audiences, ticket sales, services and other products, etc.?

ShareMusic & Performing Arts survived and took on a new route with a very clear vision. The organisation has expanded, re-staffed, and increased its turnover. After 5 years we have developed new areas/products and new target groups. We now have a demand for our competence from others. We have made a shift in our core activities from addressing individuals to those who meet 'the audience'. We have a stronger focus on sharing than before. Our way of working with creative processes has become the core rather than the outcome of the process.

### Do you have any recommendations for other organisations facing similar situations?

External competence in critical situations is most valuable. It provides support for thinking outside the box when most needed. A board with diverse competence focusing on strategy is also very important. The internal process is key – everyone needs to be involved. And you need to build a strong team with the right competences.

*Thanks to Sophia Alexandersson for the interview*



*Photo: courtesy of ShareMusic*

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**Definitions**

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