A Developed business model of The Palace Museum and the China Time-honored Brands:

The future of the Intellectual Property franchising

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Executive Summary

This paper will illustrate a hypothetical business model based on the revitalisation of traditional cultural businesses and a representative business model of the Palace Museum (also known as the Forbidden City) in China. This developed business model is inspired by the Intellectual Property (IP) business model; the cross-industry business partnerships that are present in it and in Chinese cultural and creative industries. It will firstly analyse the current macroscopic societal environment of the relevant industry and shed light on the IP business model in China; and then interpret the value propositions of the Palace Museum IP, the China Time-honored business, and the combinative business model. The cost structure and the revenue model will be explained after the customer analysis. Finally, this assignment will also examine both the opportunities and the challenges regarding this developed business model.

1. Situational analysis

1.1 Environmental background and the “IP-Era” in China

The cultural and creative industry in China has been developing at a slow pace since the beginning of the Twenty First Century due mainly to historical, political, economic and educational reasons. This situation has changed as the government decided to develop it as one of the pillar industries of the national economy by 2020\(^1\). As a leading organisation of the Chinese cultural industry, the developing trend of the Palace Museum could be considered as a mirror of the whole industry; being strongly supported by the government and thereby it increasingly gained public attention. This has led to it growing rapidly during the first decade of the century\(^2\). In the perspective of the public attitude, the traditional culture is no longer only being attractive to seniors and the more highly-educated crowd; nowadays the younger generations appear to be interested and actively participate in the traditional cultural activities, which have led to a booming of the cultural and creative industries\(^3\).

The IP adaption business model is an innovative and booming existence of the Chinese cultural and creative industries, with a prospective future, but it also comes with a few challenges. Creating a huge wave in China, this business model initially emerged in the entertainment and Internet industries and has recently started to be adapted by cultural organizations and businesses\(^4\).

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\(^1\) China Daily, 2018  
\(^2\) Zhao & Ma, 2006, pp.4  
\(^3\) BBC News, 2011  
\(^4\) Xinhua Net, 2015
Similar to the Hollywood term of “literature property”, “IP” refers to a symbolic concept which is valuable enough to be redeveloped into other commercial products (such as how a novel could be adapted into an online game or a TV show). The original fanbase is a decisive factor in evaluating the value of an IP. In essence, an IP is content-centric and therefore a quality-oriented product that is mainly targeted to Millennials, who represent a large market. For example, one of the most successful IP adaptations, “Mojin: the Lost Legend” accumulated USD 256 million in China, even surpassing “The Avengers 2”. Adapting from a domestic online novel, the original novel was very popular among the 90s audience who eagerly contributed to the box office. According to the Beijing Evening News, in 2016, 14 of the 20 highest box office movies in China are IP adaptations. This information highlights how we are very likely entering the “Era of IP”.

However, although Chinese producers have been splashing large sums of money on considerable investments to grab finance-able IPs, a major concern is that regarding the quantity of IP productions that should be paid attention: since the valuable IPs is insufficient to cater for the public, a few low-quality IP productions started to enter the market which disappointed both the investors and the customers. Thus, the primary task is to develop high-quality IPs to face this challenge.

1.2 The Development of the Cultural IP of the Palace Museum

The Palace Museum has been making moves to attract more young audiences, ranging from its curation to the communication strategies that it is using. One of the representative manifestations is the souvenir and the cultural-related product design, which started to be approachable and “soulful.” In the past, 80% of the Palace Museum souvenirs were outsourced under a replicated-expansion production mode, with an overall negative review as cliché, unattractive and indistinct. In the year of 2014, the Palace Museum launched a new series of cultural souvenirs in its digital flagship shop on the biggest Chinese E-commerce platform, Taobao, with its creative cultural products featuring the Forbidden City motif in a funky modern way (see figure 1).

5 Medium, 2018
6 BoxOfficeMojo, 2015
7 Beijing Evening News, 2016
8 Tsui, 2017
9 China Economic Herald, 2016
With a striking contrast between the new and previous “personality” of the Palace Museum, it soon became an “Influencer”. There was a dramatic increase in the amount of followers on its social media platforms; with the annual revenue of the Palace Museum E-store being around AUD 2 billion as of 2016\textsuperscript{10}. In fact, the digital shop has been open since 2008, but sales remained stagnant until the “new generation” creative released in 2014, which really gained the public’s imagination\textsuperscript{11}.

Leveraging the Internet buzz and the positive public opinion, the Palace Museum expanded its social influence from the creative cultural product to the business partnership with fashion and internet enterprises. A successful paradigm is the partnership with the Internet giant Tencent, for a creativity

\textsuperscript{10} China Daily, 2016
\textsuperscript{11} China Daily, 2016
This partnership will last for three years, and it was the first case of the Palace Museum franchising its cultural IP into external commercial uses. With this franchise, WeChat (the most-used IM app in China, owned by Tencent) was allowed to design and apply a new sticker series of a Chinese emperor character, which as an IP belongs to the Palace Museum. Afterwards, a mobile phone game set in the background of the real life of the emperor was developed by Tencent and went viral among the digital audience. The Palace Museum IP aura also permeated into other industries. For instance, a traditional Chinese skin-care brand Pechion partnered with a jewelry designer from the Palace Museum to design a limited edition’s package, and it was sold out within 35 seconds during the pre-sale on its digital shop.

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12 The Palace Museum, 2016
13 China Daily, 2016
14 Sohu, 2017
In addition, The Palace Museum IP is also attractive to many well-known international conglomerates with strong brands. An example being Cartier and Kindle partnering with the Palace Museum for both promotional and branding activities (see appendix 1). For those luxury and cultural-related brands, the core value of seeking partnership with the Palace Museum is to enhance the culture foundation to the brand value.

1.3 Overall situation of the "China Time-honored brands"

Unlike big-scale traditional businesses in Western countries, the China Time-honored Brands have been in survival mode for a very long time. According to the Ministry of Commerce of China (MOC), the China Time-honored Brand refers to brands that provide high-quality products overtime and still inherit the traditional techniques that could be considered as a cultural symbol carrying the Chinese national spirit\textsuperscript{15}. Although the Internet and E-commerce industries have partly improved some of these enterprises, they are still facing severe prospects due to the impacts of modernisation and globalisation\textsuperscript{16}. According to Xinhua News, there are currently 1128 traditional businesses that have been granted by the MOC, with an average age of 160-years however, only around 10\% of them are necessarily demanded by modern

\textsuperscript{15} China Brand Quality Management Evaluation Center, 2006
\textsuperscript{16} Alon & McIntyre, 2008
consumerist society\textsuperscript{17}. The annual decreasing rate of the China Time-honored Brands is 5\%, recently the government has released a series of policies to revitalize them; however they are still facing many challenges.

Overall, the existing IP model of the Palace Museum is promising and will keep improving due to the macro-environmental situation. With a collection of millions artworks; plus the architecture and its 600-year historical background, these large amounts of intangible cultural assets could be cultivated into future IP franchising. Concerning the developing difficulties of the Chinese traditional businesses, cooperating with the Palace Museum under the IP franchising business model, might be a good strategy in helping to achieve the revitalisation that is needed. Therefore, a developed business model is necessary to generate and implement for future collaborations between the Palace Museum IP and the China Time-honored Brands.

2. Value propositions

The core value of the IP business model of the Palace Museum and the China Time-honored brands could be summarized as cultural communication, which contains culture democratization and culture confidence enhancing. Reinvigorating the stagnant China Time-honored brands is the objective the ideal result of this business model.

The Palace Museum is a state-owned non-profit cultural organisation which has always been financially supported by the government. This identity determines both the current and future business model as a mission-driven model rather than a profit-driven one. Therefore, similar to other public museums, the mission of the Palace Museum is to communicate the traditional Chinese culture to audiences who may not be used to it, might not be that interested in, or have not found a suitable way to engage in the traditional culture. Understanding this, the first stage is culture democratisation, meaning highlighting connections between the “distant” traditional culture and the public daily life. Afterwards, the developed business model will bound to build a community, to gather the cultured audience and to transform the latent audience into this community.

In terms of the China Time-honored brands, their core value is to produce and provide high-quality products and services with Chinese traditional spirits. Nevertheless, differentiated with the Palace Museum, even the China Time-honored Brand enterprises also play an important role of carrying and

\textsuperscript{17}Xinhua News, 2017
communicating traditional cultural messages, the first objective for them is to survive and revitalise; namely, to gain profit. From a long-term developing angle, the ultimate mission of these traditional businesses is consistent with the Palace Museum, which is to provide a sense of cultural confidence, to build a deeper trust among the public, and to shape a trustworthy image of the “Made-in-China” products. The value of the products in this business model is described in the following figure.

3. Consumer analysis

3.1 Customer segmentation

According to the previous analysis, the target audience of the business model is mobile internet users ranging from 16 to 36 years old, culturally-conscious, with a medium-to-high consumption capacity. They frequently access the internet mainly for socializing and browsing the news; and their lifestyle enables them to have plenty of fragmented time to search, receive, and digest information. It can be segmented into three specific crowds: overseas students, taxi drivers, and young civil servants.
The first common point among these three groups is, they all have the considerable potential to be a great culture communicator due to their occupations. Compared to domestic students, overseas students have more chance to get in touch with foreigners in their daily life, and usually one of the inevitable topics that happens between two different nationalities is cultural exchange. Generally, most Chinese overseas students come from middle-to-high income families which allow them to afford the expensive overseas tuition fee. Thus, their affordability criteria for high-quality everyday items is guaranteed. Asides from that, overseas students tend to have more emotional resonance when spotting a product with Chinese characteristics, so they are more likely to prefer a Chinese cultural-related product during the purchase decision-making progress. In this sense, a high-quality commodity with Chinese motif could bring a sense of cultural identification to this group of audience.

A taxi driver is an occupation which keeps meeting new people during their working hours. This working mode determines that they have to spend a certain period of time with the passengers, which also creates a conversation scenario and a talkative occupational personality for most of the drivers. A relevant example is that in China, many Chinese people agreed that the “Beijing taxi drivers” are generally very cultured especially in the folk customs, social phenomenon and current affairs topic; and it is a pleasure to talk with the drivers during the taxi journey. With 1.4 million taxis operating in China cities, taxi drivers are a noticeable customer segment as well as a powerful communication tool for the marketing purpose.

The young Chinese civil servants are a group of educated youths who are highly involved in political activities, including paying close attention to the traditional culture, as a result of their occupational attribute. In recent years, the civil service exam has become increasingly competitive with an overwhelmingly low passing rate, it mainly assesses the candidates’ patriotism, critical thinking ability towards current affairs, cultural literacy and so on. Additionally, the civil servant is a job with a stable income and fixed working routine. Therefore, with plenty of spare time, a clear understanding of the Chinese culture, and the duty of responding to the state and the policies, the Chinese civil servant could be a customer segment that will actively search and promote the products of this business model.

Segmentation:

18 Financial Times, 2013
19 Statista, 2016
20 CNN, 2016
<table>
<thead>
<tr>
<th>Segmentation base</th>
<th>Overseas students</th>
<th>Taxi drivers</th>
<th>Young civil servants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>18-26</td>
<td>22-36</td>
<td>22-30</td>
</tr>
<tr>
<td>Consumption capability</td>
<td>Medium to high</td>
<td>Medium</td>
<td>Medium to high</td>
</tr>
<tr>
<td>Purchase motivation</td>
<td>Nostalgia, utilities, emotion carrier, interests</td>
<td>Utilities, interests, affordable</td>
<td>Identification, utilities,</td>
</tr>
<tr>
<td>Brand loyalty</td>
<td>Medium to high</td>
<td>Low to medium</td>
<td>High</td>
</tr>
<tr>
<td>Possible products/services</td>
<td>Stationary, accessories, cosmetics, gifts</td>
<td>Water bottles, food, restaurant</td>
<td>Office supplies, stationery, handbags, clothing</td>
</tr>
</tbody>
</table>

### 3.2 Customer relationship

The customer relationship of this business model should be long-term oriented, which requires the products to be quality-centric and well-designed to carry the Chinese traditional culture. Currently, the Palace Museum IP has accumulated a solid base of “loyal fans” who are interactive and engaging to the Palace Museum social media, many of them are also the consumers of the Palace Museum E-store. Aside from this, the current customer satisfaction of the Palace Museum IP products is high, and the consumers’ after-purchase behavior appears to be very responsive. For instance, in 2016, a “fake news” article with a title of “the Palace Museum limited edition lipsticks” went viral on the most-used social media platform Weibo. A few pictures with YSL, Dior, Givenchy brand lipsticks with the Palace Museum motif package had been posted and forwarded to a large amount of people, which generated hype buzz among all the makeup lovers. In fact, the “limited edition” was a DIY version by a customer with the Palace Museum taps (see figure 5).
Since then, netizens started to strongly suggest the Palace Museum to co-brand with those international beauty brands, and the usage of the Palace Museum taps soon spread into many other items (such as perfumes, phone chargers, laptops) and kept being posted on the social media platforms. The Palace Museum E-store Weibo account also interacts closely with those users by commenting and forwarding their posts. Chinese mobile users have seen a tremendous purchase potential and passions about the cultural-related products.

Inspired by the Italian espresso machine brand La Marzocco, the Palace museum need to develop a sustainable approach to acquire and transform new customers in addition to maintaining their customers. Under the context of the internet era, a potential way for the Palace Museum IP business is to build a digital community, in order to establish an eco-system of all the components of stakeholders including the customers, traditional culture enthusiast, culture industry workers and the China Time-honored brand entrepreneurs. At the beginning stage of the La Marzocco machine’s expansion to China, the marketers started by holding coffee culture events, barista workshops in the big cities, and gradually began to foster a new cluster of coffee lovers in China21. Positively, there are already a few communities existing in mainland China for this business model, such as museum goers, cultural television and

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21 La Marzocco, 2016
literature lovers, and cultural product collectors. The first step in establishing the digital community for this business model is to build the connections among all these consonant clusters, using online platform associated with some offline events. In this case, the customer segment group would play an essential role as the reference groups with significant social influence; and then gradually radiate to other potential customer clusters.

Last but not least, another significant fact worth noting is: that customers are transformable, becoming other stakeholders inside this business model. For example, since the target audience’s age is young, many of them are still job seekers, career starters or developers. This means they have the possibilities to be a future volunteer, worker or public founder of the museums; or they could become part of the creative cultural industries, traditional cultural businesses, the media and entertainment industry, which are all included in the stakeholders of this business model. Hence, the suitable strategy for developing customer relationships should be multi-channel and long-term oriented.

4. Infrastructure

4.1 Resources

The total resources are a combination derived from both the Palace Museum and the China Time-honored brands, and the objective is to establish a “1+1>2” further optimization plan and to maximize the revenue.

The Palace Museum IP possesses five types of resources as the table shows below. The overall resources provide the Palace Museum with authority and credibility.
<table>
<thead>
<tr>
<th>Resource form</th>
<th>Components</th>
</tr>
</thead>
</table>
| Cultural      | Tangible: collections (total 1,807,558 pieces), architectures (total 9371 rooms, the biggest ancient Palace cluster in the world)  
Intangible: history (physically 600 years, spiritually with 5000 years civilisation ); representative landscapes (e.g., the snow view of the Palace Museum is a tourist attraction point ); cultural-related stories, archives. |
| Media         | Owned: official website, mobile applications (e.g., The Palace Museum Community), official Weibo account (4.75 million followers), official WeChat account, publications.  
Earned: new media KOLs, Internet companies (e.g., Tencent), cultural-related publications, columns, media.  
Paid: traditional media, celebrity endorsement, KOLs, freelancers, etc. |
| Professional  | Curators, restores, collection administrators, historicist, academic resources, etc. |
| government supports | Finance, policies, government-owned media |
| Social power  | Positive word-of-mouth brand image, referencing power from the culture lovers, social media followers, and E-store customers |

By franchising the IP to the China Time-honored brands, the Palace Museum will acquire the resources from those enterprises, such as traditional technology, productivity and distribution channels.

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22 The Palace Museum annual report, 2013
4.2 Processes

As a long-term oriented business model, the progress will be sustainable as a cycle chain as the flow chart below illustrates.

5. Cost construction

The majority of costs will come from marketing expenses, product designing, developing and manufacturing distributor intermediary fee and stakeholder relationship maintenance. The marketing expense is the primary sector to lower the costs, which could leverage the existing media resources as expanded in the infrastructure section. Among the variable costs, story-digging and telling is an important component as the core value creating and value adding for a cultural business, which should be given priority during budgeting. As learned from several successful Florentine family businesses, such as the Gianfranco Lotti leather brand, the story of the business owner and its keylock logo have added more charms to the brand value. Therefore, considering the nature of the Palace

La Storia del Keylock - Gianfranco Lotti, n.d.
Museum IP and the traditional cultural businesses, this proposal should also work given this particular context.

Secondly, to reduce the manufacturing costs, an economical way is to outsource the producing but importantly focusing on only choosing trustworthy producers, such as the China Time-honored enterprises which have a reliable foundation of production workflow. Further budget details will be illustrated in the following table.

<table>
<thead>
<tr>
<th>Costs</th>
<th>Major components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing expense</td>
<td>Advertising, story-telling productions making (such as documentaries, movies, books, blog posts etc.), media channels, free exhibitions</td>
</tr>
<tr>
<td>Product designing and development</td>
<td>Product test, story-exploring</td>
</tr>
<tr>
<td>Distribution and intermediary</td>
<td>APP, websites, digital museum, E-commerce platform management and maintenance</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Rents, worker salaries</td>
</tr>
<tr>
<td>Stakeholder relationship maintenance</td>
<td>Gifts, events and socializing activities. public relations</td>
</tr>
</tbody>
</table>

6. Revenue model

As a non-profit cultural organisation, the revenue stream of this business model is hybrid, it majorly consists of franchising, auction, retailing and assisted with box office, sponsorship, in-kind or bartering. Firstly, IP franchising of the Palace Museum is the essential one which could be paid by monetary or services from the China Time-honored brands. Different than the current model, in this case, the Palace Museum has to establish a marketable IP first, and then search for suitable enterprises to embark upon the franchise with. For instance, in the documentary of the Palace Museum, “Masters in the Forbidden City”, the story of a horologe restorer impressed many audiences with his “craftsman spirit”, this potentially could be a valuable IP. To gain revenue from this IP, the Palace Museum could choose one enterprise somewhere between a traditional timepiece business, and a
jewelry business by auction. Afterwards, the franchising cultural product sales could also partly be the revenue of the Palace Museum.

Box office, sponsorship, and advertising could be parts of the revenue model. Taking examples of the previous investments, the video website Blibli invested RMB 1.5 million (AUD 300 thousand) to produce “Masters in the Forbidden City” at the beginning of 2016, but only gained RMB 100,000 (AUD 20,000) revenue in return. However, with a fairly high review of this documentary, Blibli gained nearly 6 million box office after turning this documentary into a movie at the end of 2016. Television productions or publications of the Palace Museum and the China Time-honored related story are still prospectively popular in China, which could bring in revenue through the box office, royalty of copyright from producers and video websites, or advertising fee from other businesses.

An additional form of revenue could be volunteering or crowdfunding. These two revenue streams are mostly applied in the cultural business. According to the news, after the “Master in the Forbidden City” had been screened, many university students and professional workers voluntarily applied for working in the Palace Museum as a restorer or other related positions. Since the government financial support is fixed, and the income of working in those museums might not be that attractive to recruit enough staff, there are still a few positions being vacant for volunteers. Similarly, voluntarily appealing through social media for supporting the stagnant traditional businesses happened previously. Meanwhile, crowdfunding platforms have been booming in China since 2010, there are had been 427 crowdfunding platforms and reached RMB 2064 billion transacted number by the end of 2016, and many of the traditional businesses have successfully found their financial supports via those platforms. The key to acquiring volunteering and crowdfunding revenue for this business model is the communication strategy and the brand value; namely, it is about persuasion and credibility. That is the main reason why story-telling is worth to be a focus on during the production progress.

For the Palace Museum, the revenue is making traditional Chinese culture permeated into the daily life by strategically commercialising; for the China Time-honored brands, the revenue purpose is to inherit and re-boost their traditional enterprises.

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24 Rodriguez, 2016
25 Global Times, 2016
26 Aveni & Jenik, 2017
27 Sina Shanghai, 2016
7. Challenges

The main challenges of this business model can be divided into two aspects: the external threats of counterfeits; and the internal potential possibility of becoming or being considered as over-commercialised. As a leading world-class public museum, the pressure derived from the competitors is relatively lighter than other cultural organizations. However, as a result of the domestic well-developed commodity manufacturing industry and the deficient copyright public awareness, shoddy merchandise issue has been a big concern for most of the Chinese businesses. On the internet, a few Chinese netizens has been calling “Made in China” as “Faked in China” for a while. In this business model, the IP is what the consumers pay for. Hence, to tackle this problem, the marketers have to make serious efforts to reinforce the copyright-preserved awareness among the customers.

Regarding commercialisation, bearing in mind that the nature of it as an effective communication method for the cultural organizations instead of the ultimate objective. Although so far the Palace Museum is on the right track in regards to its commercialising, there were still a few failures worth learning from their experiences. In 2007, a Starbucks outlet located inside of the Forbidden City was boycotted by a renowned Chinese anchor Chenggang Rui, in the names of “over-commercialised” and “cultural insult”, which finally ended up with shutting down and being replaced with “Forbidden City Coffee shop”. Another controversial example is a limited edition Palace Museum-themed mobile phone, with a dear price of RMB 19,999 (USD 4162), public opinion prone to be negative for it is unpractical, over-pricy and seems too profit-oriented. Learned from these two previous examples, the IP franchising business has to find a border between commercializing and communication strategy, in case to endanger the prestigious brand image.

8. Opportunities

Considering the sustainability and the future development, internationalisation is an inevitable direction for the long-term oriented businesses. Chinese cultural-related elements have been seen in many international brands’ design, which indicates a bright prospect for the Chinese cultural industry. A few Chinese enterprises have seen their successful global expansions, at the same time bringing a positive impression of “Made in China” to the world. As two of the

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28 Yang, 2015
29 Reuters, 2007
30 Strait Times, 2016
most significant Chinese culture carriers, it is a viable future business plan, a mission, also a duty to develop this cultural business worldwide.

9. Conclusion

To conclude, this developed business model is a profitable and mission-driven proposal. The essence of it is an optimisation of the current Palace Museum IP and the Chinese Time-honored brands. It enables both of them to leverage each other’s strengths and resources, to approach to their missions. Even though challenges and limitations still exist, solutions will be generated and adapted with times.

Word count: 4220
References


Appendixes

“Revive the memory of the timepieces”, documentary and exhibition produced by Cartier and the Palace Museum


Cooperation of Amazon kindle and the Palace Museum:
(derived from: Amazon Kindle)