

Functional Diversification Strategy: A Key Factor in the development of start-up Art Districts brand building

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Abstract:

Our research focuses on the difference between functional diversification strategy and product functional diversification strategy, and give a detailed definition and introduction. As well as focused on exploring how a functional diversification strategy contributes to art district branding in the early stages. We employed the case study approach, examining the SteelStacks Cultural Arts Park in Bethlehem, USA. Our findings highlight the benefits of a diverse, integrated arts district as exemplified by SteelStacks, which underwent a successful transformation. The case underscores the importance of economic revitalization, cultural renaissance, community engagement, sustainable development, and collaboration in fostering vibrant and resilient arts districts that serve both the local community and society at large.

Keywords: functional diversification strategy; art districts; start-up brand.

1. Introduction

In the city of Beijing in the last twenty years, some districts have emerged that have become diversified spaces where artistic expression, commercial viability, community involvement and all these things thrive. For example, the Beijing 798 Art District over the last few years as changed from a simple original electronics manufacturing plant to a culture and creative industry gathering area with diversified spaces attracting a lot of young people [1]. It brings together many cultural and artistic elements such as galleries, design and art studios, art exhibitions, restaurants and bars. Nearly 20 countries and regions have settled in this district, with a total of more than 500 cultural and art, creative design and tourism services and other organizations. In 2003, the 798 Art District was regarded as one of the 22 most culturally iconic urban art centers in the world by Time Magazine.

This is one of the examples of how some art districts have carved out distinctive spaces for themselves by adopting a diversification strategy. As a start-up art district brand, if it's just an exhibition hall with lots of sculptures or paintings, it's hard to survive in the market where exists many famous modern art galleries. Cause there is not much difference in the display and layout of artworks, or even the design of artworks themselves, so it is a great challenge

to successfully attract new customers [2]. Traditional avenues for funding and sustaining arts and culture often dry up, leaving many initiatives struggling to survive later. Thus, an entrepreneur with a start-up business has a lot on his or her plate, it's necessary for them to innovate in the entrepreneurial strategy, the research also found a strong correlation between the change in programming strategy and a change in arts economic development policy norms [3]. However, the emergence of diversification strategy offers a glimmer of hope. These districts, by virtue of their innovative business models and partnerships, bringing forth new ideas of consumption, have tapped into new revenue streams and audiences, ensuring their longevity and relevance.

By diversifying their operations across different industries, markets, or product lines, blending different functions and experiences, maybe the combination of food and coffee, daily necessities and artworks, or even cross-border integration of technology and art, companies can enhance their resilience and adaptability in today's dynamic business environment. Thereby invigorating the cultural landscape of cities and contributing to the economic resurgence. We want to research the critical role played by functionally diversified strategies in the development of start-up art district brand in the early days of brand building, and how such an approach can led to sustainable

growth and positive outcomes for various stakeholders. Understanding how diversification affects the performance of art districts has become an important research topic in branding management. However, most prior studies have been based on data from the sample of product diversification strategy, and have yielded little insight into the performance of functional diversification strategies due to distinct diversification strategy options for entrepreneurs. In the work, to fill this research gap, we raise the research questions: How a functional diversification strategy can help art districts brand building during the start-up period? To answer these questions, we analyze the effectiveness of functional diversification strategy helping art districts brand building during the start-up period using cases of some successful art districts.

2. Literature Review

Diversification strategy refers to how a firm diversifies its business into different regions or product fields. It has been an important way for firms to share various resources embedded in different markets and enterprises [4]. There are two types of diversification strategy, product and function diversification. Product diversification refers to the expansion of firms into related and unrelated product segments or into vertical and horizontal segments [5].

But with a diverse range of products, it becomes more challenging to focus resources effectively. The business may need to allocate capital, human resources, and attention across multiple product lines, potentially leading to a lack of depth and expertise in any product area [6]. And the addition of unrelated products or services can confuse customers and dilute the unique value proposition of the brand, so there are challenges in marketing, the business may need to invest more in marketing efforts to ensure that all product lines receive adequate promotion and awareness [7]. In conclusion, while product diversification can bring benefits to a business, it also introduces several challenges and potential risks. Eastman Kodak Company is a typical example, once a titan in the photography industry, filed for Chapter 11 bankruptcy in 2012 [8]. A significant factor contributing to its downfall was its unsuccessful diversification strategy, particularly in pursuing product diversification without fully understanding the changing market dynamics. In response to these changes, Kodak attempted to diversify its product offerings. It expanded into various unrelated product segments, such as pharmaceuticals, medical imaging, and even kitchen appliances. Despite these efforts, Kodak failed to achieve meaningful progress in these new markets due to poor market understanding and execution, and this diversification scattered the company's resources and focus, prevent-

ing timely adaptation to the rise of digital photography, ultimately resulting in market decline and bankruptcy.

Faced with such shortcomings, entrepreneurs need to change the direction of their diversification strategies. Functional diversification may be a better choice, it indicates that a firm's business is extended to a new industry or product market, also enables a firm to obtain and accumulate resources, such as technology, services, and customers, distributed among industries. It can increase a firm's store of knowledge and resources that were not previously available within the organization. That means a business acquires multiple companies and expands in different business fields [9]. At the same time, we also moved from the above examples to the inspiration of the art district, whether we should cater more to the needs of customers [10]. For the art district, there are many different customers with different motivations and expectations. Art district often cannot meet the needs and expectations of customers from a single aspect, at this time, the diversified art district shows its unique advantage strategy. The diversified art area is a place that integrates the functions of visiting, selling, exhibition, activity, entertainment, leisure, etc. to enhance user-oriented interaction. Understanding the customer dimension of the service is essential to increase the development of visits and create value not only for consumers but also for investors [11].

3. Material and Method (Case Study)

3.1 The introduction of background

SteelStacks, an excellent example of an art district brand using functional diversification strategy, through the integration and collaboration, it achieved successful transformation eventually as well as building awareness and associations to encourage visitors, investment, spending, etc [12]. In the 1980s, the stagnation of the development of infrastructure, real estate and automobile and ship industries in the United States led to a severe situation of over-supply of steel markets. In 2005, BethWorksNow acquired the iconic blast furnace and 126 acres of surrounding land from International Steel Group. The following year, Sands Group and BethWorksNow reached an agreement to form a joint venture company. Jointly renovate and develop the blast furnace area of the Bethlehem Steel Plant. Thus, based on the site of the Bethlehem steel mill, a seed representing the Renaissance of new Age American culture and art began to take root and grow into a towering tree - SteelStacks.

The funds for the renovation of SteelStacks are divided into three major sources: the newly built part of the hotel commercial complex on the east side of the park is directly funded by Sands; The renovation of the visitor

center, the Hanging garden Trestle in the Hoover-Mason Trestle blast furnace area, the Levitt Pavilion and other open Spaces were financed by government-approved Tax Increment Financing, TIF) to provide funding; The ArtQuest Center and the PBS Performing Arts Production Center were funded by donations, nonprofit funds and private investment. Diversified funding sources provide a comprehensive and sufficient “economic foundation” for the “superstructure” of the park, and significantly reduce the burden on the government and the Sands Group, the leading party of the development.

Building a multi-functional construction is the reason why this district is so attractive than others. ArtQuest Center is a four-story building designed to provide a suitable space for a variety of arts and cultural events. Due to the need for multi-functional use and flexible combination, the interior of the building adopts the design of open large space and tries not to set up any fixed facilities, except for the small screening hall located on the fourth floor and the necessary auxiliary rooms. The large open space on the first floor is mainly used for catering services, the second floor can host art exhibitions and small events, and the third and fourth floors are the famous Musikfest Cafe, named after Pennsylvania’s world-famous Yuengling beer brewing. The PBS Performing Arts Production Center is adjacent to the east side of ArtQuest Center, as the headquarters of PBS39, which contains two TV program studios and a large public education center. In addition to daily broadcasting, PBS39 is also responsible for the media output of all performance activities in the park.

The Renaissance stimulated industrial vitality. In the initial operational plan, the SteelStacks campus’ extensive marketing activities were primarily conducted through a partnership with Musikfest, the largest free music festival in the United States, which was originally created because of ArtsQuest. Estimates of its marketing effect are also relatively conservative, limited to a 40-mile radius of Bethlehem, covering 2.7 million people. However, inside the ArtsQuest Center, music, art and film are almost never interrupted - the ArtsQuest non-profit arts organization sponsors 150 to 170 musical performances of any style each year at the Musikfest cafe. On Thursday, Friday and Saturday, local artists are invited to hold small concerts in the open space on the ground floor. The small cinema on the top floor, in addition to showing independent films, also serves as a light dining and leisure bar. With the growing influence of the park, SteelStacks attracted the attention of Hollywood as far away as the West Coast of the United States, and the park became one of the location filming locations for Transformers II with its steel culture. Since then, almost every two weeks, Hollywood stars

have come to hold meet-and-greets. The transformation of the SteelStacks site from an industrial relic to a globally renowned art and cultural park offers valuable insights into the advantages of a diverse integrated arts district and the lessons we can learn from such a successful initiative.

3.2 The pros of functional diversification of art district

Firstly, Economic Revitalization. One of the most significant advantages of a diverse integrated arts district is its potential to revitalize the local economy. The SteelStacks project has demonstrated how an abandoned industrial site can be transformed into a vibrant cultural hub, attracting tourists, investors, and businesses. This, in turn, creates job opportunities and stimulates economic growth in the region. Secondly, Cultural Renaissance. A diverse integrated arts district fosters a cultural renaissance, as seen in the case of SteelStacks. By combining various art forms, such as music, film, and visual arts, the district becomes a melting pot of creativity and innovation. This cultural diversity not only enriches the local community but also promotes cross-cultural understanding and appreciation. Thirdly, Community Engagement. The establishment of a diverse integrated arts district encourages community engagement and participation. SteelStacks has become a gathering place for locals and visitors alike, offering a wide range of activities and events that cater to different interests. This sense of community fosters social harmony and a shared sense of pride in the area. Moreover, Sustainable Development. A diverse integrated arts district promotes sustainable development by repurposing existing infrastructure. The transformation of the Bethlehem Steel mill into SteelStacks serves as a model for reusing industrial sites in an environmentally friendly and culturally significant way. Last but not the least, Branding and Marketing. A successful arts district can serve as a unique branding and marketing tool for a city or region. SteelStacks has become a symbol of Bethlehem’s cultural renaissance, attracting international attention and improving the city’s appearance.

3.3 The lessons we learned

As a brand entrepreneur in the art district, there are some management ideas that can learn from SteelStacks to help brands survive and grow. The most significant idea is flexible planning and multi-functional design. The ArtQuest Center’s design, with its open and multi-functional spaces, demonstrates the importance of flexibility in planning and design. This allows the arts district to accommodate a wide range of activities and adapt to changing needs over time. The continuous programming of music, art, and film events at SteelStacks underscores the importance of

cultural events in attracting visitors and maintaining the district's vitality. These events also serve as a platform for local artists to showcase their talents. Diversified Funding Sources. The funding model of SteelStacks, which relies on a mix of private investment, government support, and nonprofit funds, highlights the importance of diversified funding sources for such projects. This approach not only ensures financial stability but also reduces the burden on any single entity. Marketing and collaborative efforts. The success of SteelStacks is a testament to the power of collaboration. The project requires the joint efforts of the government, developers, organizations, planners, and the local community. This collaborative approach ensures that various stakeholders are involved and their interests are considered. Besides, the partnership with Musikfest and the subsequent marketing efforts played a crucial role in the success of SteelStacks. It emphasizes the importance of strategic marketing and forming partnerships with established events and organizations to enhance the district's visibility and appeal.

3.4 The summary of the case

All in all, the case study of SteelStacks provides valuable insights into the advantages of a diverse integrated arts district and the lessons learned from its successful transformation. By embracing economic revitalization, cultural renaissance, community engagement, sustainable development, and collaborative efforts, cities and regions can create vibrant and resilient arts districts that benefit both the local community and the broader society.

4. Theoretical & Practical guiding implication

The findings of this study have important theoretical and practical implications for art district brand building. Our investigation into this matter will illustrate the specific components of this diversified approach. We will analyze how the symbiotic relationship in the integration of art with other entertainment sectors benefits both the district as a brand, and visitors. Additionally, we will examine the role of partnerships and community engagement in enhancing the sustainability and vibrancy of these districts. Ultimately, our goal is to understand the mechanisms behind the success of these art districts or the form of diversification and to extract experiences that can be applied. By highlighting the flexible and inclusive model, we aim to contribute to the discourse on urban regeneration and cultural entrepreneurship. Our findings could serve as a blueprint for policymakers, investors, and artistic creator that help them creative active and enduring art districts which can not only withstand economic downturn

but also emerge stronger and more vibrant energy than ever before.

5. Limitation

This study has several limitations that offer opportunities for future research. For example, our research objects are areas with a higher level of development or artistic pursuit, for the art districts in these areas, people have a higher level of consumption, and most of people are willing to enjoy a richer spiritual life, they may want to drink a cup of coffee after visiting the gallery, especially the young people, so it is a good choice for the art district to use a functional diversification strategy. But for those less developed areas with lower artistic pursuit, this strategy may not be necessarily suitable. For example, in a certain place, the local people's demand for art districts is generally very simple, or some people have no enough energy to experience all kinds of services in the whole district provided by diverse functional sectors, so setting up other functional areas is a kind of wasting resources.

Besides, the functional diversification strategy will have a problem is that the management of diversified business can be more complicated than operating a single function, because it may require different skills and operating models, function-diversified firms need to deal with a substantial number of different kind of transactions. So that managers need to adjust their internal governance structure and resource configuration to respond to environmental uncertainties. Otherwise, resources from diverse markets and industries cannot be better integrated and utilized to create advantages for innovation development.

6. Conclusion

On balance, compared with the product diversification policy, the functional diversification policy can help the art district to meet the needs of customers in more different aspects, because the functional diversification policy can help the art district to flexibly plan and design their multi-functional space. In addition, the functional diversity policy can help start-up brands and art districts to promote to the greatest extent, because the functional diversity art department will hold music, art and film activities, etc. so the organizers who cooperate with them will promote these activities to the greatest extent. This will help the functionally diverse arts district and start-up brands become more competitive and attract more young customers, which is crucial to these functionally diverse startup brands and art districts. In the future, we hope that there will be more functionally diversified art districts not only in countries with better development, but also in countries with relatively backward development. And it is important

that these functionally diversified art districts are not only for young people, but also for people of more age groups, such as the middle-aged and the elderly. We also hope that the local government can introduce friendly management policies and have financial support the encourage this kind of business model.

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