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To: Governance and Audit Committee Trading Activities Sub Group

Subject: **BUSINESS CASE FOR THE CREATION OF KENT CULTURAL TRADING LIMITED**

Classification: Unrestricted

Summary

This paper sets out the business case for the setting up of a limited company, Kent Cultural Trading limited, to build on the business model already operating as 'Kent on Canvas' and to develop other business strands using KCC's cultural and information assets

FOR DECISION

1. Background

- 1.1. In December 2006, Peter Gilroy commissioned a consultant, Selina Fellows, to look at the cultural assets available across KCC and to provide recommendations as to how awareness of these could be better promoted to Kent residents and visitors to the county, both actual and virtual. The development of short and long term income generation activities was a key element of this work.
- 1.2. Out of it came a project to digitise and print on demand high quality photographic images of Kent on canvas that was being already being scoped in Environment and Regeneration as a means of promoting the many historic and contemporary images owned by the county.
- 1.3. The Communities Directorate, following the presentation of a paper at SMT on 22nd April 2008, decided to take forward a project to set up 'Kent on Canvas' as a one year pilot
- 1.4. 'Kent on Canvas' was launched to the public in October 2008 as an 'art on demand' service. The project met with initial success, especially through the facility for customers to upload their own images for production. A welcome but unforeseen development was the growth in business to business sales including images for the new oncology unit at Maidstone Hospital which has led to a further opportunity to provide images for the new Pembury Hospital. By the end of 2009/10 'Kent on Canvas' had sold £13,541 worth of prints to private buyers, businesses, the PCT and other KCC departments. It also provided the exhibition materials and acted as the point of sale for photographic images from the Kent Messenger's collection as part of its 150th anniversary celebrations.

- 1.5. Following a series of Freedom of Information requests about the legal status of 'Kent on Canvas' the customer upload facility was withdrawn to show due deference to the impact on local businesses. 'Kent on Canvas' itself was also deemed by Legal Services to be trading illegally in terms of the 2003 Local Government Act and indeed outside the authority of KCC. This prevented the signing of the agreement with Webcentrix and the acquisition of the domain name of Kent on Canvas, and also prevented further development or promotion of the service. In addition, the wider trading activities of Libraries and Archives were also being called into question. Further business developments, such as the development of high quality digitisation and photographic resources described below had to be put on hold while legal authority was established.
- 1.6. At Communities SMT on 16th October 2009 it was agreed that the Cabinet Member for Community Services be requested to authorise the establishment of 'Kent on Canvas' as a limited company which freed the way for the acquisition of the domain name, the acknowledgement of Kent on Canvas as a legal entity and the opportunity to explore further the pros and cons of setting up as a limited company to exploit the income generating potential of Kent on Canvas and other income streams.

2. Product range Kent on Canvas

- 2.1. In the two years of its operation, Kent on Canvas has developed the following products and services which would now benefit from the freedom to trade through the setting up of the limited company.
- 2.2. 'Kent on Canvas' is an art on demand service started with a selection of 'Explore Kent' images on canvas and the collection has expanded to include images from the archives and art collections held within the county. The legal challenges to the status of 'Kent on Canvas' has restricted the range of images available, but it will include photographs and art works by contemporary artists and photographers when the company is finally in a position to sign contractual agreements for reproduction rights and royalties.
- 2.3. The range of finishes was expanded to include prints on fine art paper and a selection of frames to complement the style of pictures. When a customer selects an image they are offered a choice of canvas and paper materials, a range of frames and sizes. Uploaded images are dealt with in the same way
- 2.4. Once they have made the selection and completed the order, an e-mail containing a unique order number is generated and sent automatically to Catchin Colour. The print is produced, mounted and/or framed and dispatched to the address on the order. The order price includes prepaid

shipping and packaging and the order can then be tracked through the process.

- 2.5. Customer feedback has been excellent and complaints have been nil.
- 2.6. In setting up the operation, Kent on Canvas has implemented an efficient online payment system which includes post and packaging costs and an external order fulfilment process which reduces its overheads. It has become a source of expertise of other units of KCC wishing to implement an online payment system and outsourced distribution systems, e.g. Kent Rewards, ASK and Environment and Waste.

Business to Business (B2B) revolving art concept.

- 2.7. Orders from hotels, offices and particularly from Maidstone Hospital for the new oncology unit have been good. The Maidstone Hospital order has led to KoC being in the frame for contract to supply images to the new Pembury Hospital and elsewhere across the PCT.

Technical and digitisation developments

- 2.8. The preparation of images for printing can be a complex operation, particularly in obtaining the correct image ratio. Similarly, the digitisation of art work and archival material can be constrained by its size and nature. An innovative solution is being created at KoC's suggestion by Hewlett Packard in conjunction with Nikon which will enable high quality digital images of art work to be taken and printed, with the camera able to operate remotely from the computer. This method will also assist with the digitisation of archive images in situ, without them having to be transported to a central location with the attendant risk of damage.
- 2.9. This process, to which we have the intellectual rights, has excited the interest of the Public Catalogue Foundation which has similarly struggled with the digitisation of large art works.

Digital capture and data management systems

- 2.10. The operation is also pioneering the digitisation of archive material with a direct link to a data management system which is of interest to the Registrars Service for the creation of an indexed database of birth, marriage and death records linked to a straightforward retrieval system and high quality printed copies. There has been interest from Birmingham City council in this development of digitisation techniques. The inherent data management system offers the possibility of creating an online image bank that would enable the sending of high resolution images to archives and online galleries, while at the same time sending low resolution files to desktops for public access making material instantly available on line.

Merchandise

- 2.11. The operation is also looking at ways to incorporate and develop the merchandising and distribution operations of Libraries and Archives, ASK, Sports Development and other KCC service units

3. Technical and production information

- 3.1. The online gallery and reproduction services are hosted by Magnolia, a company specialising in online gallery reproductions. It is used by the Bridgeman Art Gallery and Leeds Metropolitan Gallery amongst others.
- 3.2. KoC uses MagnoliaSoft software. The images are uploaded onto the site and can then be viewed in a variety of sizes and frames. The images are then ordered directly through the site, the high quality images are printed on canvas or high-quality paper as appropriate and posted directly to the customer's designated delivery address.
- 3.3. The site also has the facility for users to upload their own images for printing on canvas which are delivered to them in exactly the same way and for the same prices.
- 3.4. CatchinColor uses the Giclee process, a high-quality printing process which uses 12 colours, instead of the usual 4 or 6. It is not normally available to the public in this way or at this level of cost.

4. The nature of the proposed company

- 4.1. The proposed formation of a limited company has numerous benefits for the wider KCC and in particular for the units within the Communities Directorate. It is in line with the ethos of Alex King's 'innovate to save' initiative and is an example of thinking 'outside the box' in terms of local government operations. It aims to build on the development of Kent on Canvas by developing intellectual property into marketable opportunities to generate income streams from our expertise. The company would be set up with articles of incorporation broad enough to encompass a range of future activities.
- 4.2. The company will be limited by shares
- 4.3. KCC already own the domain name 'Kent on Canvas' and the company name Kent Cultural Trading Ltd and domain name Kent cultural Trading.co.uk are also being acquired

5. Supporting Kent Business

- 5.1. The original concept of Kent on Canvas became a reality following the approach of a Dartford-based company (CatchinColor) that were producing extremely high quality Fine Art canvas prints. We have

continued to work with them and their partner operation MagnoliaSoft over the last two years following advice from KCC procurement.

- 5.2. KoC also uses local firms who specialise in renovating old glass negatives and other archival material. In his way, more early photographic material has been made available for printing which has lead to some specially commissioned orders.
- 5.3. KoC will also showcase works of Kentish contemporary artists and photographers, many of whom have expressed an interest in having their work sold through the site, possible including limited edition runs. For legal reasons, KoC has been unable as yet to enter into any agreements with them and therefore progress this strand of business.
- 5.4. With an eye to future developments, we are in discussion with Kent based SME's for new IT solutions and web site development, logistics and fulfilment

6. Impact on Kent business

- 6.1. Having looked at the "Art on Demand" market in Kent, we found there were no another trade manufacturer options available and none of the smaller "retail" outlets were capable of either producing a product of this quality or in volumes we anticipated. Similarly none of the retail outlets could offer any level of back office IT support or integrated gallery options for hosting the gallery that we needed.
- 6.2. Whilst acknowledging some sensitivity regarding our entry into the retail market during this time of difficult trading, steps were taken to minimise any impact by restricting our offering by removing the customer upload facility.
- 6.3. This was appreciated by those companies with an interest, and in any event our products and services are very different and any long term impact would have been very small in real terms.
- 6.4. However none of these issues applied to our B2B offering which has gained in strength and is one of the unique selling points of KoC.
- 6.5. In order to allay any potential or perceived affects an open door policy exists for any Kent business with an interest in working with us.

7. Risk Analysis

Risk	Mitigation
Product	
Diversification in product range is too rapid	Planned approach to developing product range (see business development)
Changes in fashions and buying patterns mean products not so successful	Develop new range of images finishes and products
Process	
Over-reliance on technology as an e-commerce business	disaster recovery is currently provided by Magnoliasoft through offline support and remote access available 365 days year through any PC
Customer	
decline in customer satisfaction	maintenance of high customer service standards and range of products
Distribution	
Delivery delays for KoC	7-10 day stated delivery window covers most eventualities, and goods are normally delivered well within that
Finance	
Competition from cheaper (though inferior) products	Competitive pricing strategy, targeted markets and concentration on Business to Business growth
economic situation	company well placed to take advantage of growth of web sales and not encumbered by high overheads
Sales not as projected	Market segmentation and product development
Administration	
challenges to KCC as a commercial entity	covered by taking route through process in line with requirements of 2003 Act
lack of capacity to cope with business growth	planning within structure for future capacity
Loss of expertise	Training programme in place for staff and succession planning in place
There is a commitment for personnel to be Directors and Company Secretary	Officers and Members will have increased personal responsibility and liability. Indemnity can however be incorporated into contract and covered by insurance

8. Recommendations

Members are asked to note the Business Case for the setting up of Kent Cultural Trading Limited.

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