

Operating a Museum For Profit:  
Furthering the dialogue about corporate structures available to museums

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A thesis

submitted in partial fulfillment of the requirements for the degree of

Master of Arts

University of Washington

2014

Committee:

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Program Authorized to Offer Degree:

Museology

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**Abstract**

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A few professionals are suggesting museums consider a for-profit model because of recent funding challenges facing museums and the rise of social entrepreneurs and social benefit corporate structures. However, little is known about the few for-profit museums that exist in the United States today, in part because they are private entities and are not easily identifiable. This qualitative research seeks to understand how a for-profit museum operates and identify possible trends across the sector. One case study consisting of an interview and facilitated task was conducted with a for-profit museum, the Museum of Sex in New York City. Using this information, a business model was created to better understand how the museum operates. Additionally, a cross-sector analysis was completed using two other prominent for-profit museums. The findings suggest that the Museum of Sex utilizes programming to create a space to experience and discuss sex without censorship through the lens of an historical or scientific approach, has a wide range of one-time visitors, and utilizes physical, intellectual, human, and financial resources to make its business model work. All three for-profit museums analyzed have a permanent collection and capitalize on a niche field, and two of the three publicize corporate sponsorship opportunities. This exploratory research can be used to inform the dialogue on alternative

corporate structures available to cultural institutions while providing a baseline of understanding about for-profit museum operations.

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## **Acknowledgements**

First, I would like to thank my committee for the wonderful guidance they provided throughout the entire process. Also, I could not have completed this research without the support that I received from my family, friends, and fellow museology students. Lastly, I would like to thank the Museum of Sex as this research would not have been possible without their participation. I am thankful the organization decided to take a chance on a graduate student and thereby adding to the needed understanding and dialogue surrounding for-profits in the museum community.

## Introduction

In the past few years, the growing number of for-profit charitable entities and social entrepreneurs has led to the creation of new types of corporate structures in the United States. These structures allow socially minded businesses to have a dual purpose – maximizing profits and providing a public benefit (Gomez, 2012). Additionally, there are individuals who want to invest in socially responsible business models because of the potential for investment return as well as the public benefit component the corporation offers. In 2010, Hope Consulting reported there is a market opportunity of \$120 billion in the impact investing market (Hope Consulting Report).

Before the relatively recent creation of a legal structure that supports and provides guidelines for social benefit organizations, there were three main structures available to organizations: for-profit, nonprofit, and government. Museums operate in all three of these sectors. These structures are legal creations subject to rules that define what characteristics each sector must exhibit (Hammack, 2002). Beyond the legal structuring, there is blurring among the three sectors -- commercial activities in nonprofits, for-profits with socially minded owners, and government agencies that collaborate with both sectors.

The recent discussion about additional legal structures is perhaps a response to the blur between for-profits and nonprofits. For example, some museums are seen as pursuing more commercial activities (Weisbrod), which creates some for-profit attributes.

Commercialization, according to Stefan Toepler,

can be understood as a greater propensity of nonprofit managers to rely less on donative sources of income and focus more heavily on fees for related services, sales of goods and services that are either related or unrelated to the organization's mission, and other forms of earned rather than contributed

income (2006, 99-100).

Museums have gift shops, externally located bookstores, as well as cafés and restaurants that are open to the general public, not just museum visitors. The tax consequences of these endeavors vary based upon mission-relatedness and potential competition with for-profit organizations. The move towards earned income is either lauded as a way for museums to become more self-sustaining or eschewed as mission drift for public and nonprofit museums (Toepler, 2006).

Additionally, museums are seen by some as operating in a more for-profit manner through commercial activities and the use of corporate structuring (Salamon, Geller, & Newhouse, 2012). The adoption of these policies, and the controversy surrounding them, could be connected with norms associated with each sector. For example, nonprofits are seen as more warm and caring by employees and the public, while for-profits are seen as more competent and likely to succeed. (Akker, Vohs and Mongliner, 2010). In a study by John Hopkins University, nonprofits identified the following three core values they believe they exemplify better than for-profits: caring, enriching, and empowering. The other values in the John Hopkins study dealt more with judgments about nonprofit competency. In agreement with the Akker, Vohs and Mongliner study, most nonprofits surveyed believed that values associated with competency were better exemplified by for-profits or that both sectors exemplified them equally. These four competency values were responsiveness, reliability, effectiveness, and productivity (2010, 11).

In response to the changing legal and operational context of nonprofits, for-profits and public agencies, some museums are considering an option that has been negatively

viewed in the past – a for-profit financial structure. Ray Katz, a new media consultant and developer discussed the issue in a July 2013 blog entitled, “Time for the for-profit museum?” In his blog, Katz suggests the for-profit model for financially struggling museums and discusses the financial viability and opportunities it affords museums. Museum professionals are also considering the for-profit museum model. In 2013, Elizabeth Merritt blogged about the possibility of for-profit museums in the future and used the term, “The Fourth Sector.” This term describes a for-profit business that is socially minded. Merritt suggests this as a viable option for museum sustainability if funding continues to decline (Merritt, 2013).

While the museum field is considering this fourth sector, little is known about for-profit museums and how they operate. In some fields in the United States where all three sectors are represented, like health care and education, there is a growing wealth of information about the ways in which those for-profit organizations operate. The museum field does not have access to similar information about the operations, mission dedication, sustainability, and profit capacity of for-profit museums, in part because for-profit museums are in the minority and do not have to be as accountable to the public as nonprofit or government funded museums do. For example, a for-profit organization in the United States does not have to file an IRS 990, an annual report that certain tax-exempt organizations must file with the IRS that provides information on the organization’s mission, program, and finances, including the compensation of the highest paid employees (guidestar.org). IRS 990s are made available to the public through various websites and by request of the public. Additionally, for-profits are not subject to the same charitable

purpose constraints as nonprofits and public organizations, limiting the amount of publicly accessible information on these organizations. Consequently, in order to conceptualize the for-profit museum model, more information is necessary.

The purpose of this exploratory research is to further the understanding of how a museum operates when it uses a for-profit corporate structure. Utilizing interviews and a business model generation task this study explores how one for-profit institution, The Museum of Sex, realizes what it means to be a for-profit museum. Other prominent for-profit museums will be briefly described to provide a context for understanding the for-profit museum sector.

Museums and museum professionals can benefit from this information because the research addresses a void in the literature that allows them to further comprehend other available museum models. It provides nonprofit organizations with a starting point to further explore the current dialogue in considering a for-profit model. The for-profit museum community benefits because the study provides information about their practices and operations, potentially allowing them to address the stigma towards their niche in the museum community.

## Literature Review

For-profit museums are a recent trend and due to their private nature, there is little published research about these organizations. The literature that does exist is mainly found on blogs and websites, not academic or peer-reviewed journals. However, there is a wealth of literature on for-profit, public and nonprofit corporate structures, and other related fields such as nonprofit museums and commercialization, and the use of for-profit operational techniques in nonprofits and public museums.

### The Nonprofit Sector

**history and creation.** According to Peter Frumkin, the modern American nonprofit sector is a relatively recent construct rooted in a 20<sup>th</sup> Century legal framework (2002). The nonprofit structure used today is highly complex and, while recent, is the product of a long history. According to David Hammack,

British law governed formal nonprofit activity during the colonial period; state decisions in the Revolutionary and post-Revolutionary eras carried much of that law into the fundamental U.S. rules governing nonprofits. The United States Constitution changed the context in which British rules were applied, however, and created fundamentally new legal and political situations for nonprofits in the United States (2002, 1638).

As the nonprofit structure is established through a legal framework, it is the creation of the United States government and can be changed and reformatted. Consequently it has been the subject of continuous debate and change (Hammack, 2002). This debate might stem from Frumkin's assertion that the nonprofit sector is a compelling societal force as well as "an elusive mass of contradictions" (2002, location 108).

Frumkin describes nonprofits as adding to democracy and decentralization of governmental control (2011). The creation of the nonprofit sector allowed those who

wanted to establish a public benefit organization to do so even if the majority did not support it. The belief is that if it were a popular enough idea, the government would subsidize it, but this structure allows the minority to create organizations that are relevant to their needs. However, as Hammack (2002) argues, nonprofits operate within the governmental structure and these organizations can be used to implement the majority's viewpoint. Hammack (2000) states that, "to maintain slavery and segregation, to implement Protestant values, to sustain traditional gender roles, and to support dominant notions of order, American states and courts limited nonprofit activity," (1641).

**legal formation.** The legal code is often of limited value when determining which organizations truly operate as nonprofit in nature (Frumkin, 2002). Alyssa Dirusso suggests in *American Nonprofit Law in Comparative Perspective* that the third sector in the United States has a different "*primary relation focus*" (2011, 42). In the United States, the focus is on the relationship between the nonprofit and its leaders and donors, instead of on the relationship between the government and the nonprofit. Additionally, it is especially tax centric because the Treasury Department regulates the sector through the Internal Revenue Service (Dirusso, 2011).

In the United States, there is a dualistic approach to nonprofit governance with regulatory statutes at both the state and national level. At the state level, each state's government provides regulations regarding how a nonprofit is created, the form it takes, the fiduciary duties of its leaders, and the regulation of the organization's operation (Dirusso, 2011). After incorporating at the state level, the organization can apply for

recognition at the federal level. This allows the organization to be exempt from paying federal income tax (Fishman & Schwarz, 2010, 56).

**characteristics.** There are three types of nonprofit organizations: unincorporated, charitable trust, and nonprofit corporation. An organization does not have to incorporate at the state level if it does not see the benefit in doing so, but the members can be found personally liable for the obligations of the unincorporated association, and the association cannot hold property in its name (Fishman & Schwarz, 2010). Few organizations choose to remain unincorporated because of these risks and limitations. The unincorporated association, however, can still receive the federal tax-exempt status. (Fishman & Schwarz, 2010). Charitable trusts are the oldest type of nonprofit entity. There is no need for prior governmental approval to form a trust and it must provide a benefit to the community instead of an individual. A trust creates “a fiduciary relationship with respect to property arising from a manifestation of the grantor’s intention to create it” (Fishman & Schwarz, 2010, 51). The majority of nonprofit organizations are corporations. Compared to the other two nonprofit forms, a corporation must adhere to more formalities in its creation and dissolution but this entity form allows for more relaxed internal governance (Fishman & Schwarz, 2010, 52).

There are two categories of nonprofit corporations, public benefit and mutual benefit. Public benefit nonprofits are categorized by the IRS code as a 501 (c) 3 entities. This means that in addition to the organization’s tax-free status, donors to these organizations receive a charitable donation tax deduction (Fishman and Schwarz, 2010). These organizations are defined as “a group serving what may loosely be called a public or

charitable purpose - to do good works, benefit society or improve the human condition,” (Fishman & Schwarz, 2010, 57). Mutual benefit organizations, on the other hand, are formed to further the goals or views of its members. Mutual benefit organizations can fall under several IRS code categories, which depends on who their members are. There are numerous IRS subscription codes for tax exempt organizations. The code starts with 501 (c) (1) and continues sequentially until 501 (c) (28). Additionally there are other IRS tax exempt codes such as 501 (d) for Religious and Apostolic Associations, and 170 (c) (1) for government entities (guidestar.org).

As the nonprofit sector is varied, several researchers have identified unifying features. For example, Frumkin identified three features that connect incorporated and unincorporated nonprofits across all sectors (On being Nonprofit, 3):

1. They do not coerce participation.
2. They operate without distributing profits to stakeholders.
3. They exist without simple and clear lines of ownership and accountability.

Additionally, Lester Salamon identified six characteristics of nonprofit organizations (1999, 10-11):

1. They are formal organizations operating under relevant law, legally distinct from their officers, capable of holding property, engaging in contracts, and persisting over time.
2. They are “private,” institutionally separate from government (though government officials may appoint some members of their governing boards).

3. They are not profit distributing (though they may sell services, pay high salaries, and accumulate surpluses).
4. They are self-governing (though they must obey relevant general laws).
5. They are voluntary in the sense that participation on their boards or in providing them with support is not required by law.
6. They serve some “public benefit.”

**cross sector analysis.** According to Law Professors James J. Fishman and Stephen Schwarz, “the operative assumption is that nonprofits play a societal role that is distinct from that of government and the private, for-profit sector, but much of this terminology is misleading or incomplete” (2010, 2). Nonprofits are not independent structures, but develop financial or programming relationships with government or for-profit organizations. Additionally not all nonprofits are charitable, rely on volunteers, or derive the bulk of their support from philanthropy (Fishman & Schwarz, 2010).

Nonprofit and public organizations differ from for-profit institutions in that they do not redistribute financial surpluses to the individuals who control them. This “non-distribution constraint” does not mean that nonprofit and public organizations cannot earn a financial surplus. Rather, it limits the way in which they can use their surplus or profit. Nonprofits can and often do earn a profit. The perceived effect of the non-distribution constraint is that nonprofits are seen as more trustworthy because they are not profit motivated organizations (Valentinov, 2011). This perceived trustworthiness also separates the nonprofit sector from the government sector because nonprofits are not explicitly associated with the government in power (Fishman and Schwarz, 2010). Akker, Vohs and

Mongliner conducted a study to test the premise that people view nonprofit organizations as being warmer, but not as competent as for-profit organizations. In the study, participants were more likely to buy a product from a website ending in .com rather than .org and cited reasons such as competence (2010).

### **Museums and Commercialization**

In certain instances, nonprofits look to commercial activities and programs to generate revenue that do not clearly fall within the purview of their mission. While not mission-related, the income allows the organization to increase its impact (James, 1983, 351). In 1997, Burton Weisbrod suggested that because nonprofits lack the government's ability to tax for subsidized services, they do not have the commensurate resources to meet growing demands. Frumkin (2002) echoes this sentiment and suggests that the inability of nonprofits to levy taxes makes them appear less coercive than governmental organizations. Nonprofits have devised ways to increase revenue, which while successful, appear "commercial" (The Future of the Nonprofit Sector, 543).

Museums face similar problems and scrutiny. Stefan Toepler's (2006) research into the Metropolitan Museum of Art's increase in commercial activities as a reaction to an economic recession in the 1970s provides context for understanding the current trends surrounding museums and commercialism. According to Toepler, the 1970s recession led to a decrease in donative funding such as endowment funding, and required museums to look to other sources for income. To supplement the public goods a museum provides, the Met began to sell private goods in the form of gift shop offerings, increased income generated through blockbuster exhibits, and increased the amount it asked the public to

contribute to the museum. Toepler suggests that these sources of revenue can be but are not always mission-related. Additionally, commercial activities are subject to the changes in the market. As Toepler argues, market changes in the 1990s could explain the trouble museums had with a loss in income generated from their gift shops (2006).

More recently, in 2012, Lester Salamon, of the John Hopkins Center for Civil Society Studies, identified four impulses that he believes are currently having an effect on the nonprofit sector, “pulling nonprofit organizations toward their voluntaristic past, toward greater professionalism, into expanded civic activism, and into deeper engagement with commercialism and the market” (2012, 1). Salamon believes that although commercial models allow for new funding and an emphasis on efficiency, the result is pulling nonprofits away from the other three more important impulses - voluntarism, civic activism, and professionalism (2012). Toepler and James share Salamon’s sentiments. They believe that while commercialization and high executive salaries can create a more self-sustaining museum, there is a danger that those activities can unintentionally drive the organization away from its mission through a drive to have blockbuster exhibition, and more entertainment focused programming that will generate additional revenue rather than promote the museum’s mission (James 1983 and Toepler 2006).

Toepler notes that others such as Bornstein (2004), Brinckerhoff (200), and Larson (2002) view self-sustainability as celebratory in nature. They argue that the use of commercial techniques in nonprofits creates greater efficiency and brings a more innovative approach to solving social issues. Drucker has argued similar sentiments. In his 1989 article, *What Business Can Learn From The Nonprofit Sector*, Drucker states that

implementing good organizational and management techniques from the for-profit sector does not detract from an organization's mission, but rather helps the organization achieve it. He highlights this position articulately by stating,

Twenty years ago, management was a dirty word for those involved in nonprofit organizations. It meant business, and nonprofits prided themselves on being free of the taint of commercialism and above such sordid considerations as the bottom line. Now most of them have learned that nonprofits need management even more than business does, precisely because they lack the discipline of the bottom line. The nonprofits are, of course, still dedicated to "doing good." But they also realize that good intentions are no substitute for organization and leadership, for accountability, performance, and results. Those require management and that, in turn, begins with the organization's mission (1989, 1-2).

### **Business Models**

The extensive use of business models started in the 1990s and is associated with the advent of the Internet (Zott, Amit, & Massa, 2011). As business models can be subject specific and are not clearly defined, many different definitions of what a business model is have been advanced in scholarly journals. In 2011, Zott, Amit, and Massa conducted a business model study to survey the literature written from 1975 to 2005 across multiple fields of study. They found that while there is not an agreed upon definition of a business model, there are four common themes across the literature (1019):

1. The business model is emerging as a new unit of analysis.
2. Business models emphasize a system-level holistic approach to explain how firms "do business."
3. Firm activities play an important role in the various conceptualizations of business models that have been proposed.
4. Business models seek to explain how value is created, not just how it is captured.

The model created by Osterwalder and Pigneur in *Business Model Generation* (2010) is in agreement with the similarities identified by Zott, Amit and Massa, and is designed to understand how an organization creates, delivers, and captures value.

Business models are not unique to any one sector and can be utilized by for-profits, nonprofits, and government organizations (Osterwalder & Pigneur, 2010). In *Thriving in the Knowledge Age*, Falk and Sheppard (2006) outline what they believe is the old and outdated business model for museums and suggest a new model that aligns with current museum educational and visitor-centric attitudes. Falk and Sheppard characterized the old model still in use today as a mass-marketed, mass-produced, paternalistic approach that was created by industrial age of the 20<sup>th</sup> century. This model is rooted in a more collections-based framework and focuses less on the needs of the museum visitor (Falk & Sheppard, 2006). Instead, they argue for a more bottom up approach that matches the needs of both the public and the institution while utilizing catered visitor experiences. In the new model Falk and Sheppard look at internal assets, external assets, meeting public needs, and financial assets as well as the social, political, and economic context.

### **For-Profit Museums**

For-profit museums make up the minority of U.S. museums and are not considered museums under some museum organizational definitions. The International Council of Museums (ICOM) defines museums specifically as “nonprofit, permanent institutions” (ICOM, 2007). The Alliance of American Museums (AAM) subscribes to a broader definition stating, “museums are wonderfully diverse. They are operated by nonprofits and for-profits, colleges, universities and every level of government. Some are managed by large

staffs; others are run solely by volunteers,” (aam-us.org). For reasons stated as legal issues, museum professional organizations only accept nonprofit entities. However, according to Dillenburg (2011), the public is not necessarily as discerning about how a museum receives its funding. Additionally, for-profit museums do not often distinguish themselves from nonprofit museums. Without researching an organization that has ‘museum’ in the name, it is hard to know what corporate structure the organization has adopted.

Museum professionals in the nonprofit sector have been wary of for-profit museums because they are not held to the same regulatory standards as nonprofits and, in stark contrast to nonprofits, for-profit organizations have a fiduciary responsibility to maximize profit for its owners unless the organizations by laws or articles of incorporation state otherwise (Malaro, 2012). Elizabeth Merritt, the founding director for the Center for the Future of Museums, addressed this topic in a blog posting in 2009 about *The Museum Identity Crisis*. She stated that for-profit museums are complex and hard to characterize, “they look just like any other museum to their visitors, but their governance, accountability and regulatory environment are so different that the National Standards and Best Practices for U.S. Museums don’t cover them ” (Merritt, 2009).

According to Malaro in *Legal Primer to Collections*, the assets of a for-profit are held ultimately for the benefit of the organization’s owners. This means that the collections of a for-profit museum can be thought of as assets and are actually the property of the owners of the museum. This is different than the nonprofit and government structures, which act like a trust in the sense that they hold the property for the benefit of others. Consequently, upon dissolution, nonprofit museums must transfer their collections to other nonprofit

institutions and the IRS does not consider the collections of nonprofits as monetary assets (Malaro, Marie C.; Deangelis, Ildiko, 2012).

For-profit museums sometimes fail and are more likely to dissolve due to financial trouble than a nonprofit because a for-profit that is not making money is closed to conserve shareholder capital (Zietlow, Seidner, & Hankin). According to Zietlow, Seidner & Hankin, a nonprofit will operate until it is insolvent and can be “in the red” for a while until corrective action is taken. Recently, The Sports Museum of America in New York City closed after nine months of business and the for-profit Pirate Soul Museum in Florida moved, changed its name to the Pirate and Treasure Museum, and adopted 501 (c) (3) status. Adrian Ellis was quoted in the New York Times as saying “that a for-profit museum could work, ‘under certain circumstances,’ such as having a ‘popular topic in a pretty dense urban area with a lot of visitors’” (Sandomir, 07/2/2006).

In 2008, Arroyo stated that no one is keeping track of the number of for-profit museums. However, more recently formed for-profit museums, such as the Museum of Sex, the International Spy Museum and the Crime Museum, are flashy and garnering attention (Arroyo, 2008). The International Spy Museum is a for-profit museum that opened in 2002 and is located in Washington, D.C. It was founded by the Malrite Company, an organization that, “develops innovative museums and educational projects across the country” (spymuseum.org). Since its opening, the museum has drawn 600,000 to 700,000 visitors a year. The Malrite Company also played a part in the creation of the Rock and Roll Hall of Fame and created another for-profit museum focused on Jewish Heritage. The Spy Museum’s founder and chairman, Milton Maltz, describes the museum as “more than

history - more than information or entertainment - its mission is to reflect the significance of intelligence as a critical component of national security” (qtd in spymuseum.org). The museum’s stated mission is “to educate the public about espionage in an engaging manner and to provide a dynamic context that fosters understanding of its important role in, and impact on, current and historic events” (spymuseum.org).

While the museum is currently has for-profit status, its founder recently stated that upon the completion of the museum’s upcoming move, he would donate the museum to the community as a 501 (c) (3), a charitable nonprofit status that many museums employ (International Spy Museum Press Release, 9/23/2013). Peter Earnest, the museum’s executive director, observed that Maltz and his wife “realize it’s an important institution and want it to go on. They think the best way to assure that is to give it to the community” (Zongker , 9/27/2013). The museum’s website states that it has the largest collection of international espionage artifacts ever placed on public display. It has both a permanent collection and objects on loan from collectors in the United States and abroad.

The Crime Museum opened in May 2008 and is located in Washington, D.C. The museum estimates that it receives 500,000 visitors annually. It was conceptualized by one of its founders, lawyer and entrepreneur John Morgan, after a visit to Alcatraz Island. Morgan believed a museum that discussed the history of crime, punishment, and crime scene investigation was necessary. He partnered with America’s Most Wanted Host John Walsh to create a museum that was interactive and honored law enforcement (crimemuseum.org). The Crime Museum’s mission as stated on the organization’s website is to

provide guests of all ages with memorable insight into our nation's history of crime and its consequences, law enforcement, forensic science, and crime scene investigation through a captivating, interactive, entertaining, and educational experience ([crimemuseum.org](http://crimemuseum.org)).

The museum utilizes both temporary exhibits as well as hundreds of artifacts that are bought at auction, loaned or donated. The museum also accepts corporate sponsorships.

## Methods

The purpose of this exploratory research is to understand how a museum operates utilizing a for-profit corporate structure. Nonprofit museums are beginning to question their current structure and are discussing the options provided by adopting a for-profit one. Currently, there are only a few identifiable for-profit museums and, consequently, little research has been conducted on how they operate. This study was designed to understand how one for-profit museum (Museum of Sex) defines what it means to be a for-profit museum in terms of operations, sustainability, visitors, and other elements specific to museums, such as collections.

### Methodology

This study utilized two methods: an interview and a facilitated task. An interview was conducted with one Museum of Sex employee who has been a part of the organization since its inception. The interview provided an in-depth understanding of how the museum operates in terms of sustainability and how it provides museum specific elements for visitors, such as collections and exhibits. The interview was recorded and conducted in person during a visit to the Museum of Sex. After the interview, the subject participated in the facilitated task. The purpose of the task was to collect information about the museum's business model. The information provided during the task was then analyzed using *The Business Model Generation* (Osterwalder and Pigneur, 2010). While there are many business model frameworks, this model was chosen because it has been used by both for-profit and nonprofit organizations.

**selection.** The Museum of Sex was selected based upon the use of the word “museum” in its name, its for-profit status, its prominence in the field, and its willingness to participate. Four for-profit museums were contacted to participate in this study based upon the same criteria. Three of the four museums contacted responded. Of those, two of the three responders declined to participate and attributed their decision not to participate to their status as are private entities. As such, they do not have the same requirements of transparency that nonprofit organizations do. The individual who participated in the study at the Museum of Sex was contacted because of his or her presence at the museum since its founding, and subsequent knowledge of the museum and its operations.

The Museum of Sex opened in 2002 in New York, New York. According to the museum’s website,

The Mission of the Museum of Sex is to preserve and present the history, evolution and cultural significance of human sexuality. The museum produces exhibition, publications, and programs that bring the best of current scholarship on sex and sexuality to the widest possible audiences and is committed to encouraging public enlightenment, discourse and engagement (Museumofsex.com).

Entrepreneur founder Daniel Gluck wanted to address a gap he saw in current cultural offerings. In an interview with Entrepreneur.com Gluck stated, "I couldn't believe there wasn't anything like it already in the world. This seemed like such a large gap in the cultural landscape" (Tiger, 2012). While Gluck originally wanted to pursue a for-profit structure to prevent any censorship from a nonprofit board, his investors encouraged him to apply for a nonprofit status. The New York State Board of Regents denied the nonprofit application because of the use of the words “museum” and “sex” together (Tiger, 2012). The museum continued on as a for-profit organization.

**interview.** The interview was semi-structured and contained questions about the museum's for-profit status, collections, exhibit design, sustainability, corporate partnerships, mission achievement, and other museum operations (see Appendix A). This included questions such as "When you are creating an exhibit, what audience is the Museum of Sex trying to reach?" and "How does the museum's permanent collection work with donations?" The interview was audio-recorded and completed within 30 minutes. The interview was transcribed and analyzed using content analysis.

**facilitated task.** The facilitated task was conducted following the interview. The study was purposely ordered to allow the participant to further explore concepts discussed in the interviews. The purpose of the task was to articulate the Museum of Sex's business model from the participant's perspective. The business model segments and facilitated task guide (see Appendix B) were created using the *Business Model Generation's* Canvas (Osterwalder & Pigneur, 2010). The in-person facilitated task was digitally recorded and took about 20 minutes to complete. The subject was given a notebook with pages that were labeled with the names of different business model segments in the model created by Osterwalder and Pigneur. This model defines nine business model segments: customer segments, value propositions, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure (see Appendix C).

Each business model segment was given its own page in the notebook. The participant was provided with post-it notes and a pen. Then, the participant was shown an image of the business model canvas from which categories on each page were derived in order to provide a holistic understanding of the task. The participant was shown where each

segment was on the box during the task and had the canvas in front of him or her during the whole exercise for guidance.

The participant was asked to write down any words or phrases that were relevant to a specific business model segment in terms of the Museum of Sex on a post-it note. The task guide provided the participant with specific prompts such as “Move on to the box in the center labeled value propositions. Please enter any key words related to the value the Museum of Sex delivers to its customers, which customer problems the museum is helping to solve and what customer needs the museum satisfies. You may use the phrases written in the box to help formulate ideas.” The phrases in each box included key words and questions to help the participant understand the nature and importance of the segment. For example, the value proposition box included words such as, “newness, customization, design, brand/status, and price.” Then, the participant placed the post-it note on the corresponding page in the notebook. A task guide was used to provide a specific order to when and how each business model concept was addressed. The information generated was used to create a business model canvas. This canvas was then used to further understand how the museum creates value through its operations.

Following the task, the participant was given an opportunity to debrief and discuss any other information, thoughts or feelings the interview or task may have evoked. This was accomplished through the question, “Is there anything else you would like to add about Museum of Sex, for-profit and nonprofit?” This segment was also recorded, transcribed and used to further inform the for-profit museum study.

**Limitations**

This is a case study looking at one museum in the United States that operates as a for-profit museum. It may not be generalizable to how other for-profit museums operate or how other museums operate outside of the United States. Additionally, there were limitations that affected the manner in which data was collected. Due to scheduling conflicts, only one employee at the museum was able to participate.

## Results & Interpretation

### Interview

The audio interview was transcribed and coded. Emergent coding was completed through iterative readings and linking like terms and themes using a color-coded system. All relevant responses were coded into seven operational categories: visitorship, mission/values, collections and exhibitions, collaborations, sustainability and finances, commercial activities, and corporate sponsorship. Table 1 shows examples of the types of responses or information included in each of the seven operational categories. The categories were selected based upon the different trends and groupings that appeared in the data during coding.

In some instances, a term or theme could belong to more than one category if there was a link or connection between the two. For example, if the participant mentioned the way in which the mission engagement affected visitorship, it would be included in both the mission and visitorship categories. Additionally, any difficulties or opportunities the respondent mentioned concerning the museum's status were analyzed as a separate subset of data. Table 2 shows examples of the types of responses coded as difficulties or opportunities.

**Table 1: Participant responses coded into seven operational categories.**

<i>Operational Categories</i>	<i>Responses</i>
<i>Visitorship</i>	<ul style="list-style-type: none"> <li>● Focus on getting people attached</li> <li>● 18 and over</li> <li>● Some school groups-to see a specific exhibit</li> <li>● Everyone is looking for something different</li> <li>● Museum goers</li> <li>● Non-museum goers</li> </ul>

	<ul style="list-style-type: none"> <li>● Occasionally do not behave like they would in another museum</li> <li>● “Never going to please one specific audience set”</li> <li>● Work with communities to create specific exhibit-bring in new demographic</li> <li>● Content not just based on what audience wants to see “There is stuff that we pursue because we have a larger belief in it. I think the idea is that if we believe in it enough there is an audience for it somewhere.”</li> </ul>
<i>Mission/values</i>	<ul style="list-style-type: none"> <li>● Exploration of a dialogue about sex without censorship</li> <li>● Using mission as guiding voice and making decisions through that lens</li> <li>● “There’s not a counterpart to what we are doing.”</li> <li>● Other sex museums but not with the same focus</li> <li>● Focus on history</li> <li>● Focus on scholarship</li> <li>● Constantly asking if a corporate sponsorship is appropriate</li> <li>● Idea was to create a history of sex in America</li> <li>● “Smithsonian of Sex”</li> <li>● Fresh dialogue</li> <li>● “Its hard to trust that every institution, once the money making happens,” will remain mission focused</li> <li>● Less controls, obligation of the institution</li> </ul>
<i>Collections and Exhibitions</i>	<ul style="list-style-type: none"> <li>● Associated foundation has holdings of permanent collection</li> <li>● Donation based collections</li> <li>● Off-site storage</li> <li>● Couple art holdings at storage facilities around the country</li> <li>● Part of the emphasis on permanent collection, focus also on rotating exhibitions</li> <li>● Plan exhibitions with 18 and over crowd in mind</li> <li>● Changing content for fresh dialogue</li> <li>● Overall balance in programming, rather than by specific exhibit</li> <li>● Explore different sides</li> <li>● Some content created in house, some is working with outside curators</li> </ul>
<i>Collaborations</i>	<ul style="list-style-type: none"> <li>● Through advisory board, researchers and other museums</li> <li>● Advisory board-create networks, engage in dialogue, exhibit help, experts in broad subject matter-need different perspectives</li> <li>● Outside curators “interfacing with museum to help create it into our format”</li> <li>● Communities</li> </ul>
<i>Sustainability</i>	<ul style="list-style-type: none"> <li>● “It didn’t suddenly mean that we were planning to make a whole</li> </ul>

<i>and finances</i>	<p>bunch of money from it.”- response to switching to for-profit status</p> <ul style="list-style-type: none"> <li>● During the start, didn’t accept money from the sex industry</li> <li>● “We don’t continually ask for funds. We are essentially-self funded.”</li> <li>● Maintained realistic growth</li> <li>● “We basically take the money from what we are doing and put it back in the organization”</li> <li>● “The people who were most willing to give money, we didn’t necessarily want to take money from”</li> <li>● Outside curation-space and limitations in budget</li> <li>● Retail is important in overall funding</li> <li>● When museums were faced with loss of public funding-did not affect the museum in the same way because “we had been operating outside of that structure</li> </ul>
<i>Commercial Activities</i>	<ul style="list-style-type: none"> <li>● Retail</li> <li>● Coffee shop</li> <li>● Bar</li> <li>● A part of sustainability</li> </ul>
<i>Corporate Sponsorships</i>	<ul style="list-style-type: none"> <li>● Ability to choose appropriate corporate sponsorships for exhibitions</li> <li>● Case by case</li> <li>● Exhibition specific</li> <li>● Internal dialogue</li> <li>● Constantly asking if it’s appropriate</li> </ul>

The data in Table 1 suggests that the Museum of Sex is financially self-sustaining, mission driven, and uses all available methods that fit within the mission to succeed as an organization. The museum recognizes the importance of related activities such as the store, coffee shop and bar in the overall funding scheme. Additionally, the museum is intentional about who it chooses to accept money from in the form of corporate sponsorships or investors. A for-profit funding model also allowed the organization to react in a different way to the economic issues faced by government and nonprofit museums. The participant believed that the Museum of Sex was not affected in the same way because it has operated outside of a funding structure that is more reliant on donative sources of income.

The museum’s mission is prominent in numerous aspects of the organization’s operations. Value and mission related dialogue was coded into 6 of the 7 operational categories in Table 1. The category not included was commercial activities, which comprises a list of activities the museum uses to maintain sustainability. The participant stressed the importance of mission alignment in part because of the museum’s content. At the beginning, the museum struggled to legitimize itself as a museum that handles a delicate and sensitive topic in an educational, historical, scientific. and cultured manner.

**Table 2: Participant responses coded into opportunities and difficulties.**

<i>Opportunities</i>	<ul style="list-style-type: none"> <li>● Freer from board censorship</li> <li>● Self-sustaining</li> <li>● Ability to decide which sponsorships fit best with mission</li> <li>● Wide visitorship</li> <li>● More freedom to exhibit based upon proven history</li> <li>● Ability to adapt during financial hardships faced by other arts institutions</li> <li>● Built a strong structure</li> <li>● City has since embraced museum</li> </ul>
<i>Difficulties</i>	<ul style="list-style-type: none"> <li>● Ability to be taken as a serious project</li> <li>● Inability to gain a lot of outspoken public support during formation period</li> <li>● Reluctance on the part of some to share research and collaborate on exhibitions</li> <li>● “Still fighting to create this legitimate museum”</li> <li>● Under scrutiny and a lot of questions</li> <li>● Obligation of institution to remain mission focused-no outside controls</li> <li>● Communication with other institutions about alignment of ideals</li> <li>● Education process of what it means to be a for-profit or perhaps just subject matter</li> </ul>

The data in Table 2 suggests that the structure adopted by the museum affords the organization more freedom in certain areas. The Museum of Sex does not have to worry

about censorship and funding issues in the same sense as museums with a more donative structure. Additionally, the museum is perceived by some to be an “anti-museum” and draws in a wide range of audiences, including those who are first time museum visitors. It is unclear if this conception is because of the corporate status, the subject matter, or both. Similarly, it is hard to discern whether the difficulties seen in Table 2 are the result of being a for-profit museum or related to the museum’s subject matter.

### **Business Model**

A business model was created based upon the data collected from the participant interview and facilitated task to analyze how the Museum of Sex operates. The model is used as an evaluation tool in this study and was created through a series of developmental models. The first business model created consists of two segments with only information obtained from the participant. The first segment (a.) included the information the participant provided during the business model creation task. The second segment (b.) was the model created by the participant during the task with the addition of relevant information from the participant’s interview that pertained to the business model segments. The information obtained from the participant was subdivided by the researcher in this manner to allow for interpretation based only on data obtained during the task element for each participant. The data from the interview was relevant to the model, but it is necessary to be able to note the differences in information provided during the task versus the interview. Table 3 shows the participant’s business model a. and the additions added by the researcher to create business model b.

From the information provided by the task and the interview, the researcher created one more iteration of the model. The final business model was a cohesive business model (c.) created using all of the available information about the museum from the previous business model iterations, interviews, and other pertinent literature synthesized by the researcher. Business model c. is the synthesis of all of the information available to the researcher, including organizational input from the previous iterations of the model. Additionally this model was formatted according to the style used in the *Business Model Generation*. Table 4 is the final cohesive model and is located in the following section of this paper because it is an interpretation of all of the data.

**Table 3: Participant Business Model**

<i>Business model segment</i>	<i>Information from business model task (a).</i>	<i>Supplemental interview information (b)</i>
<i>Customer Segment</i>	<ul style="list-style-type: none"> <li>● Diversity of patrons (inclusive)</li> <li>● Both tourist/NYC based</li> </ul>	<ul style="list-style-type: none"> <li>● 18 and above</li> <li>● Some school groups</li> <li>● Museum goers</li> <li>● Non-museum goers</li> <li>● “Not funneling into a specific demographic”</li> </ul>
<i>Value Propositions</i>	<ul style="list-style-type: none"> <li>● Satisfied Customers:                             <ol style="list-style-type: none"> <li>1. See themselves represented</li> <li>2. See something new</li> </ol> </li> <li>● Public discourse about traditionally private/censored ideas</li> <li>● Working with scholars and experts of multiple fields to create thoughtful and meaningful content</li> </ul>	<ul style="list-style-type: none"> <li>● “Everybody is coming for a different reason”</li> <li>● Permanent collection</li> <li>● Rotating exhibitions</li> <li>● Dialogue about sex</li> <li>● Exploration of sex in a historical way</li> <li>● Not explicitly</li> </ul>

		<p>connected to sex industry</p> <ul style="list-style-type: none"> <li>● 18 and over admissions</li> <li>● “Anti-museum”</li> <li>● Nothing else like this museum has been created-filled a void</li> </ul>
<i>Channels</i>	<ul style="list-style-type: none"> <li>● Programming Diversity (exploring new arenas to discover new audiences)</li> <li>● Social media-facebook, blogs, etc.</li> <li>● Local listings</li> <li>● Tourism industry</li> <li>● Changing content</li> <li>● Walk by, open discourse</li> <li>● Use food/beverages, events, retail, and exhibition to raise awareness and interest in museum</li> </ul>	<ul style="list-style-type: none"> <li>● Community curation</li> </ul>
<i>Customer Relationships</i>	<ul style="list-style-type: none"> <li>● Hope to create repeat visitorship, but acknowledge that many patrons only visit once</li> <li>● Hope to deliver quality content/products to give faith in mission</li> <li>● Keep looking for new ways to engage audience (onsite and offline)</li> </ul>	<ul style="list-style-type: none"> <li>● See themselves represented, learn something new</li> </ul>
<i>Revenue Stream</i>	<ul style="list-style-type: none"> <li>● Interdepartmental packages (added value of food/beverage and retail to ticket price)</li> <li>● Discounting based on market: student discounts, group discounts, “friends with benefits,” repeat customers</li> <li>● 1. Ticket sales, 2. Retail, 3. Food/beverage, 4. Events/space rental, 5. Licensed content</li> </ul>	
<i>Key Resources</i>	<ul style="list-style-type: none"> <li>● Permanent Collection-physical resource</li> <li>● Audience engagement and interest</li> <li>● Curated/quality content (including retail and food and beverage)</li> </ul>	<ul style="list-style-type: none"> <li>● Mission oriented staff</li> <li>● MUSE</li> <li>● Advisory staff</li> <li>● Community</li> </ul>

	<ul style="list-style-type: none"> <li>● Atmosphere of openness and inclusivity</li> </ul>	<ul style="list-style-type: none"> <li>● Outside curators</li> </ul>
<i>Key Activities</i>	<ul style="list-style-type: none"> <li>● Rotating exhibitions</li> <li>● Product development</li> <li>● Community outreach</li> <li>● Diversity of content: science, culture, history, art, etc.</li> <li>● Engagement of experts, intellectuals and leading creatives</li> </ul>	<ul style="list-style-type: none"> <li>● Retail and food and beverage</li> </ul>
<i>Key Partners</i>	<ul style="list-style-type: none"> <li>● NY Tourism Board</li> <li>● Other Museums (content)</li> <li>● Local Media (awareness)</li> <li>● Private lenders and donations (content)</li> <li>● Leading experts (content)</li> </ul>	<ul style="list-style-type: none"> <li>● MUSE</li> <li>● Corporate sponsorships</li> </ul>
<i>Cost Structure</i>	<ul style="list-style-type: none"> <li>● Value driven- creation in spite of exhibitions</li> <li>● Staff</li> <li>● “Hand to Mouth” – use money made to fund projects. Those which can prove increased revenue often get green</li> <li>● Retail-self funding</li> <li>● Café and bar- self funding</li> </ul>	<ul style="list-style-type: none"> <li>● Ability to be selective</li> <li>● Realistic growth</li> <li>● Self-sustaining</li> </ul>

### How the Museum Operates

**customer segments.** The Museum of Sex’s visitorship is diverse. The data in Table 1 under Visitorship and Table 2 under Customer Segment suggests the museum attracts visitors who visit museums regularly as well as those who have never been inside a museum before. The museum is engaging visitors from its community in addition to tourists to the area. The museum recognizes that a wide range of visitors and visitor backgrounds can lead to a variety of expectations about what the museum experience will include. The museum’s visitorship can be understood as the first element of the business model canvas, customer segments. According to Osterwalder and Pigneur (2010), an

effective business model should be designed around the organization's understanding of specific customer needs. To better understand the organization's customers, customer groups should be recognized as separate segments if "[t]heir needs require and justify a distinct offer, they are reached through different Distribution Channels, they require different types of relationships, they have substantially different profitabilities, and they are willing to pay for different aspects of the offer" (2010, 20).

Based upon this information, it could be argued that the museum employs both a mass market segment and a niche market segment. A mass market customer segment means that the organization does not distinguish between different customer segments and accordingly the Value Propositions, Distribution Channels and Customer Relationships all focus on one large group of customers (2010, 21). In analyzing the museum's visitorship, the organization recognizes that it will not please every specific audience set because the museum's visitors do not have common expectations. Consequently, the museum chooses content not just based on audience expectations but rather on what the staff sees as a larger belief. The representation of larger holistic ideas in the museum's programming suggests that the mass marketing approach to understanding the organization's customer segment is useful. The museum is not solely providing value for one specific group, but rather a larger audience.

A niche market segment approach is also applicable to the museum because of the organization's niche subject matter, sex. A niche market "caters to specific specialized Customer Segments. The Value Propositions, Distribution Channels, and Customer Relationships are all tailored to the specific requirements of each niche market"

(Osterwalder & Pigneur, 2010,21). The data suggests that because of the subject matter, a variety of specialized visitors attend the museum. It is the subject matter that pulls in non-traditional museum visitors, and the organization's identification as a museum that attracts visitors who would otherwise attend museums. For example, usually the museum has an 18 and over policy and would not be a place where families would go on an outing (Heller, 2004).

Each niche customer segment expects a different experience at the museum. In *The Hegelian Implications of the Museum of Sex; or, Does MoSex Mean No Sex?*, author Kelly Dennis describes two different visitor expectations during a visit to the museum, as follows:

Nonacademic friends who accompanied us on our first visit sped through the entire exhibition in less than 30 minutes and then waited for us at a bar up the street. After poring delightedly over the rarely-seen-all-in-one-place documentation for an additional 90 minutes, we later found that, by contrast, our friends had suffered "text overload" (2006, 14).

While the Museum of Sex could employ a niche or mass-market customer segment, the data suggests that the organization utilizes a mass market structure while operating in a niche market. This can mean that the needs of each niche segment are not met and some of the expectations of certain customer segments will not be satisfied. The data in Table 1 and 3 suggests that the museum acknowledges this and does not want to pander to specific audiences but rather wishes to provide a holistic experience where every visitor is represented in some aspect. This is different than the "one size fits all" mass marketing that John Falk and Beverly Sheppard eschew in *Thriving in the Knowledge Age: New Business Models for Museums and Other Cultural Institutions* (2006). The Museum of Sex is not

portraying a single-sided narrative but rather the data in Table 1 under visitorship, mission/values, and exhibits and collections suggest the museum is attempting inclusivity through its exhibits and programmatic planning. This specific direction is a part of the Value Proposition that the museum creates.

**value propositions.** According to Falk and Sheppard, “from a visitor’s perspective, museums are best thought of as settings for the expression of personal identity,” (2006, 90). This is in alignment with the value propositions the Museum of Sex provides to its visitors. Value propositions are the services that create value for each customer segment and are “the reason why customers turn to one company over another. It solves a customer problem or satisfies a customer need” (Osterwalder & Pigneur, 2010, 22). The data in Table 1 under Mission/Values, and Collections and Exhibits, and in Table 3 under Value Propositions suggests that the museum provides its visitors with a space to participate in a varied dialogue about sex that is:

- Inclusive;
- A new experience;
- Spans a variety of historical and scientific disciplines; and
- Provides varied programming to create a public discourse about traditionally private/censored ideas in a thoughtful and meaningful way.

This value provided by the museum allows visitors to explore their personal identity as it relates to the subject matter exhibited.

The data in Table 3 under Value Propositions suggests that one of the museum’s value propositions is newness. This may enhance or detract from the previous value

provided. The Museum of Sex was created in part because nothing else like it existed anywhere else. It now addresses a new set of needs that customers did not previously perceive (Osterwalder, Pigneur, 2010). However, the data in Table 1 under Visitorship and Mission/Values suggests that customers may not know what to expect because the museum is a new creation and this could affect their experience. This could be the reason for experiences like the one described by Dennis and the reason why not every visitor's need is being satisfied. Visitors have a misunderstanding about the value propositions the museum offers. Founder Gluck addressed this issue during an interview with Sonya James for SmartPlanet in 2012.

Going into this, people thought they were going to see live sex acts. I think we definitely changed people's perceptions. I've had to fight against that perception not only with the public, but also the people I've worked with. There are people who have helped us do marketing over the years and the work is totally off-brand. Some people get it right away. But when I have someone who has built a few major brands and they don't get it? I really need to craft this vision into words so that people understand it.

**channels.** Channels pertain to the manner in which an organization reaches its Customer Segments. They can be direct or indirect and have five distinct phases (Osterwalder & Pigneur, 2010). Direct channels are methods used to reach customers that are owned by the company, while indirect channels are those that are owned by partners or outside sources. The data in Table 3 under Channels suggests that the museum uses both direct and indirect methods in communicating with the organization's visitors. The museum owned food/beverage and retail, social media and websites, programming diversity, curb appeal, and changing content are considered direct channels, while the tourism industry, local listings and community curation are indirect channels.

The five channel phases as defined by Osterwalder and Pigneur (2010) are awareness, evaluation, purchase, delivery and after sales. Local listings, social media, and the tourism industry help raise awareness about the museum and its offerings. There are several ways in which visitors can evaluate the Museum of Sex and its value proposition. In the interview, the participant mentioned that the museum does occasional visitor surveys. The surveys help the organization understand how customers evaluate the organization. Additionally, social media and other websites such as Yelp allow visitors to evaluate their experience at the museum. Evaluation of the museum can also occur when visitors walk by the window displays, eat or drink at the café and bar, or shop at the retail store. The programming diversity, changing content, and community curation also allow museum visitors to evaluate what kinds of offerings the museum provides. Customers can purchase products and services in the form of merchandise from the store and tickets both online and in person at the museum. The food and beverage offerings are only available at the physical location. The museum delivers its Value Proposition of newness and inclusive sex dialogue through its programming diversity, changing content, and community curation. The manner in which customers evaluate the museum's Value Proposition and receive the Value Proposition are the same in some aspects. The fifth channel phase is post-purchase support and in the case of the museum this could be seen as a continuation of the dialogue between the museum and the customer using the membership office or allowing for customer suggestions. These were not areas listed directly by the participant. Instead, the participant mentioned museums memberships and the use of visitor evaluations.

**customer relationships.** The Customer Relationships segment describes the types of relationships an organization develops with its Customer Segments (Osterwalder & Pigneur, 2010). These relationships can be driven by customer acquisition, customer retention, and upselling. The data in Table 3 under Customer Relationships suggests that customer retention may be an area for the museum to work on building lasting relationships. At a museum, retention can be initiated through the membership and or outreach department at a museum. Falk and Sheppard (2006) suggest that a mass marketed museum exhibit does not build a repeat customer base because it is not a personalized experience and visitors only visit once to be able to say they have seen it. Additionally, the use of ever-changing blockbuster exhibits only brings in one-time visiting customers and is a costly endeavor.

The Museum of Sex is different in this regard because its mission and values require rotating exhibits and mass marketing programming to promote inclusivity. However, it is still having a problem retaining repeat visitors. The museum establishes relationships through what Osterwalder and Pigneur (2010) call “personal assistance,” in the form of membership and ticket sales, retail, and food/beverage staff. Additionally, these relationships are built upon the programming offered by the museum, its mission and their representation in the museum as suggested by the data in Table 3.

**revenue stream.** According to Osterwalder and Pigneur (2010, 30), “[i]f customers comprise the heart of a business model, revenue streams are its arteries. A company must ask itself, “for what value is each Customer Segment truly willing to pay?” The Museum of Sex’s main revenue generating activities as ordered by the participant are

ticket sales, retail, food/beverage, events/space rental, and licensed content. These transactions each involve one-time customer payments as opposed to continued payments for an ongoing service or post-purchase customer support.

The data in Table 1 and 3 suggests that the museum generates revenue through asset sales, usage fees, subscription services, lending/renting, licensing and advertising. Asset sales involve selling ownership rights to a physical product (Osterwalder & Pigneur, 2010). The museum's retail and food and beverage sales would fall into this category as a customer is buying a physical object. The renting of the physical museum space would fall into the lending/renting category of revenue generation. Osterwalder and Pigneur (2010) provide examples of lending/leasing by using ride share examples such as zip car, but the leasing of facilities is a different way to realize that Revenue Stream possibility. The museum's use of licensed content from exhibitions is another way to generate income in the form of licensing. Nonprofit museums as well as exhibit creation firms use a similar model by creating exhibits in house that are exhibited in other museums or spaces. The museum also receives corporate sponsorships for some exhibitions; this could fall under Advertising or Licensing depending on how the museum realizes that value.

Usage and subscription fees describe the museum's top revenue generating activity, ticket sales. As the museum provides an intangible experience, visitors are paying for a service rather than ownership of a physical item. Subscription fees would be membership ticket sales where a visitor pays one fee up front to visit the museum many times within the given membership terms. In 2012, the museum expected 200,000 visitors (Tiger, 2012), and in 2010, ticket sales comprised 70% of the museum's earned income (Pogerbin, 2010).

In 2012, the museum reported that 30% of its revenue came from the museum shop and 10% was received from the café. Ticket prices are the one area in which the museum does recognize the ability of different customers to pay for the organization's value proposition. Tickets are \$17.50, but a reduced rate of \$15.25 is offered for seniors and students.

**key resources.** According to Osterwalder and Pigneur (2010), key resources are the most important assets that an organization requires to make its business model work. They can be owned by the organization or leased through a key partner and consist of physical, financial, intellectual, or human resources. The data in Table 3 suggests that the Museum of Sex utilizes all four of the types of key resource segments described by Osterwalder and Pigneur. The physical resources that the Museum of Sex requires are the permanent collection and the physical space that the museum, retail and food/beverage occupy.

As the museum's Value Proposition is primarily an intangible experience, the majority of the museum's key resources are intellectual, such as audience engagement and interest through curated and quality content presented in an atmosphere of openness and inclusivity. These intellectual resources are realized through key human resources. To properly capitalize on the museum's intellectual resources, the museum uses its mission-oriented staff, advisory board, and outside resources. Additionally, the museum's foundation, MUSE is a valuable resource because it manages the museum's permanent collection and allows people to donate to the museum and receive a tax deduction (Pogrebin, 2010). The financial resources the museum utilizes are the tax benefits it can offer to potential donors and the ability to obtain corporate sponsorships. Additionally, the

revenue generated through the museums more commercial activities help subsidize the cost of the more intellectual activities.

**key activities.** The *Business Model Generation* describes Key Activities as “the most important actions a company must take to operate successfully” (Osterwalder and Pigneur, 2010, 36). These activities can be categorized as production, problem solving, or platform/network. The data in Table 1 and Table 3 suggests that all of the museum’s key activities are production-related. The museum’s key activities listed by the participant are related to mission achievement, such as rotating exhibitions, product development, community outreach, diversity of content, and engagement of key partners.

**key partners.** Key Partners are the network of suppliers and partners that allow the business model to function. According to Osterwalder and Pigneur there are four distinct types of partnerships:

1. Strategic alliances between non-competitors
2. Coopetition: strategic partnerships between competitors
3. Joint ventures to develop new businesses
4. Buyer-supplier relationship to assure reliable supplies (2010, 38).

The data in Table 3 suggests that the relationships that the Museum of Sex engages in are strategic alliances. The museum’s key partners are member of the local community or other individuals who work in fields that are connected with scientific and history research about sex. As the exact market the museum is operating in unclear, it is also hard to determine if the museum views other nonprofit museums as competitors. The information in Table 1 suggests that the museum does not directly view these other individuals as competitors.

Therefore, partnerships that the Museum of Sex engages in with other museums could also be seen as strategic alliances as well.

**cost structure.** According to Osterwalder and Pigneur (2010), there are two main types of cost structures, cost-driven and value- driven. Cost driven models focus on minimizing costs whenever possible while value driven structures focus less on cost and more on value creation. Based upon the data in Table 1, the museum operates its model using a value driven cost structure. The museum does not appeal to its visitors through low costing but rather from the unique value that it provides.

There are also four characteristics of cost structures: fixed costs, variable costs, economies of scale, and economies of scope (Osterwalder & Pigneur, 2010). Table 1 suggests that the majority of the cost structures can be characterized as fixed costs such as building costs and staff salaries. As the museum operates currently, its costs predominantly remain the same despite the volume of goods or services they are providing to their visitors. Depending on how the Museum of Sex allocates resources to the retail and food/beverage aspect of its model, the museum could also be characterized as utilizing an economies of scope cost structure. If the marketing and promotional activities for the museum are the same as for retail and food and beverage this could provide the museum with a cost advantage as well.

**Table 4: Museum of Sex Business Model**

<i>Business model segment</i>	<i>Participant Business Model with additional sources</i>
<i>Customer Segment</i>	Mass-Market trying to reach a diverse population but with a niche subject matter dialogue about sex

<i>Value Propositions</i>	<p>Newness, no similar offering</p> <p>A space to participate in a varied dialogue about sex that is:</p> <ul style="list-style-type: none"> <li>● Inclusive</li> <li>● A new experience</li> <li>● Spans a variety of historical and scientific disciplines</li> <li>● Provides varied programming to create a public discourse about traditionally private/censored ideas in a thoughtful and meaningful way</li> </ul>
<i>Channels</i>	<p>Use of direct and indirect methods to reach customers</p> <p>Awareness: utilize online methods and partnerships with other organizations</p> <p>Evaluation: content, surveys, online methods</p> <p>Purchase: online for merchandise and ticket sales. At the museum for food/drink, tickets, and merchandise</p> <p>Delivery: programmatic inclusive sex dialogue at the museum through exhibits and collections</p> <p>After Sales: support through membership and surveys</p>
<i>Customer Relationships</i>	<ul style="list-style-type: none"> <li>● Relationships built through personal assistance</li> <li>● Value added to these relationships through programming and content as well as visitor representation</li> <li>● Problem with customer retention</li> </ul>
<i>Revenue Stream</i>	<ul style="list-style-type: none"> <li>● Utilizes one time customer payment streams:</li> <li>● Realizes revenue mainly through usage and subscription fees (ticket sales), followed by asset sales (store, food/beverage)</li> <li>● Other streams include: renting, licensing and advertising</li> </ul>
<i>Key Resources</i>	<ul style="list-style-type: none"> <li>● Physical- building, permanent collection</li> <li>● Intellectual- intangible mission related experience</li> <li>● Human- staff and partners who are knowledgeable and mission driven</li> <li>● Financial- ability to offer tax deductions for donations, retail/food and beverage revenue, corporate sponsorships</li> </ul>
<i>Key Activities</i>	Production mission related activities
<i>Key Partners</i>	Mainly Strategic alliances with the community and others in similar fields. However, it is not completely clear if other museums are seen as alliances or competition
<i>Cost Structure</i>	Value based with fixed cost and possible economies of scale characteristics

There are essentially three different businesses within the Museum of Sex - retail, food/beverage, and the museum itself. According to Osterwalder and Pigneur, “three types may co-exist within a single corporation, but ideally they are “unbundled” into separate entities in order to avoid conflicts or undesirable tradeoffs.” (2010, 57). The participant works for the museum segment and created the business model from that perspective. In this model, the store and food/beverage support the museum and its operations. But those two facets should, and most likely do, have their own business model. Even if the sole purpose of those activities are to support the museum (which they might not be), having its own business model would allow them to do so in a more effective manner.

### **How a Museum Operates For Profit**

A cross-sector approach utilizing two other well-known for-profit museums was conducted. Eight areas of interest relating to the formation and operation of the museums were analyzed. The resulting framework allows for a better understanding of how a museum operates as a for-profit entity. The information used was obtained from the museums’ websites and online tools. Consequently, the data is from the point of view of the museum and is indicative of how they choose to present themselves to the public. Table 5 contains the data from the International Spy Museum, the Museum of Sex, and the Crime Museum.

**Table 5: Comparison of For-Profit Museums**, data from the organization’s websites

	<b>Museum of Sex</b>	<b>International Spy Museum</b>	<b>Crime Museum</b>
<b>Founding</b>	Entrepreneur Daniel Gluck	Malrite Company- exhibits and museum programming	Entrepreneur and attorney John Morgan and John Walsh, host of America's Most Wanted
<b>Mission</b>	To preserve and present the history, evolution and cultural significance of human sexuality	To educate the public about espionage in an engaging manner and to provide a dynamic context that fosters understanding of its important role in, and impact on, current and historic events	To provide guests of all ages with memorable insight into the United States' history of crime and its consequences, law enforcement, forensic science, and crime scene investigation through a captivating, interactive, entertaining, and educational experience
<b>Collection</b>	Has permanent collection-maintained through separate foundation	Permanent collection as well as objects on loan. Unclear from website how the organization manages their collection	Has hundreds of artifacts that are bought at auction, loaned or donated. It is unclear from the website how the collection is managed
<b>Exhibits</b>	Utilizes rotating exhibitions	Has special exhibitions	Has rotating temporary exhibits
<b>Subject Matter</b>	History, evolution and cultural significance of human sexuality	The Museum presents the world history of espionage within a context that will allow visitors to draw their own judgments and conclusions. The focus of the International Spy Museum is on human intelligence, not political ideology.	Crime, punishment, law enforcement, forensic science, CSI
<b>Nonprofit Associations</b>	MUSE Inc	Unclear from website	Unclear from website
<b>Advisors</b>	Leading scholars and	Leading intelligence experts, scholars, and	Unclear from website

	historians	practitioners	
<b>Unique claim</b>	No other museum in the world addressing sex in this manner	Only public museum in the United States solely dedicated to espionage and the only one in the world to provide a global perspective on espionage	Need for interactive crime, punishment, law enforcement, CSI museum. Additionally, America's Most Wanted is Filmed on site
<b>Website Identification</b>	Ends in .com	Ends in .org	Ends in .org

**founding.** Entrepreneurs and a TV show host who did not have previous experience in museum creation founded the Museum of Sex and the Crime Museum. However, a company that creates museum exhibits founded the International Spy Museum. The data in Table 5 suggests that one does not need a background in museums to start a for-profit museum. Additionally, the sector is not devoid of experienced museum practitioners either. However, it is unclear from the information presented what the barriers to entry are for founders of for-profit museums. It is interesting to note that both companies and individuals are behind the founding of these organizations.

Another part of founding a museum is obtaining the financing and capital to do so. From the data on the museums' websites it is unclear what their relationships are like with their investors. In the interview conducted with the Museum of Sex, participant one mentioned that to his or her knowledge, the investors do not play a significant role in the decision making process. The CEO of the Museum of Sex addressed the subject in an interview with BackTalk (Heller, July 01, 2004) stating,

The Museum of Sex was built as a private venture and has investors rather than donors as its source of funding. Our investors' primary goal is to make

money, but most of them also wish to be part of a venture whose mission is social enlightenment. In order to protect our founding vision, our corporate bylaws restrict the kind of investors we allow. Gluck qtd in backtalk.

The idea of receiving funding that does not compromise the mission of the museum is a subject that is dealt with in nonprofit museums as well. Rich Cohen, of the National Committee for Responsible Philanthropy, created three elements of an ethical gift acceptance policy to help mitigate conflicts of interest (2002, 11):

1. What kind of corporations will a nonprofit solicit for funding, and what kinds will it avoid or reject?
2. What conditions or restrictions imposed by the grant-maker will the nonprofit accept?
3. How will the nonprofit evaluate corporate grant-makers as potential funders?

While the elements Cohen suggests are for nonprofit organizations, they echo similar sentiments to the Museum of Sex's position on funding. The participant from the museum stated that the organization did not allow funders who were a part of the sex industry because of legitimacy concerns.

The Museum of Sex and the Crime Museum both utilize corporate sponsorships as well. Based upon the information provided by the International Spy Museum on its website, it is unclear if they engage in this practice as well. In an interview with the Museum of Sex, the participant stated that the museum uses corporate sponsorships for exhibitions and is able to choose if a certain corporate sponsorship is appropriate for that exhibition. Based on the data in Table 1, it appears that the Museum of Sex is very intentional about the corporate sponsors it works with. On its website, the Crime Museum lists a variety of corporate sponsorship opportunities such as gallery and exhibit branding in addition to

other items for sale such as a guest ticket/receipt distributed to museum guests for \$3,500 per year. While these organizations are for-profit, they still receive sponsorship opportunities similar to those offered to nonprofits.

**mission.** The data in Table 5 articulates the missions of all three organizations, allowing for a side-by-side comparison that suggests there are similarities and unique differences. All three organizations mention some aspect of historicity in their missions. Two of the three, the International Spy Museum and the Crime Museum, mention education and providing some type of interactive and attention grabbing context. Without further exploration it is unclear if there is any significance between the similarities and differences. However, the different emphasis could be explained by the differences in visitors, as the International Spy Museum and Crime Museum provide activities for children and the Museum of Sex creates material for only those 18 and above.

As mission creation and alignment is essential in communicating what the organization offers, it can be an important aspect of a successful company regardless of its corporate status. In a Harvard Business Review blog entry (2013), Jane Chen discussed the importance of mission in determining organizational structure, and her decision between a nonprofit and for-profit status. Chen stated, “ultimately, social enterprises should not be confined to a single type of legal structure. The most important part of choosing the right structure is starting with your mission, and then adopting a structure that allows you to best achieve it.” As the data from Table 1 and 3 suggests, the Museum of Sex is very mission focused and operates in a manner that reflects upon this intentionality. A part of the initial decision to operate as a for-profit was based upon the belief that this structure

would provide the museum freedom from the possible censorship that a nonprofit might endure. This was a mission-driven corporate decision. The International Spy Museum might have similar mission-related reasons for adopting a for-profit structure. On the organization's website it mentions that the museum is impartial and does not receive any government money ([spymuseum.org](http://spymuseum.org)). This impartiality allows the museum to focus on its stated purpose surrounding intelligence gathering, without subscribing to any political ideologies.

**collections.** One of the main questions for a for-profit museum with collections is, who owns the collection? Nonprofits are not owned by any one person, like a for-profit, but rather the organization and its holdings are for the benefit of others (Malaro, 2012). The collections in a nonprofit museum are not seen as assets and donors can receive tax benefits (Malaro, 2012). As seen in Table 5, all three museums have both collections and exhibits. While it appears that these organizations have extensive permanent collections, based upon the information available on their websites it is unclear how each organization manages its collection.

In an interview with the Museum of Sex, the participant stated the museum uses a separate foundation called MUSE to manage its collection. Utilizing this structure, the foundation owns the permanent collection and therefore allows for donors to receive a tax deduction. Additionally as seen in Table 1, the Museum of Sex utilizes a more exhibitions based structure so it does not necessarily need to rely on collections donations for subject matter. The same may not be true for the Crime Museum and International Spy Museum.

While they do have special or temporary exhibits, there is a certain narrative structure to these two museums and therefore, they focus more on permanent collections.

**collaborations.** As seen in Table 5, two of the three museums state on their website that they have an advisory board. While the Crime Museum does not state this on its website, there are press releases from the organization that mention an advisory board. The International Spy Museum's advisory board is comprised of members that operate in the field of its subject matter. According to its website, the board "helps the museum plan all facets of the institution, from collections-building to program development" ([spymuseum.org](http://spymuseum.org)). According to a press release, the Crime Museum has an advisory board with individuals who are knowledgeable about crime and punishment in America. The Crime Museum uses its board to "enhance the creditability of the museum"(Crime Museum Press Release).

The Museum of Sex uses its advisory board for guidance during exhibition research, pertinent collections, and relevant artists ([museumofsex.com](http://museumofsex.com)). Additionally the data in Table 1 and 4 suggests that the museum also uses other museums, researchers, scientists, and historians to develop its exhibitions. On the museum's website there is a lengthy list of all of the organization's collaborators. However, in the interview, the participant stated that some institutions and professionals are hesitant to work with the museum. The data in Table 1 and 3 suggests that it is unclear if this is because of the museum's subject matter or its for-profit status. It appears that all three organizations utilize their boards in a similar but institution specific manner.

**operations.** The data in Table 5 suggests that all three museums are operated to provide a niche subject matter for a wide range of audiences. As discussed earlier, it is hypothesized that for-profit museums have the potential to be successful if they are located in densely populated areas and address a unique topic. Each museum claims that it is the first museum to present the subject matter in a certain manner. Further, they all are located in areas with large populations, Washington, D.C. and New York City. However, just satisfying these two characteristics does not mean a for-profit museum will be successful. The Sports Museum was located in New York City and provided a unique and interesting subject matter but lasted less than a year.

All three for-profit museums examined have retail shops and the Museum of Sex and International Spy Museum both have two restaurants. The relationship between retail and sustainability at the Crime Museum is unclear because of the lack of information available, but the other two museums use their retail shops and restaurants to help fund museum operations. Peter Earnest, the executive director at the International Spy Museum stated that the museum's revenue model is based on ticket, retail, and food and beverage offerings (Arroyo, 2008). Earnest believes the head of the company that founded the museum wanted to use this structure to afford the museum more freedom, stating that "[h]e [Milt, the founder] wanted to do something that would enable whoever was running the museum to have flexibility more so than you see sometimes in publicly funded institutions. He thought that the for-profit model built entirely on a foundation of earned income would be exactly the way to go " (Arroyo, 2008, 66).

The Museum of Sex operates similarly. The museum is self-sustaining and the money it makes goes back into the organization, according to the data in Table 1. The museum utilizes its commercial activities in order to help fund the museum in addition to ticket sales. The museum does use corporate sponsorships but only when the company is a fit for the museum and the exhibition.

## **Conclusions & Recommendations**

### **Conclusions**

The recent spotlight on the entrance of high profile for-profit museums created a need for dialogue about the different legal structures available to museums. The three for-profit museums discussed in the study operate using permanent collections as well as exhibits. These organizations work with an advisory board in some capacity and capitalize on unique claims related to their niche subject matter. The mission construction of all three museums suggests that they provide their visitors with some type of educational value and it appears to be relevant to each institution's visitorship. Additionally, the Museum of Sex and perhaps the International Spy Museum ultimately chose to operate as for-profits because of their missions. These two organizations have clearly articulated that they value the earned income that is generated from retail and food/beverage sales because it makes them less reliant upon donative sources of income.

A business model was created to understand how the Museum of Sex operates as a for-profit museum. The model suggests that the museum has a wide and diverse range of one-time visitors that visit the museum because of its newness and inclusive varied programming that is not subject to censorship. The interviews and business model also suggest that the mission plays a role in every aspect of the museum's organizational structure. The data suggests that the museum's reliance upon earned income allows the organization to be intentional and selective about the money that it does receive in the form of corporate sponsorship or investments. It is unclear if the difficulties faced by the museum such the inability to be taken seriously at its inception and the struggle to

legitimize the organization are due to its subject matter, corporate status, or a combination of the two.

The Museum of Sex's business model was used as a tool to better understand how a for-profit museum operates. When creating this model, the researcher struggled with some previously held ideas about what certain elements of a museum business model should look like. For example, there is the notion that museums should strive for repeat visitorship. The participant from the Museum of Sex believed this was an area that the museum needed to work on. Additionally, the Falk and Sheppard model was created with the attitude that museums need dedicated repeat visitors. However, if the organization is not achieving repeat visitorship, the model should be understood as operating using one-time visitors. Throughout the process of creating a business model, assumptions about operations are challenged and the organization can understand what it actually needs to deliver, create, and provide value.

### **Recommendations**

For members of the nonprofit museum community to fully understand how a museum operates utilizing a for-profit legal structure, certain established norms and assumptions about the sector and field need to be addressed. The first established norm and assumption to be addressed is that for-profit organizations are not mission focused and are only concerned about making money. The literature and the data suggest that to be successful, both nonprofits and for-profit organization needs to be mission oriented and intentional about how the staff realize that mission. For-profit museums have published

missions that are similar in scope to those for nonprofits and, as the data from the Museum of Sex suggests, are used in making operational decisions.

Another assumption about the museum field is that the use of commercial activities in museums leads to mission drift. This construct is rooted in the donative nature of museums and the literature suggests there is a divide in the field about the use of branding, food/beverage, and retail to supplement other revenue streams. The Museum of Sex and the International Spy Museum openly use these types of activities to help support their organizations so that they do not have to rely on donations. However, nonprofits can utilize these avenues as well provided they comply with the Internal Revenue Services' standards about unrelated business tax.

The final assumption to be addressed is that a museum should incorporate as a nonprofit because it is the only structure that allows the organization to be mission focused. The data from all three museums suggest that this is not the case. Museums can be for-profits that put mission first by adopting a social benefit model or including certain provisions in their bylaws and articles of incorporation like the Museum of Sex. The organization decided that it was okay to say no to investors who did not fit the organization and included the provisions in their bylaws.

Additionally, the data from the Museum of Sex shows that for-profit museums can utilize nonprofit foundations to manage collections and allow donors to receive tax benefits. Museums should consider which model allows the organization to best achieve their mission. A museum should not adopt a for-profit structure just because it believes it will make the museum more financially stable. Nonprofits can engage in similar

commercial activities as for-profits and can make a profit, though unlike a for-profit it may not distribute that profit. Adopting a for-profit status may actually mean that the organization becomes insolvent more quickly than a nonprofit. Ultimately, the decision of which legal structure to incorporate as should be decided based upon what makes the most sense for the specific organization.

## **Appendices**

### **Appendix A: Guide for interview**

1. Could you tell me about the decision behind the Museum of Sex's for-profit status?
2. Could you tell me about the importance of mission and the responsibility to shareholders or investors?
3. Why did you choose to work at the Museum of Sex?
4. When you design an exhibit, who is your audience? What kind of impact are you hoping to achieve?
5. What is the museum's audience looking for?
6. How does the permanent collection operate within the museum's structure?
7. Could you tell me about the museum's relationship with the advisory board?
8. How does the museum's status affect the choices that are made in exhibit production and future planning?

## Appendix B: Task Protocol Guide

I am going to give you a post-it notes, a marker. We are going to work through the blank business model in front of you. Please write key ideas centered on each business model concept. Use one post-it for each idea and each post-it note should only contain a few words. Please let me know if you have any questions or need further clarification.

Let's start with customer segment box on the far right. Please write down any key words related to the Museum of Sex's most important customers. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the customer segment box.

Let's move on to the box in the center labeled value propositions. Please write down any key words related to the value the Museum of Sex delivers to its customers, which customer problems the museum is helping to solve and what customer needs the museum satisfies. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the value proposition box.

Let's move on to the box to the bottom right of the value propositions box labeled channels. Please write down any key words related to the channels the Museum of Sex uses to reach customer segments, which ones work best, and which ones are most cost effective. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the channels box.

Let's move on to the box labeled customer relationships above the previous box. Please write down any key words related to the established customer relationships and how they vary by customer segment. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the customer relationships box.

Let's move on to the box labeled revenue stream on the bottom right. Please write down any key words related to the value customers are willing to pay for and what they are currently paying for. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the revenue stream box.

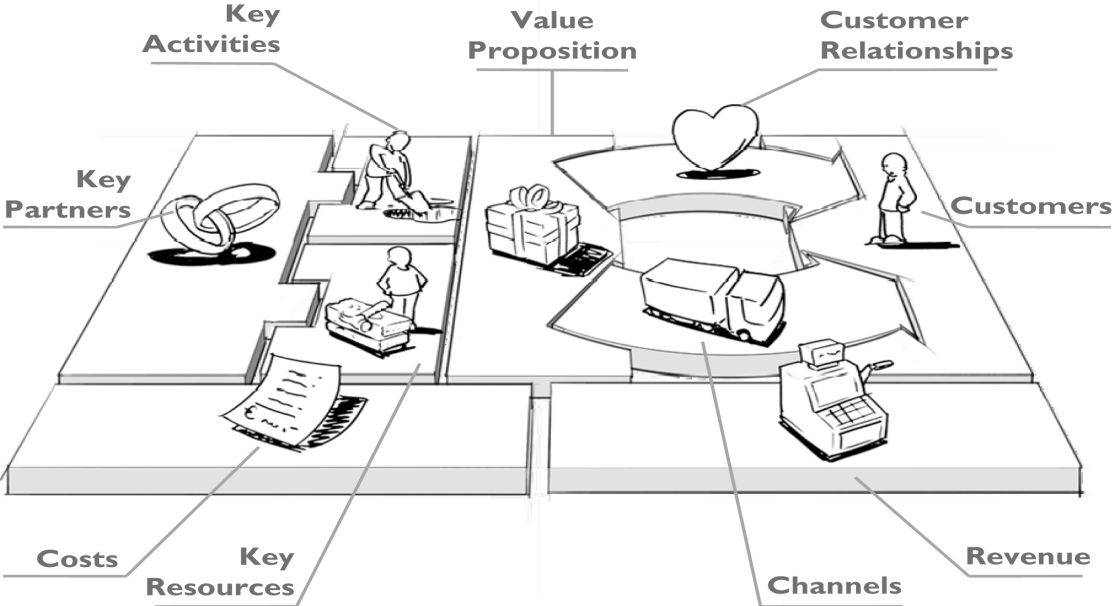
Let's move on to the box labeled key resources on the left of the page. Please write down any key words related to the resources value propositions require. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the key resources box.

Let's move on to the box labeled key activities above the previous box. Please write down any key words related to the key activities value propositions require. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the key activities box.

Let's move on to the box on the far left labeled key partners. Please write down any key words related to Museum of Sex's key partners and suppliers. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the key partners box.

Let's move on to the box labeled cost structure on the bottom left. Please write down any key words related to the most important costs for the Museum of Sex. You may use the phrases written in the box to help formulate ideas. When you are finished, please place the post it notes in the cost structure box.

Appendix C: Business model canvas



drawings by JAM

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