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Phoenix Fine Art Business Plan

Ruomu Freda Li

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Phoenix Fine Art Business Plan

Ruomu Freda Li



Phoenix

Phoenix Fine Art Business Plan

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Abstract: Chinese art market

In China, contemporary art market has been growing in both value and size for the past few decades. Today, China remains to be a global industry that is worth more than \$50 billion annually.¹ Chinese art market according to a report by ArtNet accounted for 20% of the global total sales in 2017. As a result, the work of the Chinese artists fetching multimillion dollars indicates the significance of the market.² This growth in the art market is however attracting the attention of investors and raising the confidence of art collectors. In China, traditional Chinese art has become the most popular category of art that collectors have been looking for. For this reason, there is a growing interest among the art collectors for Chinese popular artworks. At the same time, there is a high demand for high value art since some artworks have been running for a value of over \$141 million dollars.³ In 2018, the work of art such as Su Shi's Wood and Rock scroll that attracted a value of \$62 million in Hong Kong. On the other hand, Zao Wou-Ki's Juin-Octobre was sold for a value of \$67.560 million.⁴ This means that there is a growing demand for high-end artworks in China. As this demand increases, there is increased need to ensure secured transport especially of high valued artworks across China. For this reason, the aim of Phoenix Fine Art is to solve the existing problem in China of ensuring secured transport and storage of contemporary art. The company will therefore be providing quality transportation and storage services to help artists, galleries, collectors, museums and designers.

¹ Artprice.com. "The Art Market in 2018". (*Artprice.Com*)

² Artprice.com. "The Art Market in 2018". (*Artprice.Com*)

³ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

⁴ Cooke, S, and P Watson. "A Comparison of Regional Export Enhancement and Import Substitution Economic Development Strategies". (*Journal of Regional Analysis & Policies*, 2011)

Brief introduction

The contemporary art market in China has significantly grown. In 2018, China sold 81,020 painting lots for a value of \$4.5 billion. Although this was a drop by about 12% compared to 2017, it is clear that the Chinese art market share has been 28.96% of the global total.⁵ The reason for this growth is following increased demand for Chinese traditional art works. With this growth, the Chinese art market is attracting both the local new art collectors and artists and it is also attracting the attention of international investors. A city such as Hong Kong has therefore become an Asian art hub.⁶ This has resulted to establishment of commercial art galleries such as the Fine Art Asia, the Art Central and the Art Basel. At the same time, Hong Kong has become an important destination for art personalities, curators and international collectors. This has resulted to increased value for work of art.⁷ For example, Zao Wou-Ki's Juin-Octobre 1985 artwork was auctioned in Hong Kong for a value of \$65 million.

As the art market across China continues to grow, the art collectors, artists, small museums and galleries are facing a significant problem. This problem has been emanating from ways to store the artworks as well as transporting the artworks to art fairs and auction centers. Today as technology improves, it is possible for art collectors and art personalities to purchase art through online auctions or from an Art Instagram. Furthermore, annual art fairs and auctions provide people with an opportunity to purchase a variety of artwork from different artists.⁸ In May 2020, Hong Kong will hold one of the largest art fairs where they will display a variety of

⁵ Artprice.com. "The Art Market in 2018". (*Artprice.Com*)

⁶ Zito, Matthew. "Logistics, Warehousing and Transportation in China (Part 1) - China Briefing News". (*China Briefing News*, 2014)

⁷ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

⁸ Zito, Matthew. "Logistics, Warehousing and Transportation in China (Part 1) - China Briefing News". (*China Briefing News*, 2014)

paintings and sculptures, abstract canvases, stunning sculptures and traditional ink painting that are produced locally and internationally.⁹ Unfortunately, art collectors, and small museums face major issues that remain unresolved. These issues are related to proper storage and secure transportation of the artwork to the preferred destinations.

This is the solution that Phoenix Fine Art is seeking to provide to customers in Shanghai market. This is because the company will be dedicated towards providing local museums in Hong Kong, Shanghai and Shenzhen with simplified and secure transport of their artworks and sculptures. This is important since many small museums in China's major cities do not have enough storage facilities for their sculptures and artworks. In addition, such museums including small galleries and artists do not have suitable means of transport when they are travelling to exhibitions and art fairs in various places across Asia.¹⁰ For this reason, Phoenix Fine Art Company will focus at providing fashion designers, art collectors, small museums and galleries with storage and transportation services.

Company overview and operations

Phoenix Fine Art is a new business that aims at providing quality storage and transportation services for works of art. The company will be located in Hong Kong and will establish two more branches in Shanghai and Shenzhen. These are three potential target markets that Phoenix Fine Art will focus on. This is because within the three cities, the art market is significantly growing and this is resulting to increased number of galleries, stores, local

⁹ Cooke, S, and P Watson. "A Comparison of Regional Export Enhancement and Import Substitution Economic Development Strategies". (*Journal of Regional Analysis & Policies*, 2011)

¹⁰ Zito, Matthew. "Logistics, Warehousing and Transportation in China (Part 1) - China Briefing News". (*China Briefing News*, 2014)

museums along with increased number of collectors and artists. However, there has been significant problem that has been existing in these three markets and which Phoenix Fine Art will focus at resolving. As the number of art auctions increases in Hong Kong and in the mainland China, there has been increased need to ensure the artworks are securely stored and transported. Unfortunately, most of the artists and art collectors along with local galleries and museums do not have enough storage rooms. At the same time, they do not have reliable transport means that they can be able to use to securely transport fine art to various exhibitions and trade fairs taking place in various parts of the world. For this reason, Phoenix Fine Art will offer quality storage and transportation services to help collectors, galleries, artists, museums and designers.

Phoenix Fine Art will set its operations mainly in Hong Kong. The company will also set its branches in Shanghai and Shenzhen. The reason for targeting the three regions in China is because the regions have a higher number of local museums and local designers.¹¹ For this reason, in the three regions, Phoenix Fine Art will target watch collectors, local galleries, local museums and local designers and other art personalities including artists who do not have the space to store their art collections as well as the means of transportation.

Phoenix Fine Art recognizes that museums and art galleries in Hong Kong, Shanghai and Shenzhen face challenges when organizing exhibition for their temporary or permanent collection. This is because these museums face challenges of moving their artwork from point A to B.¹² For this reason, the pressing concern is how to properly transport and store the artwork. Therefore, Phoenix Fine Art recognizes that there are concerns when museums, fine art galleries

¹¹ Chow, Vivienne. "Art Extravaganza: Exhibitors in Hong Kong Look at Ways to Profit in Gloomy Economic Times". (*South China Morning Post*, 2016)

¹² "Handling and Transportation of Works of Art- SFLAC". (*South Florida Art Conservation*, 2019)

and local exhibitions in Hong Kong and mainland China are involved in exhibition logistics.¹³ This is because if the transportation and storage of artwork are not handled correctly, then such art galleries face the risks of catastrophic damages to priceless sculptures, paintings and other works of art. In addition, the security of the artworks is highly important since the high value artworks are vulnerable to stealing

To ensure better and quality transportation and storage services, Phoenix Fine Art has a leading quality management with employees who are fully trained and experienced experts in the field. For this reason, Phoenix Fine Art stands out to be the best exhibition logistics company that will operate through effective and comprehensive planning and providing quality transportation and storage of fine art.¹⁴ To achieve this, Phoenix Fine Art will establish a warehouse where it will categorize the storage facility with private rooms for storage for more than six months along with individual storage units. Within the facility, the company will provide top notch security measures to ensure that the stored fine arts are not vandalized

To provide quality services, Phoenix Fine Art will use modern technology. This include surveillance within the warehouses where the fine arts are stored. This will offer high security perimeter within and around the warehouse, art-theft systems, and intruder alarms along with 24-hour monitored CCTV systems. At the same time, Phoenix Fine Art will use the custom cases. This is important since Phoenix Fine Art recognizes that moving work of art requires specialized processes, expertise knowledge and careful handling. For this reason, the company will use custom cases which will be specialized in such a way that they can handle and store valuable

¹³ Cooke, S, and P Watson. "A Comparison of Regional Export Enhancement and Import Substitution Economic Development Strategies". (*Journal of Regional Analysis & Policies*, 2011)

¹⁴ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

artworks without affecting the artwork structures.¹⁵ The company will therefore use standard cases along with museum specification cases.

In all the three regions, Phoenix Fine Art will be providing artwork storage solutions. This will include museums quality storage. To achieve this, the company will be providing 24 hours' video surveillance, Private viewing rooms, private modules, secured access and will have warehouses that will be fireproof with sprinklers to prevent fire outbreak. Furthermore, the rooms will be strong and will have the capacity to control temperatures and humidity level. This is in order to maintain the properties of work of arts. Furthermore, Phoenix Fine Art Company will be providing art handling solutions. This means that the company will be providing professional and experienced packing, setup, installation and security for works of art. At the same time, the company will provide professional photo shoots at a fee and will have large and experienced teams to handle last minutes' requests and large operations. Artwork transportation will be the key source of revenue. This is important since the growth in art market is providing the space for increased number of artists, collectors and other art personalities interested in acquiring art through auctions. For this reason, Phoenix Fine Art will be providing import and export customs clearance, planning and art work supervision as well as continued monitoring and transportation. These levels of services will ensure that the company achieves significant competitive advantage within the art market within Hong Kong and Mainland China.

¹⁵ "Handling and Transportation of Works of Art- SFLAC". (*South Florida Art Conservation*, 2019)

Chapter 1: Hong Kong Target Market Analysis

Introduction and feasibility analysis

The first target market for Phoenix Fine Art is Hong Kong. The city has auction houses such as Christie's and Sotheby's. Furthermore, there are many art galleries and small museums that have established their spaces in Hong Kong skyscrapers within the Central district. In addition, the city is planning to open up a major Museum M+ for visual culture.¹⁶ There is also the West Kowloon cultural district and which holds the Chinese's contemporary art. At the same time, there is Hong Kong Museums of Art. The Hong Kong Arts Center on the other hand plays a key role in promoting the local art scenes and brings together theaters, cinema, exhibition spaces and artists' studios. Furthermore, the city saw the opening of Center for heritage and Art (Tai Kwun) and which is promoting the growth of art in Hong Kong.

Hong Kong is focused at retaining a spot in the World art market by becoming the second largest auction center after New York City. As a result, the city has been holding the art fairs with an aim of bringing people together and ensuring there is increased auction of artwork. In 2019, there were significant sales of artwork in Hong Kong and which attracted a higher value.¹⁷ For example, there were five works of art and which attracted a value of \$12 million. An artwork such as Knife Behind Back (200) attracted a value of \$24.9 million. The Asian Contemporary art show, the Art Basel trade show and Art central in Hong Kong are attracting a large number of both local and international players.¹⁸ For this reason, the Hong Kong art market is becoming highly important market which Phoenix Fine Art is targeting. This is because this market is

¹⁶ Chow, Vivienne. "Art Extravaganza: Exhibitors in Hong Kong Look at Ways to Profit in Gloomy Economic Times". (*South China Morning Post*, 2016)

¹⁷ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

¹⁸ Cooke, S, and P Watson. "A Comparison of Regional Export Enhancement and Import Substitution Economic Development Strategies". (*Journal of Regional Analysis & Policies*, 2011)

growing and this means that there is increased number of galleries and local museums that need proper storage of their artwork along with proper transportation of works of art to various art trade shows across Hong Kong

SWOT analysis of Hong Kong art Market

To be able to understand the Hong Kong art market, it is important to understand the strengths, opportunities, weaknesses and threats. When it comes to Strengths, the art market in Hong Kong remains to be one of the fastest growing markets across the world. This city is today becoming the second largest auction center after New York City. Furthermore, art market in this city is significantly growing and this is being driven by a population that is estimated to be about 7.55 million people. This is attracting the establishment of both small scale local museums and galleries. Another strength of the Hong Kong city is the growth in the city's gross domestic product which is making the city to become more attractive to local museums and galleries as well as international players. This is because the GDP in Hong Kong is about HKD 2737.01 billion.¹⁹ Another strength and which will promote the growth of Phoenix Fine Art is the fact that the art market has a number of small scale galleries and museums and which will need proper storage facilities along with secured transportation of works of art to organized art trade and art fairs such as Art Basel. At the same time, Hong Kong has auction houses including the Bonham's, Poly Auction and galleries, White Cube and Pace galleries among others.²⁰ The existence of such galleries and museums forms the customers whom Phoenix Fine Art Company will be targeting. Another strength is the fact that Hong Kong has been holding a number of art trade shows and auctions that have attracted both the Local art personalities and collectors and

¹⁹ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

²⁰ Chow, Vivienne. "Art Extravaganza: Exhibitors in Hong Kong Look at Ways to Profit in Gloomy Economic Times". (*South China Morning Post*, 2016)

also the international investors who will be risking transporting their art to the trade shows.²¹
This therefore forms an important market for Phoenix Fine Art

Hong Kong art market also has a number of weaknesses. One such weakness is increased political unrest that is being witnessed across the city. This unrests are unfortunately likely to discourage the art investors within the markets and also weaken the success of the art trade shows that are held at different times. This is a weakness that will reduce the revenue stream of Phoenix Fine Art. However, there are more opportunities in Hong Kong and which Phoenix Fine Art should take advantage of. This is because the Hong Kong art market despite the political unrests is continuing to experience increased number of auctions of various artworks and which are attracting a higher value. At the same time, Hong Kong as a city continues to thrive economically and this is providing an opportunity for holding trade shows. This means that Phoenix Fine Art will have an opportunity to continue receiving revenue through storage and transportation services for the local museums that do not have enough space to store their artworks. At the same time, the presence of trade shows provides an opportunity for the company to increase its revenue stream and increase its competition.

Unfortunately, Phoenix Fine Art will be faced by significant threats that exist in Hong Kong. This includes competitors who provide logistics and transportation in the city. For this reason, Phoenix Fine Art to ensure it succeeds in Hong will need to provide quality transportation and storage services in order to ensure it is satisfying the customers' needs. Furthermore, Phoenix Fine Art will need to build its brand instead of engaging in price wars. This is in order to become one of the best storage companies in Hong Kong.

²¹ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

PESTLE analysis of Hong Kong market

The political system in Hong Kong is likely to affect the art market. This is because it has been attracting political unrest across the city.²² This political unrest has gone on for much longer and this is likely to affect the city's ability to hold art trade fairs. However, Hong Kong remains a crucial and strategic location for art fairs and trade. This is because the city has one of the largest economies compared to other cities. With a population of more than 7.5 million people, Hong Kong has been registering a high GDP growth, with the 2019 GDP being HKD 2737.01 billion.²³ As a result of growth in economy, Hong Kong art market has been attracting local and international investors, artists, art personalities and collectors. Artworks such as *Knife Behind Back* (2000) was in 2019 sold for a value of HK\$195.7 million, showing the significance of the market.

The social factors including the existence of the value given to traditional artworks and sculptures has also been driving the art market in this city. This has therefore resulted to establishment of local museums that are providing excellent collection of Chinese calligraphy and paintings. At the same time, we have the local fair Art, making Hong Kong to be an art market giant.²⁴ Technology has also promoted the growth of art market. This is because the use of online auction has increased the number of collectors and potential buyers who can purchase artwork online.²⁵ Furthermore, the legal environment has become more ideal for establishing art business in Hong Kong. This is because there are laws that protect the market. They include the

²² "Handling and Transportation of Works of Art- SFLAC". (*South Florida Art Conservation*, 2019)

²³ "Handling and Transportation of Works of Art- SFLAC". (*South Florida Art Conservation*, 2019)

²⁴ Chow, Vivienne. "Art Extravaganza: Exhibitors in Hong Kong Look at Ways to Profit in Gloomy Economic Times". (*South China Morning Post*, 2016)

²⁵ Chow, Vivienne. "Art Extravaganza: Exhibitors in Hong Kong Look at Ways to Profit in Gloomy Economic Times". (*South China Morning Post*, 2016)

copyright laws that protect the rights of the artists and there are auction laws as well. All these laws promote the growth of the Hong Kong Art market.

Financial Plan: Revenue Generation strategy

Generating revenue is highly important for the success of Phoenix Fine Art. To start with, the company will be providing three kinds of services; these are art installation, transportation and art storage services. The art collectors will need to specify the kind of services that they will prefer. Phoenix Fine Art will therefore have a transportation system along with the storage warehouse where the master paintings, ceramics, sculptures and Chinese's painting will be stored. At the same time, there will be private rooms for offering storage services for more than six months. To ensure the business generates significant revenue that will ensure its success, it will charge \$300 per day for the storage that is specified as private. For individual storage, the charges will range between \$500 and \$800 per month for ceramics and paintings and \$1,500 per month for customized paintings. For sculptures that will be under 20 Kg the charges will be \$1000 and \$10 per Kg for large sculptures.

For installation, the charges will be \$800 with \$150 for installing a standard unit. When it comes to transportation, the clients with private rooms will receive free shipping within Hong Kong. \$200 will be charged for transport services of other clients within Hong Kong

From the projected revenue, it is clear that Phoenix Fine Art by 2020 will have generated a revenue that will amount to \$2,511,307. This revenue will come from standards storage units that is expected to generate a revenue of \$794,010. The second source of this revenue is customized units that is expected to generate approximate \$313,695. However, the private rooms at the company will be an important source of revenue with estimated revenue of \$1.4 million. For the second year of operation, Phoenix Fine Art is expected to increase its revenue to

\$6,505,379. This is a significant revenue growth that will be possible through vigorous marketing strategy and promotion strategy by the company. By increasing the revenue, then the company will significantly improve its operations and increase its market share.

The company however will incur insignificant direct costs and which will reduce the amount of net profit it generates. From financial projection, the company's direct costs during the first year of operation will be \$1,463,800. This direct costs will emanate from the warehouse renovation charges, the Hong Kong and other regions legal permit which is about \$800 per year. Other costs the company will incur will include the direct labor costs of \$1.44 million since the company will employ 40 employees. For this reason, this will reduce the revenue in the first year to \$1.047 million. This indicates that the company in the first year of operation will generate a gross margin of 42%. However, the growth margin in the second year of operation will increase to 77%. This growth will result from the expansion of the Hong Kong market and increase in the city market share.

Figure 1: Revenue and Profit projection in Hong Kong

| | | | |
|--------------------------------|--------------------|--------------------|--------------------|
| Revenue | \$2,511,307 | \$6,505,379 | \$8,935,190 |
| Standard Storage Units Revenue | \$794,010 | \$2,233,026 | \$2,970,262 |
| Customers at start | | 287 | 431 |
| Churn rate | 5% | 5% | 5% |
| Signups | 352 | 360 | 400 |
| Recurring Charge | \$500 | \$500 | \$500 |
| Customized Units Revenue | \$316,695 | \$851,294 | \$1,141,992 |
| Customers at start | | 65 | 104 |
| Churn rate | 5% | 5% | 5% |
| Signups | 82 | 90 | 95 |
| Recurring Charge | \$800 | \$800 | \$800 |
| Private Rooms Revenue | \$1,400,602 | \$3,421,058 | \$4,822,936 |
| Customers at start | | 51 | 86 |
| Churn rate | 3% | 3% | 3% |
| Signups | 60 | 60 | 60 |
| Recurring Charge | \$4,000 | \$4,000 | \$4,000 |
| Direct Costs | \$1,463,800 | \$1,463,800 | \$1,463,800 |
| Renovation | \$20,000 | \$20,000 | \$20,000 |
| Insurance | \$3,000 | \$3,000 | \$3,000 |
| Legal Permit | \$800 | \$800 | \$800 |
| Direct Labor | \$1,440,000 | \$1,440,000 | \$1,440,000 |
| Salaries & Wages | \$1,440,000 | \$1,440,000 | \$1,440,000 |
| Employees (40) | \$1,440,000 | \$1,440,000 | \$1,440,000 |
| Gross Margin | \$1,047,507 | \$5,041,579 | \$7,471,390 |
| Gross Margin % | 42% | 77% | 84% |
| Operating Income | \$1,047,507 | \$5,041,579 | \$7,471,390 |
| Interest Expense | \$113,506 | \$79,605 | \$31,285 |

Financing

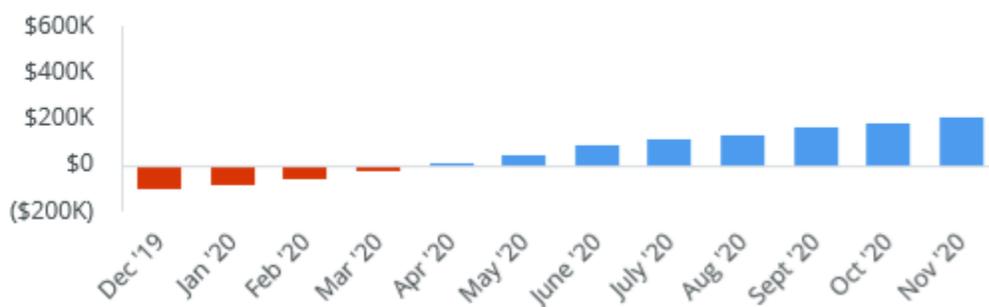
Understanding the source of finance is highly important for the growth of any business. For Phoenix Fine Art, the source of funding will mainly come from bank loans. The startup capital will be \$2 million and the bank loan will be \$3 million. The startup capital will be provided by the business owner along with the interest investors. Based on our projection, the company will be able to breakeven within the first 4 months. From April 2020, the company will be able to generate positive profit. This growth will be possible through aggressive marketing strategies

Figure 2: Phoenix Fine Art financing Plan

| Financing | FY2020 | FY2021 | FY2022 |
|------------------------|--------------------|--------------------|--------------------|
| Amount received | \$5,000,000 | | |
| Start-up Capital | \$2,000,000 | | |
| Bank Loan | \$3,000,000 | | |
| Payments | \$985,336 | \$1,074,912 | \$1,074,912 |
| Bank Loan | \$985,336 | \$1,074,912 | \$1,074,912 |
| Principal Paid | \$871,830 | \$995,307 | \$1,043,627 |
| Interest Paid | \$113,506 | \$79,605 | \$31,285 |
| Balance | \$2,128,170 | \$1,132,863 | \$89,236 |
| Short-Term Debt | \$995,307 | \$1,043,627 | \$89,236 |
| Bank Loan | \$995,307 | \$1,043,627 | \$89,236 |
| Long-Term Debt | \$1,132,863 | \$89,236 | \$0 |
| Bank Loan | \$1,132,863 | \$89,236 | \$0 |

Figure 3: Net Profit in FY2020 expected in Hong Kong

Net profit in FY2020



Net profit by year



Apart from revenue generation, other metric indicators that will show the growth of Phoenix Fine Art is asset growth. Based on the projected balance sheet, Phoenix Fine Art total assets in the first one year will be \$5,094,722. This will come from cash and long term assets including warehouse facilities in Hong Kong and other areas. The assets are projected to increase to \$8.954 million in the second year of operations. Within the first one year, the equity of the

company will be \$2.728 million. This will increase to \$6.679 million in the second year. The growth in equity is a good indicator that the company will be succeeding within the Hong Kong and China inland market.

Figure 4: Projected balance sheet for the business

Projected Balance Sheet

| Projected Balance Sheet | FY2020 | FY2021 | FY2022 |
|---------------------------------|--------------------|--------------------|--------------------|
| Assets | \$5,094,722 | \$8,954,844 | \$14.4M |
| Current Assets | \$4,903,755 | \$8,786,910 | \$14.2M |
| Cash | \$4,858,682 | \$8,714,371 | \$14.2M |
| Accounts Receivable | \$45,073 | \$72,539 | \$91,906 |
| Long-Term Assets | \$190,967 | \$167,933 | \$144,900 |
| Long-Term Assets | \$214,000 | \$214,000 | \$214,000 |
| Accumulated Depreciation | (\$23,033) | (\$46,067) | (\$69,100) |
| Liabilities & Equity | \$5,094,722 | \$8,954,844 | \$14.4M |
| Liabilities | \$2,365,948 | \$2,274,918 | \$1,778,313 |
| Current Liabilities | \$1,233,085 | \$2,185,682 | \$1,778,313 |
| Accounts Payable | \$50 | \$50 | \$50 |
| Income Taxes Payable | \$182,193 | \$987,789 | \$1,483,414 |
| Sales Taxes Payable | \$55,535 | \$154,216 | \$205,613 |
| Short-Term Debt | \$995,307 | \$1,043,627 | \$89,236 |
| Prepaid Revenue | \$0 | \$0 | \$0 |
| Long-Term Liabilities | \$1,132,863 | \$89,236 | \$0 |
| Long-Term Debt | \$1,132,863 | \$89,236 | \$0 |
| Equity | \$2,728,774 | \$6,679,926 | \$12.6M |
| Paid-In Capital | \$2,000,000 | \$2,000,000 | \$2,000,000 |
| Retained Earnings | \$0 | \$728,774 | \$4,679,926 |
| Earnings | \$728,774 | \$3,951,152 | \$5,933,658 |

Sales and marketing Strategy

Within the Hong Kong Market, Phoenix Fine Art will focus on improving its sales and increasing its competitive advantage. As it continues to increase its revenue and increase its asset

growth, the company will increase its marketing.²⁶ This means that the company will advertise its services through various platforms across Hong Kong including newspapers, and art collection magazines. This is important since it will increase the business's ability to grow across the city and increase its competitive advantage. Another marketing strategy that will be adopted by the company is word of mouth and physical visits to local museums. This is important since it will provide Phoenix Fine Art with sufficient flow of customers. Furthermore, the company will use experienced employees who are good at marketing. This is important since through aggressive marketing strategy, then Phoenix Fine Art will be able to expand, increase its revenue stream and increase the quality of services it provides.²⁷

In Hong Kong Market, the sales strategy will be based on communicating about the business brand. To achieve this, the company will target the local museums and galleries. At the same time, the company will target the local artists and ensure it sponsors several exhibitions in Hong Kong trade shows and art fairs. Brochures with the company services will be distributed to local museums.²⁸ This is important since it will ensure the local galleries and museums are understanding about the business and its level of services.

²⁶ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

²⁷ Zito, Matthew. "Logistics, Warehousing and Transportation in China (Part 1) - China Briefing News". (*China Briefing News*, 2014)

²⁸ Gerlis, Melanie. "Hong Kong Art Market Profits Despite Protestors' Pain". (*Theartnewspaper.Com*, 2019)

Chapter 2 Shanghai Target Market Analysis

In Shanghai, the art market is one of the fastest growing markets. For the last three years, Shanghai has been seeking to have itself transformed into an arts capital, thus the increased numbers of museums, exhibitions as well as art galleries that have greatly contributed to the growth of art in this region. Based on the fact that Shanghai has proved to be a competitive market therefore, Phoenix Fine Art Company is seeking to extend or expand its services to this region as a way of tapping and exploiting the available segments. The company will be offering transportation and storage services to a wide range of its target market which constitutes of museums, collectors, galleries and artists as well as designers who are situated in Shanghai.

SWOT Analysis

In order to determine its effective penetration of the Shanghai art markets, Phoenix Fine Art Company will need to learn about the strengths, weaknesses, opportunities as well as threats that could be existing within this market.

Shanghai art market offers a wide market segment for Phoenix Fine Art Company. This is mainly attribute to the high numbers of museums and galleries such as Power Station of Art, Long Museum among others, as well as exhibitions such as the Chinese Printed Blue Nankeen Exhibition Hall.²⁹ For most of these galleries, museums and exhibitions, they would definitely want to be offered the best transportation and storage services for their artwork, hence Phoenix Fine Art Company will have had an opportunity to secure markets in Shanghai.

Within the Shanghai art market, the major weakness is that Phoenix Fine Art Company is likely to face is that of failing to meet the standards of the giant companies based in this city and

²⁹ Fonsato, L. "Art And Culture In Shanghai - MBA DMB Shanghai". (*MBA DMB Shanghai*, 2018)

which have proved to offer the most competitive transportation and storage services. This is bearing in mind that the company will be new in this region, thus it might take longer for customers to fully embrace its services.

Based on the fact that Shanghai art market has been projected to continue growing at a remarkable rate, for Phoenix Fine Art Company will still have an opportunity to expand its services to the upcoming museums and galleries as well as exhibitions.³⁰ This will help in promoting more growth for the company. Another opportunity and which the company will be able to grab through offering high quality services and at reasonable prices will be drawing the attention of customers who could be relying on other companies for storage and transportation services.

Like any other company that is determined to establish its markets in a new region, for Phoenix Fine Art Company is also likely to face threats while establishing its markets in Shanghai. One major threat includes competition from other companies that have already established their markets in the region. This if not carefully addressed is likely to paralyze the successful operation of the company in the Shanghai based markets. The fact that the giant museums and exhibitions within the region already have their own storage and transportation networks is another threat that is likely to face Phoenix Fine Art Company.³¹ This is because the company will not be able to tap the opportunities that could result from offering services to the leading art companies in the city.

³⁰ Yusof, Helmi. 2016. "Shanghai's Bid To Be An Arts Capital". (*The Business Times* 2016)

³¹ GMA. "Art Market In China: Guide To Selling To Art Investors - Marketing China". (*Marketing China*, 2019)

Through the SWOT analysis, Phoenix Fine Art Company will be able to come up with effective marketing strategies with which it will win the hearts of more and more customers in Shanghai. One of the obvious and uncompromised strategy will be offering unbeatable services in both storage and transportation of art collections.³² For this reason, the storage facilities will require to be spacious enough to accommodate as many art collections as possible and be equipped with modern technology that will allow for easy access of the art collections. The transportation services will also need to be reliable and of high quality. Such services should meet the standards of meeting the needs of both public and private museums, if the company is determined to meet the needs of all customers. At the same time, the transportation services offered by the company will be required to be of high quality as well. This will entail equipping the transportation vehicles with all the necessary facilities of a modern transportation of art collections. The services should also be delivered in a timely manner and as agreed between the customers and the company. To be able to achieve this however, the company will have to hire professional museum attendants as well as reputable transport service providers.

PESTLE Analysis

For any company that has either established or is seeking to establish markets in a particular region, PESTLE analysis is important in helping an organization identify the political, economic, environmental, technological, social as well as legal factors that are likely to impact the operations of an organization in a given region. Considering Phoenix Fine Art Company, these factors are inevitable, which means that the company while planning to extend its services to Shanghai should be ready to face various challenges that are in line with the above mentioned factors.

³² Fonsato, L. 2018. "Art And Culture In Shanghai - MBA DMB Shanghai". (*MBA DMB Shanghai*, 2018)

Shanghai operates as an individual municipal government headed by the mayor, who is the highest ranked executive official in this region. The municipal government is responsible for making important decisions as far as doing business in this region is concerned. Such decisions which are mostly enacted by the Shanghai Labor and Social Bureau are part and parcel of the conditions such as employee wages and compensation as well as the business regulations that companies must adhere to so as to facilitate their smooth operation within the region. This therefore means that Phoenix Fine Art Company will be required to refer to the above mentioned among bodies so as to obtain a go ahead and the types of rules and regulations the company must adhere to while working in the region.

Looking at the economic factor, it is first of all important to note that the art industry has greatly been boosted by the aspect of re-industrialization in China. It is this re-industrialization that has led to the revival of more and more companies operating within this industry. As a result, more and more cultural industries have relocated to larger cities such as Shanghai. This therefore means that the economic environment in Shanghai will be favorable enough to facilitate a smooth entry of Phoenix Fine Art Company into Shanghai based markets. With more and more industries across the city, it is possible to conclude that the company will be guaranteed of achieving its objectives. Considering the issue of income generation in Shanghai, it goes without saying that the city is the hub of art business, which means that the level of income generation is high. This creates room for more and more people to promote the art industry through visiting museums. The economic status of Shanghai therefore offers a level ground for Phoenix Fine Art Company as it looks forward to establish its markets in the region.

Social factors are also an important aspect as far as the operation of Phoenix Fine Art Company in Shanghai is concerned. In this case, the major social factor that shapes Shanghai is

that of supporting or embracing art and cultural values and norms³³. This perhaps is the best part of the company's efforts to extend its services to Shanghai. This is because with the city's culture of embracing art and cultural values, it is clear that the growth of art industry is uncompromised.³⁴ Phoenix Fine Art Company through offering the best transportation and storage services will be able to capture the attention of the available market segments, thus promoting its growth in the region.

Today, any organization that is determined to make it in the dynamic markets must be ready to move in line with the current and emerging technological trends³⁵. This therefore means that technological factors will also have a significant role to play as far as the operation of Phoenix Fine Art Company in Shanghai is concerned. The company will therefore be required to adopt the latest technological innovations and erupt its storage and transportation facilities with the appropriate technological features. This will allow the company to offer top notch services to its customers.

Promotion and marketing strategy in Shanghai

The success of any given organization greatly relies on the methods of promotion used. For Phoenix Fine Art Company, there are various promotion strategies that could be used to market the company's storage and transportation services in Shanghai. One such method and which would greatly help in creating customer awareness about the new transportation and storage services includes the word of mouth. Phoenix Fine Art Company should therefore hire a team of promoters whose responsibility would be to tour Shanghai and enlighten the customers on the services offered by the company. The team should be ready to explain to the owners of

³³ Fonsato, L. "Art And Culture In Shanghai - MBA DMB Shanghai". (*MBA DMB Shanghai*, 2018)

³⁴ GMA. "Art Market In China: Guide To Selling To Art Investors - Marketing China". (*Marketing China*, 2019)

museums and exhibitions why they should use the company's transportation and storage services.

Another promotion method that the company could use includes the use of media such as radios and televisions, through which the company would advertise its services to the customers. Some of the stations that the company could use include the Shanghai People's Radio Station which is the most commonly listened to in Shanghai. Through such advertisement platforms the company should be ready to convince the owners of museums and art galleries on the importance of adopting the use of its services. Phoenix Fine Art Company should therefore remain true to its words and ensure that it has met the expectations of the customers.

Brand positioning happens to be one of the most important aspects of marketing activities for an organization's products and services. A well-positioned brand stands a better position to address and meet the needs of the customers and addressing the needs of the customers in a compelling way. At the same time, brand position creates an emotional connection between an organization and its customers. Having this in mind, Phoenix Fine Art Company should come up with effective positioning strategies that will help in ensuring that the needs of the customers have been fully addressed.³⁶ While many may take brand positioning literally, what matters most is the kind of a perception and attitude that the customers will develop in their minds regarding the company's products and services. This for Phoenix Fine Art Company would be an effective strategy of overcoming competition. Thus, offering the best customer experience in terms of transport and storage services offered will place Phoenix Fine Art Company at a competitive edge within the available markets and also help in attracting new ones.

The marketing platforms used will also play a significant role in determining Phoenix Fine Art Company's performance within the Shanghai markets. Through different marketing platforms such as social media, Phoenix Fine Art Company will be able to reach out to a wider market segment in Shanghai. Offline integration will also help the company in meeting the needs of offline customers who could be in need of storage and transportation services for their art collections. All this will however be facilitated by having the right management in place, which will not only ensure effective market penetration but promote the overall growth of the company in Shanghai.

Revenue Generation in Shanghai

Shanghai remains an important region that will be targeted by Phoenix Fine Art. From the profit and revenue generation, the region will produce a revenue of approximate \$2.5 million for the first year in operation. Direct costs of operation in this region will be approximate \$1.5 million. For this reason, a gross margin of \$1 million is expected from this region for the first year of operations.

Figure 5: Shanghai projected revenue

| Projected Profit & Loss | Dec '19 | Jan '20 | Feb '20 | Mar '20 | Apr '20 | May '20 | June '20 | July '20 | Aug '20 | Sept '20 | Oct '20 | Nov '20 | FY2020 |
|--------------------------------|-----------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | \$24,100 | \$52,795 | \$83,243 | \$115K | \$152K | \$188K | \$224K | \$259K | \$300K | \$340K | \$372K | \$400K | \$2.5M |
| Standard Storage Units Revenue | \$2,500 | \$7,875 | \$14,981 | \$24,232 | \$38,021 | \$52,120 | \$68,513 | \$85,088 | \$102K | \$121K | \$134K | \$143K | \$794K |
| Customers at start | | 5 | 16 | 30 | 48 | 76 | 104 | 137 | 170 | 205 | 242 | 267 | |
| Churn rate | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Signups | 5 | 11 | 15 | 20 | 30 | 32 | 38 | 40 | 43 | 48 | 37 | 33 | 352 |
| Recurring Charge | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 | \$500 |
| Customized Units Revenue | \$1,600 | \$5,520 | \$10,044 | \$14,342 | \$20,025 | \$24,623 | \$27,392 | \$30,023 | \$38,122 | \$44,215 | \$48,405 | \$52,384 | \$317K |
| Customers at start | | 2 | 7 | 13 | 18 | 25 | 31 | 34 | 38 | 48 | 55 | 61 | |
| Churn rate | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Signups | 2 | 5 | 6 | 6 | 8 | 7 | 5 | 5 | 12 | 10 | 8 | 8 | 82 |

Figure 6: Projected net Profit in Shanghai

| Projected Profit & Loss | Dec '19 | Jan '20 | Feb '20 | Mar '20 | Apr '20 | May '20 | June '20 | July '20 | Aug '20 | Sept '20 | Oct '20 | Nov '20 | FY2020 |
|-------------------------------|----------------|----------------|----------------|------------------|-----------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|
| Operating Income | (\$98K) | (\$69K) | (\$39K) | (\$6,936) | \$30,238 | \$66,111 | \$102K | \$137K | \$178K | \$219K | \$250K | \$278K | \$1M |
| Interest Expense | | \$11,875 | \$11,567 | \$11,259 | \$10,949 | \$10,637 | \$10,325 | \$10,011 | \$9,697 | \$9,380 | \$9,062 | \$8,744 | \$114K |
| Income Taxes | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$6,171 | \$33,341 | \$41,440 | \$47,778 | \$53,463 | \$182K |
| Depreciation and Amortization | \$1,919 | \$1,920 | \$1,919 | \$1,920 | \$1,919 | \$1,920 | \$1,919 | \$1,920 | \$1,919 | \$1,919 | \$1,920 | \$1,919 | \$23,033 |
| Total Expenses | \$124K | \$136K | \$135K | \$135K | \$135K | \$135K | \$134K | \$140K | \$167K | \$175K | \$181K | \$186K | \$1.8M |
| Net Profit | (\$100K) | (\$83K) | (\$52K) | (\$20K) | \$17,370 | \$53,555 | \$89,688 | \$119K | \$133K | \$166K | \$191K | \$214K | \$729K |
| Net Profit % | (414%) | (157%) | (63%) | (17%) | 11% | 28% | 40% | 46% | 44% | 49% | 51% | 53% | 29% |

Chapter Three: Shenzhen Target Market Analysis

Background

Shenzhen is a fast-growing town in Guangdong province in Southern China, and it is highly recognized for its transition from a small fishing village to a vast metropolitan area. The area became one of the most appealing cities in 2017, surpassing Shanghai, Beijing, and Guangzhou³⁷. The significant levels of innovation have mainly created the robust growth experienced in the city with some of the largest giant techs like Huawei establishing its headquarter in the city. Additionally, the Shenzhen region has more than three hundred and fifty listed companies under private enterprises that make up more than sixty percent³⁸. Therefore, the city has become home for many entrepreneurs and tech talents.

These private enterprises also include art businesses that are managed by galleries and artists. The creative industries combine culture to create different forms of outstanding art, an aspect that has become central to the economy of the city. According to Ocula Report, the region is well known for its vast production of different forms of art, not excluding those available and stored in the Shenzhen Museum of Contemporary Art and Planning Exhibition³⁹. Due to the frequent art exhibitions held in the region and attended by artists from all over China, many artists are faced with challenges of storing art during the auctioning season. Providing quality storage and transportation services to these artists is essential to help the artists store their resources for both short- and long-term periods awaiting auction seasons. As such, Phoenix Fine

³⁷ Yuan, Yiming, ed. *Studies on China's Special Economic Zones*. Springer Singapore, 2017.

³⁸ Wu, Weiping. *Pioneering economic reform in China's special economic zones: the promotion of foreign investment and technology transfer in Shenzhen*. Routledge. (2018)

³⁹ Sam, Gaskin. "Art in Shenzhen." October 25, 2016. Ocula Report.

Art aims at extending its branch to Shenzhen city with the primary aim of helping the collectors, artists, museums, and designers to transport and store their artwork. The facility will be situated in Shekou Port Fuyong Airport because of its closeness to the Shenzhen Convention and Exhibition Centre.

Feasibility Analysis

Product/Service Offered in Shenzhen

Some of the products and services to be provided by Phoenix Fine Art with regards to storage include surveillance cameras, fireproof buildings, motion detectors, transport, and trained security personnel. Other services to be included in the package are customs, crating shipping, and condition reports. According to Mason, dealers, storage firms and collectors are choosing duty-free warehouses and ports to store the art pieces due to the offered tax advantages, which will also be part of Phoenix's provisions⁴⁰. The storage facilities will allow the client to either store their work in private rooms or spaces that accommodate the holdings of other customers. The private collectors will be enabled to utilize the viewing spaces on a short-term basis. The package will also allow clients to, dealers, or advisors to use the viewing spaces to display their art galleries.

Target Market

With the rapid increase in the number of art galleries, more art collectors are entering the industry, and museums are expanding, building substantial growth as well as demand for exceptional art storage is on the rise. The target market will include artists, Chinese collectors, and galleries who display and sell their work during exhibitions and trade shows during auction

⁴⁰ Mason, Brook. "What is driving the soaring demand for art storage?" 2017

seasons. Also, museums will be included as part of the potential targeted clients since most of them lack enough space during traveling exhibitions.

Phoenix Fine Art aims at recruiting only highly qualified individuals in logistics and exceptional art experts who have extensive skills and experience in handling art objects. Whether it is an expensive painting, valuable musical device, or a piece of antique furniture, the company will ensure that the art is handled with reliable and skilled storage professionals.

Financial Feasibility

The analysis involves the speculated start-up costs, the predicted operating costs, as well as the cash flow. The company has a start-up capital of \$5,000,000 that will finance the setup of the storage business. Forty percent of the money is a sole contribution from the founder, while the rest is a loan obtained with an interest of 4.75 from the Bank of China. The finances will be divided in such a way that they cover all the costs ranging from the trucks, storage units, facilities, and warehouses. Approximately \$20,000 will be used on a renovation, \$3,000 on insurance, and \$800 on the legal permit in Shenzhen. The company will focus on promoting its marketing strategy in Shenzhen to ensuring it is establishing a strong competitive advantage and generate a significant level of revenue

Figure 7: Shenzhen Revenue by Month

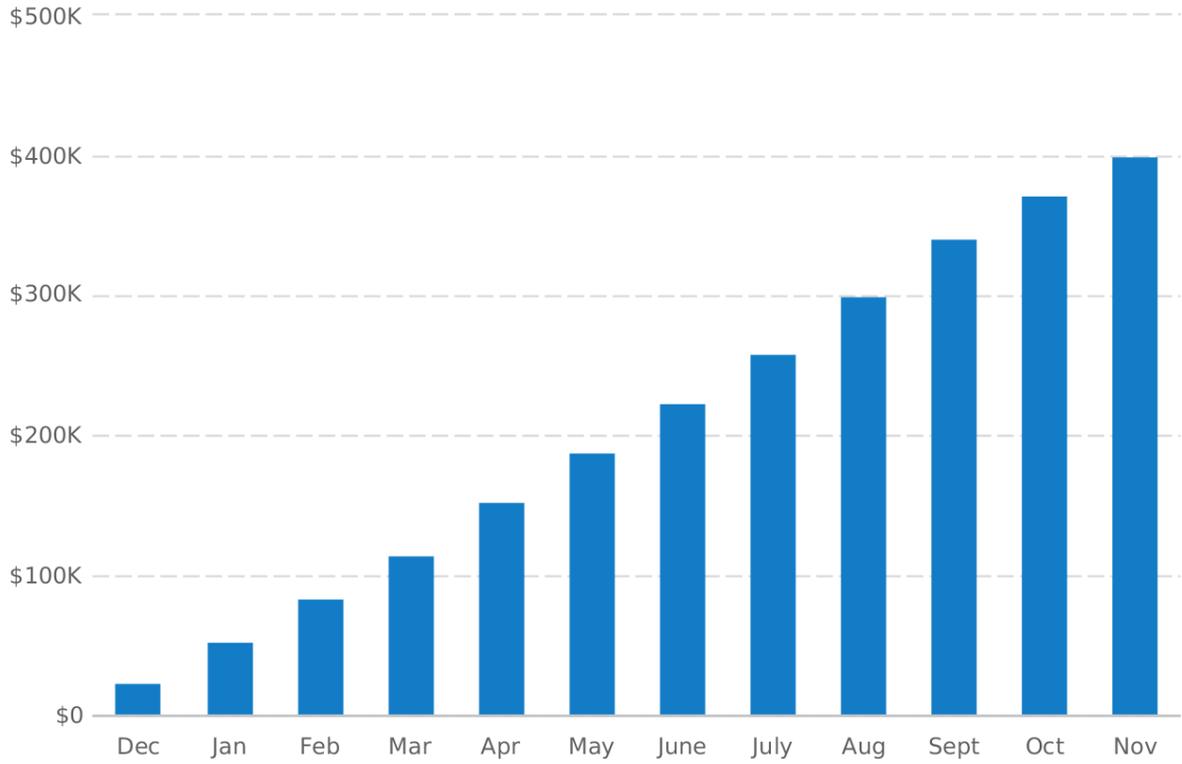


Figure 8: Shenzhen Expenses by Month

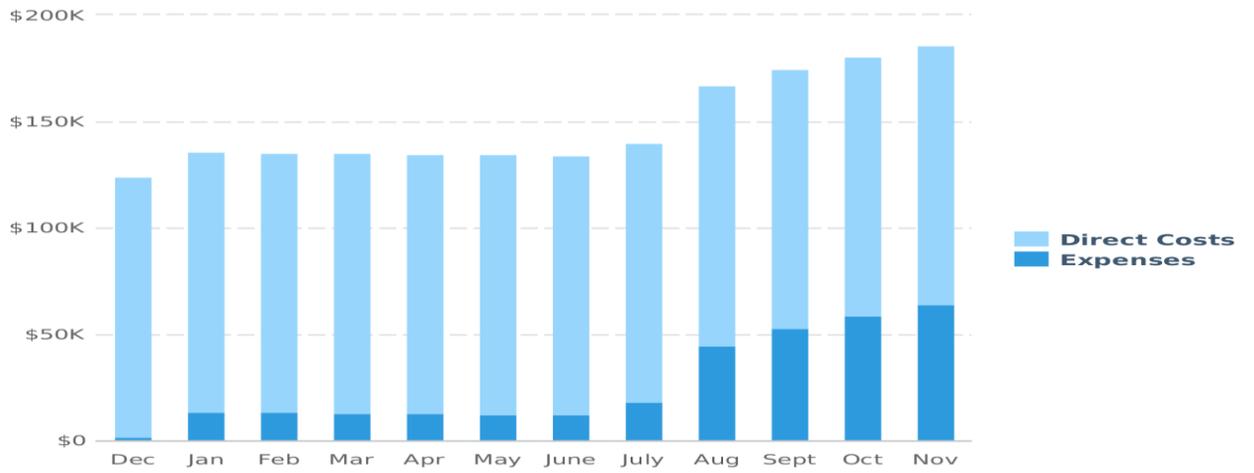
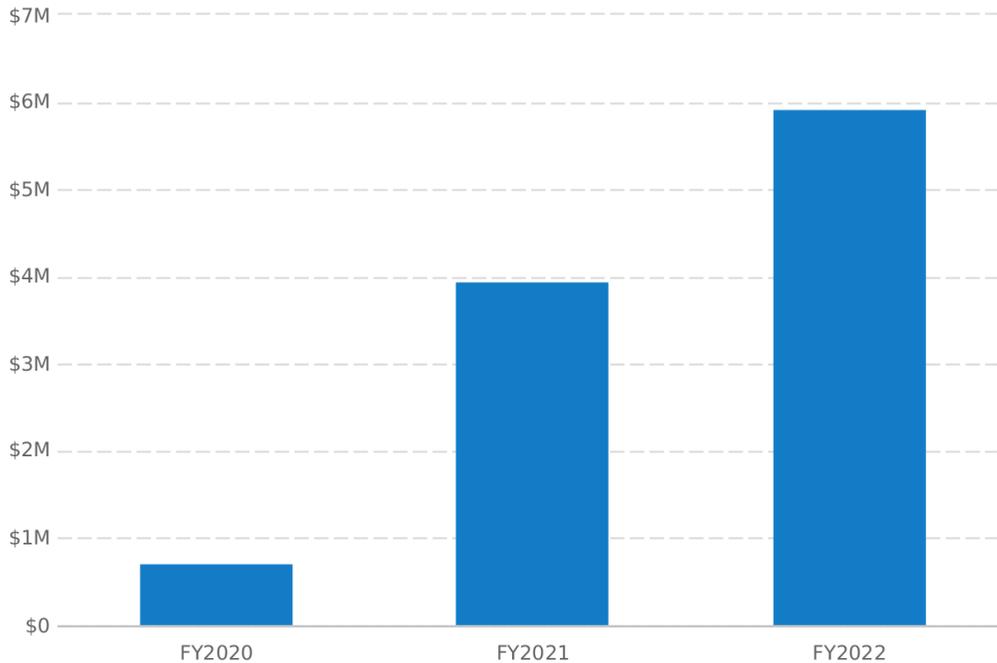


Figure 9: Shenzhen Net Profit/ Loss by Year



Strategic Analysis

Chinese society has a strong influence on a business's success, in addition to explicit considerations such as the environment. Conducting a SWOT analysis will hence be essential to examine the factors that will help the business grow and attract targeted clients in Shenzhen.

One of the primary strengths of the company is that there are fewer art storage facilities in Shenzhen, and the few that are there lack some of the primary benefits that attract many clients. The business will offer services such as customs, crating shipping, condition reports, duty-free warehouse, and free ports to gain more customers. Another strength of the company is the location of the facility, its closeness to the airport, and the Shenzhen Convention and Exhibition Centre, which frequently hold auctions and exhibitions inviting collectors, dealers, and other clients all over China. Another advantage of establishing the business in Shenzhen is that the city borders Hong Kong to the south. Therefore, there is the ready availability of the

cross-docking with Hong Kong and Shanghai. The location makes it the priority for clients who travel from other regions during the auction seasons and require storage and transport services.

One of the weaknesses includes the high priced, expert employees to be employed in Shenzhen that is out of the business budget. Another weakness is the tight marketing budget that restricts the business from conducting campaigns to interior areas of the Shenzhen region as well as offering the clients with product samples to potential clients.

The primary opportunity available in Shenzhen is the customer shopping trends and the frequent exhibitions held during the auction seasons. Such regular opportunities can be used by the business to enhance some of the services to keep up with the existing competition. The influx of people in Shenzhen, including tourists, calls for more art storage businesses to establish their businesses in the region. As a result, causing fierce competition in the industry. Given the above SWOT analysis, the company will use the strengths and take advantage of the available opportunities to establish the art storage facility in Shenzhen. Additionally, the weaknesses will be addressed where possible before making any changes to the business entry strategy.

PESTLE Analysis of Shenzhen

The country's political views of China are some of the most significant environmental issues that can alter the overall brand of the business. The Shenzhen culture is interlinked with philosophy and art world. The government hence works potentially hard to provide stunning exhibitions and education on Chinese art in Shenzhen⁴¹. The contemporary arts, ancient crafts, and traditional arts are all given balanced financial support by the Government, especially among

⁴¹ Jones, Christopher. "China Art Gallery Museums Shenzhen." November 8, 2019.

the Shenzhen people. As such, the Government can also have regulations over tax, and the fluctuations can lead to a feasibility imbalance.

Over the past decade, the country's economy has experienced substantial growth in its GDP rate, and one factor that has contributed to the boost in GDP is the potential urban growth⁴². Shenzhen has experienced rapid urban growth, which has had a significant impact on the economic growth that, in turn, affects the actions of businesses. The commercial growth rate is impressive but can have severe consequences such as high property prices and inflation rates. Additionally, the growing economy has caused increased interest rates when taking loans from financial institutions.

The business will consider what is acceptable socially or within the culture of the residents in Shenzhen before setting up the facility. Some of the factors to be considered under socio-cultural concepts include the internet usage habits of the clients and people around, access to the internet, as well as the norms and customs that may touch on gender, race, religion, and cultural background of the client⁴³. China is increasingly demanding new technology, and the Shenzhen region has ensured that its art is combined with technology to produce unique galleries. The advanced technologies can lead many artists to sell their products through online platforms; as such, the business might lose a significant part of the market.

The business will consider the legal issues around the Shenzhen region before establishing its facility. The presence of legal oversights often affects the business' brand perception. Also, China has little experience in drafting legislation with regards to intellectual

⁴² Overholt, William H. "China and the evolution of the world economy." *China Economic Review*

⁴³ Zhao, Meng. "The social enterprise emerges in China." (2012).

property rights, so in situations where the company would want to introduce a new product to the market, it will experience significant challenges in securing privacy.

According to Güneralp and Seto, China hosts one-fifth of the world's total population which has been noted to increase towards the urban region⁴⁴. Shenzhen is one of the fastest-growing cities in China, and the growing number of industries has caused pollution leading to strict environmental laws to new firms that are interested in establishing their businesses in the region.

⁴⁴ Güneralp, Burak, and Karen C. Seto. 2008. "Environmental Impacts of Urban Growth from an Integrated Dynamic Perspective: A Case Study of Shenzhen, South China." *Global Environmental Change*

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