

Chapter 6

The Development of the Cultural and Creative Industries in Taiwan and Its Significance for SMEs

With the cost of production factors rising and developing nations catching up fast, Taiwan's manufacturing sector has found itself in a difficult situation. Large-scale manufacturing operations no longer enjoy competitive advantage in Taiwan; in order to create new sources of competitive advantage Taiwanese industry needs to adopt the new concepts of the knowledge economy, developing new areas of production where innovative design is the core element. Only then will it be possible for Taiwanese companies to differentiate themselves from their overseas competitors and create more value added. If the cultural industries can strengthen their creativity and design capabilities and adopt effective business management methods, then they should have great potential. Their development will stimulate the growth of related peripheral industries, thereby boosting overall domestic demand and contributing to export growth. At the same time, if fair, reasonable pricing and licensing methods can be adopted in the cultural industries and the art world, and if they can be integrated effectively with consumer goods industries (for example through the laser printing of famous paintings onto scarves and cups), applying digital content technology to culture and creativity, then not only will this be a shot in the arm to the competitiveness of Taiwanese industry, but the resulting growth in exports will stimulate the ongoing development of the Taiwanese economy as a whole. While

helping traditional industries to upgrade and transform themselves, the adoption of new information technology will also facilitate the development of new industries and the creation of new employment opportunities, breathing new life into Taiwanese industry.

The development of the cultural and creative industry, which encompasses culture, art, technology and local traditions, has been prioritized by the government's Challenge 2008 National Development Plan. The objective of this chapter is to provide an overview of the industry's current state of development. Case studies of successful enterprises in the cultural and creative industry are presented so that their experience in terms of products and commercialization strategies can be of benefit to other SMEs, in the hope that this will lead to the creation of new business opportunities and new jobs. Finally, some policy recommendations for the promotion of the cultural and creative industry are put forward.

I The Current State of Taiwan's Cultural and Creative Industry

What is meant by the term "cultural and creative industry"? Put simply, it is those industries that have their origins in innovation or cultural accretion, and which have the potential to create wealth or create jobs through the production and utilization of intellectual property, and which can help to enhance the living environment for society as a whole. Table 6-1-1 shows the scope covered by the cultural and creative industry and the regulatory authorities that have responsibility for each segment.

Table 6-1-1 The Scope of the Cultural and Creative Industry and the Relevant Regulatory Authorities

Segment	Industry	Regulatory Authority	Scope
1	Visual arts industry	Council for Cultural Affairs	This includes all enterprises engaged in: painting, sculpture and the creation of other works of art; the auction and retail sale of works of art; art gallery operation; the exhibition of works of art; art dealership operation; authentication and appraisal of works of art; the repair of works of art, etc.
2	Music and performing arts industry	Council for Cultural Affairs	This includes all enterprises engaged in: the performance and writing of plays (script-writing, drama training, performance, etc.), musicals and opera (composing, performance training, performance, etc.); design and production of clothing for use in performances; design of scenery; stage lighting design; management of venues (large theaters, small theaters, concert halls, open-air stages, etc.); performing arts agency operations; performing arts hardware services (production and management of props, stage preparation, lighting equipment, sound equipment, etc.), arts festival organization, etc.
3	Cultural exhibition facilities industry	Council for Cultural Affairs	This includes all enterprises engaged in the management of and provision of services by art museums, other types of museum, arts centers (including artist villages), concert halls, performance venues, etc.
4	Handicrafts industry	Council for Cultural Affairs	This includes all enterprises engaged in the production of handicrafts, handicraft design, handicraft sales, handicraft authentication, etc.
5	Film industry	Government Information Office	This includes all enterprises engaged in film making, distribution, and performance, along with enterprises providing ancillary services to the film industry.
6	Broadcasting industry	Government Information Office	This includes all enterprises engaged in the operation of terrestrial television, cable television, satellite television and radio, as well as the production and supply of programs for these operations.
7	Publishing industry	Government Information Office	This includes all enterprises engaged in the publication of news, periodicals and magazines, books, records, cassette tapes and other products on which copyright exists. Enterprises engaged in the distribution of films fall under Industry 8520 (film distribution industry); enterprises engaged in the distribution of television and radio programs fall under Industry 8630 (radio and television program supply industry).
8	Advertising industry	Ministry of Economic Affairs	This includes all enterprises engaged in the design, drawing, photographing, modeling, production and installation of advertising and publicity materials. Enterprises engaged in the distribution of advertisements and the canvassing of advertising business also fall under this category.

Table 6-1-1 The Scope of the Cultural and Creative Industry and the Relevant Regulatory Authorities (continued)

Segment	Industry	Regulatory Authority	Scope
9	Design industry	Ministry of Economic Affairs	This includes all enterprises engaged in product planning, product industrial design, structural design, prototype and model production, fashion design, trademark design, brand visual design, two-dimensional visual design, packaging design, Web page and multimedia design, design consulting services, etc.
10	Designer brand and fashion industry	Ministry of Economic Affairs	This includes all enterprises engaged in clothing design, consulting, manufacturing and distribution where the designers are the core element in the brand.
11	Architectural design industry	Ministry of the Interior	This includes all enterprises engaged in architectural design, interior design, display design, store layout design, signage design, garden and park design, scenic design and landscaping.
12	Innovative lifestyle industry	Ministry of Economic Affairs	This includes all enterprises conforming to the following definition: <ol style="list-style-type: none"> 1. Enterprises that take creativity or cultural accretion as the basis for providing useful products or services in the areas of food, clothing, accommodation, travel, sport or entertainment using innovative methods. 2. Enterprises that employ compound management, using innovative methods to achieve a re-production capability, and providing learning experience activities.
13	Digital leisure and entertainment industry	Ministry of Economic Affairs	This includes all enterprises engaged in the provision of digital leisure and entertainment facilities, environmental and ecological leisure services, social activity leisure services, etc.: <ol style="list-style-type: none"> 1. Digital leisure and entertainment equipment, including 3DVR equipment, exercise equipment, game equipment, navigation systems, electronic vending machines, virtual reality equipment, etc. 2. Environmental and ecological leisure services, including digital multimedia theme parks, animation theme parks, museums, etc. 3. Social activity leisure services, including digital entertainment centers in shopping malls, community digital entertainment centers, cyber-cafes, children's entertainment and learning centers, daycare centers and schools, etc.

Note: This list was approved at the Third Meeting of the Ministry of Economic Affairs' Cultural and Creative Industry Promotion Team, July 9, 2003.

Source: Cultural and Creative Industry Promotion Team, Ministry of Economic Affairs.

Just how large is Taiwan's cultural and creative industry? According to data produced by the Ministry of Finance Tax Data Center, in 2002 the total operating revenue of the cultural and creative industry came to approximately NT\$523.24 billion. If one subtracts the value of intermediates, overall production value came to around NT\$302.62 billion; the industry included just over 47,800 enterprises, employing more than 325,500 people (Table 6-1-2). On-site interviews would be needed to determine the production value of the designer brand and fashion industry; the innovative lifestyle industry is a "compound industry" which extends over the food, clothing, accommodation, travel, sport and entertainment sectors. By assuming that 5% of the total production value of these sectors displays a high level of creativity, a rough estimate of production value can be made.

The four industries with the highest production value are the construction design industry, broadcasting industry, publishing industry and handicrafts industry. The industries employing the largest number of people are the design industry, digital leisure industry, advertising industry and publishing industry.

The UK has the most highly developed cultural and creative industry of any country in the world. In 2000 the cultural and creative industry accounted for around 7.9% of Britain's GDP. With total exports of £8.7 billion, the industry held a 3.3% share of Britain's total exports (Table 6-1-3), while accounting for 4.1% of the employed population. In Hong Kong, the cultural and creative industry accounts for 2.0% of GDP, and 3.7% of the employed population; in Australia it accounts for 3.3% of GDP; in New Zealand the industry

accounts for around 3.1% of GDP and 3.6% of the employed population. In Taiwan, the cultural and creative industry has total production value of NT\$302.62 billion; it accounts for approximately 2.9% of GDP, and employs about 325,500 people, 3.47% of the employed population.

Table 6-1-2 The Size of Taiwan's Cultural and Creative Industry and the Number of People Employed

Units: NT\$ millions ; enterprises ; persons

Industry No.	Cultural and Creative Industry Category	Production Value	Operating Revenue	No. of Enterprises	No. of Employees	Intermediate input
1	Visual arts industry	4,777	5,308	473	28,863	0.10
2	Music and performing arts industry	1,254	1,818	422	—	0.31
3	Cultural exhibition facilities industry	2,139	3,100	304	—	0.31
4	Handicrafts industry	41,971	60,828	8,947	—	0.31
5	Film industry	8,085	14,185	703	4,706	0.43
6	Broadcasting industry	50,411	88,441	1,811	31,375	0.43
7	Publishing industry	46,667	66,667	3,035	40,462	0.30
8	Advertising industry	24,664	107,236	10,170	41,850	0.77
9	Design industry	15,421	22,030	1,624	76,921	0.30
10	Designer brand and fashion industry	—	—	—	—	—
11	Architectural design industry	86,041	122,915	8,855	30,027	0.30
12	Innovative lifestyle industry	12,420	18,000	5,820	—	0.31
13	Digital leisure and entertainment industry	10,622	15,394	6,180	71,342	0.31
	Total	302,624	523,243	47,865	325,546	

Notes: 1. Production value = {operating revenue × (1-intermediates)}.

2. It is assumed that the intermediate value for the visual arts industry is 0.1.

Source: Ministry of Finance Tax Data Center.

It can thus be seen that the share of GDP held by the cultural and creative industry in Taiwan is slightly higher than in Hong Kong, but lower than in Australia and New Zealand, and much lower than in the UK. Clearly, Taiwan still has considerable room for growth in the development of the

Table 6-1-3 The Economic Significance of the Cultural and Creative Industry in Taiwan, the UK, Australia, New Zealand and Hong Kong

Unit: %

Country	Indicator	Production Value as Percentage of GDP	No. of People Employed as Percentage of the Total Employed Population
Hong Kong		2.0	3.70
New Zealand		3.1	3.60
Australia		3.3	3.70
UK		7.9	4.10
Taiwan		2.9	3.47

Sources: 1. Hong Kong Trade Development Council, 2000, *Creative Industries in Hong Kong*.
2. Chung-Hua Institution for Economic Research.

cultural and creative industry. Regarding the percentage of the total employed population who are working in the cultural and creative industry, the figure for Taiwan is slightly lower than those for Hong Kong, Australia and New Zealand, and much over than the figure for the UK. In Britain, the cultural and creative industry has created around 1.32 million jobs, a testimony to the important role that this industry can play in stimulating the appearance of new employment opportunities and in reducing income disparities within society.

II Case Studies – Successful Enterprises in the Cultural and Creative Industry

This section examines three case studies in the cultural and creative industry. Liuli Gongfang grew from a small workshop into one of the world's leading glassware makers; the Seagull Group has been very successful in marketing its “Franz” own-brand products in international markets; PiLi International

Multimedia successfully transformed itself from a traditional *budaihsi* puppet theatre troupe into a diversified enterprise.

1. Liuli Gongfang – Development and Strategies

Liuli Gongfang was established by Yi Chang and Hui-Shang Yang in 1987. The company began life as a small workshop located in Tanshui, Taipei County. Initially, Chang and Yang had just seven employees, and they had to develop their production technology more or less from scratch. Glassware manufacturing is an R&D-intensive industry, but one involving small-volume production of a large number of different products, and it was difficult to find experts who were interested in, or had the capabilities needed for, working in this industry. Liuli Gongfang had to feel its way by trial and error, and, spending a large amount of money on R&D, the company found itself heavily in debt. However, through sheer perseverance and constant willingness to learn, the Liuli Gongfang gradually found its feet. Yang and Chang developed a comprehensive production process based on methods that they had developed themselves. In late 1990, Liuli Gongfang held its first exhibition in the Eslite art gallery. This exhibition marked the first step in the company's efforts to promote the art of glass-making in Taiwan and develop a local market for its products; at around the same time, Liuli Gongfang also began to market its glassware overseas.

After more than a decade of effort, in 2001 Liuli Gongfang had combined domestic and overseas sales of more than NT\$700 million. By the end of 2002, the company had over 50 outlets and two factories, its capitalization exceeded NT\$150 million, and it had more than 800 employees, including 12–14 R&D personnel. Liuli Gongfang had been

invited to exhibit its products in Japan, the US, the UK, Italy, Germany and South Africa, and several of its pieces had been acquired by leading international museums to form part of their permanent collections. The company had played a leading role in the development of modern Chinese glassware making, and had succeeded in developing its own distinctive brand image.

In considering the factors behind Liuli Gongfang's success, it is necessary to focus on four areas: production, marketing, human resources and strategies.

(1) Production

On the production side, the key factors were the lead that Liuli Gongfang established over its competitors in the area of technology, and the lower production costs that resulted from locating production in mainland China.

a. The Core Technology – Lost-wax Casting

Due to the restrictions imposed by the equipment available to them, in the early days Liuli Gongfang had to rely on glass-blowing technology. However, using this technology they found it very difficult to increase their production capacity. Another consideration was that glass-blowing technology had been in existence for several hundred years in many countries around the world, and as a late entrant, it seemed unlikely that Liuli Gongfang would be able to achieve any real success in this area. Furthermore, glass-blowing techniques were not suited to the uniquely Chinese style that Yi Chang was trying to develop. Liuli Gongfang therefore began to look for new ways of making glass. The method the company ultimately adopted – “*patte-de-verre*” lost-wax casting – provided

maximum malleability and made it possible to achieve a high level of precision in replication and mass production. Using this new method, the company was able to produce glassware of exquisite beauty that conformed to the Liuli Gongfang ideal of reviving the art of Chinese glass making.

b. Reducing Production Costs by Establishing a Factory in Mainland China

In 1995, Liuli Gongfang established its second factory, located in the Qibao Industrial Park in the Minxing District of Shanghai. The lower production costs of this new production facility had a significant positive impact on the company's operational performance.

(2) Marketing

The main focus in Liuli Gongfang's marketing strategy has been on building name recognition and overall brand image. The company's products, which are distinctively "Chinese," are produced in limited editions; in addition, Liuli Gongfang has worked hard to develop international distribution channels.

a. Building Up Name Recognition and Overall Brand Image

The fame that both Hui-Shan Yang and Yi Chang enjoyed in Taiwan helped Liuli Gongfang to secure media exposure when the company was first getting off the ground. The media and the general public rapidly became familiar with the concept of "artistic glassware"; this was an important factor in the company's early development. Liuli Gongfang was well aware of the importance of overall brand image; its marketing concepts, strategies and implementation displayed a high level

of consistency. At both the company's own direct outlets and department store outlets, Liuli Gongfang personnel handle the sales operations themselves. Detailed rules govern everything from store layout and product packaging through to customer reception and product presentation.

b. Products with a Distinctly “Chinese” Character

Liuli Gongfang's ultimate objective has always been to create glassware with a unique “ethnic” style. With Chinese cultural coordinates as the foundation, Liuli Gongfang has developed its own modern artistic vocabulary to express the essence of Chinese culture, and their products thus have a distinct “cultural” aspect to them that has proved extremely attractive on both domestic and international markets.

In positioning the products, Yi Chang has tried to focus on the philosophy and the emotions they evoke, rather than on the objects themselves. With this in mind, he developed Liuli Gongfang's “product explanations.” The idea is to express what inspired each piece in a few succinct sentences. For glassware enthusiasts from a different cultural background, these explanations help to give the pieces a whole new level of meaning.

c. Limited Editions

In line with the emphasis that Liuli Gongfang's corporate culture places on “integrity,” the company has never gone in for large-volume production or efforts to maximize profits. Instead, its products are all issued in limited editions. Before production begins, each step in the production process is rated for difficulty; these scores are then added together to provide a

basis for calculating the unit price, and the total amount being invested in that particular piece is divided by the unit price to determine the number of pieces that will be produced. Once the agreed number of pieces has been made, production is terminated and the molds are destroyed. Each piece has engraved on its base the serial number of that particular piece and the total number that were produced. This limited edition strategy helps to maintain the value of Liuli Gongfang glassware, creating the potential for pieces to increase in value after purchase; it also encourages constant innovation by the Liuli Gongfang team.

d. Developing International Distribution Channels

Liuli Gongfang held its first overseas exhibition in 1992, at the Mitsukoshi Art Gallery in the Ginza district of Tokyo. Since then, the company has held exhibitions in Italy, the US, Germany, Singapore, Switzerland, South Africa, the Czech Republic and the UK.

Today, besides the company's 20 outlets in Taiwan, Liuli Gongfang has a distribution network that covers mainland China, Singapore, Europe and the US. In mainland China, there are now more than 20 Liuli Gongfang galleries in Shanghai, Beijing, Hangzhou, Dalian and Harbin. These mainland China outlets now account for more than 50% of total sales revenues, and sales are continuing to grow rapidly.

(3) Human Resources

Liuli Gongfang attaches great importance to the cultivation of human talent. In order to boost the capabilities of its employees, Liuli Gongfang employs experts to collect and collate the latest

information on new glassware-making developments from all over the world and to study the latest pieces by leading designers. Liuli Gongfang spent a considerable sum of money to establish a library (open to the general public) on the third floor of its Tanshui production facility, containing several hundred books relating to the arts, culture and philosophy. In order to give company employees the opportunity to learn new skills and to achieve a higher level of interaction with the international glass-making community, Liuli Gongfang also sends employees to study overseas on a regular basis.

(4) Strategy

In order to integrate the art of glassware into people's everyday lives, Liuli Gongfang has begun to expand into architecture, interior design and lifestyle products (such as sets of glasses and light fittings). Towards the end of 2001, Liuli Gongfang opened the TMSK restaurant, the first restaurant of its kind in Shanghai, in Xin Tiandi luxury shopping center. TMSK uses glassware for all of its interior furnishings, and features a glass lotus pond, glass lamps and a glass-embellished dome, etc.

With its unique atmosphere, TMSK has become a favorite meeting place for Shanghai trendsetters, particularly foreigners. By making glassware part of the lives of Shanghai's elite, Liuli Gongfang has succeeded in raising the visibility of its products, and has created a new source of revenue.

2. Franz – Development and Strategies

Franz is a brand launched by the Seagull Group in 2001. The parent company, Seagull Décor Co., Ltd., was established by Francis Chen in 1984. It started out as a trading company

handling the exportation of wood and leather products, gifts, etc., and undertaking ODM/OEM production for a large number of leading foreign corporations.

With the downturn in the global economy of the last few years, the level of demand in the European and North American gift markets has shrunk. At the same time, mainland Chinese companies have gradually developed the capability to manufacture similar products at low cost, making it harder for the Taiwanese ODM/OEM makers to stay in business. In 2001 the Seagull Group launched its “Franz” brand, seeking to exploit the technical knowledge and network of contacts that the company had built up over the years to expand outwards from the R&D and manufacturing segments of the value chain into brand management and marketing. In that same year Seagull established Franz Collection, Inc. in the US, making the US its main target market while still thinking in global terms. Currently, Franz has its R&D and design facilities in Taipei, with production being located in Taiwan and mainland China. The US headquarters is in San Francisco, with agents in Europe, New Zealand and Australia. Franz (Taipei) handles the brand’s operations in the Greater China region.

As of August 2003, the Seagull Group had more than 6,000 employees located all over the world, with approximately 800 in Taiwan. Franz (Taipei) has four main divisions – administration, products, operations and business development. In 2003 the Seagull Group as a whole had total operating revenue of US\$5–6 million, with OEM/ODM business accounting for 80–90% of this. How has the Seagull Group managed to develop its own brand successfully in international markets in just three years? To answer this

question, it is necessary to focus on its design and R&D, production, marketing, human resources and finance.

(1) Design and R&D

In the area of design and R&D, Franz has adopted the following measures:

a. Establishment of a First-rate Design Team

Besides cultivating its own design team in-house, Franz has also recruited master ceramists from Yingko and Miaoli to undertake design work. As a result, the company now possesses an outstanding design capability. As regards the types of design work undertaken, besides continuing to launch new ranges of products such as its Butterfly Dance, Green Frog and Dragonfly series, Franz also uses the market data and forecasts produced by the marketing department to add new items to those ranges that have proved particularly popular with consumers; Franz has proved very successful at giving the market what it wants.

b. Aggressive R&D

Since 1997, the Seagull Group has invested hundreds of millions of NT dollars into the development of its ceramics R&D and production capabilities. As a result, the group now possesses one of the world's finest ceramics technology development teams, and is actively involved in various aspects of materials research and product R&D. Besides the Poly materials in which Seagull already excelled, Franz is now able to achieve effective integration of ceramics, metal, lapis and bullet-proof glass, combining these materials in innovative

ways.

c. Making Effective Use of High Technology to Produce Better, More Efficient Designs

Besides traditional hand-drawn designs, Franz now also uses hi-tech software and hardware equipment; the precision and accuracy of these new methods complements the traditional design techniques. Franz has also set up a database to store the knowledge accumulated by its designers, making it easy for employees to access the information they need. Effective application of high technology enables Franz to achieve a higher level of perfection in its designs and to improve overall efficiency.

d. Recruiting Ceramics Experts to Serve as Consultants

Franz's artistic consultant is Mr. Shao Sun, who received the National Award for the Arts in 1988. Mr. Sun spent many years at the National Palace Museum studying the firing techniques that have been used to produce Chinese ceramics over the centuries. In a career spanning more than 30 years, his own artistic creations (which integrate crystal glaze techniques and woodblock printing techniques) have won plaudits from the world's leading museums. Mr. Sun's supervision ensures that Franz pieces maintain a high level of artistic quality; with his assistance, Franz is able to use the advanced techniques and processes to create pieces of great beauty with a modernistic feel.

(2) Production

The Seagull Group's extensive experience in ODM/OEM

production provides a solid foundation for the commercialization of Franz's designs. Franz enjoys a definite advantage over its competitors in the area of production.

a. Mastery of Complex Techniques

Underglaze decoration is the most important technique employed by Franz. The production processes include the sculpting of the basic form, the production of the plaster mold, pouring in the clay, biscuit firing, and the addition of colors and glazes; in all, there are around 100 procedures that have to be completed, and every detail has to be perfect. For example, when producing the initial prototype, great care must be taken to ensure that the designer's original concept is faithfully reflected in the prototype. When making the mold, mold lines must be kept to a minimum, and the individual mold segments must fit together properly in such a way that the piece retains its original shape. The introduction of the clay into the mold must be performed at the right speed so as to prevent bubbles from forming, and the biscuit must be given a smooth finish. During firing, care must be taken to prevent deformation, and when applying the decoration every individual brushstroke must be controlled with the utmost precision. Finally, the glaze must be applied evenly to ensure that the finished piece is without blemish.

b. Efficient Management to Satisfy the Needs of the Market

Once the sample has been made by hand, it is shipped to the factory for mass production. However, the color decoration must still be applied by hand. Franz attaches great importance to efficient factory management; as a result, the company is able to produce large quantities of pieces with uniform quality

that conform to market needs.

c. Establishing Factories in Mainland China to Reduce Production Cost

Besides its factory in the Neihu Technology Park, the Seagull Group also has factories at Xiamen, Shenzhen and Dongguan in mainland China, and is currently constructing an additional production facility at Jingdezhen in Jiangxi Province. The establishment of these production facilities in mainland China has made an important contribution towards bringing production costs down.

(3) Marketing

Measures adopted by Franz to strengthen its marketing activities include the following:

a. Taking Subjects from Nature to Make One's Products Stand Out and Create Market Segmentation

Nature is a common language shared by every part of the world. In order to be more distinctive and achieve market segmentation, Franz products take their subject matter from nature; their bright colors and bold decoration create a warm, intimate feeling, while at the same time the products are full of life, and are highly diversified. Franz products include porcelain collector's pieces, porcelain vessels for everyday use (cups, vases, plates, etc.), furnishings and jewelry.

b. Active Participation in Exhibitions to Build Up an International Brand Image

In order to build up its brand recognition as quickly as possible,

Franz has participated actively in exhibitions and competitions both in Taiwan and overseas. In 2002, Franz was selected from among more than 10,000 competing brands to receive the Award for the Best Gift Collector's Items at the New York International Gift Fair. This award has been a great help to Franz in developing international marketing channels, and since receiving it, Franz has enjoyed rapid growth in overseas markets. In Taiwan, 2003 saw Franz receiving both the Most Fashionable Ceramic Decorations Award and Award for Excellence in the annual evaluation of ceramic products conducted jointly by the Council for Cultural Affairs and the Taiwan Handicrafts Research Institute; Franz products have proved consistently popular with consumers in Taiwan.

c. Establishing a Global Marketing Network

Building on the Seagull Group's network of contacts and international marketing know-how, Franz has been very successful in developing international markets. Currently, marketing in the US and Taiwan markets is handled directly by the Seagull Group, while marketing in Europe, New Zealand and Australia is handled through agents. Seagull has thus succeeded in establishing a marketing network that extends throughout the world. Distribution is mainly through prestigious department store outlets such as Harrods, Neiman Marcus, David Jones and Lane Crawford. As of February 2004, Franz had more than 4,000 sales outlets all over the world.

(4) Human Resources

The cultivation of human talent, knowledge management and innovation play an important part in the Seagull Group's management philosophy, and the group attaches great

importance to the training and cultivation of design and technical personnel over the long-term. Several of Franz's designers had been cultivated by Seagull over a period of many years.

(5) Finance

OEM and ODM business is the main source of revenue for the Seagull Group. This revenue source has made the group financially strong enough to be able to support the development of its own brand, and has given it the resources needed for market development. Currently, ODM and OEM still account for around 80–90% of the Seagull Group's total operating revenue.

3. PiLi International Multimedia – Successful Integration of Traditional Budaihsi Puppet Theater with Multimedia

PiLi International Multimedia has brought together traditional puppet theater and multimedia technology. Through intensive R&D and innovation, it has succeeded in fusing a traditional performing art with modern culture, breathing new life into Taiwan's traditional arts. Taking *budaihsi* puppet theater as its starting point, PiLi has expanded into other segments of the entertainment sector. Combining cultural value with entertainment value, PiLi has become a dominant force in Taiwanese culture.

PiLi was founded in 1970. In 1991 the company began to produce the “PiLi *Budaihsi*” videos, which even today are still the most-rented items in Taiwan's video and VCD rental shops. By 1995 PiLi had established the PiLi Satellite TV Channel,

the first TV channel to focus on one of Taiwan's traditional arts.

In recent years PiLi has been collaborating with the Art Alliance to develop a wide variety of peripheral products, including comic books, martial arts novels, collections of photographs, music CDs, VCDs, PC games, on-line games, etc. The high sales achieved by these products led PiLi to establish Ju Bang International Marketing Co., Ltd. in 1999. Working through Ju Bang, PiLi has implemented a systematic promotion strategy to develop the peripheral product and character licensing markets; this strategy has included the development of new types of characters to appeal to different age groups.

Throughout its existence, PiLi has remained true to the original *Budaihsi* philosophy and culture, while at the same time working to integrate the *Budaihsi* tradition with modern culture and the contemporary environment. The company has been so successful in this endeavor that it has become a pathfinder for the Taiwanese cultural and creative industry as a whole, and a model for the successful commercialization of traditional culture. In 2002, PiLi received a certificate from the Government Information Office formally acknowledging its status as a member of an "important emerging industry." The following sections will examine PiLi's operations in the areas of marketing, finance, operational management and overall business strategy.

(1) Marketing

In the area of marketing, the methods adopted by the PiLi Group include the following:

a. Logo Licensing

The characters from PiLi *Budaihsi* programs are now being used in a wide range of industries, including the financial sector, telecommunications, the textile industry, manufacturing and the food industry, and on an enormous range of products, including household goods, stationery, gifts, stamps, credit cards, phone cards, T-shirts, models, toys, on-line games, snack foods, etc.

b. Product Licensing

PiLi has been forming cross-industry alliances and licensing the rights to manufacture products based on its characters to other companies. The most important licensed products include comic books, card games, on-line games, credit cards and phone cards.

(2) Finance

Currently, the PiLi Group has four main revenue sources: video rental sales, satellite TV channel revenue, sales of peripheral products, and overseas licensing revenue. The ratio between sales of peripheral products and PiLi's core business is roughly 1:10.

(3) Operational Management

PiLi Multimedia has become a model for other companies in the cultural and creative industry. Business promotion is aggressive, the potential for future market growth is strong, and the scope of PiLi's products and services is broad. PiLi enjoys competitive advantage in the following areas:

a. Unique Product Technology

PiLi possesses expertise in both traditional *budaihsi* puppet theater and television and film production; this combination creates entry barriers that are very difficult for any would-be competitor to surmount. To achieve perfection in *budaihsi* performance, one needs an in-depth knowledge of Chinese culture, along with the necessary performance skills; new entrants will find these skills hard to acquire.

b. Brand Advantage

PiLi is the market leader, and many of its characters have acquired “star” status. Over the years, PiLi has built up a close relationship with its customers, and has become synonymous with *Budaihsi* performance in Taiwan.

c. Control Over Media Distribution

PiLi has its own TV channel, and produces its own publications and videos. In Taiwan, 99% of households with cable television can receive PiLi’s programs. Not only does this advantage create a formidable barrier to competitors, it also gives PiLi a strong foundation on which to build in the future.

(4) Overall Business Strategy

PiLi’s success can be attributed to the following key strategies:

- a. Making adjustments to the company’s strategy in line with the changes taking place in society as a whole.
- b. Making effective use of innovation to develop new customer

target groups.

- c. Keeping a finger on the pulse of the market and undertaking careful analysis of consumer psychology.
- d. A precise division of labor to enhance production efficiency and increase production capacity.
- e. Adoption of new management systems to make management more systematic.
- f. Diversification and development of peripheral products to boost operating revenue.

PiLi has constantly striven for innovation and improvement to keep apace with change in the market and in society as a whole. It has been able to keep developing new markets and to achieve a high level of efficiency within the company. PiLi's business continues to grow, and it has already made an important contribution to the development of the cultural and creative industry in Taiwan.

III Strategies for the Future

The cultural and creative industry can be divided into the handicraft industry, where commercialization is relatively easy to implement, and the "cultural economy" where this is less true. The following section examines ways in which the government and private-sector companies can work together to promote the development of the cultural and creative industry.

1. Commercialization in the Handicrafts Industry

If a maker of handicrafts wishes to transform their business from a small-scale workshop into a fully-fledged company, first of all they need to start thinking about costs and profits. If the gross profit margin is less than 50%, then the company may find that it is unable to bear the cost of R&D and distribution channel development. One also needs to consider whether the company's products are sufficiently innovative and distinctive for brand development to be successful, or whether the company possesses some particular edge in terms of technology, or has a niche market that it can develop. The transformation from workshop into company is bound to involve major upheavals in terms of personnel and management, and if external funding sources are tapped then the company will find itself under heavy pressure with respect to profitability and market development.

If a company feels that establishing its own brand right away is too risky, then an alternative strategy would be that adopted by Seagull – undertaking ODM/OEM work for leading vendors, or licensing one's products to other companies while insisting that they continue to bear your trademark. In this way, companies can maintain a steady flow of profits while slowly building up brand recognition and waiting until the time is ripe to move into branded manufacturing.

2. The “Industrialization of Culture”

The process whereby culture becomes industrialized can be divided into several stages: The “original idea stage,” the “innovation formation stage,” the “start-up stage,” and the final “industrialization stage.” The requirements imposed by these

stages, and the restrictions relating to the provision of assistance by the government result in a situation where the “industrialization of culture” is best suited to those companies that possess innovation, originality, their own brands, and the capabilities needed for successful commercialization.

At the “original idea stage,” private-sector enterprises are involved in the establishment of “innovation brain trusts,” stimulating creativity and innovation, and playing an important role as intermediary. As for the government, besides encouraging the cultivation of human talent, its role also embraces the maintenance of contact and interaction with the “brain trusts” established in the private sector, as well as helping Taiwan to access international talent and ensuring that Taiwan stays abreast of developments in other parts of the world.

At the “innovation formation stage,” assistance is needed (in terms of capital, human talent and industry cluster formation) to ensure effective integration of innovation and applications and encourage the involvement of the venture capital industry. The main role for the government at this stage is to focus on the establishment of an innovation network platform. This platform must include overseas agents, buyers and venture capital firms, together with companies in Taiwan’s cultural industry. Government assistance can reduce the cost of accessing venture capital, and can facilitate the development of industry clusters. In more concrete terms, the government might want to consider developing cultural and creative industrial parks into a type of cultural platform. These parks could become a venue for interaction between cultural and artistic organizations and the formation of cross-industry

alliances, and would have an important publicity effect.

At the “start-up stage,” the process of industrialization needs to be speeded up. In addition to the protection of intellectual property rights, attention must also be paid to appraising the value of intangible assets, and to the establishment of brands, intermediary organizations and distribution channels. As for the government’s role, the government can leverage the “brain trusts” that will have been established by this stage to select projects that can serve as models for other companies, and then concentrate resources to help in the implementation of these projects. By providing assistance in the areas of talent, funding and land (for factory building), the government can help to ensure the success of projects that will lead the way for others, turning the industrialization of the innovative and cultural sector into an unstoppable trend.

3. Government Assistance

There are several areas in which the government can provide assistance. They include:

- (1) Focusing on particular cultural and creative industries that have strong development potential, and positioning them as “flagship industries.” The government can then coordinate to concentrate resources on these industries to provide assistance in the areas of talent, funding, technology and business environment.
- (2) Making companies’ business plans one of the criteria on which the provision of government subsidies is based. A company’s business plan would then play an important part

in the process of securing venture capital funding.

- (3) By canvassing the views of experts and overseeing the establishment of effective peripheral and supporting systems for Taiwan's cultural and creative industrial parks, the government can stimulate the development of an industry cluster effect.
- (4) An SME innovation subsidiary plan could be used to provide small amounts of funding for entrepreneurs with innovative ideas.
- (5) The establishment of special funds and the effective utilization of the Reserve Officer Training Program for National Defense system can be used to foster the growth of companies that can serve as models for the cultural and creative industry as a whole.