

Staying ahead: the economic performance of the UK's creative industries

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Staying ahead: the economic performance of the UK's creative industries

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The creative industries A stylised typology



Forewords

Foreword – Tessa Jowell



The Creative Economy Programme, which we began in November 2005, is one of the most important pieces of work undertaken by the DCMS. The size of the creative industries is comparable to the financial services sector. They now make up 7.3 per cent of the economy, and are growing at 5 per cent per year (almost twice the rate of the rest of the economy). Including those working in related creative occupations, the creative economy employs 1.8 million people.

The UK creative industries outperform every other European state and in the 21st century they have moved to centre stage of the UK economy. It is vital to the whole economy that Government works with industry to create a framework in which these sectors can flourish.

Our analysis of the creative economy began with The Creative Industries Task Force and Mapping Documents in 1998 begun by my predecessor, Chris Smith. Many of the challenges those mapping documents identified are still relevant today, but the industries themselves are constantly changing, driven particularly by the speed of technology and globalisation. Since the Mapping Document, interest in the development of the creative industries and creative economy has spread worldwide.

The Creative Economy Programme is developing the early Mapping Document work and this Report to Government by The Work Foundation, which was commissioned as part of the Programme, is an important contribution to the continuing work and debate. It is significant not only for DCMS and DTI but for all Government Departments and the economy more widely.

The analysis by The Work Foundation puts at the heart of the UK economy scriptwriters, computer programmers, designers and musicians. It brings into focus institutions like the Victoria and Albert Museum, the British Library, the BBC and the National Theatre. In doing so it recognises not just their cultural influence but also their critical economic value. The Work Foundation's report recognises the significance of design and innovation not only to the creative and cultural industries but also to the wider economy, and the work of the Creative Economy Programme complements that of George Cox's report published in 2005.

There is a wide range of issues raised here. Some of these reflect market failures, which is what makes them the concern of Government as well as industry. But even where the issues are clear, the role of Government in intervening may not be.

This report and the other work which the Programme is undertaking certainly raise questions for public cultural programmes, as we look for the best way to achieve our social and economic objectives.

One thing though is already clear. For too long discussion about cultural and artistic activity has been dominated by arguments about how much funding the Government makes available to cultural institutions.

The Work Foundation analysis firmly endorses the value of public investment, but widens the scope to embrace the vital role of education, skills, diversity, networks, cultural investment and public institutions, access to finance, business skills, the intellectual property framework, access to market, regulation, competition and crucially the collection of evidence and data.

A huge amount of work has gone into this report and I am grateful to The Work Foundation and indeed to all those who continue to help us in the Creative Economy Programme.

Undoubtedly this report will stimulate and provoke broad discussion. The value of this analysis is that it should do just that.

Tosh Jum.

The Secretary of State for Culture, Media and Sport, The Right Honourable Tessa Jowell MP Foreword – Will Hutton



The Creative Economy Programme, launched in November 2005, seeks to create the best framework to support the innovation, growth and productivity of the creative industries. It was conceived as an ongoing iterative relationship between government and the creative industries in which problems could be identified and solutions proferred to a sector that is increasingly significant in the British economy.

The Work Foundation was commissioned by the Department for Culture, Media and Sport (DCMS) in late 2006 to undertake an analysis of the nature of the creative industries – their size, the factors that have shaped their comparative success in recent years, and the challenges which they face in the years ahead in anticipation of a Green Paper.

One important objective was to attempt to see what binds the creative industries together, always recognising that, as in any other sector, there are wide variations between members. The creative industries of course face many similar challenges to business more generally, but they plainly have something in common that allows them to share membership of the same group. What are their distinct characteristics and challenges?

In taking our work forward, we were able to build on the solid foundation provided by the reports of the seven working groups set up at the outset of the Programme – on education and skills, infrastructure, competition and IP, access to finance and business support, diversity, technology, and evidence and analysis.

A huge range of individuals and organisations from across each of the creative industries and from areas such as skills, finance and business support, infrastructure and local and regional policy have shaped the process – too many to list here in full. The selection at the end of this report pays testimony to the interest our work has attracted and the commitment shown by all better to make the case for the importance of the creative industries.

The eleven industry summits – organised by the DCMS and Department of Trade and Industry (DTI) and which ran from January to April this year – provided us with an opportunity to 'road-test' our emerging thesis, and a good deal of the content of this report has been shaped by those who gave their time and opinions as part of that process. A peer review group fed back their reactions to an initial draft of the report; many thanks to them for their constructive criticisms which we hope they will think are reflected in the report. The usual disclaimers apply. The DCMS has prepared a series of industry portraits and clarifications and asked us to include it in our report as an annex to give as complete a picture as possible of the creative industries with the information currently in its possession.

Many of the issues raised here undoubtedly throw up challenges both for how government support for the creative economy is structured and operates at a number of levels, and for the industries themselves. In some instances the exact nature of the issues, the arguments for potential action and the extent to which the burden lies with the industries themselves or with government, are work in progress.

I want to thank the team who wrote this report with me. It comprised Áine O'Keeffe, Philippe Schneider and Robert Andari at The Work Foundation, and Hasan Bakhshi from NESTA – an organisation whose support has been outstanding. The team has put in an extraordinary effort to produce this report. Thanks also to the Director of our Knowledge Economy Programme, Ian Brinkley, who offered timely contributions from his team's work. And not to forget Sarah Holden's mastery of my impossible diary.

In addition we have enjoyed unstinting support from the Minister for the creative industries, Shaun Woodward, and Secretary of State Tessa Jowell, the Creative Economy Programme team, in particular Brian Leonard, Phil Clapp, Helen Williams and Kirsty Leith, and the DCMS's Evidence and Analysis Unit. At the DTI, Margaret Hodge, her ministerial colleagues and officials – especially Mark Beatson, Adrian Brazier and Rachel Clark – have been no less constructively engaged. We are also grateful to Stewart Wood at the Treasury for his input.

We hope this report will illuminate many of the issues, and we look forward to the debate and dialogue in the months ahead.

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Will Hutton Chief Executive of The Work Foundation

Doctor Who Made in Wales



When BBC Wales was asked to reinvent Fqeuqt"Yjqfor a new generation more than four years ago, many wondered whether it could be pulled off. The idea came about because of a series of happy coincidences. Julie Gardner had just been appointed Head of Drama at BBC Wales, Russell T Davies wanted to revive FqeuqtYjq, Jane Tranter, Head of Drama Commissioning thought it was time Fqeuqt"Yjq was reinvented for the 21st century and the BBC had committed to increasing network production in the nations. So BBC Wales was asked to produce it. It was an exciting and daunting prospect in equal measure.

Market research suggested that many viewers had already made up their minds not to watch a brand that seemed a little dated, and there were plenty who wondered quietly whether the creative sector in Wales really could deliver on the network stage.

Three series on, and 30 million viewers later, it is not hard to see why Dtqcfecw magazine recently hailed Fqeuqt"Yjq as the "reawakening of the Welsh dragon". It is the biggest network project ever to come out of BBC Wales, and its staggering creative and popular success has demonstrated both the maturity and potential of the media sector in Wales.

At the peak of production, BBC Wales' new drama studio complex, just outside Cardiff, is home to more than 400 actors, writers, editors, technicians, designers and producers. With 86,000 sq feet of studio space spread across six stages, executive producers Russell T Davies and Julie Gardner are able to lead an integrated operation responsible for Fqeuqt "Y j q, its sister series Vqtej y qqf and Vj g"Uctcj "Lcpg"Cf xgputgu, plus the myriad online and interactive incarnations. The complexity and scale of the endeavour has had a tangible impact on the local creative economy. In just three years, BBC Wales has doubled its income from network production to more than £50m; money that is now being invested with a wide range of local businesses. From costumiers and set builders, to prop suppliers and stage electricians.

For many of these local companies, it is their first brush with a major television production. A local business more used to crafting designer sofas was asked to build a seat for the Doctor's Tardis; the Defence Aviation Repair Agency at St Athan found one of their hangars accommodating Billie Piper suspended from a crane rather than housing high-powered jet aircraft.

The 'Doctor Who effect' is also having a direct impact on the bottom line of the Welsh tourism industry. Cardiff has seen a substantial rise in visitor numbers, with nearly 20 per cent saying they are attracted to the city directly because of what they have seen on Fqeuqt"Yjq and Vqtej y qqf. As a result, the Welsh capital recently broke into the top 10 of the UK holiday destinations.



But alongside these immediate economic benefits, the ambition and success of Fqeuqt "Yj q has also enabled more long-term talent planning. From the outset, BBC Wales was determined to ensure that Fqeuqt "Yj q showcased and developed the brightest and most creative Welsh talent, rather than simply importing experienced production staff from elsewhere.

There are plenty of examples, but production designer Edward Thomas' story is not untypical. Originally from Swansea, he left Wales some years ago to work in the film industry in Europe and South Africa. Now he has returned to Wales to work on Fqeuqt "Yjq and is helping to train a new generation of design talent, many straight out of university or college. BBC Wales has also joined with the Welsh industry body Cyfle to create a unique production training scheme, enabling young people with little previous production experience to develop specialist skills by working on both Fqeuqt "Yjq and Vqtejyqqf.

BBC Wales' network success has also brought on a raft of first class writing and directing talent which was developed on the BBC's local dramas for Welsh audiences (including the Welsh language soap Rqdqn''(Ey o) and the English language series Dgqpi kpi) – a boost to their careers that in earlier years they might only have secured by leaving Wales.

The Welsh Assembly Government's creative industries strategy has also grasped the opportunities provided by the 'halo' effect from Fqeuqt "Yjq, leveraging the series' profile and success to stimulate growth in the wider TV and film production sector in Wales.

The ambition is clear. As one journalist put it: "When the world of television takes a look at the pool of talent in Wales, they should find that – like the Tardis – it is much, much bigger than it looks from the outside."



Chapter 1

The creative industries – an overview

Chapter 1 The creative industries – an overview

The UK has the largest creative sector in the EU, and relative to GDP probably the largest in the world. 1.1

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The UK has the largest creative sector in the EU, and relative to GDP probably the largest in the world. It is a national asset in multiple ways. The creation of ideas, images, symbols, design and cultural expression on this scale would alone be enough for the sector to warrant attention; such vitality needs to be honoured and nurtured. Yet the creative and cultural industries play an increasingly important role in economic life. They account for 7.3 per cent of the economy comparable in size to the financial services industry. They employ 1 million people themselves, while another 800,000 work in creative occupations. The livelihood of a growing proportion of British citizens will depend upon the sector maintaining its trajectory of growth.

1.2 The objective of this report is to open up a debate about the drivers of this phenomenon, and to understand the opportunities and challenges facing the sector. It will help the 13 industries that currently constitute the sector on the definition established in the 1998 and 2001 DCMSMapping Documents to recognise many of their commonalities. This would allow them to begin to speak with a more effective voice to their varying stakeholders and represent common interests to the Government with more self-confidence.

- 1.3 Two hundred years ago, received opinion was that art and culture, whatever their important intrinsic merits, were a diversion of otherwise productive capital and labour into essentially unproductive activity.
- 1.4 Today there is growing recognition of the subtle but important linkages between the vitality of the creative core, the creative industries beyond and creativity in the wider economy – although uncovering their exact extent is made very difficult because of a paucity of evidence and data.
- 1.5 Creativity and innovation are overlapping concepts. In the main, creativity, as the Cox Review on Creativity in Business argued, is about the origination of new ideas – either new ways of looking at existing problems, or of seeing new opportunities, while innovation is about the successful exploitation of new ideas. It is the process that carries them through to new products and services or even new ways of doing business.
- 1.6 Increasingly, both are important across the spectrum of economic activity. The creative industries can be conceived as a pioneer sector of the economy, trailblazing approaches, and fostering an attitude towards creativity and innovation from which the rest of the economy and society can benefit. This critically depends on whether 'effective' transmission mechanisms are in place.
- 1.7 The UK is in a strong position; however, it faces fierce competition from growing overseas markets.

...the concept of 1.8 the knowledge economy... captures a paradigm shift...

- Knowledge and creativity have always played a key role in the economy. For example, high-tech manufacturing and universities are two long-standing building blocks in the economic structure of advanced capitalist economies. However, the concept of the knowledge economy goes further. It captures a paradigm shift in which a critical mass of economic activity falls into the category of knowledge production, as firms deploy new technologies and techniques to meet important changes in the structure of demand.
- 1.9 Apple's iPod; video on demand; internet shopping; the personalised car; designer clothing; experience-intensive holidays; online banking; and many other forms of economic activity are supply responses to articulate, discerning, better educated, richer and more demanding consumers and citizen users. All are acts of innovative and creative origination anticipating, responding to or shaping demand from this new class of consumers.
- 1.10 Importantly, there is an information technology-enabled 'iterative' relationship between consumer and producer, in which the knowledge offering is constantly being improved and changed by inputs from the consumer. In this sense co-production lies at the heart of the knowledge economy.
- 1.11 Over the last 50 years there has been a steady increase in the productivity of the economy and per capita incomes generally. In addition, the price of a basket of manufactured goods has fallen in price relative to a basket of service offerings. Moreover, increasingly affluent consumers have not wanted or needed to spend as much proportionally on the basic staples of life food, transport, housing, clothing and mechanising the home with brown and white goods because it has become relatively cheaper to satisfy those demands, which in any case are not infinite. Once those basic material needs have been met, consumers start to want to satisfy more complex psychological and emotional needs from their consumption decisions.
- 1.12 Business success is increasingly driven by the capacity to respond. One important indicator of the growth of the knowledge economy has been the steady build-up in the proportion of investment in all industrialised countries in 'intangible' assets research and development, computer software, design, brand, human capital, organisational systems etc that is now equal in size to tangible investment in plant, machinery and buildings. Intangible investment of this type strengthens firms' capacity to create, manage and exploit knowledge, and above all to interact and respond to the new evolution of demand.

Business success is increasingly driven by the capacity to respond.

Intangible investment... strengthens firms' capacity to create, manage and exploit knowledge... Chapter 1 The creative industries – an overview

...current demand for creativity ...is on an extraordinary and underreported scale. The creative industries as part of the knowledge economy

- 1.13 The creative industries have benefited from the same growth in affluence along with the growth in creative and cultural tastes that accompany it. There is some evidence that human beings have an innate tendency to want to express their emotional and psychological feelings at the highest aesthetic or technical level in whatever cultural dimension music, theatre, art or interactive websites.
- 1.14 The scale of the current demand for creativity, alongside a desire to participate in producing and creating it, is on an extraordinary and under-reported scale. For example, there are five million active musicians in the UK, one-quarter of a million play in bands. There are reckoned to be over 4,500 live gigs every evening. Similarly, there is strong growth in art fairs and literary festivals. The use of interactive websites is another tribute to the bottom-up desire of millions of British people not merely to interact, but to express themselves creatively and in ways that are beginning to impact on culture.
 - 1.15 It is this demand that underwrites the growth of the creative industries, and provides them the platform for a substantial international presence. The British are second only to the Americans in a range of creative industries, including television, music, advertising, publishing and computer software, while our presence in architecture, film and design is scarcely less formidable.
 - 1.16 Other societies, like the UK, are increasingly better educated and more affluent, and new technologies are universally available. Their creative and cultural sectors are also growing. Nonetheless the UK performs better than any other European economy. Why?

1.17 In part it is because over the last 15 years the growth in demand in the UK has been particularly high. And of course English is the international language, giving British producers a huge advantage in global markets. Part of the explanation also lies in London's position as a global creative powerhouse, in a society that has become more open, diverse and plural, spawning a depth of cognitive diversity which is at the heart of creativity.

- 1.18 Creative origination is sparked by challenges to existing routines, lifestyles, protocols and ways of doing things – and where societies want to experiment with the new. London and the UK, societies which have developed the value of tolerance and openness as reactions to the early embrace of democratic institutions, overseas expansion and the pernicious impact of religious persecution, have been more ready to accommodate 'difference' and thus the creativity that springs from it. London is only rivalled by New York in the number of different languages and cultures it boasts.
- 1.19 The UK has also developed a propitious public infrastructure of support for the creative and cultural industries that has been accumulated over more than a century, and from which the country is now reaping rich dividends.

The English1.language...gives Britishproducers ahuge advantagein globalmarkets.

...the country 1.20 benefits from a particularly rich institutional heritage...

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Although the scale of direct British public support for art and culture does not compare favourably with many of our peers, the country benefits from a particularly rich institutional heritage – ranging from the BBC to our art and design schools, from our museums to our theatre and dance companies.

What the creative industries have in common

1.21 The 13 creative industries which have developed against this background are often perceived to have as many differences as similarities; indeed, even within a sector like publishing the differences between, say, newspapers and educational publishers are often perceived to loom larger than their commonalities.¹ However, the truth is that each creative industry has a core business model in common.

- 1.22 All originate ideas of expressive value which they commercialise. 'Ideas of expressive value' can range from the humblest pleasing song or appealing advert to the latest interpretation of Shakespeare or new design for a car. They create new insights, delights and experiences; they add to our knowledge, stimulate our emotions and enrich our lives.
- 1.23 Nor in the first decade of the 21st century is expressive value confined to traditional arts forms; expressive value is represented in software programmes, video games and the range of interactive, user-generated cultural material found on the internet.
- 1.24 The 'creative core' can be conceptualised as the production of 'pure creative expressive value' – ranging from traditional high art to video games and software. Some of the activity in the creative core is enabled in part by grants from the state, because without investment it would not exist.
 - 1.25 Other activity in the core flourishes without any form of support, and is in some respects a hardier creative and cultural contribution. Shakespeare required no subsidy; his drama was self-supporting and arguably the stronger for it.
 - 1.26 Nevertheless, without investment, many organisations would not exist on their current scale. But the public monies need to be carefully and strategically disbursed to avoid the danger of creating supplicant, grant-dependent bodies.

1.27 'Cultural industries' – film, television, publishing, music, the performing arts and video games – construct their business models principally upon commercialising acts of origination of expressive value. They are distinguishable as a subset of the creative industries. The independent television producer, computer games or software house or educational publisher may have different markets and audiences but one way or another they are commercialising expressive value.

The 'creative1.core' can beconceptualisedas theproduction of"pure creativeexpressive1.value".

The 'cultural industries'... commercialise acts of origination of expressive value.

Chapter 1 The creative industries – an overview	1.28	Moreover the way they set about organising such origination is necessarily through a process of light-bulb moments, iteration and experimentation, rather than recourse to any codified body of knowledge – another feature that binds them together. Legally, their business models are more based on the right to copyright the ideas they originate, in contrast to, say, manufacturers, who patent innovations because of the uniqueness of their function or purpose. However, all sectors use a range of intellectual property rights.
The 'creative industries' produce a high degree of both expressive and functional value.	1.29	'Creative industries' are analytically first cousins to the cultural industries; distinct but obviously from the same family of activity. What they produce has a high degree of both expressive and functional value. Architecture, design, fashion, computer services and advertising are quintessentially creative industries whose market offerings pass both a cultural and workability test. Adverts have to sell products, but work best if they firmly express the culture. Buildings should be both aesthetically pleasing and work. Design should embody the culture, but is useless if the products do not function well. Fashion products have to be culturally in the vanguard but wearable at the same time. Not every single building, advert, dress or design needs to pass both tests, but the creative industries are healthier and more vital to the degree that as many as possible do.
Building a business around the commer- cialisation of expressive value presents particular	1.30	Building a business around the commercialisation of expressive value presents particular business challenges. Demand for a film, novel, painting, $j c ug'' equatg$ dress or the success of an advert, building, computer game or new design is much more difficult to predict than for products or services with more functional content.
challenges.	1.31	Consumers find it difficult if not impossible exactly to anticipate the reward from a creative or cultural offering before they have experienced it. While many technologically complex products have this property, they can often be assessed by reference to some objective criteria. The rewards from consuming creative offerings are necessarily both more subjective and social, so that word of mouth becomes an especially important if fickle determinant of demand – but makes business planning highly problematic. There is also an ever-present incentive for companies to compete by improving quality and spending; an incremental few pounds may make the difference between success and failure.
	1.32	And on top, creatives – 'the talent' – are motivated by a desire to fulfil their art; and the creative process necessarily involves marrying and integrating diverse and sometimes very individualist people into successful teams. The consequent

management challenges are particularly acute.

Challenges and opportunities

...the industries have grown on average... faster than GDP over the last decade but there is considerable volatility...

downloading

have become much easier.

fall to those

- 1.33 Although the industries have grown on average rather faster than GDP over the last decade, there is considerable volatility around the average, and some signs of difficulties emerging in many of the industries that have begun to constrain their growth.
- 1.34 Shares quoted in the media sector, for example, have seriously underperformed compared to the wider stock market. Although the data are limited and do not permit strong conclusions, some creative industries (eg advertising, design, architecture) and software in particular would seem to be pro-cyclical, growing faster than average in an upturn and swinging more quickly downwards in downturns. Equally the fortunes of others can be transformed in any year by one hugely successful hit.
- 1.35 However, on top of these long-standing characteristics, digitisation and the internet are disrupting business models and brands - notably in film, music and publishing but to a significant degree in every creative industry – that have been carefully built up over decades on the notion of protectable copyright, and well established routes to market, but which are now under challenge.
- 1.36 ...copying and In today's world, copying and downloading have become much easier, putting enormous downward pressure on prices, while the internet has created new competitors for advertising revenue. In addition, all face mounting international competition. Individual sectors, like computer games or design, have recently faced a particularly tough time.
 - 1.37 However, change creates opportunities. Individual consumers now have access to books, film and music ever more cheaply, which in turn stimulates their demand and capacity to enjoy creative and cultural offerings. If globalisation is intensifying competition in the British market, it similarly offers British companies new markets in which they can compete.
 - 1.38 Equally the challenge from the internet and digitisation is faced by every creative industry in the world. Digitisation presents opportunities for businesses to offer their creative products through different channels, tailoring their products to customers' different needs.
- **Rewards will** 1.39 In Hollywood, for example, new distribution channels have given film-makers new ways of price discriminating between audiences: this has increased the studios' profits, while at the same time organisations increasing the diversity of outlets through which products are and individuals who can adapt exhibited to consumers. Digitisation also raises the prospect of smaller production companies distributing their content more most quickly... cost-effectively - increasing the diversity of product too. Rewards will fall to those organisations and individuals who can adapt most quickly, which in turn will partly depend on their own effectiveness and partly on the adaptability of the wider public and private institutional architecture which supports them.

Chapter 1 The creative industries – an overview 1.40

...innovation and creativity in the wider economy are stimulated by the creative industries...

... a dynamic creative sector has an important role in helping to revive British cities and regions...

There are eight broad areas, or drivers, which have an impact on the performance of the creative industries...

Demand...

Greater diversity...

- Increasingly, consumers identify being part of a 'staged' experience as contributing to their satisfaction in spending; an airline flight, visit to a department store and or even sleeping in a bed are no longer simple acts of consumption – these are experiences. The quality and energy of the creative industries provide templates for creatively developing such experiences and a flow of skilled people to migrate into the wider economy who know how to mount them. There is some evidence that innovation and creativity in the wider economy is stimulated by the creative industries in this way.
- 1.41 Moreover, a dynamic creative sector has an important role in helping to revive British cities and regions – a role successfully played in Glasgow, Gateshead and Cornwall, for example – and helping them to address the income and cultural gap with London.

Influencing success

1.42 There are eight broad areas, or drivers, which have an impact on the performance of the creative industries. Some of these can be influenced by government, some by industry.

Drivers of success in the creative economy

- 1. Demand. The growth and productivity of the UK's creative economy is closely related to the growth and character of demand. The more that educated and discerning demand is evenly and broadly based around the country, the more local creative and cultural activity will be stimulated, increasing the number of both performers and entrepreneurs. Early exposure to culture, higher levels of education, developing the capacity of the UK's cities to offer the full spectrum of cultural and creative experiences and decentralising as far as possible the UK's national cultural institutions to promote access will all contribute to this end.
- 2. Greater diversity. Diversity is critical to the continuing success of the creative industries. The more diversity, openness and contestability are encouraged, the more likely it is that creativity will be fostered and productivity increased. The industries need to address diversity issues urgently, and think more systematically about the internal processes that foster creativity. Interdisciplinary innovation – which brings together talent from the arts, sciences and wider society – should also be promoted.

A level playing field	3.	A level playing field. Creativityflourishes in an environment which encourages innovation and experimentation. Some creative and cultural content industries, such as film and video games, are characterised by a relatively small number of large distributors. There may be good reasons for such industrial structures which need not damage consumer welfare, but there are also concerns that this can restrict the diversity of creative products on offer to the public, and may inhibit the growth of small- and medium-sized companies. These may warrant further investigation.
Education and skills	4.	Education and skills – ensuring balance and the appropriate supply. There is a shortage of industry- specific skills in key creative industries and of knowledge on how to commercialise creative ideas. This is also true of the wider soft skills which allow tacit knowledge to be exchanged and developed. The UK's powerful art and design school tradition needs to be celebrated, nurtured and developed. There needs to be greater understanding about career paths in the creative economy for students at schools.
Networks	5.	Networks – harnessing capacity. Very few creative firms or organisations have the critical mass of in-house skills and market knowledge fully to exploit market opportunities or generate creativity through in-house teams of sufficient diversity. They need to be able to network with others to fill gaps in their knowledge and skill sets. There is a strong case for greater brokerage, especially through the internet, to enable this to happen.
Public sector	6.	Public sector - fit-for-purpose public architecture, grants and institutions. Most members of the creative and cultural industries have in some way been helped to develop their franchise through public support and investment. This interaction needs to be better understood, developed and where relevant reformed, as evidence suggests. Grants to the creative core need to be more strategically organised to maximise their creative and cultural impact, with better or new transmission mechanisms to encourage strong spillovers and connectivity between the core, the creative industries and the wider economy.
Intellectual Property	7.	Intellectual Property – a clearly defined and enforced regime. The UK's Intellectual Property framework is critical to the success or failure of the nation's creative industries. The business model of the creative industries depends significantly on their capacity to copyright expressive value.

Chapter 1 The creative industries – an overview		The Gowers report pointed the way to greater clarity, more education (for example about the dangers of piracy), greater enforcement and higher penalties – while attempting not to draw the copyright regime so tightly that it inhibits creativity. It is important that Gowers is implemented, but the copyright regime will need to be kept under review in the light of ongoing technological change.
Building greater business capacity.		8. Building greater business capacity. There are many small- and medium-sized creative businesses with the potential to grow, but who struggle to increase scale in practice. Some of the explanation lies in the blockages outlined above, but there are also specific managerial/ business discipline shortcomings in the sector. There may also be structural problems in accessing equity and debt finance which may merit further consideration.
more rigorous analysis is needed of what drives the creative industries	1.43	One important precondition for influencing these drivers is that more rigorous analysis is needed of what drives the creative industries and the mechanisms through which its creativity spills over into the wider economy and society. This would be helped by greatly enhanced statistics and smarter classification of how the sector works. What cannot be measured cannot be managed. Too much information about the creative industries is either not collected on a comparable basis or is significantly (in a digital environment) out of date.
Some of these drivers need to be addressed by government; others by the industries	1.44	Some of these drivers need to be addressed by government; others by the industries themselves. Engineering the nature of the response is in all cases complex and frequently multi-layered. Inactivity would be ill-advised. These industries face mounting challenges, and there are rich rewards if the framework in which they do business can be improved – and equally much foregone if it is not.

Notes

1 In what follows we refer to the 13 creative industries as the 'DCMS13' to distinguish them from the narrower set of 'creative industries' that inhabit our conceptual framework.

Becoming a business Miles Jacobson – Sports Interactive Computer Games



"Our start was a strange one, as the first game that came from us was literally two schoolchildren making a game in their bedroom who were just grateful that someone wanted to release their game. The game hadn't been funded, but made for fun, with no staff and no need for an office, although still didn't retain the intellectual property, and it was over a decade until we were in the position where we did.

As those days are gone, the biggest challenges nowadays for games developersare finding funding that doesn't impinge on creativity, and holding onto IP, which is so important if you want a business that is going to have any value.

The games industry is still very young, so many established routes of raising funding are blocked to developers, new and old alike, while attempting to retain control, which is very important for any creative entity. Unlike a band, where you have a few people able to do other jobs or sign on, making a game nowadays involves dozens of people, expensive equipment, and working very long hours just to get to prototype stage, and you could quite easily lose the rights to your creation just out of desperateness to get a deal to pay some bills. Record labels will often take a punt on a new artist, but a punt in games costs millions of pounds, so the risks are higher.

We've been very fortunate in that, because we started so small, we've grown organically over many years to get into a strong, market leading, position. We were able to learn from our mistakes without losing everything and despite some attempts over the years to destroy us for corporate gain, we fought back and won.

If we were doing it all again now, we wouldn't have signed the original deal offered, and would have attempted to retain more control early on, but then maybe we wouldn't have ever got a deal by holding out! It's a strange industry where a games publisher will often get another developer in to work on the previous developer's creation – a bit like if EMI just decided to get another four people in and call them The Beatles. It sounds ridiculous, but happens all the time.

We're really lucky being based in London. It's such a creative hub not just for the UK, but for Europe too. Team members come here from all over Europe, and London is a huge attraction to a lot of them."



Chapter 2

Economic performance

Chapter 2 2.1 Economic performance

Strong growth, intense innovation and creativity, and focus on the demands of consumers are hallmarks of the 13 industries which fall under the umbrella of the creative industries.² This chapter sets out the current size, growth and performance of each of these 13 industries, describing their industrial structures using new estimates.

The UK's creative industries

The UK's creative industries have emerged as	2.2	The UK's creative industries have emerged as leading players in the global economy. Their performance in recent years has been one of the great unsung success stories of the economy.
leading players in the global economy.	2.3	They can be seen as a significant and dynamic part of the knowledge economy, accounting for 7.3 per cent of gross value added (GVA) in 2004 (figures 2.1 and 2.2). ³ They generate over twice as much value added as tourism, and are now comparable in size to the financial services industry. ⁴
	2.4	Software (including computer games and electronic publishing), publishing and TV and radio between them account for around two-thirds of overall GVA of the creative industries.
The creative industries are a major employer too	2.5	The creative industries are a major employer too – between them employing over 1 million workers, or 2.7 per cent of total employment. The number of individuals employed in all creative occupations in the whole economy (including those working in sectors formally outside the creative industries) is greater still, at 1.8 million(figure 2.3). ⁵

Recent performance

- 2.6 figure 2.4 plots the contributions of individual sectors to overall growth in current prices GVA in the creative industries (excluding design and crafts). figure 2.5 includes the design sector, but for a shorter sample period, as DCMS's proxy for GVA in the design sector turnover is only available since 2000. Both of these figures combine information on the growth rate of GVA in the individual sectors with each sector's share in overall creative industries GVA. The charts are more illuminating than looking at growth rates alone: a sector may have grown by a great deal in any one year, say, but if its share in overall GVA is low it will have contributed little to overall growth.
- 2.7 figure 2.4 should be read as follows. In 1998, GVA in the creative industries as a whole (excluding design and crafts) grew by 14.9 per cent, of which just over 11 percentage points was accounted for by the software, computer games and electronic publishing sectors, 2.4 percentage points by the publishing sector and around 1.5 percentage points by the remaining sectors. In 2004, GVA in these industries grew by 4.5 per cent, of which the radio and TV sectors contributed 1.8 percentage points, followed by software, computer games and electronic publishing at 1.7 percentage points, with other sectors accounting for just over 0.9 percentage points.

figure 2.1

GVA of the creative industries sectors 2004



Source: DCMS

figure 2.2

GVA in various sectors as a percentage of whole economy GVA 2004



Source: DCMS

figure 2.3



Source: DCMS

figure 2.4





Source: DCMS

figure 2.5

Contributions to year-on-year growth in creative industries GVA (current prices) 2001–04



Source: DCMS

2.8 Four observations can be made from these charts.

2.9 first, although the statistics that are available cover a relatively short timeframe, and as such do not allow firm conclusions to be drawn, there are indications of a strong cyclical dimension to economic activity in a number of creative sectors. This is especially true in the software, computer games and electronic publishing and advertising sectors.

This pattern also appears in investment spending by the creative industries and spending by UK households on creative outputs. figures A1 and A2 in the appendix to this chapter show that investment spending by the creative industries as a whole and household spending on creative outputs in the UK – expressed as a percentage of their whole economy counterparts – correlate with GVA growth.⁶ This suggests that the creative industries are more pro-cyclical than other sectors of the economy.

figures A3 and A4 show how this feature also manifests itself in a greater tendency in the creative industries for profits – as measured by firms' gross operating surplus (GOS) – to vary over time.

- 2.10 Second, these particular sectors appear to be important in accounting for growth in the creative industries in recent years. The software industry in particular has accounted for a large proportion of overall growth in GVA.
- 2.11 Third, sustained weakness in the design sector has played a major role in the recent underperformance of the creative industries vis-à-vis the rest of the economy.
- 2.12 Fourth, there was a particularly sharp slowdown in growth in the creative industries in 2000 and 2001, which coincided with the dot.com crash. This is illustrated by the performance of UK media stocks. figure 2.6 shows that these have still not reached one-half of their peak in the heady days of the internet start-up boom at the beginning of 2000.⁷



Source: FTSE International Limited

- 2.13 The volatility of the software sector appears to be driven in part by global factors, as illustrated by the swings in export growth in recent years, though export performance in the creative industries as a whole has been stronger than in the rest of the economy.
- 2.14 figure 2.7 shows that overall export values in the creative industries (excluding fashion design and crafts) grew by roughly 16 per cent in 2001, almost wholly accounted for by software, computer games and electronic publishing, which accounted for over 14 percentage points, ie around 90 per cent of this growth. In 2004, exports in these sectors grew by around 12 per cent, just over one-half of which was accounted for by software, computer games and electronic publishing.

Chapter 2 Economic performance	2.15	Unlike the DCMS, the ONS publishes imports data for its classification of the creative industries. figure 2.8 shows that the trade performance of the creative industries as a whole on the ONS measure appears to reflect trade patterns at the wider level, with trade deficits opening up in the second half of the 1990s, following a sharp and persistent appreciation in the sterling effective exchange rate (EER).
the trade performance of the creative industries has been	2.16	Significantly, the trade performance of the creative industries has been stronger than the rest of the economy, with deficits closing in 2004 as the whole economy trade balance moved further into deficit.
stronger than the rest of the economy	2.17	Unsurprisingly, the high variability of output in the creative industries is mirrored in the employment figures (figure 2.9), though, as with other sectors in the economy, employment is in general less volatile than GVA. This shows up in a tendency for labour productivity – GVA per person employed – to be pro-cyclical.

figure 2.7

Contribution to year-on-year growth in creative industries exports 2001–04 current prices



Source: DCMS

figure 2.8

Trade balance for creative industries and whole economy 1992–2005



Source: Office for National Statistics
2.18 It is noteworthy that employment in the software, computer games and electronic publishing industries (as defined by current statistics) would appear to be even more volatile than the numbers of individuals employed in software, computer games and electronic publishing occupations in the wider economy. This suggests that the adverse employment consequences of a fall in GVA growth are 'cushioned' by workers in these industries – particularly software – finding similar work in other sectors. It is a good illustration of the close linkages between this sector and the rest of the economy.

Innovation

...outputs of the creative industries are intrinsically related to innovation...

- 2.19 As with other sectors in the knowledge economy, the outputs of the creative industries are intrinsically related to innovation in a way that more traditional products are not.
- 2.20 Few published innovation metrics for the creative industries are available. The main yardsticks by which researchers derive quantitative measures of innovation are invariably science and technology-focused and, for example, exclude artistic innovations. Even so, the 2005 UK Innovation Survey sampled around two-thirds of sectors that make up the creative industries, and tentatively suggested that the creative industries were innovative compared with many other sectors. According to that survey, around 70 per cent of creative businesses had been involved with some form of innovation activity over the period 2002 –04, compared with around 55 per cent of businesses in other industries.⁸
- 2.21 But survey-based measures of innovation need to be interpreted with care, particularly when it comes to the creative industries. Defining the knowledge frontier for products with expressive value is likely to be more difficult than for innovation in, say, manufactured products. And obsolescence is likely to be a more complex process.

Productivity growth

2.22 These major caveats aside, a high rate of innovation is usually expected to spur faster productivity growth. Accurate estimates of labour productivity in the UK's creative industries are not available, again largely because of problems with measurement, but the DCMS tentatively estimates that productivity growth in the creative industries as a whole between 2000 and 2004 may have been somewhat lower than in the service sector over the same period (figure 2.10).⁹ 2.24 A gap between innovation and productivity performance - to the extent that one exists -- suggests that there may be potential for creative businesses in the UK to translate more of their creative successes into higher productivity.

figure 2.9

Chapter 2

Growth in employment: whole economy and the creative industries 1998-2005



Source: DCMS

figure 2.10

Index of labour productivity 1998-2004



Source: DCMS

The global picture of the creative industries

2.25 The creative industries are significant and growing on a global level. UNESCO analysis¹¹ of customs-based data shows that trade in cultural goods - which it defines as heritage goods, books, newspapers and periodicals, other printed matter, recorded media, visual arts and audiovisual media - increased by over 50 per cent during the last 10 years from \$39.3 billion in 1994 to \$59.2 billion in 2002. UNESCOdraws attention to a range of other measures of the importance of cultural goods in the world economy: the global market value of industries that rely heavily on creative and cultural inputs is estimated at \$1.3 trillion according to UNCTAD figures, for example, while the OECD points to annual growth rates of between 5 per cent and 20 per cent in its countries' creative and cultural industries.¹² As high value added, knowledge-intensive sectors and with real disposable income rising globally, the demand for goods and services produced by the creative industries is anticipated to rise further, fuelling growth in these sectors.¹³

2.26 High-income economies have maintained their leading export At the regional position in the world market, but steady growth can also be seen for lower middle-income economies from 1995. At the regional level, the EU is the greatest exporter of cultural goods on the UNESCO definition (51.8 per cent share of world exports), but cultural goods... since 2002 Asia has emerged as the second largest exporting region (20.6 per cent share), attributable to the growth in East Asian video games and visual arts.

China, India and creative industries

The prospects for the UK's creative industries are dependent not only on UK factors, but also on the wider global competitive environment. In many other sectors, the key threat is from the fast-growing economic superpowers of China and India.

Though both have indicated ambitions to climb the technological value-chain and in some higher tech areas have enjoyed strong performance, China and India's comparative advantage remains in low-skill and labour-intensive manufacturing. In 2003, manufacturing and construction alone accounted for 52.2 per cent of GDP.^{14,15} The creative industries made up less than 1 per cent in contrast.¹⁶ In India, the agricultural and manufacturing sectors between them still account for almost one-half of economic activity.

level, the EU is the greatest exporter of

Even in Asia's most developed regions and countries, the creative industries do not account for a large share of activity. For instance, the much-trumpeted creative cluster in Singapore accounts for only 2.8 - 3.2 per cent of GDP.¹⁷ In Japan, the combined output of the creative industries is still less than 3.3 per cent of GDP,¹⁸though these numbers are not constructed on the same basis as mapping undertaken by DCMS in the UK. In Hong Kong, the creative industries account for 2.5 per cent of GDP.¹⁹

International competition is no longer of course the preserve of manufacturing. It is estimated, for example, that 90 per cent of the world's animation is sourced in Asia.²⁰ The same is true of other 'tradeable' sectors.²¹ A study by OVUM for the DTI on the software and IT sector, for example, forecast that while in 2005 21 per cent of employees serving the UK market were based in off-shore and near-shore locations, this number is set to grow to 36 per cent by the end of 2008.²²

To date, routine tasks have been most suited to off-shoring, interpreted by some as a greater challenge for middle-income countries.²³ Competition for higher-end tasks has been predominantly a North-North affair, in which labour costs are less decisive. The consultancy firm McKinsey points to looming talent shortages in economies like China and India. It finds, for instance, that only 160,000 of China's1.6 million engineering graduates would be deemed suitable for work in multinationals – roughly the same size as in the UK.²⁴ Even India, which saw exports of business services grow nearly 700 per cent between 1994 and 2004,²⁵ is confronted with a significant skills squeeze.

Like other innovation activity, the ability to generate and commercialise exciting creative content is dependent on a supportive institutional environment.²⁶ Clearly, policy liberalisation has forced public and private actors in both China and India to become less wedded to the dependencies of the planned economy, and more willing to exploit value inherent in creative content. As the benefits of economic growth spread, there is a bustling sense of possibility and adventurousness among younger generations: China's equivalents of YouTube (Tudou and Yoqoo) and socialnetworking sites (Douban and QQ), in addition to its 34 million and counting blogs, provide powerful bottom-up energy.²⁷

However, major challenges remain – some of which, in the case of China, are seen to touch on broader questions of political control. An interesting contrast is provided by the international recognition of the South Korean film and television industry, one that has been attributed to the relaxation of the censorship regime in the aftermath of the Asian financial crisis.²⁸ Another significant challenge is piracy and the lack of a rigorous intellectual property protection system. Counterfeiting, for instance, is estimated to account for around 8 per cent of China's GDP.²⁹ The software piracy rate – defined as the percentage of total software installed that is not legally acquired – was 86 per cent in 2005, the fourth highest in the world. In India, piracy is on the rise too, with piracy rates for recorded music having risen from 30 per cent in 1998 to 55 per cent in 2005.³⁰ These numbers are of course difficult to verify, but they are certainly large enough to seriously limit Chinese and Indian creative businesses' incentives to innovate.

As China and India become richer, however, compliance with global IP norms may be expected to increase. The figure below, which plots the estimated fraction of software that is pirated in various countries against per capita GDP, neatly captures this point. Indeed, it is easy to forget that the US was the world's foremost copyright pirate when it began its economic take-off in the mid-nineteenth century.³¹

Per capita GDP versus fraction of software that is pirated for various countries



Source: Varian, 2005

Consistent with these findings, creative products are currently more often imitative than truly innovative in these countries. In China, many creative enterprises have opted for low cost production and derivative formats, such as Pop Idol (Chaoji Nüsheng = SuperGirl) or the Apprentice (Ying zai Zhongguo = Win in China).³²

Chapter 2 Economic performance	2.27	A lack of consistency in how different countries' statistical offices classify the creative industries makes comparisons across regions difficult. At the EU level, however, we can say that the picture is also one of a sector playing an increasingly important economic role. The creative and cultural sector as defined by a study for the European Commission – comprising film and video, radio and television, video games, book and press publishing, music, design, fashion design, architecture and advertising – contributed to 2.6 per cent of EU GDP in 2002. ³³ The overall growth of the sector's value added was 19.7 per cent in 1999–2003 – some 12.3 per cent higher than the growth of the economy as a whole. It employed 5.8 million people (equivalent to 2.1 per cent of the total employed population). In 2002–04, when employment overall in the EU decreased, employment in the creative and cultural sectors increased by 1.9 per cent. ³⁴
the OECD estimates that the UK's creative industries make up a greater share of GDP	2.28	The UK itself is a world leader in the creative industries. In ongoing work, the OECD has made the first tentative steps in ironing out classification differences between countries, and estimates that the UK's creative industries make up a greater share of GDP than in other nations (figure 2.11). ³⁵
than in other nations.	2.29	UNESCO's estimates suggest that on its definitions, the UK is remarkably the world's biggest exporter of cultural goods, surpassing even the US: in 2002, it exported \$8.5 billion of cultural goods (compared with \$7.6 billion by the US, and \$5.2 billion by China). ³⁶

figure 2.11 OECDestimates of the contribution of 'cultural industries' to GDP



Source: OECD

2.30 NESTA'supbeat assessment is that "...relatively small improvements in export activity across these [creative] sectors could mean significantly increased revenues for the UK, given the size of the international market for creative products and services (estimated for the media industries alone to be \$1.8 trillion by 2009). A growing market is out there to be won by businesses that are willing and able to innovate, and that do not see any inherent conflict between creative and commercial excellence."³⁷ 2.31 UK Trade and Investment focuses its efforts on supporting those industries it sees as having the greatest potential for growth,³⁸ identifying China, France, Germany, Japan and the USA as particularly high priority markets.

Digitisation: the changing world

The challenges and opportunities faced by the DCMS13 must be considered in the context of digitisation. An evolving assemblage of affordable software formats, high-bandwidth broadband and exponential computer processing power, is reconfiguring how information is produced and exchanged in ways that redefine basic industry practices. Digital convergence – the ability of online digital content to subsume all existing forms of media³⁹ – muddles traditional distinctions between publishing, broadcasting and telecommunications,⁴⁰ while consumers are able to access 'always on' multimedia content through multiple platforms and devices. The future direction of the creative industries will rest on the development of tools that promote the coordination of decentralised assets (such as P2P networks), user-friendly content creation software, optimised search engines, interoperability of protocols and the accurate measurement of content diffusion.

At the same time, the growth of convergence will require a growing demand for digital, rather than physical, goods. Digitisation has confronted individuals with a tsunami of information, risking cultural overload. What has emerged is an 'economy of attention', one in which the ability to market and capture human attention has become increasingly central.⁴² Whether consumers will prefer the flexibility of the internet as a source of content over the predictability and convenience of more traditional methods of content diffusion (eg centralised content delivery such as Xbox Live) will be important in shaping future trends.

Future scenarios 41

One future scenario envisages a world where the internet is the prime driver of convergence, and the 'long tail'⁴³ – the decentralisation of distribution – allows smaller actors to compete with dominant players, bypassing physical distribution infrastructures to satisfy demand for an 'infinite variety' of creative offerings. The result is a more diverse, fragmented and contestable terrain. Research for the UK film Council has found that online DVD rental 'opens up' the market to niche productions. The top 100 movies account for 86–90 per cent of cinema and traditional video rental, but only 70 per cent of online rental. Eight per cent of online transactions are for films that achieve no 'bricks and mortar' exposure through retail or video rental.⁴⁴ This is an environment where consumers are part of a digital community, and contribute to content creation: from co-designing open source software such as Mozilla's firefox to social networking on websites such as Facebook to remixing videos on YouTube. New currents of creativity are already seen in the film production process, where technology is rendering independent producers more visible, allowing them to exchange scripts, work on film-making techniques online and use digital video camcorders and computer programs to bypass traditional distribution channels.⁴⁵ The 2004 film Vctpcdqp for example, which debuted at the Cannes and Sundance film Festivals, was made on an Apple using iMovie, a free video editing software, for \$218.⁴⁶

At the same time, the growth of technological niches and requirements by consumers to transport many types of digital content between devices will require greater compatibility between platforms. The standardisation of protocols (eg OpenGL, lossy data compression) will enable smaller content creators to overcome conditions that can prevent access to broader markets.

The music industry symbolises the growing pains in the transition to a digital distribution model and has borne the brunt of these disruptive changes.⁴⁷ Ten per cent of the UK internet population engage in content piracy through user-friendly peer-to-peer software programs such as BitTorrent and Limewire⁴⁸, and up to 80 per cent of music downloads are unpaid for.⁴⁹ At the same time, record companies and artists are becoming increasingly effective in using the internet to reach new audiences – websites such as MySpace and Bebo allow artists to distribute music directly to consumers. Analysts predict that 20–33 per cent of all music sales will shift from CDs to digital distribution by 2010.⁵⁰

The industry has reacted to consumer desires for greater interaction by diverting users to legitimate music distribution sites, creating easier ways to pay for downloads, using mobile phones as a means to access and consume music⁵¹ (revenues from 'realtone'ringtones reached \$100 million in 2006⁵²), and gaining access to back catalogues: EMI Group and Apple recently announced that they would abandon usage restriction in online sales of their archives.

A second scenario sees the web as a component of top-down, 'read-only' content delivery platforms to convergent devices in homes. In this scenario, commercial content providers such as Apple and Microsoft become the "digital descendents of traditional broadcasting structures".⁵³ Homogenised platforms for the distribution of content allow a greater degree of control over how people consume creative content (eg Apple iTunes allowing music downloads only to Apple iPods). In this scenario, the 'winner-take-all' model thrives and the market is dominated by capital-intensive hits. Markets enabled by the digital world (the long tail) are over-hyped. The online distribution of digitised goods increases the cost advantage that hit producers have over content with more limited appeal, leading to a significant concentration of success on even fewer best-selling titles. Indeed, current evidence suggests that a small number of products still dominate the online market in revenue terms. The online DVD retailer Netflix has 55,000 titles, yet the top 50 titles account for 30 per cent of all rentals. Similarly, 2.7 per cent of Amazon.com's inventory accounts for 75 per cent of its revenues.⁵⁴ At the tail end, there are a growing number of titles that rarely, if ever, sell; March 2006 data for the 1.1 million songs on Rhapsody reveals a 22 per cent no-play rate with another 19 per cent receiving only one or two plays.⁵⁵

Business strategies

The glut of choice will mean that the creative industries must vie for consumer attention and look beyond traditional measures of competitive strength, such as economies of scale, and instead seek to optimise value, acquiring processes and resources as easily as they are relinquished, and gathering continuous feedback from consumers who are increasingly involved in the creative process. Such a transformation will inevitably entail:

- An increase in business intelligence and tools for measuring content diffusion, leading to better informed business decisions, and greater flexibility in responding to patterns of consumption. Audiences will be targeted more successfully through content sampling across a range of platforms.⁵⁶
- Closer partnerships with a wide variety of sectors along the value chain, extending from small content creators to large network operators,⁵⁷ and a re-engineering of scale and processes around new technologies, leading to a reduction in costs.
- An acknowledgement by companies will acknowledge that digital communities and peer production are important drivers of the innovation process and an embrace of new ways of managing reciprocal relationships. This will grant new freedom of access and provide customised tools and open application interfaces for creating and managing content, driving new forms of consumption.

Online product differentiation will still take place, centred around service capability and brand recognition. Hence Amazon.com is likely to be able to demand a premium for online books over less prominent competitors.⁵⁸ Pricing patterns may become more dynamic, with higher prices reserved for goods (eg the latest album or DVD) where demand is more inelastic.

IP in a digital world

In an environment where copyright is more difficult to enforce, firms are exploring different ways to protect their creative outputs in lieu of or in tandem with existing rights. One way is to embed an invisible layer of software into copyrightable material otherwise known as Digital Rights Management (DRM). This allows content producers to place usage restrictions on copyrighted material, for example, it prevents consumers from transferring songs downloaded from a digital music store more than a limited number of times.

Though DRM is an enabling tool for many creative businesses, there is a lack of knowledge from creatives, industry and consumers what each can legitimately do with creative content. DRM systems are also complex and can infringe fair dealing codes because they work indiscriminately. DRM also risks segregating markets and stifling creativity, especially among smaller content creators who may become marginalised in niche markets.

Another way to protect creative outputs is to introduce some form of statutory licensing, one that would, for example, remove content control in return for levies collected from providers of goods and services such as ISPs whose value is boosted by file swapping. Revenues might be distributed to copyright owners in relation to the frequency with which their works are consumed.⁵⁹

This approach has various advantages: it is grounded in the fundamental reality that peer-to-peer is here to stay; it would necessitate no special technology; transaction costs associated with litigation would be reduced; and the democracy for creative works would be strengthened. Still, like all regimes, it also has weaknesses: it would grant a substantial amount of discretionary power to those agencies responsible for collecting levies; determining a precise formula for compensation, in the absence of the price mechanism, would be difficult; and it might increase cross-subsidies and distort consumer behaviour (think broadband subscribers who do not like music or films).

Barriers to digital engagement

The ability to participate in digital markets and communities depends on access. However, as the Office of the Deputy Prime Minister notes, cost remains a key barrier to internet uptake. Although disparaties in home internet access between the lowest and highest income groups have narrowed, those living in the highest income group are still seven times more likely to have access to the internet. Increases in take-up have occurred solely among the C1 and A/B groups and connection levels among D/E groups remain at only 20 per cent, a pattern that has remained unchanged since 2001. Households with two adults and one or more children are significantly more likely to have home internet access than single parent households.⁶⁰ Other studies reach similar conclusions.⁶¹ Industrial structure and performance

- 2.32 The importance of large firms varies greatly across the creative industries.⁶² figure 2.12 sets out for each of the individual creative industry sectors two simple measures of their importance the percentage of overall industry turnover that is accounted for by the four largest firms (CR4, denoting concentration ratio-4) and by the eight largest firms (CR8, denoting concentration ratio-8).⁶³
- 2.33 The degree of concentration clearly varies from sector to sector, with the most concentrated sectors being TV and radio, publishing and design.⁶⁴ These concentration ratios are consistent with there sometimes being large numbers of small creative enterprises operating alongside large – often vertically integrated – firms. So, for example, businesses with less than nine employees account for 14 per cent of overall turnover in the design sector. That share rises to 63 per cent in the case of music and the performing arts, and 58 per cent in the case of fashion design.

figure 2.12

Industrial structure by creative industry sector 2005





...technological 2.34 change and increased international competition have driven a process of simultaneous fragmentation and consolidation... The co-existence of very large firms and very small firms partly reflects the fact that technological change and increased international competition have driven a process of simultaneous fragmentation and consolidation in many creative sectors – fragmentation, because technology and greater competition has allowed consumers to satisfy their 'infinite variety' of wants; consolidation, because the same forces have increased the returns to scale for mass, standardised products. The design example

Design Council data suggest that there are over 65,000 design businesses in the UK (Design Council, 2005). The size distribution is very heavily skewed towards small firms, with more than 75 per cent being small consultancies and freelance individuals. A very small number of firms – just 3 per cent – have an annual turnover of more than £1 million, though survey evidence suggests that these account for a significant share of overall activity (British Design Innovation, 2005).

- 2.35 International data support the view that this duel process of fragmentation and consolidation reflects wider structural changes, and not factors specific to the UK. US Census data, for example, suggest that the percentage of turnover in the specialist design industry accounted for by the four largest establishments increased by almost a half to 2.4 per cent in the five years to 2002, at the same time as the number of establishments increased by 15.3 per cent.⁶⁵
- 2.36 The very limited evidence which the Competition and Intellectual Property Working Group was able to gather on economic performance in the creative industries does not point to unusually high profitability when compared with other sectors.⁶⁶
- 2.37 The intrinsically high risks faced by many creative businesses discussed in chapter 4 – have important implications for market structure. Profitability in the creative industries at the company level can be extremely volatile from year to year.⁶⁷
- 2.38 The market structures we observe in the creative industries partly reflect these uncertainties. In principle, deep financial markets give investors opportunities to diversify risks, but there is evidencethat they find this difficult in practice. Creative businesses can typically access external finance more easily if they have greater scale, as illustrated by the experience of the film industry: in the US, even independent production companies with film slates have been able to tap private equity markets in recent years.⁶⁸ In increasingly globalised markets, this confers an advantage to creative businesses which are organised as multinational corporations.

...foreign-owned2.39figure 2.12 confirms that foreign-owned companies play an
important role in many of the UK's creative industries. Foreign-
owned companies appear to account for a particularly large
share of value added in publishing and design – two of the most
concentrated sectors. Foreign-owned companies have a major
presence in software and computer games too – accounting for
41 per cent of turnover.

2.40 Interestingly, Frontier Economics (2007) also reports that the turnover share for foreign companies exceeds the employment share in all 10 separate categories that can be identified from the Inter Departmental Business Register (IDBR), with the exception of music and performing arts and arts, antiques and crafts (where there is minimal foreign presence in any case).

This suggests that the level of productivity in foreign creative industry multinationals is higher than in other firms - a result echoed in other sectors of the economy too.⁶⁹

Cities in the knowledge economy

2.41 Cities, and the proximity of activity they permit, can have important implications for economic performance, drawing on a concentrated labour pool that can match the demands of employers with the skills of workers and provide access to large markets and suppliers. They are also a source of knowledge exchange within and across sectors.⁷⁰

- 2.42 Clearly, size is not the sole determinant of success. Larger cities that do not have a diverse industry base may find themselves less fleet-footed, unable to respond to shifts in competition, trade and technology. As population sizes increase, so do the costs of congestion, land and labour. By contrast, small and medium cities may provide firms or sectors with significant cost advantages.⁷¹
- 2.43 Peter Hall's tracing of creative cities and their role in economic development notes that despite a rich literature on creativity, there is little that addresses the significance of place.⁷² He provides a comparative overview of six major cities in history, each renowned for their creativity: Athens in the 5th century BC, Florence in the 14th century, London in Shakespeare's time, Vienna in the late 18th and 19th centuries, Paris between 1870 and 1910, and Berlin in the 1920s.
- 2.44 Several drivers of success can be identified: many cities were large and important but far from beautified and many had embraced social and economic change – cities such as Athens, Florence and London were especially integrated in global trading networks.
- 2.46 But, as this study also points out, too little order can be as stifling to creativity as too much order. To this extent, a creative city "is a place where outsiders can enter and feel a certain state of ambiguity: they must neither be excluded from opportunity, nor must they be so warmly embraced that the creative drive is lost."⁷³
- 2.47 The work of Richard Florida⁷⁴ in identifying a 'creative class' drawn to cities that can offer the diversity on which it thrives, and his conclusion that regional economic growth is built on the '3Ts' of creativity (Technology, Talent and Tolerance), has undoubtedly influenced the debate on how regional and city policy should understand the creative economy.

...proximity can have important implications for economic performance... The sector is

and business

services...

- 2.48 Using three of the creativity indicators identified by Florida ethnic diversity; proportion of gay residents; and the number of patent applications per head - a Demos study found that Manchester comes top, London and Leicester 2nd, Nottingham 4th and Bristol 5th.75
- 2.49 Florida's analysis has had a mixed reception in several quarters,⁷⁶ not least because of the lack of correlation between his creativity index and traditional measures of economic prosperity such as value added and numbers of jobs.

The place of London

London... has a 2.50 London, a global centre of creative business, has a disproportionately disproportionately large creative sector in comparison to the rest of the UK. Benefiting large creative from a rich infrastructure of internationally-renowned educational sector... and cultural institutions, and its place as one of the most diverse cities in the world, the creative industries are the second biggest sector in London's economy.

2.51 Between 1995 and 2001, London's creative industries grew faster than any other major industry except financial and business growing faster than any other services, and accounted for between one-fifth and one-quarter major industry of job growth in London in this period.⁷⁷ Any policy that aims exceptfinancial to support the productivity of the creative industries in the UK must look to London's particular place in their ecology, where a concentration of demanding customers, innovative ideas, and intermediaries necessary to access both markets and supply chains is to be found.

- 2.52 The fortunes of London's creative industries are closely intertwined with those of the wider economy, but appear to be more volatile. The GLA (2007)⁷⁸ reports that, since peaking in 2001, total creative employment in the city has fallen in each of the following three years, upturning only in 2005.
- 2.53 Over 50 per cent of the demand for the UK's creative products in particular advertising, architecture, and software which make up a considerable proportion of the creative industries in the UK - is estimated to come from business sources. It follows that expenditure on these creative products is particularly vulnerable to any slowdown in business activity.

Appendix Chapter 2



Pro-cyclicality of creative industries investment



Source: Office for National Statistics

figure A2

Pro-cyclicality of household consumption of creative industries output



Source: Office for National Statistics

figure A3

Labour and profit shares of income Whole economy 1992–2004



Source: Office for National Statistics

figure A4

Labour and profit shares of income Creative industries 1992–2004



Source: Office for National Statistics

Notes

Chapter 2

- 2 The creative industries are: advertising; architecture; publishing; radio and TV; design; film; music; software and computer services; computer games (interactive leisure); designer fashion; crafts; performing arts; and the arts and antique market. These sectors were first formalised as creative industries by the DCMS Creative Industries Taskforce and published in the Creative Industries Mapping Documents in 1998 and 2001.
- 3 The link between GVA and GDP can be defined as: GVA (at current basic prices) plus taxes on products less subsidies on products equals GDP (at current market prices).
- 4 Comparisons between the size of the financial services sector and the creative industries are fraught with difficulties. They are broadly comparable in size (in terms of gross value added) when using definitions based on Office for National Statistics (ONS) Input-Output tables. The ONS Input-Output definition of the creative industries differs substantially from that used for measurement purposes by DCMS. financial services can be defined as banking, insurance and pension funds, and auxiliary financial services.
- 5 These employment and occupation figures relate to the UK only; that is, they do not include Northern Ireland.
- 6 The data used in these figures published by the ONS use a different classification of the creative industries than that used by DCMS.
- Note however that figure 2.6 plots the sectoral index as a whole and its constituents have changed significantly over the period. Also, the fall in share prices since 2000 may have partly reflected a correction to previously inflated levels of optimism, and not a fall in actual growth. The FTSE media index has also fallen considerably relative to the stock market as a whole since 2000.
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Mark Ward Production Manager, Rolling Stones



"The music industry has a great opportunity to lead in reducing carbon emissions and global warming. Key environmental impacts occur when bands go on the road to perform at either single large events, or as part of a general tour encompassing many different venues. We should address this issue with the objective of limiting the carbon footprint and making it possible for operations to become completely carbon neutral.

We propose an official Kitemark, providing guidelines to the music industry as a whole. They would establish a baseline and identify a framework for action enabling bands, managers, promoters, record labels, etc to make informed decisions. Because of the differing nature of touring which can see the band visit one-off events like festivals or a series of venues, each with its own set of individual challenges and issues, a distinction must be drawn between what the music industry can change themselves and what will be the private motivation of each third party supplier such as venues, transport, companies and hotels.

The bands are surely the starting point and should therefore, as part of the initial stage of the kite mark, state their intentions and commitment to improving environmental performance by way of their own environmental policy. If there is acceptance to this agreement by high profile bands they have the power over public opinion to drive change.

As part of the baseline assessment an officially standardised carbon calculator is to be created specifically designed for music industry use. The will allow the input of data to include each component of the operation producing carbon emissions. This could include types of travel chosen, miles covered, number of people involved, sourcing of promotional materials etc. Even without undertaking a carbon calculation we already know transport is the main contributor to carbon emissions. It is also the most challenging variable. In general flights should be kept to a minimum, providing alternative means of transport where possible and where not suitable off-set schemes should be undertaken. As a future target, freight could be moved via greener alternatives such as rail or ship. Only smaller road journeys would be required from station to venue.

Hotels can play a vital role in assisting any achievable standard. Hotels in every price bracket should be encouraged to see the benefits of developing this area for their own gain and to make green touring achievable for bands at all levels.

Venues should be encouraged to meet environmental standards and bands can use their profiles and willingness to work with pioneering eco businesses to initiate change across the sector. Perhaps a credit system could be introduced for bands playing venues where these standards have been achieved. There might be no penalty for playing venues or festivals which have to be included in touring circuits, but an incentive to persuade venues and festivals to become part of the touring standard. There is also an incentive for all bands – but especially smaller ones – to play at more ethical venues.

We should look at ticketless events, reduce unnecessary consumption in offices and administration and other ways of reducing waste. We could reduce packaging at venues, reduce trade waste and better ways of disposing of food waste at concerts.

With time and demand the cost of green touring will decrease, If the managers and record companies can see there is no financial disadvantage and a host of green benefits, the transition to green touring could be swift and efficient. Government has a role in encouraging change in the music industry. The Kitemark could itself be a staged approach with a process of continual improvement, gaining momentum from high profile bands, venues and promoters."

Staying ahead: the economic performance of the UK's creative industries



Chapter 3

The knowledge economy

Chapter 3 The knowledge economy

3.1

The development 3.2 and exploitation of novel products, processes and services... will be increasingly vital...

- Creativity and innovation are already recognised as primary drivers of economic growth, productivity, and living standards. However, in the future, innovation's role in improving performance in economies like the UK will be even more crucial.
- The development and exploitation of novel products, processes, services and systems, and the constant upgrading of those already available, will be increasingly vital in ensuring that high wage economies like the UK can maintain and increase their relative high levels of economic wellbeing - both as a response to the evolution of increasing demand at home and the growth of competition abroad.
- 3.3 The resulting phenomenon explains in part the shift towards the 'knowledge-based economy'. This is the interaction of technology, in particular ICT, and digitisation, with more demanding consumers, creating an emergent economy with a significantly higher reliance on the creation and transmission of knowledge. As such, it represents a subtle evolution from former conceptions of economic growth, founded on organising the three 'factors of production' - land, labour and capital - ever more effectively.
- 3.4 While economies have always deployed the discoveries of technology and science to innovate and sometimes radically transform economic activity, today knowledge and information flows have a more systematic and transformative impact on the economy. The feedback processes between production and consumption have become faster and broader, demanding constant upgrading and innovation of what is produced and how. Creativity and innovation take even more centre stage; they are simultaneously the consequence and drivers of these changes.⁷⁹
- figure 3.1 gives an insight into the degree of change in Europe 3.5...the sharpest growth in over the last decade alone. Manufacturing industry has shed jobs, and there has been some employment growth in 'non-knowledge' employment services - agriculture, energy and water. However, reflecting has been in knowledge the trends outlined above, the sharpest growth in employment has been in knowledge services (creative and cultural services, financial services, business services, computer and information services, and trade in intellectual property rights including fees, royalties and Research & Development services) and knowledge industries (principally ICT, telecommunications, health and education).

services...

figure 3.1

Investment

in... intangible

assets... now equals or

surpasses

investment

in physical

assets...

Cumulative change in employment levels 1995–2005



Source: European Labour Force Survey

- 3.6 The Work Foundation estimates that in 2002 the knowledge economy's share of national income in the UK stood at 41 per cent.
- 3.7 This pattern of changing economic activity is supported by substantial changes in the pattern of investment. Investment in so-called intangible assets – defined as human resources and capabilities, organisational competencies (databases, technology, internal process and culture), fit-for-purpose computer software and 'relational' capital such reputation, brand and the quality of customer and supplier networks – now equals or surpasses investment in physical assets (machines and buildings) in both the UK and US.
 - 3.8 Moreover the investment in this broad-based concept of intangibles has increased everywhere in the industrialised world, in the recent past rising faster than investment in physical assets in both the EU and US. US investment in intangibles in relation to tangible physical assets has more than doubledover the last 50 years (see figures 3.2 and 3.3) – tribute to the growing importance of brain rather than brawn in delivering comparative advantage.

figure 3.2

US Business investment in intangibles as a percentage of tangible investment 1959–2003



Source: Corrado, Haltiwanger and Sichel (2006)

figure 3.3

Intangible investment as a percentage of non-farm business output 1947–2003



Source: Corrado, Haltiwanger and Sichel (2006)

3.9 The investment is made because it delivers results. Investment in computer software, Research & Development, brand equity, design and human capital has proven high rates of return. Indeed, the US Federal Reserve Board's Carol Corrado, together with colleagues John Haltiwanger and Dan Sichel, estimate that this broadly defined investment in intangibles contributed as much to labour productivity growth as investment in tangibles in the US for the period 1995–2003.⁸⁰

- 3.10 Ellen McGrattan and Edward Prescott reinforce those conclusions, estimating that unmeasured intangible investment in the business sector rose from 3 per cent of GDP before 1990 to over 8 per cent of GDP in the 1990s. Increases in labour productivity over the 1993–2000 period were underestimated by 1.2 per cent per year as a result.⁸¹
- 3.11 HM Treasury commissioned a study by Mauro Marrano and Jonathan Haskel of Queen Mary's College, London University to explore the same trends in the UK. In 2004, private sector investment in intangible, intellectual assets was 11 per cent of GDP – about the same proportion as in the USA. figure 3.4 shows the breakdown of £127 billion spent in total on intangibles in that year.⁸²
- 3.12 What lies behind these statistics is the growing importance of creativity and innovation in the economic process. Businesses are investing in the individuals and processes which can advance their Research & Development, deliver innovative software, design and develop innovative products, groom trained human capital and manage and integrate complex processes better. This is partly a response to changing demand, as is argued later, and partly to technological change.



Source: Marrano and Haskel (2005)

figure 3.5





Source: Autor, Levy and Murnane (2003)

- 3.13 American economists David Autor, Frank Levy and Richard Murnane have analysed the way this changing economic structure is impacting on the character of work and type of skills that are needed. figure 3.5 above plots a continuing increase in what they define as complex communication and expert thinking tasks between 1969 and 1999 and an accompanying decline in routine cognitive and manual work.⁸³
- 3.14 The common theme across many businesses is that computerisation has permitted a growing proportion of humdrum, rules-based tasks to be processed by machines, - those, they argue, in which information can be processed through a series of logical rules or simple pattern recognition. But, importantly, computers are less good at replacing work that is based on expert thinking – the circumstances in which judgement is needed, often against a background of considerable ambiguity.
- 3.15 They are also less good at replacing work that is based upon complex communication – the ability not only to elicit and transmit information, but also convey a particular interpretation of information or use it to persuade others (eg teaching, selling, managing and negotiation).⁸⁴
- 3.16 The consultancy firm McKinsey categorises the same phenomenon differently, but comes to similar conclusions.⁸⁵ It argues that the traditional way of adding value is becoming less and less important a source of competitive advantage. It labels these activities dcpdqto cdqpcn extracting raw materials and turning them into finished goods, and dcpucedqpcn areas like retailing and providing transport that take place in a generally rule-based fashion.

- 3.17 Success in both forms of activity depends on the routinisation or streamlining of existing processes. To the extent that those processes can be codified, best practice can be easily transplanted from one firm to another.
- 3.18 The performance gap, as measured by profits per employee, between leaders and laggards in transformation-intensive and transaction-intensive sectors is narrowing.⁸⁶ In other words, firms find it increasingly difficult to distinguish themselves from the crowd of competition. It is in industries where the bulk of transactions are difficult to script, where firms rely on the staff's expert capacity to solve problems and communicate complex ideas - what McKinsey calls 'tacit interactivity' - where the gap between the performance of firms is widest. In general, a new source of competitive advantage is opening up, one in which the capacity to deploy knowledge creatively gives the crucial edge.
- 3.19 Thus, the creative industries should be understood as part of a wider narrative in which creativity is of increasing importance generally. The task is *E*not just to encourage creative industries, our priority is to encourage all industries to be creative \dot{E}^7

3.20 **Creativity has...** The creative imperative is as important in, say, the introduction of the hybrid petrol and electricity engine, a new drug, even coming up with new sales advice. The creative impulse everywhere has certain characteristics in common, whether in an entrepreneur or a performing artist: a certain level of expertise, the willingness to take risks and the motivation derived from the pleasure of doing the job.

> 3.21 Similarly, the task of exploiting creativity for commercial ends is beset by considerable uncertainty, whether it is a new technology or a new film. There was no guarantee beforehand that the seemingly inferior Sony VCR would triumph over the Betamax, for example. The creative industries may be an important and dynamic element of the knowledge economy, but that does not mean they are the only generators of creativity - or that creativity is not important more widely. To examine the factors driving both the emergence of the knowledge economy and creativity, it is important to consider the role of demand.

The role of demand

3.22 The consumer market in the UK has become more powerful, complex and diverse as real individual buying power has risen over the last 40 years propelled by rising productivity and real wages(figure 3.6).

characteristics in common. whether in an entrepreneur or a performing artist...

figure 3.6



Real household disposable income per head and Gross Domestic Product per head 1971-2004 (1971 = 100)

Source: Office for National Statistics⁸⁸

consumers	3.23
have become	
richer and better	
educated with	
an appetite for	
individualised	
goods and	
services	

demand...

As consumers have become richer and better educated with a greater appetite for individualised goods and services, so they have become the co-creators of the knowledge economy. New technologies have enabled firms to offer a more sophisticated response to their demands.⁸⁹ Businesses are also powerful stimulants of demand: firms act as both consumers and providers of services – in sectors such as software – which underpins efficiency in other sectors, eg advertising and design.

3.24Crucially, both the changing character of demand and of supplyBusinesses too
are powerful
stimulants ofis fundamental to the emergence of the knowledge economy,
just as it is to the evolution of the creative industries.

3.25 Across the industrialised west there has been a shift from producer-led, standardised markets of commodities, goods and services to markets in which more personalised services and experiences are co-created by producers and consumers.

3.26 US studies show a rise of 5.6 per cent per year in nominal value added in the production of commodities and a rise of 8.9 per cent per year in the creation of 'experiences' between 1959 and 1996 – a useful proxy for the growth of individualised demand.^{90,91}
figure 3.7

Year-on-year growth in employment and nominal Gross Domestic Product for various production activities 1959–1996



Source: Pine II and Gilmore (1999)

3.27

Individuals are allocating more of their income to sophisticated, individualised goods and services. Some of the trend towards more individualised, experienceoriented consumption can be explained by a combination of falling prices and inelastic demand for household basics. As disposable income has increased, individuals have allocated a larger portion of their rising real incomes to buying more sophisticated, individualised goods and services.

3.28 Some of the shift is explained by richer consumers wanting to find more satisfaction than simple material consumption from their acts of buying. And some can be explained by the way technology, globalisation and a more stable performance from the wider economy have enabled a step change in the variety, speed and capacity to respond to these individualised demands for experience, aesthetic, emotional and psychological satisfaction.

3.29 Neither supply nor demand is static, however, each playing a different role at different times. Innovation in the computer industry can be traced as largely demand-led before 1960, when computers were designed and tailored for a specific purpose. Supply became more important after this time as technological change began to increase the power and decrease the price of computers. Computers became powerful and were applied in different ways: supply led demand. In 1990, a new model became important: the personalisation of computers.

Spending more on experiences

3.30 The Institute for fiscal Studies⁹² estimates that between 1975 and 1999, the share of expenditure on 'bread and butter' items declined from 40 per cent to 27 per cent of non-housing spending. The proportion spent on services rose from 29 per cent to 42 per cent, with real expenditure on leisure goods increasing by 93 per cent, entertainment 109 per cent, education 319 per cent and tourism by 270 per cent (figure 3.8).

Chapter 3 The knowledge economy

figure 3.8



Change in expenditure shares of various commodity groups 1975-1999

Source: Blow, Leicester and Oldfield (2004)

3.31 In 1997/1998, households spent more on leisure than on food for the first time. Since then, the share of household income spent on cinema, video games, theatre music and shows, satellite and cable subscriptions, internet access and DVDs and videos has more than doubled(figure 3.9).



Source: Expenditure and Food Survey, Family Expenditure Survey, Office for National Statistics

3.32 Alongside this trend has been a giddying proliferation in customised goods and services. One study⁹³ finds that between the late 1970s and late 1990s, the number of customised consumer goods jumped from 5,000 to over 25,000, a trend that is repeated across a wide range of products and services, from cars to magazine titles, to university courses to airports – even to KFC menu options.⁹⁴

The hunger 3.33 Customisation is a generic term for describing the multiple ways for experience in which producers seek to meet the increasing demands of these and the new richer, better educated individuals' preferences and tastes. The has created hunger for experience and the new has created a pressure for continual refreshment and renewal of products. As a result, a pressure the lifespan of products has been greatly shortened, and there is for continual a continual re-presentation and redesign of goods and services to refreshment and renewal of incorporate better quality or performance.⁹⁵ This acceleration in the pace of quality improvement is another characteristic of the products... knowledge economy.

Personalisation - 'I spend therefore I am'

- 3.34 There is a well-established and growing literature exploring how individuals migrate away from satisfying lower-end physiological and safety needs and move towards satisfying higher-end cognitive, aesthetic and spiritual needs as they grow richer and better educated.
- 3.35 Educational levels in the UK have risen dramatically. In 1970, there were around 1.7 million in further education; in 2005, there were over 5 million. In 1970, there were 600,000 in higher education; in 2005, there were 2.5 million.
- 3.36 The better educated are more likely to be 'joiners' and politically active,⁹⁶ more likely to be active consumers switching between brands and products (see figure 3.10 below) and more ready to complain. A 2006 survey⁹⁷ reported that over 60 per cent of customers were willing to complain most of the time a 10 per cent increase on 2001, while 61 per cent of customers said they expected a telephone complaint to be dealt with on the same day, again a 10 per cent increase on 2001.
- 3.37 Abraham Maslow⁹⁸ argued famously that as individuals satisfied their physical needs, so they next began to seek emotional enrichment and then intellectual fulfilment in climbing a hierarchy of need. At the apex they looked for aesthetic pleasure and self-fulfilment.
- 3.38 Ronald Inglehart⁹⁹ locates this transformation historically in the rising security and economic prosperity of the post-war period. As confidence in formal religion, politics and science as sources of authority declines, he argues, there is an expanding desire for participation and self-expression.

figure 3.10

Percentage of consumers who have changed supplier in last two years 2006



Source: Ofcom decision-making survey, conducted by Jigsaw. Base: 500 UK adults with fixed line and utility service (electricity: 496, gas: 497, car insurance: 434, home insurance: 479) in June 2006 and Ofcom CommunicationsTracking Survey, conducted by Ipsos - MORI. Base: 2,234 UK adults with a fixed line, 1,883 UK adults with mobile, 1,805 UK adults with multi- channel TV. Q1 2006 1,242 UK adults with internet.

3.39 figure 3.11 shows the results of a regular survey charting the numbers wanting personal fulfilment. This shows a clear rise among all age groups between 1986 and 2004, with the strongest growth in the baby boomer generation.

figure 3.11

Proportion (by year of birth grouping) choosing personal fulfilment as their number one wish from selected choices ¹⁰⁰





figure 3.12

Proportion who strongly or moderately feel they must satisfy their need for new experiences ¹⁰¹



Source: 'Changing Lives', nVision/Taylor Nelson

- 3.40 Similarly, as figure 3.12 shows, there has been a parallel rise in the proportion feeling that they must satisfy their need for new experiences.
- 3.41 The combination of the desire for self-expression, the quest for the new, and a breakdown in old hierarchies of trust has driven new and novel forms of attachment – online websites, with their high sociability, are the quintessential expression.
- 3.42 Second Life, for example, has been inhabited by more than
 5,500,000 newly created avatars since its establishmentin 2003.
 Almost L\$2.6 billion (Linden dollars) are in virtual circulation,
 with a real world exchange rate of around L\$250 to the US dollar.¹⁰²
- 3.43 Facebook, MySpace, YouTubeand Flickr have all grown equally rapidly. Technology is not simply being used in these new websites as means of co-production; it also plays a subtler role, underpinning what has been called an emerging 'playlist culture'.¹⁰³
- 3.44 Lawrence Lessig differentiates between today's adults, who consume culture that is offered essentially top-down, and children, who "increasingly understand culture as something they make, or something they remake and remix and remake, something that they get and through the tools of this technology, recreate. Culture for them is not delivered in final form. They use technology where we had no technology and they therefore experience culture in a way we have not seen."¹⁰⁴

3.45

Pine II and Gilmore (1999)¹⁰⁵ argue that the common thread is a desire for an individualised experience, and that increasingly the successful provision of goods and services is about the staging of consumption as an experience that appeals to one or more of four realms through which consumers want to be engaged – entertainment, educational, aesthetic and escapist. There are two axes, they argue, along which engagement happens; from passive to active participation, and from absorption to immersion. Thus the growth of education experiences (the Science Museum's space gallery), aesthetic experiences (the Tate's proposition that it is brand-led), escapist experiences (adventure holidays) and entertainment experiences (Disneyworld).¹⁰⁶

- 3.46 None of this is either guaranteed or likely to develop in a linear way. The spread of these values and accompanying culture are highly sensitive, in particular, to levels of education and the structure of the population.
- 3.47 In economic downturns, consumers quickly consolidate their expenditure around goods and services that are keenly priced as much as personalised or offer experience. All things being equal, as societies become better educated and richer, so they want more intellectual fulfilment and self-enrichment.¹⁰⁷ This is not a new quest; rather affluence has enabled it to be expressed in practical terms through more widely enjoyed consumption.
- 3.48 Emerging insights from the natural sciences confirm that the demand for personalisation is deeply embedded in the human condition. Susan Greenfield,¹⁰⁸ contends that personalisation is the default position of our brains: they are not witless captives to genes but highly plastic, configured by personal experiences and continuously updated as we live out each moment.
- 3.49 The 'experience economy' is based on the notion that individuals are as much emotional as rational animals. The studies that support this hypothesis underscore the extent to which all thought, logical or otherwise, is suffused with and stimulated by metaphor – the lingua franca of the creative industries.¹⁰⁹ In effect, we are hardwired to seek aesthetic value. finally, there are no known human cultures that do not express themselves artistically, suggesting that art may have possibly evolutionary or adaptive origins.¹¹⁰

Consumption can be seen as... a form of selfexpression and the exercise of individuality...

3.50 Consumption can thus be seen increasingly as a form of selfexpression and the exercise of individuality of which cultural, creative and artistic expression are core elements. As sociologist Tony Giddens argues, in today's world individuals express their identity through the choices they make.¹¹¹ There are downsides from this emerging new culture of consumption; Oxford University's Avner Offer observes it is a culture with less restraint and with a tendency to be more short-termist.¹¹² What is indisputable is that it exists – and that it is growing. 3.51 The emergence of personalised, experience-hungry, discerning consumers is not a domestic but an international phenomenon,¹¹³ and while it is currently concentrated in developed countries, it is expected to spread with the emergence of a global middle class.¹¹⁴

figure 3.13

Projected market growth for the Global Entertainment and Media sectors by region



Source: PricewaterhouseCoopers(2006) 'Global Entertainment and Media Outlook, 2006-2010'

The emergence of personalised and discerning consumers is... an international phenomenon...

Japan has 3.3 already trail-blazed the way; India is likely to follow.

- 3.52 The World Bank¹¹⁵ calculates that while the middle classes share in world population did not change between 1993 and 2000, it will have surpassed one billion by 2030, making it the fastest-growing segment. Though 56 per cent of the members of the middle class currently reside in developing countries, on current trends this share should reach 92 per cent in 2030,¹¹⁶ with the greatest increase in Asia.
- 3.53 The expansion of the middle class is likely to increase the demand for creative goods and services. As figure 3.13 shows, in 2005 the global entertainment and media industry was valued at \$1.3 trillion and is projected to grow to \$1.8 trillion.¹¹⁷
- 3.54 Japan has already trail-blazed the way to becoming a consumer society; India is likely to follow. McKinsey Global Institute (MGI)¹¹⁸ has conducted a similar exercise and assesses the potential of the Chinese market. To date, it has flattered to deceive: China's consumer market is little larger than Italy's despite having over 20 times the population. Consumption as a share of GDP actually contracted from 47 per cent in 1995 to 37 per cent in 2005 (Japanese and US levels are 57 per cent and 71 per cent of GDP respectively).
- 3.55 Nonetheless, McKinsey predicts that consumption's share of GDP will rise to 45 per cent by 2025, making China the world's third largest consumer market.¹¹⁹ If the growth projections of a global middle-class growing twice as fast as the overall population are well founded, multinationals will not only have a larger market but the character of spending will start to simulate that of the West.

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The open question is whether these emerging markets will have as strong a demand for imported creative and cultural products as other goods and services. China's media market, for example, is tightly regulated and censored, because the control of information and interpretation of information is so clearly central to the Communist Party's continued one party rule; in many other cases, culture, given its ostensible national importance, is subject to protectionist measures and subsidies. Even without such an obvious political interest, cultural products embody a dense set of commonalities, including beliefs, traditions and language that identify a group and bind its members together. Thus, cultural goods may not travel as easily as other goods and services and exhibit a home bias. figure 3.14 below illustrates how domestic demand for locally-produced music is strong, as measured by repertoire origin as percentage of market value.

figure 3.14

Repertoire origin as percentage of market value



Source: IFPI(2003) The Recording Industry in Numbers

- 3.57 Here, the American example during the 20th century of successfully building a vigorous cultural industrial base with very high exports is instructive. However its experience had very specific roots and is not easy to reproduce.
- 3.58 In the first place, as historian Donald Sassoon points out, the dominance of US culture in the 20th century lay partly in a domestic market that was extremely complex and diversified, quite different from the traditional European model.

"The American audience was an amalgam of people originating from different cultures. To be successful in France, one just had to please the French; in Italy, just the Italians. But to make it in the US one had to devise a product that would please, and delight, and be purchased by, the Irish and the Poles, Italians and Jews, Blacks and Germans, and so on. Hollywood's worldwide success in the era of silent movies arose from this home base...The key lay in the fact that, at the dawn of the industrial age in cultural production, the US domestic-consumer base was already culturally fragmented in a way that approximated the global one. The test once passed, the rewards were enormous: not only the conquest of a large market, but the possibility of conquering the world."¹²⁰

3.59 Another potential cultural factor underpinning US appeal is that historically, as global hegemon, the US still provides a way of life to which many aspire. And on top the US has had and continues to have a huge advantage in enjoying economies of scale in distribution; it is able to support the massive production and marketing costs required to produce the kind of films etc now demanded around the world.

The UK's advantages

British cultural producers have the advantages of working in English and an increasingly diverse society.

- 13.60British cultural producers have significant advantages too;
they work in English and the society of which they are part is
increasingly diverse. They have a domestic market which helps
them to generate creative content. There are important market
opportunities emerging in some developed countries. But there
is little homogeneity, and many countries protect and subsidise
their cultural industries for obvious reasons.
 - 3.61 The UK is better placed than many other European countries, but the challenges it faces to maintain this strong market position should not be underestimated.

The supply response

- 3.62 The importance of innovation and creativity has led firms to build much greater organisational capacity to innovate, together with leveraging external capabilities through new networks and alliances and the use of of ICT.
- 3.63 The market imperative is to grapple with the complexity and sophistication of modern demand and innovate, from the supply chain to internal process, from the production platform to customer engagement.¹²¹

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- 3.64 firms will be more successful in their adaptations and responses, the more institutions "provide the incentives for individuals and firms in an economy. Those incentives can encourage productive activities such as the accumulation of skills or the development of new goods and production techniques, or those incentives can encourage predatory behaviour such as rent-seeking, corruption, and theft" θ^{22}
- 3.65 As noted in chapter 2 in relation to China and India, it is the substance rather than the form of institutions that counts. However, institutions that deliver the necessary skills, incentives, values and processes cannot be wished into being overnight.¹²³ There is no escape from the hard grind of building enduring institutions in both the private and public sectors.

Creativity as a system attribute

Key skills for innovation are not just restricted to those involved in Research & Development...

- 3.66 As the need to innovate and create grows, so attendant processes need to be rethought and re-conceptualised. Traditionally, innovation was conceived in hierarchical and linear terms: the elite science universities or the laboratories in the large corporations would generate a flow of inventions that in turn would be commercialised. If innovation was poor, it was because of weaknesses within the university, research laboratory or the commercialisation process. This was essentially driven by each top-down function in the chain.
 - 3.67 Newer understandings conceive innovation as a more systemic process, with an accent on smart and effective coordination of a much more democratised system in which high skills are widely diffused.
 - 3.68 Key skills for innovation are not just restricted to those involved in, say, in Research & Development and marketing. The workforce is no longer asked to apply information in a mechanical sequence but also invited to participate, experiment and offer suggestions about how to improve the production process, and management is expected to build feedback back into that – a powerful driver of learning by doing and incremental innovation.¹²⁴

Networks

- 3.69 As products and services have become more elaborate, so knowledge necessary to value creation has become more specialised and dispersed.¹²⁵ As explored in chapter 5, advantage falls to those who can best organise and marshall dispersed knowledge.
- 3.70 Adam Smith's conviction that economic success accrues to "the men of speculation who...are capable of combining together the powers of the most distant and dissimilar objects" seems more not less prescient.¹²⁶ He was the first proponent of successful network building.

- 3.71 Today the problem of harnessing and leveraging in-house and external competencies has assumed even more importance. The task increasingly is required across systems and institutional boundaries - from the supply chain to universities, including users and even competitors. This is mirrored in the growth of strategic alliances. According to Thomson financial, less than 1,000 new alliances were announced each year over the 1980s; by the year 2000, this had risen to almost 10,000 per year.¹²⁷
- 3.72 The network has become the new organisational paradigm. As boundaries within and between organisations blur, so risks and resources are pooled and 'synergies' between organisation units are enhanced.
- **Networks** are 3.73 Networks are supplanting more traditional organisational forms - top-down command and control together with arms-length contracts - and, as they do, trust, the glue that holds a network together, becomes ever more important.
 - 3.74 But the network is not without its own difficulties of organisation. William Powell sets out the conditions for the successful network.¹²⁸

"In network forms of resource allocation, individual units exist not by themselves, but in relation to other units. These relationships take considerable effort to establish and sustain, thus they constrain both partners' ability to adapt to changing circumstances... Expectations are not frozen, but change as circumstances dictate. A mutual orientation - knowledge which the parties assume each has about the other and upon which they draw in communication and problem-solving - is established. In short, complementarity and accommodation are the cornerstones of successful production networks."

3.75 Complementarity and accommodation are difficult qualities to achieve. It is estimated that less than half alliances accomplish their objectives, deteriorating to up to 60 per cent where there are significant power asymmetries between partners.

Co-production with consumers

3.76 One of the pace-setting examples of the network paradigm is **Companies have** the growing success that companies have found in involving found success consumers in the co-production of their product or service. Thus open-source software (GNU/Linux), peer-produced software consumers in co-production (Wikipedia), distributed computing projects (SETI@Home) etc of their product are all the business counterpart of the interactive websites created by consumers cited in the demand section.

> 3.77 This cannot be regarded as merely a series of transient fads.¹²⁹ Wikipedia now presents a source of competition to online encyclopaedias like Encarta and could eventually substitute Britannica.

supplanting more traditional organisational forms...

in involving

or service.

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- 3.78 Co-production has been integrated into the business model of innovative firms.Professor Eric Von Hippel at MIT reviews a number of studies of product development and modification, and suggests that between 10 per cent to nearly 40 per cent of users engage in developing or modifying products – whether printed circuit CAD software, library information systems, surgical equipment, Apache OS server software security features, outside consumer products, extreme sporting or mountain biking equipment.¹³⁰
- 3.79 In a related spirit, the UK's Innovation Survey of 2,634 manufacturingfirms in 2000 found that 66 per cent of firms source knowledge for innovation from consumers.¹³¹
- 3.80 Where these users are 'lead users', ahead of other users in their embrace of important market trends, their involvement generally delivers products with greater commerciality. The explanation is not difficult. Although producers may possess more generic solution information on account of their technical expertise, users tend to know more about their needs and how the product works in practice. firms can innovate incrementally from deploying their own stock of knowledge; it is when they really access and co-produce products with lead users that innovation enjoys a step change in its range and quality.¹³²
- Technology has3.81Technology has been central to this trend, especially data-mining,
searching and browsing tools that have allowed firms to better
consider and integrate ever more remote decision information at
lower costs.133
 - 3.82 The easiest way to grasp the economic function of ICT is to think of organisations and markets not as organisers of the factors of production, but as information processors in the knowledge economy.¹³⁴
 - 3.83 There are advantages of both centralised and decentralised gathering and processing of information.¹³⁵ Centralisation permits economies of scale and local decision-makers may be poorly motivated, offset by the subsequent costs of communication. And there are advantages of decentralisation – information may require local context, it offers freedom and creativity especially if local decision-makers are highly motivated. But the costs of trying to coordinate multiple decisions are also to be factored in.¹³⁶
 - 3.84 ICT holds out the possibility of combining the economic advantages of large organisations (economies of scale and knowledge) without compromising the intrinsic and instrumental benefits of smaller organisations: freedom, motivation, creativity and flexibility.
 - 3.85 The growth of retail chains like Tesco and Walmart has been largely built on their respective management teams managing new technologies to get the win/win of scale economies with the advantage of allowing local store managers to decide on the best strategy for local trading conditions.

3.86 One effect production increasingly resembles a massive Lego kit in the way that blocks of tasks, or modules, can be separated and recombined. But while the organisation of production of the iPod nano is becoming more and more normal, companies must still engage in developing innovation and creation strategies. Strategies that seek to avoid this issue by focusing solely on exploiting low-wage labour through, for example, offshoring, tend only to be short-term palliatives. As Suzanne Berger and her colleagues from MIT argued in 'How We Compete' a survey of the competitive strategies of 500 American, Japanese and European multinationals, wage costs are a comparatively small proportion of the final price of most goods.¹³⁷

The iPod nano

One component of the iPod nano, the central microchip, is supplied by the US company PortalPlayer. The core technology is licensed from British firm ARM and modified by programmers in the US and India. PortalPlayer then collaborates with microchip design companies in California that send the finished design to highly capital-intensive foundries in Taiwan. They produce 'wafers' imprinted with hundreds of thousands of chips that are cut up into individual disks and sent to subcontractors for separate testing. Once the chips have been encased in plastic and prepared for assembly by Silicon-Ware in Taiwan and Amkor in the South Korea, they are warehoused in Hong Kong before being finally transported to mainland China where the iPod is assembled.¹³⁸

3.87 Moreover, with the global workforce estimated to number
4.1 billion in 2030 – most of it unskilled and located in the developing world – the advantages are not likely to be durable. Even low-cost China is experiencing wage inflation and is challenged by new lower cost competitors like Vietnam. There is no option but to embrace creativity and innovation.

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The Kok Report, assessing European competitiveness in the light of the Lisbon targets for European heads of government in 2004 described the knowledge economy in the following terms: "the knowledge society is a larger concept than just an increased commitment to R&D. It covers every aspect of the contemporary economy where knowledge is at the heart of value added – from high-tech manufacturing and ICTs through knowledge intensive services to the overtly creative industries such as media and architecture." (Kok Report, 2004) The ESRC's definition also tries to capture the move away from tangible physical assets to more intangible intellectual assets: "economic success is increasingly based on the effective utilisation of intangible assets such as knowledge, skills and innovative potential as the key resource for competitive advantage. The term 'knowledge economy' is used to describe this emerging economic structure." (ESRC, 2005)

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- 100 "If you had just one wish, which one of these would you choose? To be more highly esteemed; to have less fear; to be able to afford something; to be able to fulfil yourself; to have more friendship."
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Kylie and the V&A: widening access



'Kylie – The Exhibition' at the V&A (8 February– 10 June 2007) was a hugely successful demonstration of the importance of the creative industries in the UK, and the vital place that museums hold in showcasing the work of creative practitioners and reaching a broad audience.

The V&A, as the world's leading museum of art and design, holds at its heart two strategic objectives: to promote, support and develop the UK creative economy by inspiring designers and makers, and to stimulate the enjoyment and appreciation of design to diverse audiences, now and in the future. Kylie – The Exhibition is part of a whole range of activities at the V&A that supports these twin ambitions.

This presentation drew back the curtain to show that Kylie the glamorous, internationally-renowned performer sits at the apex of a creative pyramid comprising performers of all kinds, fashion designers and stylists, graphic designers and promo directors, musicians and choreographers, through to lighting engineers and stage riggers. The backstage section of Kylie allowed visitors to go 'behind the scenes' and see the work of the people who keep Kylie on the road, demonstrating how hundreds of people – many of whom live and work in Britain – feed in creatively to the Kylie phenomenon.

The show provided an excellent opportunity to widen the Museum's visitor base. Kylie – The Exhibition attracted over a quarter of a million visitors, many of them visiting the V&A for the first time. Indeed, many visitors commented that for the first time they could see fashion design, videos and costumes in context, not just as entertainment but as providing interesting, creative and potentially lucrative professions. On the first day of opening it was visited by the entire Fashion Department of Central Saint Martin's College of Art and Design.

The exhibition helped the V&A achieve its highest ever weekly visit figure of 88,000 during February2007 half-term. As with all V&A exhibitions, Kylie was the springboard for a range of events and web-based activities that encouraged creativity and participation among a wide range of audiences. Over 4,000 people enjoyed the inhouse theatre company's production based on Kylie's life and style; there were creative workshops, talks for people with learning disabilities and hearing/visual impairment, and a lively 'Sing-a-long-a-Kylie' event. On the web, users could access more information, enter competitions, dress Kylie dolls and post their comments and memories about Kylie and a great many people did so.

Kylie – The Exhibition was just one element in the V&A mission to support, showcase and inspire creative design. It built on the Museum's particularly strong reputation for making contemporary fashion accessible through major exhibitions such as Versace and Vivienne Westwood, free displays such as Ossie Clark, JC de Castelbajac and the current New York Fashion, and the ground-breaking, highly popular Fashion in Motion free catwalk shows.



© V&A Images/Victoria and Albert Museum, London. Content from Performing Arts Collection, The Arts Centre, Melbourne

Through its successful exhibition touring programme, the V&A presents the work of creative practitioners nationally and internationally. Vivienne Westwood has travelled across the globe – from Shanghai, Taipei and Tokyo to Düsseldorf and San Francisco, attracting more than half a million visits so far – and will finish with our long-term UK Partners, Sheffield Galleries and Museums Trust in 2008. The V&A's Black British Style exhibition visited five English cities, where it had 142,000 visits. In Birmingham, the Museum and Art Gallery added outfits by Gavin Douglas inspired by their own Black Victorians exhibition; Douglas went on to win a Fashion Fringe award in 2006. Following its showing at the V&A, Kylie toured nationally to Manchester City Art Gallery and Kelvingrove, Glasgow.

As well as established artists and designers, the V&A also highlights and develops new generations of British creative talent through a range of exhibitions, events and research. This includes the Museum's critically acclaimed monthly Friday Late programme, regularly attracting up to 6,000 visitors per evening, and the annual Village Fete weekend. Devised in partnership with design curators Scarlet Projects, the Village Fete has become an unmissable part of London's annual design calendar.

In devising programme, the V&A actively consults creative professionals and works with HE institutions; for instance the Museum is a partner in the Centre for Excellence in Teaching and Learning in Design. We use both established names and emerging talent in our own commissioning for our collections, our retail business and our long-term redevelopment programme, FuturePlan: in 2006, for example, the stunning new entrance extension at the Museum of Childhood was designed by Caruso St John, and Softroom was responsible for the Jameel Gallery of the Islamic Middle East. Fashion in Motion has featured top names such as Jean-Paul Gaultier and Ozwald Boateng and also newer faces such as Gareth Pugh.



Chapter 4

Defining the creative industries

Chapter 4 Defining the creative industries	4.1	The DCMS13 creative industries are beneficiaries of the same drivers propelling the growth of the knowledge economy. The rapid growth of intangible investment has created a buoyant market for advertising, computer software services and design, which together constitute almost half of total turnover of the UK's 13 creative industries.
The creative industries are beneficiaries of the same drivers as the knowledge economy.	4.2	The evolution of experience-searching, so-called 'apex' consumers has also generated rapid growth in demand for all forms of creative expression – from film to the performing arts. Digitisation is creating both new competitive challenges and new potential for experimentation and co-creation with consumers. In these respects the creative industries should be regarded as one of the more dynamic components of the knowledge economy.
	4.3	The 13 creative industries, however, are often perceived as having as many differences as similarities. Indeed, even within an industry like publishing the differences between, say, newspapers and educational publishers are often perceived to loom larger than their similarities.
each has a core communal business model.	4.4	In fact each creative industry has a core communal business model. All originate ideas of 'expressive value', which they commercialise. Other parts of the economy certainly engage in creative acts of origination – and in the knowledge economy there is an increasing reliance on creatively originating new offerings and experiences. Moreover every part of the economy commercialises their outputs and offerings by pricing them in markets. But these activities are defined by having a practical function.
What is distinct is that their revenues are generated by commercialising 'expressive value'	4.5	What is distinct about the creative industries is that their revenues are largely generated by commercialising 'expressive value' and that necessarily a greater part of their commercial turnover is attributable even more so than other parts of the knowledge economy to acts of genuine 'creative origination.'
	Expres	sive value

4.6 Expressive value can be understood as every dimension (in the realm of ideas) which, in its broadest sense, enlarges cultural meaning and understanding. Professor David Throsby has identified the following dimensions of the expressive values in which the creative industries deal:¹³⁹

Expressive values

Aesthetic value – the value that reflects beauty, harmony and form as well as other aesthetic characteristics.

Spiritual value – this might be either secular or religious – the quest for spiritual meaning shared by all human beings. The benefits derived from spiritual value include understanding, insight and awareness.

Social value – an important aspect of artistic work is its capacity to forge ties among otherwise separated individuals. It illuminates the character of the society that we inhabit and creates a context in which relationships and identities can thrive.

Historical value – "Each one of us is an historical being, held in a pattern created by Time", noted the historian JH Plumb. Part of the importance of artistic outputs is that they offer a unique snapshot of conditions at the time they were created and, in turn, provide clarity and a sense of continuity with the present.

Symbolic value – expressive objects are repositories of meaning. To the extent that individuals extract meaning from a work, that work's symbolic value will lie in the meaning conveyed by the work and its value to the consumer.

Authenticity value – this underlines the fact that the work is the real, original and unique artwork which it is represented to be.

- 4.7 Essentially expressive value creates new insights, delights and experiences; it adds to our knowledge, stimulates our emotions and enriches our lives.
- 4.8 In the first decade of the 21st century, expressive value is no longer confined to traditional artforms. Expressive value (in the sense of symbolic value) is represented in software programmes and video games such as the Grand Theft Auto and Metal Gear series where engrossing narratives combine with performance-driven play and increasingly naturalistic graphics.¹⁴⁰ Expressive value (in the sense of social value) is represented in the range of interactive, user generated cultural material found on the internet.

Expressive value... enlarges cultural meaning and understanding. Chapter 4 Copy Defining the creative industries

English common and statute law build on expressive value in their definition of intellectual property rights... 4.10

Copyright and patent law

4.9 Importantly English common and statute law build on expressive value in their definition of intellectual property rights (IPR) when distinguishing between copyright and patent. IPR of course is only one modality by which firms can appropriate the benefit from investments in knowledge. Formally, trademarks, design rights and confidentiality agreements may also be used, while strategic mechanisms such as lead-time on competitors, trade secrecy and complexity of design are also important.

10 A patent is a limited monopoly granted to an individual for a period of 20 years in return for the public disclosure of technical information of an invention. Critically, patents protect 'useful ideas'.¹⁴¹ To qualify, an idea must be novel, involve an inventive step, must be capable of industrial application and not be 'excluded'. Aesthetic creations – including music, art, dance and literature – are specifically excluded.¹⁴²

4.11 Copyright, on the other hand, protects original expression. The property protected by copyright is special in that it comes into effect automatically and is generally for the benefit of the author, a key concept that has shaped the development of copyright doctrine. The term of protection for literary, dramatic, musical and artistic works is life plus 70 years due to historical reasons, although there are many exemptions, such as so-called entrepreneurial works.¹⁴³

4.12 Unlike patent law that concentrates on the relationship between the invention and information in the public domain, the originality test in copyright is concerned with the relationship between the creator and work; that is, the expressive input that brings the idiosyncracies and serendipities of skill, labour and judgement to bear on the resulting output.¹⁴⁴

4.13 The common denominator of the creative industries is that all – to a greater or lesser extent – use copyright in their business model.¹⁴⁵ Indeed some American commentators refer to the 'copyrightable' rather than the creative industries.

4.14 Their common business challenges can be seen as more intense versions of some of the challenges that confront the knowledge economy more generally. Here our analysis is indebted to the University of Harvard's Professor Richard Caves, one of the first theorists successfully to apply contractual and organisational theory to the creative industries.

Nobody knows...

The creative

industries face

more intense

the challenges

that confront the knowledge

versions of

economy:

Creative industry challenges

1. Nobody knows – the value of the outputs of the creative industries to individual consumers is only known after they have been consumed or experienced. They correspond to what Michael Darby and Edi Karni identify as 'credence goods' whose quality cannot be perfectly determined by the buyer even after consumption. It is very difficult to state with confidence what constitutes an arresting piece of music, or an addictive video game – in sharp contrast with more functional goods whose attributes – speed, accuracy, ease of use, greater fuel efficiency or whatever – can be more readily measured and a technological frontier established.¹⁴⁶

Louis Levy-Garboua and Claude Montmarquette suggest that consumers are not aware of their true tastes in cultural markets.¹⁴⁷ Rather they discover them through repeated experiences in a sequential process of unsystematic learning by consuming. Because there is an infinite variety of creative offerings, this discovery process may, in effect, be never-ending. And to the extent that individuals are unsure of what they like, it is not surprising that producers of goods of expressive value struggle to anticipate market value.

It is against this background that the American author and screen writer William Goldman famously remarked of the movie industry that 'nobody knows anything'.¹⁴⁸ As he noted, industry executives may know a great deal about what worked in the past but that knowledge was of no help when predicting what would work in the future. One result is that seeming certainties can sink without a trace. Michael Cimino's $V_{j}g'Fggt''Jupugt$ was a commercial and critical hit. His next film $Jgcxgp\hat{l}u''I cug$, however, flopped, effectively ending Cimino's career.¹⁴⁹ By contrast, blockbusters like Uct''Y ctu can be guilelessly overlooked.

'Cascade effects' may give creative goods another layer of unpredictability.¹⁵⁰ The natural uncertainty about whether or not a product is good means that the judgement of others can have a trigger effect in convincing the buyer of the respective merits of a creative offering, leading to a cascade of buying.¹⁵¹ Hence the role of word-of-mouth, hearsay, newspaper book reviews, or radio airplay in music both in helping buying decisions and then amplifying them into potential bubbles.

All buying decisions are influenced by social and peer group pressures, but in the creative industries these effects are more marked because of the inherently social dimension of creative offerings. The music market, for example, is not just about 'good' music: as Tyler Cowen observes "people buy music to signal their hipness, to participate in current trends or to distinguish themselves from previous generations" as much as because it is objectively 'good'.¹⁵² Chapter 4 Defining the creative industries

For these paradoxical reasons, creative markets can go into reverse.¹⁵³ A product becomes part of the |gkighu, but once too many people participate in a particular fashion, it may cease to be attractive, and the trend will die off. This is the volatile interplay, as the celebrated sociologist Georg Simmel observed, between an individual's urge for individuality and novelty on the one hand and belonging and order on the other.¹⁵⁴

A further important feature of creative goods is that while other products typically end their life with the arrival of a substitute performing the same task better and cheaper, creative goods can have second or even third lives. The car and personal computer made the horse-and-cart and typewriter irreversibly obsolete. An anthology of Beatles songs or a collection of Pop Art paintings, after being first fashionable, and then less attractive, may once again become valued as 'classics', experiencing repeated streams of consumption.

Businesses find it difficult to fashion responses to these structural uncertainties. One obvious strategy is to develop a portfolio of creative offerings in the hope that at least one will succeed. Another is to use stars, sequels, elaborate marketing and increasingly adaptations to reduce the uncertainty they face. To the extent that these strategies serve as pre-commitment devices – no individual or business will risk damaging their reputation by consciously releasing poor products – they can also signal that the offering is likely to be of high quality.¹⁵⁵

2. Sunk costs – the risk is further increased because all the costs of producing a creative good have to be irretrievably incurred before any kind of market information can be gathered about whether it will succeed. The film, play or recording has to be made before it can be market tested. Some precautions are available – first drafts can be tested to try to cull likely failures from the portfolio; but creative industries are also littered with examples of culled turkeys that turned out to fly.

One way to protect against being 'landed with a loser' is to organise the creative project in a series of steps, with options for continuance at various critical moments in the life of the project. In reality the step process does not work as an effective brake. The mechanisms for ensuring that hope does not triumph over reality are always imperfect: projects get carried to completion that rationally should have been abandoned.

Sunk costs...

The variance between success and failure can be very high. In the film industry, a comprehensive sample of films produced between 2001 and 2004 showed that a studio's return on investment (ROI) swung from -96.7 per cent to over 677 per cent, with a median of -27.2 per cent. The top four films represent 20 per cent of revenues and the top eight represent 30 per cent.¹⁵⁶

Content producers – authors, bands, scriptwriters – are keenly aware of the risks and look for deals in which they are advanced guaranteed cash against the expectation of future royalties which are hard to predict. In music, for instance, only the very top bands receive any income other than the advance they receive from the recording company, because the actual royalties rarely exceed the combination of advance and expenses.

Quality choice...
3. Quality choice - in markets that are imperfectly competitive, producers may strategically spend more money on a creative good to help raise its attraction to consumers (again this incentive is heightened insofar as the pre- and post- consumption quality of the product is so difficult to assess). Where markets are large and unified, a process which digitisation is facilitating, the creative firm can not only raise its own profits but capture those of its competitors by increasing its outlays. As one company spends, so another is forced to respond - often in a vicious and wasteful spiral of mutually-offsetting investments. In the creative industries cost escalation is an ever-present hazard.

This creates considerable advantages for big studios, publishers and venues, and accounts for the extreme shift in industrial and geographic concentration in the film industry in the early 20th century, where the European presence in both US and European markets was marginalised by the rise of the Hollywood film studios.¹⁵⁷ Smaller US and European producers simply could not compete with the massive real increase in film costs which the large Hollywood studios could underwrite.¹⁵⁸

This pattern is now being reproduced in the video games industry. Giddying advances in technology¹⁵⁹ – the Playstation 3's graphics processor is seven times more powerful than Intel's Pentium 4 processor¹⁶⁰ – have saddled video games publishers with unprecedented development costs that are up to 50 per cent higher than the previous generation of consoles.

Playstation 3 games are anticipated to cost \$20 million to develop over a 25-month period while Xbox 360 games are predicted to cost \$15 million over 21 months.¹⁶¹ Development costs for games for the Nintendo Wii are also expected to be high, averaging \$12.5 million and 18 months. Art for art's sake...

The 'motley crew' property...

The creative process.

The 'bull's-eye' represents where pure creative content is generated British games companies – in an eerie parallel with the film industry in the 1920s – are increasingly unable to compete against this pattern of cost escalation, and are subcontracting to international publishers or find themselves being taken over.

- 4. Art for art's sake the creative industries are peopled by creative talents who themselves get pleasure and utility from what they do. They are 'called to their art'. One upside from the business perspective (although it attracts complaints of exploitation) is that their 'reservation' wages - the lowest they are prepared to work for - are lower than the marginal value of what they produce, making labour particularly cheap.¹⁶² A downside is that the 'talent' care deeply about how the creative work is organised, which may discourage concessions or compromises to management.
- 5. The 'motley crew' property complex creative products require a diversity of input; a mix of the highly creative together with more humdrum skills and inputs that complicates the organisation of creative activity. In order to shoot a film or record a piece of music, for example, every performer along with every technician has to perform at some minimum level at the same time to produce a valuable outcome. To group together particular actors or locations films may have to be shot out of sequence; everybody has to be available and one absence can hold up the entire work. The challenge is to select appropriate team members, coordinate and sequence their activities, and maintain their cooperation.
- 6. The creative process the creative industries are not underpinned by a large scientific or technical base with formal logical structures. The process of learning and creating tends to be intuitive, iterative and trial and error rather than analytical and explicit.¹⁶³ As such, knowledge within the creative industries tends to be even more tacit than in the knowledge economy generally. The creation process is largely uuk i gpgt hu to individuals, teams, networks and organisations. If the teams are broken up in any way, the creative knowledge they generate can quickly be dissipated.
- 4.15 In figure 4.1 which is based on the analysis in the report 'The Economy of Culture' prepared by KEA European Affairs for the European Commission – we deploy the notion of expressive value to map the creative industries in a series of concentric circles radiating out from the 'bull's-eye' of core expressive value creation.¹⁶⁴ The 'bull's-eye' represents where pure creative content is generated. This is the domain of the author, painter, film-maker, dancer, composer, performer and software writer.

The creative industries figure 4.1 – A stylised typology



4.16

It is peopled by men and women who have the urge to create which, following American novelist Don DeLillo's urgent description, the rest of us find so compelling that we are delighted and enriched.

"It's a democratic shout. Anybody can write a great novel, one great novel, almost any amateur off the street... Some nameless drudge, some desperado with barely a nurtured dream can sit down and find his voice and luck out and do it. Something so angelic it makes your jaw hang open. The spray of talent, the spray of ideas. One thing unlike another, one voice unlike the next."¹⁶⁵

- 4.17 Although the creator seeks an audience and market, the activity is the pure expression of personalised value in which both creator and users have a unique relationship from which both gain. It is the most intensely felt experiential form of both delivering and consuming expressive value. It can be generated by the artist as sole trader, as part of the content generation of a large company or via public support; in whatever structure care has to be taken to ensure that that creator has the opportunity to experiment and to dare.
- 4.18 Importantly creation in the 'bull's-eye' should not be interpreted solely in terms of traditional artforms. The writing of computer software, the establishment of a 2.0 website or the evolution of a new character in a video game all belong here.
- 4.19 In terms of the current industry classification the performing arts, arts and antiques and crafts would situate their activity in this part of the diagram – as would pure content creation of any of the creative industries.

4.20 The circle beyond represents those industries that focus primarily or solely on the commercialisation of pure expressive value – the cultural industries – such as music, television, radio, publishing, computer games and film in the industrial classification.

4.21 firms in the cultural industries traditionally organise themselves so that all or most functions (content creation, recording, marketing, manufacturing and distribution) are carried out in-house. Though this vertical integration still operates in many areas, as with today's video games publishers with large in-house games development teams or major music labels such as EMI, it is starting to give way to more networked forms of organisation.

The cultural4.2industriesfocus on thefocus on thecommercial-isation of pureexpressivevalue...4.2

- 4.22 Thus film studios, music companies etc deal with an array of independent content providers to whom they may advance money in return for a cut of the cake and then process the content which has been independently created. Hollywood studios, for example, do so-called 'pick up' or 'first look' deals with a large number of independent producers.
- 4.23 In the UK television production is increasingly organised in this way. Channel 4 was founded on the basis it would solely commission independent production companies to deliver content. Its success persuaded policy makers to introduce a quota for the BBC in which 25 per cent of its expenditure on television is outsourced to content providers, now followed by a further 25 per cent contested between independent content and in-house content providers – the so-called Window of Creative Competition (WOCC). Independent television producers have become part of the ecology of British television.
- 4.24 But whether a core creative field or a cultural industry, and whatever the organisational linkages between how content is created and processed, the heart of the business model is generating copyrightable acts of origination of expressive value.
- 4.25 The next concentric circle represents the focus of the creative industries.¹⁶⁶ These are analytically first cousins to the cultural industries; distinct while belonging to the same family of activity. Architecture, design, fashion, computer software services and advertising are all creative industries whose market offerings pass both an expressive and workability test.
- 4.26 They deliver both expressive and functional value. They tend to respond to the close demands of clients for creative offerings that work to their specifications; they constitute intermediate input in sectors in the wider economy.
 - 4.27 Adverts have to sell products, but work best if they succeed in expressing the cultural zeitgeist. Buildings should be both aesthetically pleasing and work. Design should embody the culture but is useless if the products do not function well. Fashion products have to be culturally in the vanguard but wearable. Not every single building, dress or design needs to pass both tests; but the creative industries are healthier and more vital to the degree that as many as possible do.
 - 4.28 Nor is this new. Professor Avner Offer details how design has always been important. He quotes the chairman of GM noting in 1941 that "today the appearance of a motor car is a most important factor in the selling end of the business – perhaps the most important single factor". By 1954, market research revealed that styling was "the most significant factor in creating the desire to buy". It was non-price competition on design that allowed Ford to outflank Chrysler with its iconic 1949 model, while Chrysler's 'Airflow' design did not work and scarred the company for almost two decades.¹⁶⁷

The creative4industriesdeliver bothexpressive andfunctional value.

creative industries there is collaboration between them. There are also many interdependencies; advertising expenditure finances much commercial TV and radio. Radio serves TV; many television comedies started life as radio programmes. Equally many successful film scripts are adaptations of successful novels. The creative 4.30 In addition the creative industries are an important bridge industries are to the wider economy. As we detail below a growing number an important of designers, advertisers and software writers work not just within firms situated in the creative industries, but beyond. bridge to the The concentric circle at the perimeter of the circles represents wider economy. creativity in the wider economy, and the linkages that exist between it and the creative industries. 4.31 As was argued in chapter 3, one of the drivers of the knowledge economy is the necessity of creative business responses. This report does not argue that creativity is somehow exclusive to the creative industries; only that their business model is more completely built upon acts of origination that have expressive value than any other sector of the economy. The importance of the core 4.32 Each of the creative industries may have a business model that is part of the same family, but to what extent is their creativity and economic success interdependent and self-reinforcing? And to what extent does their creativity spillover into the rest of the economy? 4.33 Unlike other parts of the economy, our understanding of the creative industries' linkages is comparatively weak, made worse by poor statistics or sometimes no statistics at all.

> 4.34 The necessary if insufficient precondition for creative industry success is a flourishing core. Without a supply of high quality creative content and the wider structures that nurture and incubate there would be no indigenous content to commercialise.

The creative and cultural industries are highly porous;

individuals can pursue careers in both, and increasingly

4.35 Chapter 5 sets out some of the background conditions which nurture content creativity. Diversity, a culture of openness and a supply of creators with the requisite combination of hard and soft skills are clearly vital - along with the character of demand that calls forth creative supply. flourishing core.

> 4.36 Most of the activity in the core is the spontaneous, self-financing articulation of expressive value by talented content creators. However if such activity is to be sustained, it has to be economic; the creators' bills have to be paid – either by the market paying a high enough price for their creative wares or, if that is inadequate, by support from the public purse.

A necessary

precondition

for creative

success is a

industry

Chapter 4

Defining the

4.29
- 4.37 Expressive value is often expensive to generate and hard to get sufficient revenues to justify the cost because consumers tend to free ride if they can, without public investment it tends to be underprovided.
- 4.38 This is the essence of the case for the BBC licence fee. Broadcasting involves high fixed costs: the licence is a guaranteed way of ensuring that the public pays for the services it consumes.
- 4.39 The BBC has managed to find an ongoing means of 'crowding in' creativity – the BBC is generally regarded as highly creative – while broadly keeping the BBC at a 'goldilocks' size. Although the correct size for the BBC is fiercely contested, so far it has neither dominated private broadcasters nor been dominated by them, while becoming a major source of economic support for the UK's creative core.
- 4.40 The BBC has also done a great deal to promote diversity, free from the demands of commercial advertisers. For example, the BBC was critical to the success of Britpop in the 1990s, with independent DJs like John Peel devoting a higher proportion of programming to unproven pre- or new releases.¹⁶⁸
- 4.41 In 1996, one in four records played on Radio 1 was 'pre-release'

 this contrasts with the two national commercial radio stations, Atlantic 252 and Virgin 1215 which played one pre-release in every 67 records and 1 in 19 respectively.¹⁶⁹
- 4.42 Music executives have told us that the diversity and objectivity of BBC Radio 1 play-lists are central to the popular music business' success in the UK. The BBC also sustains four other music stations, five orchestras, and, by supporting a range of music festivals from the Proms to the London Jazz Festival every year, plays a key role in both offering performers a platform to show off their ability and to educate demand.
- 4.43 The BBC has played a no less important role, along with Channel 4, in the creation of the UK's vigorous independent television production sector. The quota and the Window of Creative Competition (see earlier), together with Channel 4's commissions and the increasing use of independents by other terrestrial, satellite and cable broadcasters, have created a production sector that is creative (ranked by awards nationally and internationally) and whose output is predicted to grow from some £780 million in 2004 to £1.5 billion by 2015.¹⁷⁰
- 4.44 Subsidised theatre also plays an important part in succouring the creative industries. In the United States over the past 20 years, 44 per cent of new plays to appear on commercial/for-profit Broadway can trace their roots to the non-profit sector.¹⁷¹ The figures are similar for the UK. Many successful British actors honed their skills in publicly funded British theatre.

Chapter 4 Defining the creative industries

4.45

Educational publishers recognise the importance of libraries in sustaining the production runs of otherwise unprofitable titles.
Museums may inspire commercially-oriented actors and provide them with new ideas. Vivienne Westwood's 'Cut and Slash' collection (spring/summer 1991), for example, was inspired by studying 17th century costume at the V&A: meanwhile research for the V&A's modernism exhibition inspired the BBC to produce a series of four programmes entitled 'Marvels of the Modern World'.¹⁷²

Valuing creative industries in the UK economy

- 4.46 Identifying the remunerated links between the creative industries and other sectors is important for establishing the significance of creative businesses to the UK economy. Mapping these links helps pinpoint the drivers of the creative industries and assess how interventions in one area may have consequences for another.
- 4.47 Sectors which have strong supply and demand relationships with creative businesses may have a key role to play in both the design and implementation of policy for creative industries.
- 4.48 As the outer layer of the concentric circles makes clear, the creative industries do not work in isolation. ONS data, for example, show that 55 per cent of creative products supplied to the economy are purchased by other businesses including other creative businesses.¹⁷³ Within the creative industries, the advertising, architecture and software industries sell the vast majority of their outputs to other businesses and are especially sensitive to upturns and downturns in the wider economy (as discussed in chapter 2).
- 4.49 The creative industries' close supply chain links with firms in the wider economy mean they have indirect impacts on employment and output as well as direct impacts to value added and employment.
- 4.50 These so-called multiplier effects consist of supplier impacts (where creative businesses purchase goods and services from firms in other sectors) and indirect effects (where resulting increases in household income leads to higher consumer spending).

4.51 Estimates of these multiplier effects vary in size but can sometimes be significant. One survey of employment multipliers estimates that for every job in an arts organisation a further 1.8 - 2.8 are created in the regional economy.¹⁷⁴ Despite their popularity, a major limitation of such multiplier estimates is that they do not allow for the opportunity cost of the additional spending on the creative industries.

David Throsby describes this as follows:

"....while the net valuation of external effects is in principle a valid component of the total economic value of a facility such as an art museum, there are conceptual difficulties of measurement which have to do with identifying how 'net' the measured values really are. So, for example, the so-called 'multiplier' or 'second-round' impacts of a public investment project involving a museum might be properly disregarded in a cost-benefit appraisal because such impacts would accrue to any other similar project to which the investment capital might be devoted."¹⁷⁵

- 4.52 A proper analysis of multiplier effects would require the simulation of extra spending on creative industry products in a behavioural general equilibrium model of the economy.
- 4.53 Interestingly, two of the three creative industries most closely associated with the growth of intangibles – advertising and software – have a large number of employees working outside their sector. Together with design they are the three creative industries most directly plugged into the growth of intangibles which has been associated with the growth of the knowledge economy. figure 4.2 illustrates these employment patterns using estimates derived by DCMS from the Labour Force Survey. It plots for each DCMS 13 sector for which data are available that proportion of individuals in creative occupations who are working in their home sector. So, for example, according to the Labour Force Survey 100% of art and antiques professionals work in the art and antiques sector, whereas only 40 per cent of advertising professionals do so.
- 4.54 The Design Council has made considerable effort to establish the impact of design on turnover and profits. It argues that every £100 spent on design increases a firm's turnover subsequently by £225 and profit by £83. Other research reveals that 61 design-intensive companies outperformed the FTSE 100 index by more than 200 per cent over 1994– 2004.¹⁷⁶

figure 4.2

Employees working in their own sector 2004



Source: ONS

4.55

Design is increasingly viewed by firms as key to their businesses... These are impressive figures. Design is increasingly viewed by firms as key to their businesses – for manufacturers, the proportion is as high as 41 per cent.¹⁷⁷ The main reason appears to be that design allows firms to overcome competition on the basis of low price – of business where design is key to strategy, only 21 per cent say are forced to focus on price. Indeed, nonprice characteristics such as design are especially important drivers of competitiveness in markets where the UK has a strong interest.¹⁷⁸

4.56 However, the evidence of a causal relationship between design input and firm performance is more difficult to establish. The relationship between high performing firms and their spending on design can be often be attributed to other factors such as their overall competitiveness and commitment to high capital spending; the causation may run from their high performance to their willingness to spend on design rather than the other way round.¹⁷⁹

4.57 Despite these caveats, some independent evidence suggests that firms that spend more on design do enjoy faster product growth and introduce more product innovations.¹⁸⁰ Around one-half of all projects for which export information was available enjoyed improved trade performance. In addition, roughly one-half of actual export sales made by winners of the 'Queens Award for Exports' – chosen for their reputation and performance in exports – could be directly linked to their investment in design.¹⁸¹

- 4.58 Computer software also has a significant impact on the wider economy. Investment in ICT including software, for example, has played a crucial role in UK productivity growth in recent years. A higher rate of technological progress in the production of ICT worldwide than in other sectors has led to a fall in the relative price of ICT products – businesses have responded by stepping up their ICT investments. The evidence suggests that ICT has also raised the rate of labour productivity growth through channels that cannot be explained by investment – in other words, by raising total factor productivity growth in the economy.
- 4.59 Some estimates suggest that this technological progress in ICT may alone have accounted for as much as 20 30 per cent of long-run labour productivity growth.¹⁸² The software industry has been at the vanguard of the ICT revolution. Investment spending on software alone amounted to just under 2 per cent of GDP in 2003, broadly similar to the US (figure 4.3).



Source: ONS

There are a

number of

the creative

and beyond:

industries

spillovers

between

'Spillover' effects

- 4.60 Spillovers are the conditions in which firms or consumers benefit from knowledge, market opportunities, innovations, or skilled employees that they have not paid for directly. They are uptgo upgtcugf benefits – that is, the producer or consumer of the new ideas or products is not compensated for any external benefits their production/consumption decision confers on other people.¹⁸³
- 4.61 Plainly the economy benefits from spillovers, but because they are unremunerated there is an innate tendency for them to be underproduced. These effects are traditionally understood in the context of scientific Research & Development, where they provide the rationale for government intervention. They also certainly apply to the creative industries, but it is difficult without better statistics to establish the extent and nature of spillovers both within the creative industries and between them and the wider economy. However, the following categories provide a useful framework.

Chapter 4 Defining the creative industries

...Organisational knowledge spillovers

...Experiential knowledge spillovers

...Interdisciplinary knowledge spillovers

'Spillovers'

1. Organisational knowledge spillovers – Many creative businesses specialise in project-based work where teams form and develop their products in intense outbursts of creative activity, before dissolving and reforming around new projects.¹⁸⁴ Insofar as this model is increasingly relevant to innovation in other sectors of the economy, creative enterprises may serve as role models to other businesses.¹⁸⁵

There are other organisational knowledge spillovers that the creative industries may generate: after all, many are operating in an environment of constant change. The digital revolution is having disruptive effects on business models for media, advertising and other creative firms. Businesses in the wider economy may have much to learn from the experiences of the creative industries.

- 2. Experiential knowledge spillovers A specificarea where firms in the wider economy may draw on creative business models is in the provision of so-called experiential services. In these services, the focus is on the whole experience of the customer when interacting with the organisation, rather than just the functional benefits following product or service delivery.¹⁸⁶ Such services are often described as a performance itself, involving a stage, actors, a script, an audience and a backstage area.¹⁸⁷ The qualitative evidence collected confirms that many lead innovators in the experiential services area look consciously outside their own industry for inspiration, including to the creative industries.¹⁸⁸
- 3. Interdisciplinary knowledge spillovers Creative industries may be able to pass on a culture of interdisciplinary work to firms in the wider economy. Clearly, they have a strong interdisciplinary tradition which in some cases is driving innovations of major social significance.

Biomimetic applications¹⁸⁹ in architecture, drawing from nature and used in building design – eg Plantation Place in the City of London where the air filtration system works as a human lung, or the Eden Project in Cornwall, whose copper-clad roof is based on geometric patterns found in many plant seeds – are cases in point. Games houses – drawing on the skills of computer programmers, designers and artists to develop technically ever-more sophisticated Massively-Multiplayer Online Role-playing Games (MMORPGs) – are another example.

Spillovers from innovations which create new disciplines may be very significant indeed (witness the explosion in recent years in applications of nano-technology, for example).

... Entrepreneurial knowledge spillovers

... Job mobility spillovers

- 4. Entrepreneurial knowledge spillovers The very large numbers of small firms and sole traders in many creative sectors are consistent with a high degree of entrepreneurialism (see chapter 2). There is a long tradition in the film and television industries, for example, of producers leaving public broadcasting companies to set up as independent production companies. The founders succeed in exploiting the knowledge and experience gained in their previous occupations. Creative industry entrepreneurs may have significant spillovers if they inspire risk-taking and an entrepreneurial culture more generally.¹⁹⁰
- 5. Job mobility spillovers One of the most potent ways the creative industries can create spillovers is when professionals carry over transferable ideas and knowledge into other sectors when moving job.

In other parts of the economy labour mobility is seen as an important way of transferring tacit knowledge.¹⁹¹ Labour mobility can also generate spillovers if it supports social networks including creative and non-creative businesses which are vital for innovation in many industries.¹⁹² Unfortunately, evidence on the longer term career destinations of creative individuals is lacking. Data on the short-term destinations of graduates suggest that, six months after graduation, only around one-third of art and design graduates in the UK had secured work in sectors directly related to their degrees, compared with over 40 per cent of IT graduates and two-thirds of those who had studied civil engineering.¹⁹³

Second-jobbing between sectors also appears to be more prevalent in the arts than in non-arts sectors: around 7.4 per cent of those working in the arts compared with 4.5 per cent of non-arts workers. Interestingly, a much greater share of artists' second jobs are high-skilled.¹⁹⁴ This echoes the experience of creative industry workers in other countries:¹⁹⁵ more than 39 per cent of musicians in the US hold a second job in another profession.¹⁹⁶

Together, these findings suggest that there is a strong tendency for individuals with creative skills to bring their talents to the wider workforce.

6. Demand spillovers – As with all businesses in the economy, firms in the creative industries generate demand spillovers for complementary products in other industries. This can be seen in the example of complementary accessories for the Apple iPod, only some of which are licensed to Apple; they benefit from iPod sales for which they do not compensate Apple. Moreover the iPod itself has genuinely created new demand for recorded music.¹⁹⁷

... Demand spillovers.

4.62

The rate of spillover diffusion is plainly related to the speed and breadth of adoption. In general, new knowledge and innovations are adopted faster the more they are seen as superior to what they might supersede, the more they are consistent with users' needs, the less difficult they are to deploy, the ease with which they can be experimented, and the more obvious their benefits.

Urban and regional regeneration

- 4.63 There is compelling evidence that the presence of a large, diverse pool of artistic talent in a region can create a 'lead market' for artistic and creative products. When functioning properly, this should enable local businesses to design their products better and market their products more successfully, better preparing them for the marketplace later on.¹⁹⁸ This has been seen among artists working in the San Francisco Bay and Los Angeles metropolitan areas.¹⁹⁹
- 4.64 Creative businesses and a well-developed cultural sector may make regions more attractive for firms outside the creative sectors to do business. Richard Florida controversially found that the incidence of 'bohemians', which he defines as artists and designers, is significantly correlated with high-tech success across metropolitan regions in the US.²⁰⁰
 - 4.65 Investment bankers are said to prefer working in London rather than elsewhere in Europe because of its thriving creative and cultural sector. Similarly, Manchester and Cornwall in different ways have benefited from their emergent creative industries - the Tate helping to attract richer tourists to Cornwall, for example.
 - 4.66 The UK film Council estimates that UK films promote tourism to an estimated value of £800 million per year.²⁰¹ More recent research finds that film and television programmes have significant - and persistent - spillovers for UK tourism.²⁰²
 - 4.67 Some of these claims are disputed. Businesses look for workers with the right skills when making location decisions, but the reverse holds too: workers prize locations with jobs, affordable housing and quality social facilities like schools.²⁰³ Equally, criticism has been levelled at the usefulness of some local authority commissioned art; it attracts little interest and the artist finds it hard to be inspirational.²⁰⁴
 - 4.68 Nonetheless, a growing number of cities have placed creative and cultural activities at the heart of their development strategies, in some cases - such as Glasgow and Gateshead - with very positive results.

Creative businesses may make regions more attractive businesses in other sectors.

number of cities have placed creative and cultural activities at the heart of their development strategies...

...a growing

- 4.69 NESTA(2007) argues that UK policy needs what it calls 'intelligent competition' to ensure that not every city and region is trying to capture the same benefits the same way – and so cancelling each other out. It notes the high degree of homogeneity in local development strategies across regions.²⁰⁵
- 4.70 So, for example, of England's nine regional innovation and economic strategies, five mention the creative industries. This homogeneity in approach increases the risk that different regions are 'competing' for cultural spillovers, raising the possibility that the net effects to the UK as a whole are nugatory.

Wider objectives

- 4.71 In addition to economic spillovers, the creative industries contribute to wider social objectives, including diversity and tolerance of alternative lifestyles. Studies have often focused on the role of high art while suggesting – implicitly or explicitly – that mass culture tends to a lowest common denominator path.²⁰⁶
 - 4.72 This division is challenged by those who point to the rise of narrative complexity in modern shows such as Vjg'Uqrtcpqu and the abstract problem-solving skills required by many video games.²⁰⁷
 - 4.73 And the creative industries have an even broader impact, however difficult it is to measure. Some suggest that it contributes to a country's soft power, tempering the effects of traditional military power.²⁰⁸ Harvard University's Professor Joseph Nye believes that the likes of the BBC and The Beatles significantly enhanced the UK's image during the Cold War. As one of Gorbachev's aides later conceded, "The Beatles were our quiet way of rejecting 'the system' while conforming to most of its demands." Against the backdrop of a multi-polar world, culture is seen as a way of navigating new uncertainties. This is not to argue that culture should be used as an instrument of diplomacy. But it is one more piece of evidence supporting the argument that this is a very distinctive sector of the economy.²⁰⁹

...creative businesses contribute to wider social objectives...

Notes

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- 140 Richard Posner, the influential legal philosopher and judge, made a powerful case for considering video games as art in the Seventh Circuit Court of Appeals, American Amusement Machine v. Kendrick.
- 141 The Gowers Review of Intellectual Property, op cit. This partly leads Karjala to suggest that the distinction between patent and copyright subject matter is one of functionality, with copyright applying to nonfunctional works of art, music, and literature and patent applying to functional works of technology. 'Distinguishing patent and copyright subject matter', D Karjala, 35 Conn. L. Rev, Winter 2003.(2003)
- 142 1977 Patents Act s.1(1)(c); European Patent Convention Art. 52(1); Chiron v. Murex (1996) RPC 536, 606 (Morritt LJ). Inventions specifically exclude 'a literary, dramatic, musical or artistic work or any other aesthetic creation whatsoever'. PAs 1(2).
- 143 There are a host of exceptions to the general 'life+70 years' rule: computer-generated works; Crown copyright; parliamentary copyright and international organisations; artistic works used in design; works of unknown authorship; unpublished works not in the public domain. So-called entrepreneurial works such as sound recordings, broadcasts and cable programmes and typographical arrangements – also have shorter periods of protection.
- 144 See 'Intellectual Property Law', L Bently and B Sherman, Oxford University Press, 2001. It is no coincidence that natural rights arguments have generally played a larger role in copyright than in patent. That said, the law is as much an accretion of multiple influences as a pristine distillation of one or two justificatory ideals.
- 145 Design differs insofar as it is governed by a system of registered and unregistered design rights. Still, in order to be registerable, a design must have 'eye appeal' - 1949 Registered Designs Act s.1(1). Case law suggests that 'eye appeal' refers to the appeal that is 'created by a distinctiveness of shape, pattern or ornament as calculated to influence the customers' choice' as per Lord Oliver in Interlego AG v. Tyco (1988) RPC 343, 355. As such, it is reasonable to conclude that purely functional considerations should not be taken into account. A further obstacle to registration lies in the fact that applicants must prove that appearance, both generically and specifically, is important to consumers – RDA s.1(3). Over time, the evolution of case-laws suggests a subtle aesthetisation of the registered design system.
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Mediacity:UK



Salford MediaCity:UK will be the UK's first, 200 acre, digital media city providing 15,000 jobs in the creative industries.

The Manchester City Region is the strongest pole of economic growth in the North of England, and with an established economic base in both the knowledge and creative industries. The BBC's decision to relocate key departments to Salford, at the heart of the City Region, is now forming the basis for a much bigger project of international significance.

The BBC will move around 1,500 jobs to Salford by 2011. It will be home to eight BBC departments, including Children's BBC and Radio 5 Live as part of their BBC North base. The area will also provide employment opportunities for 15,500 people and will include space for 1,150 media, creative and related businesses, as well as housing the UK's largest, state-of-the-art TV production studio block.

MediaCity:UK will complement the Manchester-Salford Knowledge Capital proposals already transforming the regional economy. MediaCity:UK will be a beacon for Manchester City Region demonstrating in the UK how creative industries will transform the workplace, create jobs, and lead to better economic performance.

MediaCity:UK is an opportunity for people, in the North West to realise in creative industries their talents and skills.



Chapter 5

Drivers of the creative industries

Chapter 5 Drivers of the creative industries

...better educated, richer consumers... are co-architects of the knowledge economy.

demand is... a stimulant of innovation and creativity.

- 5.1 Demand
- 5.1.1 As discussed in chapter 3, better educated and richer consumers (looking for experience and psychological reward from their buying power) are co-architects of the knowledge economy. As such, the character of demand for creative offerings – in particular the qualities of 'nobody knowing' and 'self-identification' through expressing oneself culturally – is itself a challenge facing the creative industries.
- 5.1.2 In this respect the creative industries face similar, if not more acute, pressures from their consumers as do other industries.
- 5.1.3 There is a wealth of evidence that demand is overwhelmingly a stimulant of innovation and creativity. This point is wellunderstood by business itself. In various studies, demand for new goods and services is cited as the most critical factor affecting the level of Research & Development. Lead users, therefore, are often a principal driver for innovation.²¹⁰

Increasing demand for creative goods and services

5.1.4 The demand for creative goods, unlike products in other parts of the economy, tends to increase the more creative goods are consumed.²¹¹ In economic terms, the demand for creative goods has increasing rather than decreasing marginal utility. Their consumption becomes a virtuous circle. This is another dimension of the learning-what-we-like-by-consuming effects.

According to Dutch economist Frederick Van der Ploeg, creative goods differ because:

"Culture is (perhaps like Guinness) an acquired taste. To understand and appreciate Oedipus Rex by Stravinsky requires some musical knowledge and experience of more traditional symphony music and operas. To really value Wagner's Ring, one needs to study it before one can enjoy it fully. Culture is thus an experience good in that the more one tries it, the more one gets out of it. Almost all cultural goods are investments in one's own cultural capital. In a real sense, preferences for cultural preferences are not given, as is assumed in neoclassical theory, but can be shaped by education and experience. Rather than the saturation seen in normal commodities and described by Gossen's second law, cultural goods show over time increasing marginal utility. After all, the hundredth book one reads gives more satisfaction than any of the previous books because the frame of reference is by that time bigger. The last concert of Bach music impresses more than the previous ones, since one gradually discovers the unifying themes in Bach's oeuvre."212

Culture is an experience good in that the more one tries it, the more one gets out of it.

- 5.1.5 This does not apply to all creative outputs. Van der Ploeg argues that the effects may be weaker in terms of popular culture because it tends to be easier to learn. This effect should not be overstressed in an environment where even so-called 'low' culture seems to have become more sophisticated over time,²¹³ and where there is increasing blurring between high and low culture. The larger point is that demand for creative offerings may tend to be self-reinforcing: the more demand for creative goods can be stimulated, the more it may subsequently rise.
- 5.1.6 An awareness of, and a taste for, creative offerings depends upon prior education and experience. In their absence, individuals may be unable to make an informed choice about the benefits of those offerings. The relaxation of these constraints can be understood as an investment in the stock of cultural capital, enabling individuals to participate in and engage more effectively with culture.

5.1.7 These are important arguments suggesting that stimulating creativity in areas where the current appetite is low may be highly productive. Greater efforts should be made to increase the reach of The UK's national cultural institutions into other towns and cities. These should complement the infrastructure that already exists at the regional and local level to trigger greater and equitable demand for creativity.

- 5.1.8 They also strengthen the case for exposure to culture at an early age as possible. There is evidence, for example, that art lessons taken at an early age (less than 12) are strongly correlated with adult visits to museums. While action to support culture in this way may seem to restrict individual choice, there is no fundamental inconsistency. A rich culture provides more rather than fewer opportunities. It seeks neither to create nor foreclose preferences and it is always open to any individual not to opt into cultural experience.²¹⁴ More deeply, it is suggested that arts and culture encourage critical reflection, imagination and empathy and they in turn are conducive to tolerance, freedom and fairness.²¹⁵ To the extent that society wants these values to be embedded within it, there is a greater chance if it can expose its younger members to cultural experiences.²¹⁶
- 5.1.9 Clearly the biggest obstacle to demand for creative goods and services is the ability to pay. It is self-evident that individuals with higher incomes can afford more creative goods and services.²¹⁷
- 5.1.10 The higher the cultural attendance and participation, the higher the demand for creative and cultural goods. The UK fares slightly above the EU-average per capita in terms of attendance of classical concerts, pop concerts, museum and theatre visits.²¹⁸ Again education is crucial. International evidence shows that it is the less educated populations that exhibit less interest in both traditional and popular culture.

...stimulating creativity in areas where the current appetite is low may be highly productive. Chapter 5 **Drivers of the** creative industries

...education is critical to redressing the shortfall in cultural participation.

- Thus education seems to be critical to redressing some of this 5.1.11 shortfall in cultural participation and interest.²¹⁹ It should be stressed that income, though important, is not always a direct determinant of participation, however. Steps have often been taken to offer discounted tickets with little observable impact on demographic profiles of audiences. For instance, research on the non-attendance of arts events among students suggests that the key barrier to participation is not cost rgt''ug but the belief that such events will not be entertaining and will not offer opportunities to socialise.²²⁰
- The Arts Council of England also finds that lack of interest is 5.1.12 the main obstacle to greater attendance. Indeed, it estimates that around 8 million adults in England who attend the arts infrequently would be encouraged to do so more often by better information on what is available, cheaper admission prices and notably more interesting content closer to home.²²¹

Demand needs to be 'demanding'

5.1.13 The smarter demand, the more innovation and creativity are likely to be spurred. Demand, in short, needs to be demanding. Here both consumer-to-business and business-to-business relationships are wanting. Ofcom, for instance, suggests that consumers find it much more difficult to make quality of service comparisons than cost comparisons between suppliers, an insight that can possibly be extended to the creative industries whose outputs in terms of expressive value are even harder to compare.²²²

5.1.14 In terms of business-to-business services, the Cox Review found that there is a general lack of awareness about the benefits of activities such as design: for instance, while 41 per cent of awareness about the benefits of... manufacturers see design as integral to their businesses, only 6 per cent in trade and leisure and 15 per cent in financial and business services do - despite the considerable contribution design can make to these sectors.²²³

Public procurement

Innovation can be stimulated through the savvier use of public procurement.

...there is

a lack of

design.

5.1.15 Innovation can be stimulated through the savvier use of public procurement. Though the public procurement budget is estimated to be £125 billion per annum - a not insignificant sum - a good deal is for goods and services where the potential for creativity and innovation is relatively limited. Bearing this in mind, architects and advertisers in their respective industry summits suggested that public procurement could require all public buildings to be subject to architectural plans and innovation, while the Government could signal the importance of brands and branding.

- 5.1.16 The Cox Review recommended procurers should further broaden their assessment of value for money to take in wider considerations, over and above the latitude that currently exists. The the same time, the issue is often as much about the capability and incentives facing procurers as it is about the rules under which they operate. Initiatives to improve their capability are therefore essential, and one idea would be to make training mandatory for anyone above a certain level of procurement authority. Manchester University's Professor Luke Georghiou also stresses the need for techniques to overcome risk aversion in the public services.²²⁴
- 5.1.17 Smarter public procurement would also have a wider effect on British patterns of demand, which needs to be yet more discerning and discriminating to support the knowledge economy. "The lack of demanding and novelty-seeking customers, who are willing and able to pay for upgrading improved or novel services," write Howells and Tether, "seems to be a major and highly important barrier in service innovation which enterprises find difficult to overcome. There is clearly a role of public procurement in helping to energise the demand side of service innovation."²²⁵
- 5.1.18 In January 2007,²²⁶ the Governmentannounced that the Office for Government Commerce would be streamlined and given stronger powers to monitor performance and set departmental standards. As for encouraging innovation, the introduction of innovation platforms under the Technology Strategy Board promises a better coordination of policy and procurement. In addition, efforts have been made to raise the skills of the Government Procurement Service not least through the establishment of a programme of Gateway Reviews, estimated to have delivered £1 billion in cost savings. While these developments represent steps in the right direction, how far they will ultimately go and permeate the more diffuse practices of grass-roots bodies such as local authorities is less clear. This is especially important because many of them provide the main entry point for smaller firms into public procurement.

5.2 Education and skills

...a highlyskilled workforce is a foundation on which to build creative businesses to compete internationally.

- 5.2.1 The possession of a highly-skilled workforce is one of the foundations on which our creative industries can build their businesses to compete with the best internationally.
- 5.2.2 The question is what skills? The importance of acquiring, understanding and disseminating tacit knowledge in the knowledge economy is crucial both generally and in the creative industries especially. Creativity demands a distinctive combination of deep subject-specific understanding and sophisticated cognitive and interpersonal skills. Similarly, demand for creative and cultural goods is stimulated by an increasingly educated and articulate population.

Richard Curtis



"Three general things that strike me – the first is the interconnectedness of the area of entertainment/ culture that I am in. Many of us started in the theatre. or comedy clubs – live entertainment – many then honed their skills in radio – then went into television – and then moved between that and cinema. Just to give a tiny random snapshot – my first film was directed by Mel Smith, who went from directing at the Royal Court **Theatre into television on** $Pqv''vjg''Pkpg''Q\hat{E}nqem''Pgyu$ - which was produced by John Llovd, who started in radio making the $J k e j j k ngt \hat{l} u'' I w k f g$, that then went on to become a top-selling series of novels - and a TV show - and a film. My second film was directed by Mike Newell, who trained in TV – my third by Roger Michell, who I chose because of a TV series, Dwf f i cdh'' Uudut dk. and at the moment has a play he directed on at the National Theatre – and so on forever – Naug Dt kx kp started on the radio – Tamsin Greig, the star of I tggp''Y kpi is now a star of the RSC. Every section of theatre and radio and TV and film feed each other, each depends upon the other - without four strong industries, the others would suffer dramatically.

The second simple point is 'how do you put a value on entertainment and popular culture?' I would just say, for instance, that I believe the area is where I have most worked – TV comedy – is a profoundly important and invaluable part of British life and has always been crucial to the state of the nation. Each generation learns to laugh, almost learns to be happy, through lessons taught by Hancock, Python, French and Saunders, Victoria Wood, [gu'Rt ko g'O kp kugt, Nkurg Dt kx kp, Catherine Tait.... Because governments so often deal with financial wellbeing, they mustn't forget to encourage those things that simply make people happy – and the power of TV and film to bring families together is huge - many families learn to talk about things by watching soaps and discussing the characters - by watching Z''Heapt and arguing who should win. It is not only educational TV that educates us.

finally, I still believe strongly that television is a hugely important - if slightly underused - tool for social change - particularly at a time when cinema documentaries, from Michael Moore to Al Gore, are making a real difference. From $Ecy \{ "Eqo g" J qo g, which caused the$ creation of the charity Shelter, through Roger Graef's docmentaries on the police, which changed rape procedures, through Live Aid and Live 8, which utterly changed Britain's passion about extreme poverty, right up to Lco kglu'F kppgtu, TV has proved that it can highlight problems in society and the world - and even help change them. Particularly in these days of very important, broad international issues such as climate change, the battle against extreme poverty and the need for understanding between religions, TV can be absolutely key to education and resolution. And at home, if people feel that the young are losing interest in the domestic political process, it has to be on the internet and television that we find a way to revive that interest. Supporting enlightened, ambitious television, not just treating it like a supply and demand industry, is immensely important in making a safer, better. fairer world."

Staying ahead: the economic performance of the UK's creative industries

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Chapter 5 Drivers of the creative industries

Weaknesses in 5. the UK's skills base... impact on productivity.

5.2.3 The UK's stubborn historical weaknesses in shaping a workforce with necessary skills becomes a more pressing challenge against the backdrop of globalisation. As emerging economies start to deliver higher skilled workers at lower cost, the UK's comparative advantage will increasingly depend on the strength of its knowledge economy, and therefore its skills base.

5.2.4 Weaknesses in the UK's skills base have both a direct and an indirect impact on productivity. Directly, poor skills are estimated to explain over one fifth or more of the UK's productivity gap with countries such as France and Germany. However, the relationship extends much deeper than standard growth accounting exercises suggest. Skills impact on the ability to adopt and exploit new technologies – ever more important to the creative industries.²²⁷

- 5.2.5 This partly explains why, despite a common business environment, foreign-owned firms in the UK have so far been able to take better advantage of ICT than domestically-owned ones.²²⁸ It is estimated that differences in management practices between the USA and the UK account for 10 to 15 per cent of the productivity gap between the two countries. Indeed, that work suggests that the UK fares poorly compared with other major economies, exhibiting a substantial polarisation of performance between the top and bottom firms.²²⁹
- 5.2.6 Getting this right is central to the success of our creative industries, as skills shortages have a profound effect on a company's ability to innovate. For example, one Europe-wide survey²³⁰ found that locating or harnessing human resources was the most cited barrier to innovation in the UK. The UK Innovation Survey 2005, while painting a rather less dramatic picture, also found that a lack of qualified workers was identified as a bigger constraint on innovation in the creative industries than in others.
- 5.2.7 Tacit skills are hard to build in an environment of low literacy and numeracy. A sobering five million adults lack functional literacy skills and more than 17 million have difficulties with numbers. The Leitch Review set ambitious targets to rectify the situation.²³¹

The Leitch Review: key targets

A move from 59 per cent of the adult population qualified to at least Level 2 in 2005 to exceeding 90 per cent by 2020. This would mean 500,000 people achieving Level 2 each year compared to 280,000 today.

Tacit skills are vital but connot be built without literacy and numeracy skills. Shifting the balance of intermediate skills from Level 2 to Level 3 and improving the quality and quantity of intermediate skills. Sector Skills Councils would set an ambitious target of doubling apprenticeships to 500,000. Overall this means 300,000 people achieving Level 3 each year compared to 110,000 today.

More than 40 per cent of the adult population qualified to Level 4 or above, up from 29 per cent today.

5.2.8 There are various market failures which may mean that the supply of skills is less than socially desirable. They range from a lack of information on the returns to education and training; the inability of credit constrained individuals to borrow the costs of education and training, even where they would most likely deliver a positive return; and for firms, fear of not reaping the return on their investment in training, because their trained workers may jump ship for another company.²³²

5.2.9 The latter problem is seen to have particular resonance in new, high-tech sectors where workers tend to be trained expensively and returns on investment can be exceptionally high.²³³ firms may also struggle to recoup the returns to training where knowledge is largely tacit and so cannot be captured from the person who created it and codified as patents, journal articles, software programs etc.

5.2.10 In many ways, creative industries are ahead of the curve, having already reached the 40 per cent target of Level 4 qualified people in the workforce 14 years ahead of schedule.

5.2.11 This is not to ignore the concerns expressed by a number of industries in the industry summits. Television, advertising, publishing and music representatives agreed that the issue was less the supply of people offering themselves for work, and more whether they possess the particular talents and specialist skills to meet the needs of today's creative businesses.

5.2.12 Some of the 13 industries are a highly attractive choice for graduates, to the point of over-supply relative to the number of employment opportunities open to them (though this is reflected less in high levels of unemployment than a heavy reliance on self-employed and freelance work).

5.2.13 This is not a new phenomenon. French sociologist and labour market specialist Pierre Michel Menger has pointed out that oversupply of aspirant creative talent is an almost permanent feature of artistic labour markets – from the glut of Parisian novelists and poets in the first half of the 19th century to the fact that there were nearly twice as many musicians as bank clerks in England at the turn of the 20th century.²³⁴

...creative industries are ahead of the skills curve...

There is an oversupply of graduates to some of the 13 industries. The quest for creative skills

- 5.2.14 This report's intention is not to map the skills base and requirements of each individual industry. In any case we do not have the necessary data. It is, however, possible to look broadly at a number of critical and overlapping areas that the industries hold in common and that will impact on their long-term sustainability.
- 5.2.15 Essentially, the creative industries will do better if more creativity and innovation is fostered in the wider population, and, in particular, an understanding of how the dynamics of the creative process involves dialogue, exchange and argument.
- 5.2.16 And they will do better, the more it is understood that the soft skills which they often possess need to be harnessed with hard skills – management, marketing, budgeting, commercial and ICT competences – to create sustainable businesses.

Nurturing innovation and creativity

- 5.2.17 Innovation is widely regarded as a central driver of economic success one of the Government's five drivers of productivity,²³⁵ and described by the DTI as "key to improving the country's future wealth creation prospects".²³⁶
- 5.2.18 As the Cox Review noted, the ability to innovate depends on the availability and exploitation of creative skills. Creativity is increasingly seen as a critical part of the schools curriculum.

"Pupils who are creative will be prepared for a rapidly changing world, where they may have to adapt to several careers in a lifetime. Many employers want people who see connections, have bright ideas, are innovative, communicate and work well with others and are able to solve problems."²³⁷

5.2.19 Creativity is one of five key organisational attributes that The Work Foundation research suggests is crucial to high performance:²³⁸ higher levels of research and insistence on experimentation and innovation ranked only below people engagement and employee commitment as a measurable driver of high performance. The leadership styles, internal processes and culture that promote creativity are thus an important source of competitiveness. 5.2.20 As discussed in chapter 3, technological change has put a premium on those jobs that cannot be scripted but that require higher levels of judgement and a tolerance for ambiguity.²³⁹ This increasingly requires reflective ability, openness to new ideas and imagination in how to address problems – elements that would seem 'natural' to the art and design environment, but perhaps under-appreciated by most graduates.²⁴⁰ These cross-disciplinary skills – adaptability, problem solving, openness to collaboration, interpersonal skills, leadership abilities – are important foundations for innovative thinking and learning.²⁴¹

Two states

5.2.21 What is distinctive about the creative and cultural sector is that its key driver is the ability to originate creative content and then sell it. It is increasingly about customisation and service in a mass market.²⁴² The long-standing criticism is that the UK is good at coming up with ideas, but less so at exploiting them, particularly in a swiftly changing technological environment.

- 5.2.22 As was noted at a recent roundtable discussion "The UK's traditional strengths style, aesthetic innovation and openness to the aesthetics of other countries...have to be coupled with an understanding of data structures, algorithms, the presentation of form and content, and the juxtaposition of data, which is essential not just for building successful platforms, but also for the exploitation of those platforms to promote your content." ²⁴³
- 5.2.23 As looked at in more depth in the business-building capacity section, there may be constraints on the ability to exploit their idea.²⁴⁴ Research by NESTA suggests that in almost 90 per cent of creative businesses, less than half of senior managers have obtained any training in business strategy.²⁴⁵
- 5.2.24 In this spirit, Stanford and MIT in the US have developed the metaphor of the T-shaped workforce: vertical specialist depth is important, but must be complemented by the horizontal sensitivity to other disciplines and professional arenas. In creative industries, this is often business and strategic skills, not least because creative careers tend to involve flexible and entrepreneurially managed work patterns.
- 5.2.25 Similarly, the advertising industry has developed an interesting diagnostic 'diagonal thinking' that helps to identify applicants who "can move comfortably and rapidly between linear and lateral thought processes, people who think creatively but commercially", as described by the Director General of the Institute of Practitioners in Advertising.
- 5.2.26 The challenge, however, is deep set: as the Council for Science and Technology (CST) notes "education is about understanding and imagination, as well as about training and skills. Yet school education in the UK, especially for 16–18 year olds, is still highly specialised."²⁴⁶

Crossdisciplinary skills are important for innovation and learning. ...the skills system should become more demand-led...

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A more demand-led skills system

5.2.27 As stressed by the Leitch Review, it is important that the skills system should become more demand-led and that greater attention should be paid to employers' priorities. In this vein, the Government has recently rolled out 'Train to Gain' across England – a scheme to provide flexible training in the workplace - and has committed to increase its funding to £1 billion by 2010. The service will be fully up and running by 2007–08, when it is predicted to generate around 175,000 additional, full Level2 qualifications each year.

5.2.28 This may have particular relevance in the creative industries, where certification reportedly plays a less important role than it does in other labour markets.

- The art and 5.2.29 The successful art and design school tradition in the UK is an design school exemplar of the right approach. Many of the courses at our art and design colleges display the characteristics of learning tradition... is an exemplar.... and teaching that date back to the Coldstream Report which placed great emphasis on allowing space for imagination and creativity to flourish, alongside the development of technical skills. In particular, they offer the opportunity to forge links with industry, offering 'live projects' for students and ensuring that students are taught by practitioners in their field.
 - 5.2.30 It is important that these particular strengths are not inadvertently diluted in broader reforms to the Higher and **Further Education sectors.**
 - 5.2.31 Similarly, there are limits to how far the skill development should be entirely led by employers' preferences and needs alone. Business priorities are often immediate, endangering longer term planning. One of the best ways of ensuring adaptability to rapid technological change is a high level of basic knowledge and skills, and the core curriculum needs to achieve that aim without being excessively diluted by the urge to meet today's business priorities.

5.2.32Equally, creativity can only be built on a platform of high core general educational levels and skills. The task is to combine rigour in core education while being responsive to specific platform of high creative industry needs.

5.3Diversity

- 5.3.1The creative industries depend on diversity for their success. There is a complex and critical relationship between creativity and diversity, whose centrality to the creative process cannot be underestimated.
- 5.3.2 Diversity is normally understood in terms of ethnicity, gender, age, and religion. However, economists and psychological theorists also focus on 'cognitive diversity', the capacity of different sets of knowledge when interacting to produce better decisions and outcomes.

- 5.3.3 It is not so much the fact of ethnicity age or gender that counts. It is that although there is no direct or automatic relationship – human beings are the products of multiple forces – they may be good proxies for cognitive diversity. The old, young, male, female and white and non-white often approach the world in different ways.²⁴⁷
- 5.3.4 Scott Page (2007), a professor of the complex systems, political science and economics at the University of Michigan and the Santa Fe Institute, not only analyses diversity in terms of this cognitive dimension, but goes on to present four frameworks in which it can be categorised.²⁴⁸
 - Cognition of diverse perspectives ways of representing the world.
 - Diverse interpretations ways of categorising perspectives.
 - Diverse heuristic ways of generating solutions to problems.
 - Diverse predictive models ways of inferring cause and effect.

Blind men groping at elephants?

5.3.5 Page comprehensively maps the cognitive toolbox that any individual applies to problems at hand. The case for cognitive diversity is that it gives groups access to a greater range of perspectives and assumptions, and is thus closely linked to creativity.

- 5.3.6 If individuals approach problems with the same tools, even if they possess many of them, they are likely to get stuck on the same point. It is the individual who is able to approach the problem differently who is more likely to get the group unstuck and so improve on the collective outcome.
- 5.3.7 "With only a saw or a hammer," argues Page ^B/₂we cannot build anything interesting. With both we can build homes, tree forts and fences."²⁴⁹ It is the catalytic individual or experience that helps the group to improve upon simply being an aggregation of individuals.
- 5.3.8 Famously Steve Jobs, the CEO and founder of Apple, used his experience of calligraphy classes at university to recast the understanding of the importance of fonts with devastating results. Apple's introduction of proportionally-spaced fonts and multiple typefaces through its TrueType system, licensed subsequently to Microsoft, transformed desktop publishing, allowing users to visualise what text would look like when printed, and contributed decisively to the stylishness of the personal computer. It is this insight that is also animating support for interdisciplinary activities,²⁵⁰ and challenging the traditional boundaries that have characterised the UK education system.²⁵¹

diversity gives groups access to a greater range of perspectives and assumptions... 5.

...cognitive

Chapter 5 **Drivers of the** creative industries

...diversity trumps homogeneity... diversity trumps...ability.

5.3.9

- Work on cognitive diversity has led to two main findings. first, diversity trumps homogeneity.²⁵² Second, and most intriguingly, diversity trumps ability. The latter, it should be stated, is a conditional claim that holds only under certain conditions: the problem must be difficult, problem-solvers must be diverse and reasonably smart, and the groups that work together must be sufficiently large that diversity matters. Nonetheless, each of these conditions can be relaxed without undoing the basic result.
- 5.3.10 There is growing evidence to support these assertions. For example, it is diverse and differentiated pools of scientists that are better scientific problem-solvers.²⁵³ One study examined 166 scientific problems that, having not been solved within firms, were disclosed on the InnoCentive website to over 80,000 independent scientists in over 150 countries. The researchers found that disclosing the problem information to unknown 'outsiders' led to a 29.5 per cent resolution rate in problems. Interestingly, 87.5 per cent of winning solvers won just once and 8 per cent won twice – testament to the scope and breadth of knowledge necessary to solve problems.
- 5.3.11 Most interesting, however, the authors found that the larger the distance between winning solvers' field of expertise and the problem, the more likely they were to solve it. Indeed, all things being equal, there was a 10 per cent increase in the likelihood of being a winning solver if the problem was deemed to be wholly outside their field of expertise. In short, success depended on the ability to exploit diversity.
- 5.3.12 Innovation in social systems presupposes a large degree of error. To hit on a few ideas that are successful means attempting many that are not. It is estimated that one-third to two-thirds of new products that reach the market - and many more do not fail to produce a financial return.²⁵⁴ As the achievements of Mozart, Shakespeare and Picasso illustrate, artistic innovation is no different: Picasso's sketchbooks that led to 'Guernica', for instance, are strewn with false leads and dead ends. It is even suggested that good ideas emerge primarily from a process of blind variation.²⁵⁵
- 5.3.13 Systems also need a welter of techniques and ideas - more, in fact, than they can support if they are to thrive.²⁵⁶ It is this 'superfecundity' that forces creative actors to choose between existing and new ways of doing things, generating the kind of selection we associate with phenomena like market competition.
- 5.3.14 Moreover, in a fundamental sense, diversity is prior to competition are competition and selection. Without diversity, competition takes place on existing ideas and techniques only and cannot play interdependent. its full role. At the same time, diversity requires competition for innovation. Without competition, innovation either fades away because there is no opportunity for new ideas and techniques to be chosen or becomes completely structureless as every new idea or technique is chosen.²⁵⁷ Diversity and competition are interdependent.

Diversity and

"All my heroes are weirdos"²⁵⁸

- 5.3.15 All institutions must wrestle with the trade-off between exploitation and exploration, between exploiting old ideas that have proven technologies and ready payoffs, and exploring new possibilities that are risky but can reap large, long-term benefits.²⁵⁹
- 5.3.16 Sutton (2006) builds on this argument, and challenges current management practices in the hiring and retention of staff, arguing that those practices that help firms see things in new ways and break with the past should play a larger role.²⁶⁰ For example, firms can benefit from people who are prone to follow their inner attitudes and dispositions instead of following any organisational y gue pue j c uup i 0 They are, in the words of Sutton, 'low self-monitors': unbound by social norms, often indifferent to external cues and sometimes abrasive and even obnoxious. This is how Brian Epstein described John Lennon, who was inclined "to disagree out of sheer whim and perversity".
- 5.3.17 But evidence suggests that such individuals are more likely to produce variation in what is thought and done. To the extent that there are powerful embedded tendencies to conformity,²⁶¹ a culture that tolerates and embraces its deviants, heretics, eccentrics, crackpots, weirdos and good, old-fashioned original thinkers may enjoy payoffs in terms of economic performance.²⁶² For instance, it is claimed that the decline of religious orthodoxy following the Reformation, and the increasing ease with which individuals could advance dissident views, epitomised by Kant's injunction of 'daring to know', underlay the technological change and economic take-off of 18th century Europe.²⁶³

Marshalling diversity

- 5.3.18 Organising diversity can be problematic. The more participants' values are at least congruent if not held in common, the greater the chance of an agreed basis for a fruitful conversation.²⁶⁴ But it is because creativity springs from a diversity of values and different 'cognitive tool boxes' that such congruence is hard to achieve. If not managed wisely, that divergence may give way to disagreement and even conflict that eventually stifles creativity.²⁶⁵
- 5.3.19 The organisational challenge is to find a way of harnessing it, rather than obstructing it.

Organising diversity can be problematic. Chapter 5 Drivers of the creative industries

Overcentralisation of decision-making militates against creativity...

- 5.3.20 Over-centralisation of decision-making, while preventing deadlock, militates against organisational creativity.²⁶⁶ Similarly, incentive mechanisms, such as paying by performance, can be counter-productive.²⁶⁷ They privilege tried and tested ways of doing things where measurement techniques have been established and so indulge immediate and known results. The unintended consequence is to marginalise those exploratory activities which are harder to define and measure.
- 5.3.21 More generally, Lester and Piore (2004) argue that this mindset – which they term the 'analytical approach' – abstracts and reduces innovatory activity to a problem which is to be solved as efficiently as possible. In so doing, it neglects the importance of more discursive, open-ended inquiry, the lifeblood of more radical and unexpected innovation.²⁶⁸
- 5.3.22 Against this homogenisation, the authors suggest that diversity requires protection in so-called 'spaces of interpretation' (as found in universities, industrial districts, the regulatory arena and the public sphere in general). Others point to an evolving range of institutional architectures (see the discussion of networks) that have the potential to engage with diversity in far more productive ways than the status quo.²⁶⁹

UK underperformance in diversity

5.3.23 It is hard to establish a direct relationship between lack of diversity and poor creativity.²⁷⁰ But discrimination – especially blanket stereotyping – tends to constrain individuals' thinking which can, in turn, be self-reinforcing.²⁷¹

5.3.24 Quite apart from its effects on problem-solving and prediction, a lack of diversity may also impede the functioning of the labour market.

5.3.25 Interruptions in employment (for instance, due to pregnancy) can mean the loss of important, firm-specific knowledge. Occupational segregation is arguably akin to a form of rigidity insofar as inaccurate information or anachronistic expectations drive a wedge between a worker's potential and their actual job. The matching of workers to jobs is likely to be distorted by discrimination, while educational differences affect the accumulation of human capital.²⁷²

...most sectors 5.3.26 The extent to which labour markets in creative industries suffer these market failures is unclear. The evidence from the industries themselves, however, suggests that most sectors are dominated by white males: in film, for instance, 95 per cent of the workforce is white, 65 per cent is male, and 35 per cent of women earn less than £20,000 per year (compared to 18 per cent of men despite being better qualified).

...lack of

diversity

market.

impedes the functioning of the labour
The picture is no more encouraging in architecture, where white people constitute 94 per cent of the workforce and males 82 per cent; in music, where 96 per cent of the workforce is white; and in games, where the figure is as high as 96.1 per cent.

In design, 95 per cent of the workforce is white, and in software, the figure is comparatively low, with 88 per cent of the workforce white and 83 per cent of graduates male.

5.4 Networks

No single firm can hope to go it alone without mobilising outside resources.

...networks

are successful,

where there is

skills, trust and

commitment...

high quality communication 5.4.1 The more important that knowledge has become in the economy, the more routine that collaboration has become across boundaries.²⁷³ Where market and technological change is rapid, knowledge and new solutions are seemingly infinite. No single firm can hope to go it alone without mobilising outside resources. According to one recent study, the typical share of innovation arising from external sources was around 45 per cent.²⁷⁴

Networks in theory

- 5.4.2 A strong body of theory and research points to the significant advantages that accrue to participants in networks: risk sharing; gaining access to new markets and technologies; speeding products to market; pooling complementary skills; protecting property rights when complete or contingent contracts are not possible; and tapping external knowledge.²⁷⁵
- 5.4.3 Such exposure, moreover, provides a background against which creative abrasion, the dialectic that emerges though the collision of multiple perspectives, is more likely. This argument has been extended to show how firms can strategically situate themselves in gaps between groups what are termed structural holes and so make more of these connections and, in turn, generate more ideas.²⁷⁶ A banal idea in one group can be a brilliant one in another.²⁷⁷

5.4.4 As highlighted in chapter 3, networks can be frustratingly difficult to operationalise. Where they are successful, it is because of high quality communication skills and strong commitment – both of which take time to build.²⁷⁸ This underscores the importance of trust, or social capital – defined loosely as the "goodwill that is engendered by the fabric of social relations and that can be mobilised to facilitate action".²⁷⁹ Despite difficulties in formalising the concept, empirical studies have highlighted the role of trust in a number of knowledge-based settings.²⁸⁰

Networks,5.4.5Networks, however, can have costs and limitations of their own.however, canWhen participants in a network become too densely embedded andhave costs andinformation travels only among a small group – more likely whenlimitations...a network is governed by trust – there is a danger that ties willbecome exclusionary and inhibit the free-flow of new ideas andinnovations.²⁸¹ One corollary is the tendency to discriminate againstoutsiders, an issue that raises equality and efficiency concerns.²⁸²

industries.

failures may

inhibit them.

5.4.6 Furthermore, the external leveraging of networks cannot be divorced from the level of expertise within the firm. firms will struggle to get a 'ticket of admission' to a particular network unless they can offer something distinctive, other than simple cost reduction in return.²⁸³ Similarly, firms must have sufficient 'absorptive capacity' to assimilate and exploit knowledge which is influenced by what is already known.²⁸⁴

A role for Government?

...more than one 5.4.7 Collaborative networks have long been key to the production fifth of creative process in creative industries, though their exact structure has industries have varied according to the objectives they have been designed to meet. According to the 2005 UK Innovation Survey, more than cooperation one fifth of creative industries have cooperation agreements, agreements, nearly double that of other industries. nearly double that of other

- 5.4.8 **NESTA'sCreative Business Survey of creative SMEs paints a** similar picture.²⁸⁵ It highlights that four in 10 (39 per cent) businesses have participated in some form of network since they were established, though only a minority (16 per cent) do so regularly, with a similar proportion (15 per cent) doing so on an occasional basis. Six in 10 have never done so. Participation in networks is highest in interactive software and TV and radio (both 46 per cent) and participation lowest in the design sector (27 per cent). The larger the business (£1 million+), the more likely it is to be involved in networking activity (45 per cent).
- 5.4.9 Despite this persuasive, if circumstantial, evidence, the Cox Review nonetheless found that creative business still faced problems in terms of knowing where to turn for help and how to go about it. The Government's Business Support Simplification Programme should address this Byzantine complexity. Its goal is to reduce the number of business support services from around 3,000 in 2006 to no more than 100 by 2010.

...most networks 5.4.10 Although most networks typically form organically, in some form organically, circumstances, coordination failures may inhibit their creation. but coordination Private individuals and firms may be reluctant to shoulder the high fixed costs of a network, especially where parties have no prior dealings or where complex upstream or downstream investments are necessary.²⁸⁶

- 5.4.11 Efforts by government to correct these market failures must nonetheless take into account that it often has less information than the private sector about the location and character of market failures, a sentiment echoed by business itself.
- 5.4.12 Thus the Cox Review remarked that most SMEs did not resort to Government for direction – indeed, a survey by the Federation of Small Businesses found that little more than 20 per cent had used, or intended to use, any form of government support.

5.4.13 Any government response suffers from this prior distrust about its likely effectiveness; it will work only to the extent that its processes are well understood and designed at least to offer reassurance that it will be responsive and participatory.²⁸⁷

...policy proposals 5.4.14 have focused on knowledge transfer schemes.

- 5.4.14 Specific policy proposals have focused on knowledge transfer schemes. Exemplified by the recommendations of the Lambert Review and the Government's Knowledge Transfer Partnership (KTP), the aim is to provide businesses in need of knowledge with a Higher Education Institution partner to work on a particular project. The outcomes appear impressive, with 84 per cent of partner companies in 2005 reporting that the results of the partnership would be significant to the future performance of the firm, while financial benefits to KTP users suggest that for every £1 million of the Government's investment in KTPs, there is a £4.2 million increase in annual profits before tax.²⁸⁸
 - 5.4.15 Until recently, the programme did not make creative industries an explicit part of its agenda though priorities have widened in recent years with the introduction of KTPs in sectors like furniture, games and jewellery, publishing media and sport and Research & Development.
 - 5.4.16 The Technology Strategy Board has also proposed a Knowledge Transfer Network (KTN) for the creative industries to support effective networking. Central to the activities of KTN would be the creation of internet portals for business support in the creative industries. However, case studies of past practices and pilot schemes suggest that there may be challenges.²⁸⁹
 - 5.4.17 Evidencesuggests that many firms may lack confidence in their ability to exploit the potential of ICT. Ofcom notes that only 39 per cent of micro-SMEs in the UK believe that ICT is necessary for ensuring an adequate flow of information across their organisation, compared to 72 per cent for those with more than 101 employees.²⁹⁰ The use of business and legal advice centres and incubators such as the Enterprise Centre for the Creative Arts, 'Own It' and Met Accelerator in London has been more promising. They are cheap, participatory and accessible.

Perverted by language

...networks and knowledge transfer requires communication across disciplines and vocations. 5.4.18 The promotion of networks and knowledge transfer requires individuals and businesses to have the capacity to communicate with each other across disciplines and vocations. The reality, however, can be quite different:²⁹¹ quite apart from the stickiness of knowledge, actors frequently do not share a common disciplinary language but talk past each other.

Sir Paul Smith Designer and Chairman Paul Smith Limited

"One of the most difficult things when you are starting out is to fully understand the creative industry that you are entering into. The mystery of everything can be demoralising and worrying and in today's world add this to the fact that everyone wants to move so quickly and the problem with quickness is this doesn't allow for experience which can only be gained through time.

For me the most helpful aspect of learning was to get practical experience through (in my case) working in a clothes shop and the reality and responsibility that comes with it and finally understanding that it is the customer that pays all of our wages at whatever level you finally achieve and at the same time as this practical experience also learning design. For me that was night school for pattern making and tailoring and all the rest from my girlfriend who was a Royal College of Art graduated fashion designer. For others it would be more formal training through a fashion college or university.

When you are starting out I think that you imagine that design and marketing are the key factors but eventually you realise that ideas are vital but the realisation of them is more vital and that a good all round knowledge of the business is key in today's competitive world.

The biggest lesson is that in fashion you are only as good as your next collection and that nobody cares how good you used to be."

Sir John Hegarty Chairman and Creative Director BartleBogleHegarty

"I was very fortunate that at a very young age of 14, I was able to join art classes at Hornsey Art School. These classes were held every Saturday morning.

At an early, and importantly impressionable age, they opened up my thinking to the power of creativity and the value of education.

Without that access I don't know if I would have pursued a creative education."



- 5.4.19 Policy makers, inspired by the experience of California's Silicon Valley, risk underestimating many of these challenges. But Silicon Valley has worked in part because of the commonality of the language. The Crucible, the Cambridge network for research in interdisciplinary design and the Collaborative Arts Unit of the Arts Council have explored the strategies that might be employed to minimise misunderstandings between academia, the creative industries and the rest of the economy.
- 5.4.20 Apart from the problem of the collision between disciplines, the misunderstandings reflect, in part, the caution felt by creatives towards the putative 'establishment' and, in part, the more general fact that innovation, irrespective of the language, is not only difficult to imagine but also difficult to articulate as it takes shape.²⁹²

Proximity works

A precondition5.4.21A necessary precondition for effective networks is socio-spatial
proximity. The general literature on the role of cities in economic
performance points to the benefits that accompany the clustering
of activity: dense labour markets that align the demands of
employers and the skills of workers, while mitigating the risks
for both; access to large markets and to suppliers of goods; and
spillovers in knowledge that allow individuals and firms to learn
from each other. Estimates suggest that doubling city size can
increase productivity by around 3 to 8 per cent.293

- 5.4.22 The heady prediction that digital networks would permit individuals and firms to transcend geography has been betrayed by the continuing tendency of cultural producers to congregate together in small places, whether Hollywood or the Hacienda.²⁹⁴
- 5.4.23 The 'motley crew', the 'arts-for-arts sake' and creative process properties discussed in chapter 4 tilt the balance from deagglomeration to agglomeration. As Leamer and Storper point out: "Face-to-face contact communication derives its richness and power not just from allowing us to see each other's face and to detect the intended and unintended messages that can be sent by such visual contact. Co-presence – being close enough literally to touch each other – allows visual 'contact' and 'emotional closeness', the basis for building human relationships."²⁹⁵

5.4.24 The problem with reliance on the internet is that there is little relationship bond; no physical neighbourhoods or Starbucks where the serendipities of communication can be captured. The creative industries – even more than other industries – are about the transfer and exchange of uncodifiable ambiguous information that depends on a high level of trust and shared context. Indeed, it appears that these effects work within very small localities. One study of the US advertising industry, for instance, finds that networking benefits are so localised that they are completely exhausted after only 500 metres.²⁹⁶ People, in short, need to be able to interact by being in the same place at the same time.

The problem

with reliance

is that there

relationship

is little

bond...

on the internet

5.4.25 These observations are also consistent with insights from evolutionary psychology that suggest our capacity for cooperation has evolved along lines that bias physical proximity.²⁹⁷

5.4.26 Paradoxically, ICT has increased rather than decreased the importance of ongoing, face-to-face interactions: to the extent that it increases information flows, it places simultaneous pressures on the ability to interpret all the information that is now flowing.²⁹⁸ Thus seen, technologicallinks and social links are not rivals in a zero-sum game but necessary complements.

5.4.27 These arguments are embraced by the Cox Review and the Infrastructure Working Group in their recommendations for Creativity and Innovation Centres and a Creative Grid respectively. Both point to the role of places like the Watershed in Bristol, Cornerhouse in Manchester, the Showroom in Sheffield and the Lighthouse in Glasgow and their integration with larger concentrations of cultural infrastructure and activity.

5.4.28 Moreover, they point to the growing recognition of the value of such concepts among competitors, as illustrated by the £158 million Fusionopolis creative centre in Singapore and the Korea Design Center in South Korea. However, as we observed earlier, policy makers need to be alert to the danger of every British city and region trying to build identical structures from scratch. The smarter policy is to build on existing strengths – and in those cities and towns which already have particular advantages.

- 5.4.29 Another mechanism that might avert the anonymity of the internet and helps to create face-to-face contact not only between business and consumers, but also between businesses, is the trade fair. The usefulness of trade fairs was raised in a number of the consultative conversations we had in the preparation of this report, notably by the games, design, fashion design and art and crafts industries.
- 5.5 Public institutions and investment
- 5.5.1 The UK has a long tradition of public support for artistic content creation in the core as defined in chapter 4. The case for public investment, along with the establishment and support of institutions that promote creative content creation, needs to be understood more fully.
 - 5.5.2 It is worth briefly rehearsing the arguments that are usually given to justify public investment. The case over the page summarises Van Der Ploeg's exhaustive list of rationales, though their relevance will of course vary from sector to sector:²⁹⁹

danger of every British city and region trying to build identical structures from scratch.

...ICT has

increased...

the importance

of face-to-face

interactions...

There is a

The UK has a long tradition of public support for artistic content creation... The arts - the case for public investment

- Everybody benefits from cultural production, but individual creators cannot charge everyone for their efforts: nobody can be excluded from enjoying culture; nor does the consumption by one person reduce the consumption of others (eg the beauty of a town centre or building). Insofar as culture has public good characteristics, the suppliers are incompletely compensated for their efforts, which in economic terms, leads to sub-optimal levels of supply. Consumers derive a benefit for which they do not pay and for which the content producer does not factor into his estimates.
- It educates tastes and stimulates demand the so-called merit good argument. There should be public investment in culture so that children can develop a taste for cultural goods from an early age; schools and public broadcasters should play a full role in stimulating and cultivating the tastes required for a vibrant cultural life.³⁰⁰
- It creates options for access to culture that would not otherwise exist: people may value the option of visiting an artistic production even though they may never attend. Similarly, people may not especially value the arts but may derive satisfaction from its preservation – a bequest for the enjoyment of future generations and a contribution to the stock of social capital.
- Profit-seeking content creators in markets will necessarily back safer options – public investment in this conception is a form of venture capital to support risky yet valuable cultural activities.
- Without public investment there will be a London bias: London is the richest market in the UK and one which naturally has the largest self-supporting cultural sector. Although one of the most consistent criticisms of the locus of public funding is that the London bias is very marked, without public investment it would be even more so. There is a case for bringing 'high' culture to the people in more diverse locales in parks, libraries, shopping centres etc.

- Artforms, particularly performing arts, are labour-intensive and have limited capacity to raise productivity by substituting labour for capital. Because producers need to maintain wage increases in line with the rest of the economy, lower productivity growth means that they are subject to rising unit labour costs (otherwise known as Baumol's cost disease). The 'cost disease' leads to increasing price inflation and, assuming elastic demand, an ever decreasing share of spending on artistic products. There are several offsetting factors, including the tendency for households as they become richer to spend proportionately more of their disposable income on creative outputs, and the potential for process innovations in even ostensibly traditional artforms.
- 5.5.3 For all these reasons, there is a strong case for public investment in the core, although any intervention must rest on a careful assessment of the costs and benefits. It must also encourage those that benefit from support to interact with their publics, not least to minimise the risk that activities will be supported for which there is little genuine appetite beyond the ambitions of the creators. Moreover, it is important that the terms on which it is available 'crowds in' creativity rather than crowds it out. Public institutions and investment will only be successful and justifiable in the long run to the extent they genuinely create wanted and creative activity that would not exist without them.

Public investment for creativity and innovation

- 5.5.4 A mixed economy model, spanning the public, private and third sectors funds the arts and cultural activity in the UK. If the BBC, also funded publicly via the licence fee is included, the return in terms of the availability, access and scale of both established and innovatory content creation is formidable.
- 5.5.5 Making quantitative cross-country comparisons in the area of public support for the arts and culture involves making heroic assumptions. But studies suggest that the UK's direct support is lower than in many of its European peers (though significant increases in Arts Council England's budgets in recent years may have helped to partly bridge any gap).³⁰¹ This means that it is especially important to ensure that the money is spent well, and averts the dangers of institutional ossification and privileging elite artforms at the expense of more popular forms. It is vital that transmission mechanisms from the core to the creative industries are strong and creatively is 'crowded in'.

...there is a strong case for public investment in the core, but intervention should rest on an assessment of costs and benefit.

...conventional wisdom is that public funding is supportive of experimentation in the arts...

But public funding can be harmful for artistic creativity... Crowding in versus crowding out creativity

- 5.5.6 The conventional wisdom is that public funding is more supportive of experimentation in the arts, and a dependence on private donors can make a cultural institution more timid in what it chooses to perform in order to maintain conditional donor support – even if private donors come forward, which in the UK they do not on the same proportional scale as in the US.³⁰²
- 5.5.7 However, the problem is that public funding can be harmful for artistic creativity if its proper demand for efficiency, audit trails and accountability mechanisms is administered overzealously.
- 5.5.8 Without due care, public funding has an inbuilt tendency to crowd out what the Swiss economist of culture Bruno Frey calls 'intrinsic motivation' as a driver of personal creativity. Intrinsic motivation is the font of creative art; it is the artist being true to his or her artistic conception rather the extrinsic motivations of financial reward and public acknowledgement. The risk with any kind of patronage, he argues, is that creativity is necessarily about experimentation, trial and error and pursuing false trails.³⁰³
- 5.5.9 This undirected effort, continues Frey, is essential to the creative process. However, as soon as an artist wins patronage from either the private or public sector, the opportunity cost of experimentation rises; the task is to produce for the patron. Thus the well-known phenomenon that young artists who do not fetch high prices for their art works have lower opportunity costs, and can therefore afford to spend more time with undirected and potentially more creative activities.
- 5.5.10 This is not an argument against patronage and public investment support. However, Frey reminds us that it does mean that great care has to be taken with the terms on which investment is made available, especially from the public sector.
- 5.5.11 Some have commented that this risk is being run in the UK. Cultural commentator John Knell, echoing Frey, argues that funds are not being dispensed in ways that foster artistic and organisational innovation or maximise public appreciation and participation.³⁰⁴ It is generally recognised that funding decisions can serve to reinforce a conservative bias and create a funding system that is stronger on continuity than innovation, invariably leading to weak support for innovative artistic and organisational practice. To counter this, flows of contributed income should be used to "stimulate the provision of risk-bearing capital for risky, valuable cultural activities".³⁰⁵

There is an increasing discomfort with the dominant charity model used by arts organisations...

- 5.5.12 Concern about the issues noted has been reflected by a range of UK arts and cultural funding organisations. There is an increasing discomfort with the dominant charity model used by arts organisations that many feel has 'institutionalised' the sector (undercapitalisation, risk aversion and reliance on institutionalised funding). And there is a recognition that a 'not for profit' mentality can serve to marginalise commercial partners and undermine the incentives for strategic thinking. The sector should be able to choose from a wide variety of models.
- 5.5.13 It is not of course a question of either grants or market-based solutions, but an array of models in between. This is even more the case in the increasingly commercial mixed economy that is emerging from the interplay of creative industries and the creative core.
- 5.5.14 Arts Council England has recognised these new challenges and its most recent arts policies stress the importance of being open to emerging trends in arts practice. There is explicit support for artists who want to explore interdisciplinary themes in their work.³⁰⁶

"Many interdisciplinary artists and arts organisations position their work within the wider context of the creative industries. Increasingly they are working with other disciplines, moving easily between the subsidised and commercial sectors. These artists and production agencies are often the pioneers whose creativity creates investment and jobs for others.

At the same time, there is an increasing desire among many artists and cultural practitioners to engage with contemporary issues that lie beyond the traditional borders of the arts. Placing themselves in other disciplines such as science, ecology, anthropology, health, industry or philosophy, these artists are seeking to address some of the most pressing issues of our time – climate change, for example."

Arts Council England³⁰⁷

- 5.5.15 In addition, the organisation has, for example, in recent years increasingly shifted its funding of regularly funded organisations to smaller locally-based organisations, which often have innovative agendas (the proportion spent on national companies has fallen from 41 per cent to 30 per cent in the 10 years to 2006).³⁰⁸
- 5.5.16 However, commentators such as Knell, argue that arts and cultural funding in general is still too sticky with "too much over directed to structure and permanence institutions and buildings rather than people".³⁰⁹

- 5.5.17 It is true that around 40 per cent of the Arts Council'sregularly funded portfolio receives the greater majority of regular funding, including ancillary support such as capital and stabilisation funding. And a significant amount of funding is granted to those organisations that received those funds more than a decade ago. But in that time, 310 organisations have left the portfolio while 472 have joined, so a blanket charge that the funding environment is sclerotic and fixed does not present anything like the whole picture.³¹⁰
- 5.5.18 However, if the pattern of arts funding is to maintain legitimacy, even greater effort will need to be made by recipients – and demanded by public funders – to show that they are both creative and engaged in engaging their publics to the maximum extent possible.³¹¹ It is likely that investment in the creative core has high paybacks in terms of increasing the depth of culture, quality of life, accelerating growth in the creative industries and the pace of innovation and creativity in the wider economy. However, building this case will require strategic use of existing investment, and developing much more sophisticated techniques for evaluating the benefits.
- 5.5.19 Greater exploration may also be required, not just of the nature of the spillover effects between cultural and creative public investment and the creative economy set out previously, but also how the transmission mechanisms for such effects might be strengthened without upsetting the balance between cultural and economic objectives.

Towards public value as a possible solution

- 5.5.20 In its submission for Charter Renewal, the BBC proposed that the aim of public service broadcasting should be to provide public value to its citizen viewers, listeners and users of online services. It proposed a public value test which would be applied to new services to see whether they did deliver more public value than comparable private providers. The Government responded by obliging the newly established BBC Trust as part of the renewal of the Charter to operate the test.
- There is5.5.21There is a renewed interest in the concept of public value, with
Arts Council England engaging in an inquiry of its own to see
how it promotes it. Public value cannot be reduced to simple
'units'; rather, it is a process by which institutions engage in an
iterative, two-way dialogue with their publics. If publicly funded
arts organisations could develop the notion further, it would
provide one solution to the dilemmas outlined above.
- should engage5.5.22Nor should it be confined to high art or national cultural
institutions. Publicly-provided rehearsal spaces for young local
musicians create public value as do institutions such as the Royal
Opera House each in their own terms and their value should
be recognised.

institutions

Public space in music

Feargal Sharkey of the Live Music Forum notes the importance of public space in the provision of rehearsals studio for local musicians by local authorities and cites the success of the Victoria Youth Centre in Wrexham, a free rehearsal room for young musicians to interact and exchange creative ideas. "We have a £5 billion music industry that starts with unknown groups and artists performing in the back room of pubs. Without them there would be no multibillion pound industry."

5.6 Business-building capacity

5.6.1 Despite the importance of entry of new firms in modern accounts of economic growth,³¹² early-stage companies in all sectors of the economy experience difficulties in raising capital. For example, the UK's private equity industry is second only to the US in size, yet only 6 per cent goes to early-stage businesses (£382 million out of the total £27 billion invested in 2005).³¹³

- 5.6.2 Investing in early-stage ventures in all sectors is a risky business. Business models may be unproven, management teams less experienced and balance sheets small. Banks and equity investors incur high fixed costs in appraising the risks.³¹⁴ The ongoing costs for equity investors are also higher if they are required to provide non-financial support – such as mentoring or taking a seat on the company's board – to make their investments come good.
- 5.6.3 There is evidence that small firms in all sectors face greater obstacles to obtaining finance.³¹⁵ There is unfortunately little direct evidence of financing constraints for the creative industries specifically. However, a number of studies finds that industries with large numbers of small firms tend to suffer particularly severely in cyclical downturns.³¹⁶ If only because of their large numbers of small firms (see chapter 2), the creative industries may therefore experiencegreater difficulties in accessing funds. Some participants at the industry summits felt that this was the case, though not all agreed.
- 5.6.4 But the creative industries are widely perceived to face additional barriers to developing their businesses discussed in chapter 4 which make access to finance particularly challenging.
- 5.6.5 The underlying problem is market uncertainty over what will work – 'nobody knows anything': preferences for artistic products are highly subjective, and market research and pretesting appear to have limited predictive power.³¹⁷ The risks are great. Artists cannot know with any degree of certainty whether a creative output will be compelling to others, and production becomes more of a gamble as a result.³¹⁸

...early-stage companies in all sectors... have difficulties in raising capital. **Market uncertainty**

Chapter 5 Drivers of the creative industries

...great uncertainties of 'nobody knows anything' are reflected in 5.6.7 highly variable rates of return on creative products.

...talented 5.6. creative producers struggle to build a consistent track record.

5.6.6 The great uncertainties resulting from nobody knowing anything are reflected in highly variable rates of return on creative products.³¹⁹ Investors charge a higher cost of finance than in cases where returns are more predictable.

7 The possibility that entrepreneurs in many sectors can be motivated by non-profit motives – in the case of the creative industries by 'art for art's sake' – further increases the risks that investors face.³²⁰ Given this, businesses may have a particular tendency to risk all for a big win; limited liability means that the worst that can happen is that the businesses lose all of their money. Investors respond by charging a risk premium that is higher still.³²¹

5.6.8 In this uncertain setting, even talented creative producers can struggle to build up a consistent track record.³²² The use of collateral to reassure potential lenders may not be a practical alternative to reputation if the wealth of many creative businesses is tied up in intangible intellectual property assets. Such assets are by their very nature difficult to value. Investors – lacking these traditional instruments to distinguish between sound investments and poor projects – charge a higher cost of finance across the board as a result.³²³

5.6.9 In more traditional industries, businesses may reasonably be expected to possess significantly superior information than investors on the likely market impact of their products. But enterprises with good ideas may nonetheless struggle to distinguish themselves from 'lemons' and convince investors of the commercial potential of their product.³²⁴ Interestingly, the fact that pqdqf knows anything in many creative industries avoids the additional financing difficulties that can arise in situations where there are these information asymmetries.³²⁵

5.6.10 The high idiosyncratic risks faced by many creative businesses should not rgt "ug be a barrier to finance. In principle, the depth of financial markets gives investors plenty of opportunities to diversify such risks – as with other sectors.³²⁶ Creative businesses of even small scale should not find themselves starved of finance if they are good investment propositions.

...there is a shortage of investment managers with a mix of creative expertise and commercialflair.

5.6.11 In the real world, however, investors in creative businesses claim to find it more difficult to manage their risks.³²⁷ Bates and Rivers (2007) give the example of the independent film production company, where nobody knows the value of the films in advance of their release.³²⁸ Investors seek an investment fund large enough to manage a diverse portfolio of film investments, but there is a shortage of investment managers with the requisite mix of creative expertise and commercial flair. As a result, other things being equal, production companies with bigger production slates are more attractive to investors. 5.6.13 The unusually high uncertainties faced by many creative businesses help to explain why some investors appear unwilling to consider creative industries as an investment asset class. Even sophisticated specialist financial intermediaries with high levels of expertise in the creative sectors can struggle to raise capital from certain financial investors.

5.6.14 There may be some merit in creative businesses seeking to educate investors on growth patterns in the industries that do not follow the more predictable patterns that exist in other industries. However, it is not clear that there are any market failures that would justify specific public support.

Weaknesses in business skills

- 5.6.15 Aside from the difficulties of attracting investors when business models are relatively unfamiliar and the risks are high, creative businesses face other important structural barriers to finance. These barriers leave funds that might otherwise be forthcoming even further out of reach for many creative businesses.
- 5.6.16 Put simply, many SMEs "lack the skills needed to develop a business proposal to a stage where it is ready to attract external investors".³²⁹ Investors do not of course expect all creative entrepreneurs to become financial experts, but they do need to be convinced that they will take responsible commercial decisions.
- 5.6.17 An alarmingly high proportion of creative businesses, for example, make no use of robust business planning methods,³³⁰ and lack awareness of market knowledge/specialist support and relevant finance opportunities.^{331,332}
- 5.6.18 A key issue identified by the Access to finance/BusinessSupport Working Group is the need for greater strategic commercial awareness and the capacity of creative businesses to make effective use of funding and business support.
- 5.6.19 There is evidence, for example, that business strategy training is taken insufficiently seriously by many creative businesses. Surveys suggest that around one-half of firms (49 per cent) provide no such training at all to their senior managers. An even greater proportion of small companies fall into this category (57 per cent among those with one employee). Only 34 per cent of creative businesses report that their senior managers have had at least some management training; the proportion of small firms is again lower.³³³
- 5.6.20 Clayton and Mason (2006) note the existence of 'lifestyle' SMEs in many creative industries with annual turnover 'stuck' in the £300,000 – £400,000 range that could realise higher growth with tailored support.³³⁴ For such firms, private equity finance makes a great deal of sense: cash flow is unlikely to be high enough to service or repay debt; and investors need a share in the firm's profits to compensate them for the high risks.

...creative businesses could educate investors further on growth patterns...

...'business angels' are a vital source of private equity for innovative SMEs...

Business

angels bring valuable handson experience to businesses, often through mentoring and formal management roles.

Copyright, helps create the framework for the creative industries' business model. The role of informal equity

- 5.6.21 The OECD notes the value of 'business angels' (informal equity) as a vital source of private equity for innovative SMEs in the UK. These wealthy individuals make substantial investments into smaller businesses and may also provide businesses with non-financial business support.³³⁵
- 5.6.22 It is estimated that there are already 3,885 business angels operating in networks across the UK, leveraging their investments and acting increasingly like venture capital funds.³³⁶
- 5.6.23 Business angels bring valuable hands-on experience to businesses, often through mentoring and formal management roles. But the high risks in many creative industries deter many angels from looking at creative businesses as investable propositions. Even angels with industry-specific expertise can be highly risk-averse.
- 5.6.24 This helps explain why most business angel investments whatever sector they invest in – tend to be irregular and largely reactive. As a result, NESTA recommends greater networking initiatives for angels and businesses to attract ongoing matchmaking, sectoral intelligence and deal brokerage – in creative and non-creative industries alike.³³⁷

5.7 Intellectual property

- 5.7.1 Copyright, as was argued in chapter 4, helps create the framework for the creative industries' business model. Protection for acts of origination of expressive value is one of the building blocks on which many creative business build their expectations of future income streams. It is becoming more important.
- 5.7.2 Investment in intangible assets has risen strongly over the last 20 years (see chapter 3). It is estimated that 70 per cent of a typical company's value now lies in its intangible assets, up from around 40 per cent in the early 1980s. Much of this investment in the creative industries is safeguarded by copyright.³³⁸
- 5.7.3 The Gowers Review acknowledged the increasing importance of copyright in securing the UK's prosperity and as a wealth creation mechanism, providing incentives needed for the creation and publication of knowledge. But with its remit to review the IP regime as a whole, it did not single out the creative industries as the principal users of copyright, nor develop an accompanying analytic framework for its economic importance to the creative industries.

Copyright in economic theory

5.7.4 The theory that creators have a natural right to the fruits of their labours is an ancient one, and was formally recognised in the UK as early as 1710 with the Statute of Anne. There is an economic case which assumes that creators will only have an incentive to invest in innovation if they receive an appropriate return. In the absence of protection, others will free-ride on the efforts of the innovator, and investment will therefore be lower than the socially optimal level.

Copyright is5.7.5Copyright is conceptually different from patent, whose role is
both to protect the property rights of the inventor while allowing
the dissemination of knowledge. Copyright protects originators
of ideas and expressive value in part because of the very ease
of dissemination. The concern however, is that copyright
increases the cost of knowledge inputs for those who invest in
producing new knowledge; prices innovators out of the market,
and paradoxically lowers the number of works created.339 This
is the proposition of those who urge moving towards a creative
'commons' with fewer protections for copyright.340

The importance
of IP varies from
sector to sector.5.7.6There is good evidence for both points of view with much
depending, as Harvard University's Professor fisher³⁴¹
argues, on the precise circumstances of particular industries.
His investigation of the biotech, pharmaceuticals, aviation and
software industries illuminates theoretically the conditions
in which IP protection hinders innovation – and when it
does not.³⁴² Similar conditions exist with copyright.³⁴³ fisher
believes that IP protection is most conducive to innovation
where the following features characterise an industry:
a) research and development costs are high;

- b) there are high levels of uncertainty as to which lines of enquiry will bear fruit; and
- c) competitors can ascertain and mimic the content of technological advances cheaply and rapidly.
- 5.7.7 In contrast, IPR will impede innovation when the following conditions exist:
 - a) alternative mechanisms such as secrecy, lead-time and learning-curve advantages already provide creators adequate protection;
 - b) innovation in the field tends to be highly cumulative;
 - c) non-monetary incentives are important sources of motivation; and
 - d) there are benefits from adopting and using common standards so called network externalities.³⁴⁴





"I am sure that what the Department for Culture, Media and Sport is doing to prepare today's youth for the 2012Olympics is good and right and fair and necessary, but it is worth remembering that there are children whose fires are lit not by sport, but by art – by painting, dance, theatre, literature, music, sculpture, poetry, opera, by all that design, culture, media and art can offer. I was lucky enough to have my fires lit by touring subsidised theatre, opera and ballet when I was growing up. Lucky enough to benefit from library events and travelling exhibitions that reached even the deep dark countryside I was raised in. I would like to think that today's children might get an even better chance than me to participate in and be enthused and animated by art. If you stand in a street anywhere in the world and want to see something British it increasingly may not be cars, it won't be the cutlery or crockery in the restaurants, it won't be the machinery, the consumer electronics, the hardware or the nuts and bolts: but it will be in the air - the chances are strong that the music playing will be British, that the books in the bookshops will be British. that the software and the designs will be British – that is how we are known now, as exporters of culture and ideas. Britain no longer gives boilers and iron girders to the world, we give colour and life and dynamism through art, imagination and cultural innovation."

5.7.8 fisher's analysis suggests that the creative industries would, on balance, benefit from a tougher IP regime. Most creative activity has highly uncertain returns, involves high upfront costs and is easily imitable. It is an argument supported by intellectual property rights theorist Professor Dennis Karjala. He thinks that the underlying innovation process in the creative industries is of a different character to that in the technical and scientific sector because new knowledge builds less upon existing knowledge.³⁴⁵

5.7.9 This is one reason why copyright law distinguishes between ideas which are not protected and expressive value which is. It is a distinction on which Professors William Landes and Richard Posner of the University of Chicago, two of the leading theorists on the political economy of intellectual property in the US, build:³⁴⁶

> "If an author of spy novels copies a portion of an Ian Fleming novel about James Bond, he is an infringer. If, inspired by Fleming, he decides to write a novel about a British secret agent who is a dqp"xkc pv, he is not an infringer....The novelist creates the novel by combining stock characters and situations (many of which go back to the earliest writings that have survived from antiquity) with his particular choice of words, incidents, and dramatis personae. He does not create the stock characters and situations, or buy them. Unlike the ideas for which patents can be obtained, they are not new and the novelist acquires them at zero cost, either from observation of the world around him or from works long in the public."

fit for purpose in the digital age?

- 5.7.10 British copyright law is built on the proposition that, following the arguments above, it should offer strong protection to creators of expressive value while trying to allow for the free spread of important ideas. It offers protection for creators' expressive value but with some inbuilt flexibilities. For example, Sections 29 and 30 of the 1988 Copyright, Designs and Patents Act provides for 'fair use' exemptions – that copying is justifiable for research, private study, criticism, review or for the purpose of reporting current events.
- 5.7.11 The problem is that digitisation opens up possibilities for free copying, file-sharing and downloading that are hard to police, and is challenging business models reliant on copyright (see the section on digitisation in chapter 2 for a discussion of alternative strategies for protecting copyright). The Gowers Review and the Competition and IP Working Group concluded that illicit filesharing, in other words piracy, was threatening many creative industries. In particular:

...digitisation

opens up

for illegal file-sharing...

possibilities

- A 'culture of file-sharing' permeates the internet. The most common legal offence among young people aged between 10 and 25 in the UK is internet piracy up to 80 per cent of music downloads are unpaid for. The British Phonographic Industry (BPI) estimates that file-sharing cost the British music industry £1.1 billion between2003 and 2005. As technology has advanced, so these losses have picked up markedly. Lost sales increased from £278 million in 2003 to £414 million in 2005 (on total retail sales of £1.87 billion).³⁴⁷
- Total losses to the film industry in 2005are estimated at £719 million on industry box office and video sales of £3.5 billion; in 2006, almost a third of the population had obtained or watched some form of pirated film material.³⁴⁸
- According to the Business Software Alliance, software piracy in the UK is so widespread that a ten-point drop in the phenomenon would contribute £11 billion to the UK economy and generate over 30,000 jobs.³⁴⁹
- 5.7.12 Although these numbers are startling, some argue that the direct economic relationship between P2P file-sharing and the decline in creative industry revenues is less clear-cut.³⁵⁰ The well-documented decline in record sales from 2000–04 may have roughly coincided with the rise of P2P file-sharing technology, but it was also shaped by a broader global economic slowdown and competition from other forms of entertainment, such as DVDs, video games and ringtones.³⁵¹ As for the film industry, although it is difficult to find direct evidencethat the presence of file-sharing is currently leading to a direct and quantifiable reduction in revenues at present, we were told by the industry that as technology improves the quality of amateur copies will hugely improve.³⁵²

The case for more awareness of the implications of piracy

Consumer awareness of IP and the costs of IP piracy is low in the UK.

- 5.7.13 Consumer awareness of IP and the costs of IP piracy is low in the UK. The Gowers Review cites MORI poll findings that people were more aware of elements of IP that are physically observable such as trademarks, rather than more abstract forms such as copyright and patents. Gowers concludes that "copyright in the UK presently suffers from a marked lack of public legitimacy" and that IP crimes were seen by the public as 'victimless'.³⁵³
- 5.7.14 The distinction is in part due to the process of P2P file-sharing which replicates non-rivalrous files (downloading a copy of a CD does not displace the original sharer's copy) and which can be reproduced and distributed at virtually zero marginal cost. In contrast, physical piracy circulates scarce and rivalrous commodities, which are constrained by the costs of recordable media as well as geographic and regulatory intervention (through border inspections and police raids).
- 5.7.15 The Competition and IP Working Group concluded that there is a clear lack of knowledge and awareness from industry and consumers on what legitimately can be done with creative content. It argued that it is more difficult for consumers to respect rights if they do not know what those rights are, and it called for more education.

file-sharing is seen as much a social act as a private selfinterested act. 5.7.16 However, education initiatives alone may not be enough. As we observed in chapter 4 one of the reasons for buying creative goods is because other people are buying them – so-called socio-psychological network effects.³⁵⁴ Cultural tastes are influenced by the wider social and cultural context. file-sharing is as much a social act as a private, self-interested act. It is only when consumers believe that there is a direct relationship between fans and artists that they accept the nature of online piracy.³⁵⁵ Commoditising music may undermine this connection.

The public interest

The prosperity of the creative industries requires that the principles of British copyright law work in an era of digitisation. 5.7.22 The ongoing prosperity of the creative industries requires that the well-established principles of British copyright law work in an era of digitisation. The Gowers Review reached similar conclusions, while proposing more flexibility in the use of digitised creative content, more ease to shift formats, greater exceptions for private copying and the new privilege to infringe copyright if the material is deemed transformative. The Review also resisted the proposal to extend performers' rights to 95 years, observing that it would do little to incentivise the creation of music.

5.7.23 Gowers proposals for the better education of consumers and more advice to business are fundamentally correct, but alone may not be sufficient. The concern from the creative industries is that unless Gowers' proposals to police, enforce and charge proper penalties for copyright infringement are taken seriously and prosecuted with energy, especially at an international level, digitisation will undermine unnecessarily the business model upon which they depend.

5.8 A level playing field

Competition is
central to the5.8.1Competition is central to the creative process. It differentiates
between good and bad ideas, selects and amplifies new
technologies and promotes productivity-enhancing designs.356
It provides businesses and individuals powerful incentives to strive
towards creative excellence. Market competition has particularly
strong effects on innovation and productivity growth in industries
where competitors are already 'neck and neck'.357

Competition is
creative; but it is5.8.2Competition is creative; but it is also destructive. All firms enjoy
benefits from past innovation, but, the most dynamic firms destroy
those benefits, the more they innovate and make their own products
obsolescent. However, the less innovative firm fares even worse.358

5.8.3 Competition can have drawbacks alongside the advantages. Monopoly creates rents that can be spent on the trial and error process of innovation.³⁵⁹ Excessive rivalry can also increase uncertainty, which discourages long-term investments in innovation.^{360,361}

- 5.8.4 The UK is undoubtedly a highly open economy it is exposed to high levels of competition from overseas. International trade – the value of exports and imports of goods and services – expressed as a per cent of GDP is 54 per cent, higher than in the US (24 per cent), France (50 per cent) and Italy (49 per cent), but lower than the 67 per cent in Germany. The UK is also the world's second largest exporter of services and eighth largest exporter of goods. It has the highest ratio of inward and outward investment to GDP of any leading economy – in part reflecting its very low barriers to foreign direct investment (FDI). More generally, the UK has one of the least restrictive regulatory environments in the developed world, and some of the lowest business startup costs.³⁶²
- 5.8.5 Bartelsman gvcn(2005) report that another indicator of competition, the churn of firms – the rate of exit and entry – is higher in the British manufacturing sector than in many other industrialised countries.³⁶³ In general, rates of churn are higher in services than in manufacturing in all countries.³⁶⁴
- 5.8.6 Chapter 2 illustrated the fragmented nature of the creative core in many of the creative industries – with generally low concentration ratios and large numbers of small firms. Chapter 2 also noted how in several sectors charged with processing and distributing creative content, there are large, vertically-integrated firms.

One question5.for policyis whetherindustrialstructures instructures inthe creativeindustries aredetrimental tothe competitive5.environment.5.

- 5.8.7 One question for policy is whether these industrial structures are detrimental to the competitive environment. Answering this question is particularly challenging in the case of the creative industries – as chapter 2 noted, the data that we have describes industrial structures and not market structures, such as barriers to entry, so inference cannot be drawn from these data alone on the degree of product market competition.
- 5.8.8 Three potential explanations for the industrial structures we observe are on offer. The first explanation centres on the fact that costs of production may be so high that only large firms can bear them. These are costs that cannot be reduced even if output is lowered or falls. With high fixed costs of this character, the more that is produced, the lower the average costs of production.
 - 5.8.9 Plainly in industries characterised by these kinds of costs, efficiency dictates that an industry will converge around a few dominant large scale firms.³⁶⁵ There is of course nothing inherently anti-competitive in concentrated industries. For example, fully competitive pricing can be observed – even in industries with just one firm serving the market – so long as barriers to entry and exit are sufficiently low (in other words the market is contestable).³⁶⁶

- 5.8.10 A second explanation points to entry barriers and endogenous sunk costs costs which (unlike fixed costs) are lost for ever and cannot be recovered.³⁶⁷ The starting point is that in some industries businesses can earn high returns from spending on sunk costs, such as Research & Development outlays (which can lead to increases in product quality) and advertising (which increases quality as perceived by the market).
- 5.8.11 Market growth makes room for new entrants as in other industries – but it also stimulates existing firms to increase their sunk costs. firms consciously escalate their outlays, improving the (actual or perceived) quality of their products to steal business from rivals. This is the effect we noted in chapter 4 – historically of the US movie industry and today of the UK video games industry.
- 5.8.12 This tendency towards escalation of sunk costs is especially strong in creative industries such as the film, television and video games industries where budgets are seen as indicators of product quality (see the discussion of quality inflation in chapter 4). In particular, in markets where 'nobody knows anything' advertising provides signals to consumers on what they can expect.³⁶⁸ In the film industry, signalling takes the form of budget-busting sequels, which like brand names are perceived to be of higher quality.
- 5.8.13 A third explanation stresses the differentiation between products that firms introduce to try to earn above average profits.³⁶⁹ Here it is the structure of consumer spending rather than costs that opens up the opportunity for businesses. If consumers want a lot of variety, or alternatively pigeonhole products in segments, then companies can either compete on small product differences (appealing to variety) or build a reputation in a particular segment.

Implications for the creative industries

- 5.8.14 Product differentiation is most obviously relevant to the understanding of fragmented structures in the creative core. Consumers demand an infinite variety of creative offerings, and artists supply an infinite variety of possibilities, as discussed in chapter 4.
- 5.8.15 This helps to explain the abundance of small, specialized firms catering for niche tastes that we observe in many creative content industries. However, alongside numerous small firms a number of the 13 individual industries also have a handful of vertically-integrated large organisations, sometimes multinationals, which intermediate between creative producers and consumers.

"Electronic Arts is responsible for a quarter of the top 20 video games. More than 80 per cent of music sales in Europe are controlled by the four major labels. The eight largest book retailers have just under two-thirds of the UK's overall book market. Six film distributors account for 87 per cent of the UK's box office share."³⁷⁰

- In some sectors, 5.8.16 Whether there is any role for competition policy depends a relatively critically on how this $fg \mathcal{H}eeq$ 'gatekeeper' role is interpreted. small number Any interpretation has to be careful; as we have argued earlier, of distributors there may be an important economic logic to the emergence of decide which 'gatekeepers' and their role, despite criticism, may be eminently creative products justifiable. However, there were a number of concerns voiced by some content producers during the industry summits. In some are offered to sectors, a relatively small number of distributors in effect can the public. decide which creative products are offered to the public. Inventory control costs and economies of scale in marketing may lead these distributors to adopt mass production strategies, which involve low levels of product variety offered to the public.³⁷¹
 - 5.8.17 Consumers not knowing what they are missing (see chapter 3)

 oblige by herding around these products. This tendency is supported by the fact that the quality of creative products as perceived by individuals depends on what other people do and think.³⁷² Such strategies are not new³⁷³ they were for example, evident in the English publishing industry as early as the late 19th century.³⁷⁴

...there are structural reasons why cultural industries may be associated with low levels of variety in the range of offerings.

- 5.8.18 The implication of these particular studies is that there are structural reasons why cultural industries may be associated with low levels of variety in the range of offerings. There is a tendency for outputs to be formulaic and standardised, which restricts the options available to consumers.^{375,376}
- 5.8.19 Cinema admissions are a case in point. Data from the UK film Council suggests that just three films (O c wj "Rqkpv, O go qktu"qh"c I gkij c and Dc uke "Kpukpev" 4) secured over 25 per cent of audience share in London between January and August 2006, while foreign language films – accounting for over two-fifths of all releases – shared just 3.2 per cent of the UK box office.³⁷⁷ This finding is echoed for the music industry in a study by Allain and Waelbroeck (2006).³⁷⁸ They show that retail concentration, through the emergence of large supermarket chains and their increasing share in total music sales to consumers, can work to reduce music variety.
- 5.8.20 Two other economists, Weiss and Wittkopp (2005),³⁷⁹ highlight the negative relationship between the presence of large retailers and the introduction of new products. Product standardisation is also evident in the online distribution of consumer goods where – despite the proliferation of niche products in the 'long tail'³⁸⁰ – a small number of products still hold sway in the market.³⁸¹

Drivers of the industry, Moreau and Peltier (2004) report a strong positive creative industries correlation between the share of domestic films in distribution and their share of receipts.³⁸² Given the great difficulties in predicting market demand when 'nobody knows anything', they interpret this as the supply of diversity leading the demand for diversity, rather than the other way around. This is interesting, because it opens up the possibility that product diversity levels chosen by the distributors may not correspond to what consumers would ideally want. ...larger 5.8.22 Another potential concern for some content producers is that, verticallyin many creative industries, the larger vertically-integrated integrated businesses may use their position as suppliers of distribution services to negotiate what are claimed to be 'excessive' levels of **businesses** value added from producers or to squeeze margins. Bates and may... negotiate Rivers (2007) analyse this effect in a number of creative sectors.³⁸³ what are claimed to be 'excessive' 5.8.23 These terms may be negotiated on an arms-length contractual levels of value basis between the gatekeepers and production companies,

repeat relationships.³⁸⁴

5.8.24 The video games industry is another example, with global publishers (including console manufacturers) playing a key role in determining the distribution of profits. Publishers secure control over intellectual property in return for the finance required for games development.³⁸⁵ Smaller UK independent production companies described themselves as caught in a Ecwj "44 as a result. financial market imperfections – see the discussion of business building capacity – mean that these businesses cannot scale up until they earn higher returns; but they cannot earn higher returns until they have the scale to negotiate more favourable terms with the publishers.

or else internalised through looser – sometimes formal –

In their cross-country study of cultural diversity in the film

- 5.8.25 One question this analysis begs is why contract terms with the distributor are not renegotiated when there is a competitive threat from other distributors: despite there being large volumes of creative product from which distributors can choose, there is no shortage of anecdote that 'good quality is hard to find' in the creative industries. Further analysis of market structures in these content sectors may be warranted to judge whether they are or are not supportive of conditions needed for competition.³⁸⁶
- 5.8.26 Such an analysis also needs to reflect technological developments, such as the impact that new distribution channels may have on production companies' distribution options.

Chapter 5

added from

producers...

5.8.21

5.2.27 Arguably the high fixed costs of production alone may account for why there are a relatively small number of large businesses in distribution in these content sectors. Consumers may simply be 'voting with their wallets' when purchasing mass-produced creative products. The market dominance of these large distributors simply reflects the efficiency of these organisations in providing the public goods and services, and at the prices, they want.³⁸⁷ In this case there may be no obvious role for policy, but it assumes that consumers are not missing anything that they have not been offered.

5.8.28 Given the high stakes there is a good argument for more ...there is a good market analysis of creative industrial structures. It is likely argument for that the policy implications will rest on a case-by-case analysis. more market analysis Certainly the competition authorities in the UK go to great lengths to capture industry-specificities in their assessment of of creative industrial market practices. A common theme from the industry summits for sectors such as film, music, publishing and video games is structures. that content producers are in the 'Catch 22'. Smaller production companies in these sectors cannot scale up without retaining higher earnings; but to earn higher earnings they need more scale to negotiate more favourable terms with the distributors. We think this warrants further attention.

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Encouraging creativity in schools film Club







fiLM CLUB is a chance for children to enter the limitless cosmos of films – different worlds and characters that can enrich, challenge, inspire, unite and amaze young minds. Currently in the pilot stage, fiLM CLUB aims to support up to 7,000 schools to set up after-schoolfilm clubs by 2010.

Schools receive DVDs delivered by LOVEfiLM and a license through filmbank, as well as a bespoke email and telephone support service, and the chance to have visits and interaction film talent. The heart of the service is a tailored website (filmclub. org) that uses new methods to select films and is designed to help teachers engage children.

Newport Primary is a small rural school in Yorkshire that was one of the 25 schools that took part in the pilot in the Spring Term 2007 and exemplified the reaction of schools, teachers, children and parents that took part.

"film Club has had a massive impact in Newport Primary. Not only are the children thoroughly enjoying themselves, they are being exposed to films that they would otherwise ignore."

Justin Reeve, Newport Teacher

fiLM CLUB enables children to watch an increasingly diverse range of films broadening their media literacy and appreciation of film. During the pilot Newport watched (2 different groups in 6–7 week blocks): Dgcp $ÉVjg'Wnkocug'F kucugt''Oqxkg, Oqpukgut''Junqulu''Jqnkfc{,$ Dtgy ugt lu''Okmkqpu, Fuen''Uqur, Tguutp''qh''yg''Rkpm''Rcpujgt,Oqfgtp''Vkogu, Enqeny kug, GV, Gnh, Vjg''Rqp''I kcpu, Vjg $Okiju{, Pcrqnqqp''F{pcokg.$ The evaluation summarised the experience at Newport

"Children have responded with great energy and enthusiasm to the opportunity to explore new films together in their school, and to engage with the website and in helping select the film programme. Most of the school's developing after-school programme has so far been sports-based and film Club has provided an ideal alternative to this."

Teachers and parents have worked together to provide strong practical support and an independent identity for the club within the school. The success of the club has also led to a film Club trip to a cinema in Hull to see $Co \ c \ |kpi \ "I \ tceg$, linking to recent work on the abolition of slavery."

Focus group of four girls and two boys age 7-11

"All the children were thrilled to have film Club in their school. They liked the shared, social activity, which contrasted well with the sports, drama and watching TV they also enjoyed after school. Most had written for the website and all were pleased to be part of a national network whereby they could read other members'film reviews."

Interview with film Club teacher Justin Reeve

"The teacher was delighted with the impact of film Club on the school, particularly in that it offered a complete service as an external provision but also in that the school was aiming for an Artsmark Award and was focusing on boys' writing which he felt could be helped by their enthusiasm for engaging with moving image texts. Staff support in the school was strong, and the Head and two other staff also helped to manage the club (out of a total staff of 5.5)."

Interview with PTA member Paula Marshall

"Mrs Marshall and the PTA had ringfenced funds for the development of film Club. They charged a small amount of money for refreshments, all profits going into the club: floor cushions had already been purchased and more blackout blinds were to come next. She was very enthusiastic about her sons' response to the club, citing the social aspect and the introduction to a wider world of film as key benefits."



Chapter 6

Conclusion

6.1

6.2

The creative industries are one of the dynamic components of the emergent knowledge economy.

Chapter 6

Conclusion

...no single initiative will drive creativity and the creative industries forward.

...most important is to move from a paradigm of subsidies and grants to one of investment...

- The creative industries are important sources of employment and wealth generation, and, as in other countries, certain to become even more important in the future with the march of growing wealth and education. They are one of the dynamic components of the emergent knowledge economy.
- But they are more than that. They are the means by which the nation displays expressive value – a source of pleasure, wellbeing and the replenishment of our collectively-created culture – and their growth demonstrates the increasing worth we attach to it. The process of expressing value, involving risktaking, experimentation and imagination, has a wider cascade effect. The more creative and vigorous the core of our national creativity, the more creative and vigorous are likely to be the creative industries and the wider economy and society.
- 6.3 There is no single magic initiative that will drive creativity and the creative industries forward. Policy makers have to 'crowd in' creativity in the design of their investment in the sector, to help develop and better understand the mechanisms that transmit creativity between the creative industries and beyond; and they must monitor the impacts of, and where necessary strengthen, the policy architecture – including the copyright, competition and financing regimes – that are essential to building sound business models within the creative industries.
- 6.4 The single most important step is to move from a paradigm in which support for the creative industries is interpreted in terms of subsidies and grants, to one where it is instead understood in terms of investment with important economic and cultural paybacks. There is clearly more work to be undertaken in understanding the complex linkages and spillovers within the core creative industries and between them and the wider economy – not least in organising hard data and systematic statistics on which evidence-based judgements can be made.

6.5 Above all, the conditions in which creativity prospers need to be celebrated. It is the processes of challenge, dissent and argument that are both the backdrop to moments of creative illumination and the means by which they are hammered out into offerings that can be taken to market. How the country approaches education and how the creative industries urgently broaden their diversity will be two great drivers of change. Societies that are tolerant, self-confident, diverse and articulate are the hand-maidens of such creativity. Thus are the creative economy and creative society indissolubly linked.





Introduction

- 1. The following snapshots are a collection of data and information collected from the Government's work on the creative industries that began in 1997. These pages have been produced by DCMS to sit alongside The Work Foundation (TWF) report, providing an outline of the 13 sectors that make up the creative industries. They contain data on the size of the 13 sectors, their contribution to the economy and their industry structure along with a discussion of data collection. They also include a series of issues for each sector raised by industry representatives at discussions to inform TWF work and the rest of the Creative Economy Programme (CEP).
- 2. The definition of the creative industries captures the following 13 sectors: advertising, architecture, art and antiques, computer games, crafts, design, designer fashion, film and video, music, performing arts, publishing, software and TV and radio.¹
- 3. Together these industries accounted for 7.3 per cent of Gross Value Added (GVA)² in 2004 (the latest year for which figures are available). They grew by an average of 5 per cent per annum between 1997 and 2004. This compares to an average of 3 per cent for the whole of the economy over this period. Exports totalled £13 billion in 2004 which equated to 4.3 per cent of all goods and services exported. Creative employment totalled 1.8 million jobs in summer 2005. This comprised just over 1 million jobs in the creative industries and a further 780,000 creative jobs within businesses outside these industries.

- 4. DCMS was the first to define and measure the creative industries and the concept has gained momentum around the world. However, others interpret and define the sectors differently. The concentric circles diagram in the accompanying Work Foundation report sets out a typology for analysing the 13 sectors which distinguishes between core creative fields, cultural industries and creative industries. Other models also exist which attempt to segment the industries in different ways.³
- 5. This chapter is intended to provide a snapshot of some of the information about the creative industries captured during the Creative Economy Programme. It is not definitive and there are certainly data sources and perspectives not represented here. However, this report is part of a longer process, and through the CEP, Government, industry and partners will continue to improve data on, and understanding of, the creative industries. A particular outcome of the CEP will be a fuller research plan, identifying gaps in evidence and data.

Data for the creative industries

6. Measuring the creative industries: The Creative Industries Task Force, established in 1997 by Chris Smith, produced a Mapping Document in 1998. This was the first ever attempt to define and measure the economic contribution of these 13 'creative industries' to the UK, and to identify the opportunities and threats they faced. An updated document was produced in 2001 and, for the purposes of the CEP and data collection, the definition of the 13 creative industries set out in the 2001 Mapping Document endures.

7.

Data collection: A key commitment from the 2001
Mapping Document was to provide more timely and consistent data on the activity of the creative industries. To achieve this, DCMS has produced Creative Industries Economic Estimates every year since 2002 using comprehensive annual survey data collected by the Office for National Statistics (ONS).

- 8. To produce statistics that reflect the Mapping Document's definition of the 13 sectors, DCMS has used the most relevant ONS data and, where necessary, include only proportions of industry sectors. The Economic Estimates include figures for Gross Value Added, number of businesses, exports and total creative employment (employment in creative industry firms and creative occupations outside the creative industries) for most sectors.⁴
- 9. Limitations of the data: The Creative Industries Economic Estimates are the best source of consistent, comparable and regularly updated information. However, the standard industrial classifications for official statistics do not accurately reflect the structure of the creative industries and as such it is difficult to capture the full extent of activity. Due to these constraints the figures should be considered as best estimates rather than definitive valuations. For some sectors, references are made to alternative data sources in order to provide further information on their performance.

Issues for the creative industries

10. Creative Economy Programme: The 'issues' section of the snapshots reflects some of the industry views and perspectives expressed through the CEP consultation. Particularly from 2005–07, the DCMS, DTI, CEP working groups and The Work Foundation held a schedule of industry summits and consultation events as well as online consultation and bilateral discussions. Set out in this section are some of the messages which have been conveyed during that period for each of the industries. Some of these are also picked up throughout this report, but they are recorded separately here in order to set out a snapshot of each of the individual sectors. Views which have not been reflected here have not been lost and will be picked up elsewhere in the CEP process.

Definition of the creative industries

- 11. Impact of technology: The fast pace of technological change in the creative industries has a significant impact on how they operate and will continue to do so. In particular, the massive development of digital media and the convergence of previously distinct ways of producing and delivering creative work have made some old sectoral boundaries partially obsolete.
- 12. For example, digitisation has enabled new ways for firms to deliver their products and the opportunity to work interactively with their consumers. This has led to the emergence of new firms and challenged the way existing firms operate, creating a 'new media' sector that innovates and exploits technology and operates in a way that is outside traditional industrial structures. It also provides new challenges for government, both in how it defines and measures the creative industries, and how it develops policy and support in this fastchanging environment.
- 13. Implications for definitions: DCMSrecognises the imperfections of the Mapping Documents' definitions, but the sectors identified in these publications continue to have a powerful identity, in economic terms and as a focus for organisational and personal commitment. However, given the rapid and turbulent pace of technological change, it is possible that when the next major exercise on the creative economy is undertaken, sectoral boundaries may be rewritten.

Advertising

Description: The activities of the advertising industry are defined as consumer research and insights including identifying consumer tastes and responses, creation of advertisements, promotions, PR campaigns and production of advertising materials. It also includes management of client marketing activity/communication plans as well as media planning, buying and evaluation.⁵

Size: In 2006 the following figures were recorded for the advertising sector:⁶

- GVA was £5.1 billion in 2004.
- Total creative employment of 223,400 in 2005.
- Exports of £1.1 billion in 2004.
- 9,900 businesses in 2005.

Alternative data sources and information: The UK is the biggest advertiser in Europe and the third biggest advertiser in the world, after the USA and Japan (*Cf xgt vkukpi "Uw vkukeu"*[*gc t dqqm"*4228).

In 2006, for the first time, the UK beat the USA to the No.1 slot in the world rankings for advertising creative excellence. The 2006 Gunn Report explains that in 2006, 'the very best UK work was the most brilliant'.⁷

London dominates the European agency landscape, because London is the Europe/Middle East/Africa hub for the major agency networks (Omnicom/WPP/Publicis/ IPG), and the centralised buying office for most of the media agencies (Mindshare/Mediacom/Initiative/ ZenithOptimedia).⁸

Annex

Snapshots of the creative industries: data and issues











Structure of the industry

first stage of the supply chain – commissioning companies: most adverts are commissioned by large private sector corporations, which sell consumer products (and as a result demand for advertising is largely driven by these private sector corporations). Demand from government and NGOs is also significant.

Second stage – media and creative agencies: relates to the production of advertising/campaigns. There are two broad types of agencies involved in this stage of the supply chain:

- media agencies, which cover every aspect of marketing related activities
- creative agencies, which undertake a range of activities including design of marketing campaigns, media buying, print design and, in some cases, public relations.

Third stage – media buying: 'buying' media space for a campaign. This can be in the form of newspaper space, airtime, online advertisements or any other medium.

Despite the increase in the number of alternative advertising mediums in recent years, press advertising remains the largest medium (in revenue terms) in the UK. Indeed, press and television advertising combined represented 74 per cent of all advertising expenditure in the UK in 2004.

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP and beyond:

- general increase in the number of possible advertising mediums available
- the emergence of multi-channel TV is a competitive constraint on traditional TV advertising (and other advertising mediums) and has also depressed average TV advertising expenditures
- increased share of advertising spend channeled via the internet
- consolidation of media buyers (as large buyers of advertising are able to secure the best deals from media owners), and
- consolidation of media ownership worldwide a relatively small number of large global corporations own the majority of the media
- the majority of university media courses do not teach the relevant skills
- digitisation presents a big challenge to the industry. Small firms can access the advertising market through online search engine marketing and this section of the ad industry is growing
- only 4 per cent of employees in the UK advertising industry are from BMEs. This has been explained as a result of a lack of diverse role models in the industry and a 'village mentality' which is not conducive to attracting more diverse groups
- advertising is vital to the business models of many companies. It is important to recognise the interdependencies between the advertising industry and the rest of the economy.

Architecture

Description: The activities of the architecture industry are defined as building design, planning approval and production information. Its related activities include structural environment, landscape and other specialist design, urban planning, construction cost planning and control and construction monitoring.⁹

Measurement: Activity in this sector is measured using data for architecture and engineering activities and related technical consultancy.¹⁰

Size: In 2006 the following figures were recorded for the architecture sector:¹¹

- GVA of £4 billion in 2004.
- Total creative employment of 108,200 in 2005.
- Exports of £570 million in 2004.
- 4,700 businessesin 2005.





Exports for architecture sector £ billion1997 - 2004



Structure of the industry

Supply chain: Agents commission work (private and public sector projects).

Production/design: Private practice architects and freelance architects (work also undertaken by multidisciplinary firms).

Planning approval: Planning authorities (plans will often go through several iterations).

Key activities in the sector can be split between:

- public and private housing developments (however RIBA sources state that only around 20 per cent of new homes are designed by an architect)
- commercial and public sector developments, for example schools, hospitals and civic buildings
- large-scale infrastructure projects, such as the development of Terminal 5 at Heathrow or stations on the Jubilee Line Extension.¹²

Some of the largest architectural firms in the world have a presence in the UK. For example, Aedas Architects is currently the fourth largest practice in the world with 25 offices around the world, 10 of which are in the UK employing 665 people.¹³

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP:

- architecture deals with capital 'products' that impact on how places function over a long timescale. It has a significant role to play for the UK's sustainable development agenda and the challenges of climate change will require creative responses to architectural design problems
- changes in the nature of work being commissioned, with public commissioning becoming increasingly important
- continuing impact of public planning policy on the nature of work undertaken
- growing role of non-specialist architectural firms in the sector
- the nature and culture of public service procurement is perceived to make it difficult for small firms to secure contracts
- consumers are often content for architectural work to be undertaken by a contractor rather than an architect due to either not appreciating the longer term value of design quality, or through direct financial constraints. However there is a growing number of developers (eg Urban Splash) who take the opposite approach, and even some of the major house builders have a board level design champion
- while the industry is becoming more diverse, significant steps need to be taken to achieve a better balance. Although a relatively diverse mix of students are studying architecture and related disciplines this mix becomes less diverse as people make the transition from student to employee. Ethnic minorities and women are significantly under-represented in the sector
- finally, industry also feels that Pfi as currently constituted limits the time and consideration given to design issues. RIBA 'Smart Pfi' model offers an alternative model which is being adopted by HM Treasury and OGC.

Arts and antiques

Description: The activities of the arts and antiques industry are defined as trade in art and antiques including paintings, sculpture, works on paper, other fine art, furniture, other discrete disciplines and collectibles.¹⁴

Measurement: Activity in this sector is very difficult to identify in official national survey data. Government identifies two categories of 'retail sale of second-hand goods in stores' and 'other retail sale in specialised stores' as relevant firm classification codes.¹⁵ As these are fairly broad categories DCMS only takes a very small proportion (5 per cent) for measurement.

Size: In 2006 the following figures were recorded for the arts and antiques sector:¹⁶

- GVA of £490 million in 2004.
- Total creative employment of 22,900 in 2005.
- Exports of £2.2 billion in 2004.17
- 1,700 businessesin 2005.

Limitations of data collection: The arts and antiques sector is measured by taking a small proportion (5 per cent) of larger industry categories as the sector itself does not have its own classification. This means the trends identified in the graphs above largely reflect the growth of the overall categories (retail in specialised stores and retail of second-hand goods in stores) rather than trends specific to the arts and antiques sector. The result of this approach is that the figures recorded may underestimate the true value of this sector.













Alternative data sources and information

- The European fine Art Foundation valued the UK art market as having total sales of €6.7bn in 2001 giving it a global market share of 25 per cent, second only to the USA.¹⁸ This figure is for market sales and therefore is not directly comparable to the GVA figure produced by DCMS. GVA removes the value of inputs from firms' outputs, so it will always be smaller than a figure for turnover or sales.
- It is also conceivable that sales figures will be substantially higher than GVA for an industry where there are valuable assets traded (such as the arts and antiques trade) as these would be stripped out of GVA. Therefore this figure is not necessarily incompatible with the GVA figure of £490m produced by DCMS. This also explains why exports measured in sales revenue can be larger than domestic GVA for the industry.
- Imports of arts and antiques from non-EU countries to the UK totalled £2.4m in 2006.¹⁹ It is likely that many of these objects are then resold – often to overseas buyers.

Structure of the industry

The market for art and antiques comprises the following set of core activities:

- contemporary artwork
- fine and decorative arts
- restoration and resale of cultural property
- valuation
- cataloguing
- exhibitions and trade fairs
- auction, and
- retail.

Types of work that are created include:

- paintings
- sculpture
- collectibles
- furniture.

Trade in the art and antiques market takes place through three types of agents:

- auction houses the larger ones will have in house specialists, do marketing, publishing and have private clients
- dealers who will also have private clients
- art agents who solely act for private clients.

However, commercial galleries through showing new collections can also enter the market place, reaching consumers who do not normally go through the other agents.

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP and beyond:

- What concerns the market is that fiscal or other impositions are applied to the market in the UK which are not applicable to the UK's global competitors (principally the US). These add costs to the market here and make the UK less attractive to sellers, who have the choice of where to sell their art. The art and antiques market is not opposed to regulatory legislation per se, provided that it does not create a competitive imbalance with overseas markets.
- Education and skills there has recently been an influx of overseas workers doing antique restoration and of foreign students acquiring restoration skills at UK colleges and then returning to their country of origin.
- Role of public institutions there are several galleries that are able to make new acquisitions such as the Tate. However some of the smaller contemporary galleries can find it difficult and therefore Arts Council England is encouraging galleries to work in partnership to address this issue.
- Affordable studio space space for artists to create and develop their artform is an ongoing issue and one that Arts Council England are seeking to address through initiatives like ACME(London-based artists' studio provider) and Spike Island, which allow artists to get a foothold and develop their practice.

Crafts

Description: The activities of the crafts industry are defined as creation, production and exhibition of crafts, including textiles, ceramics, jewellery/silver, metal and glass.²⁰

Measurement and limitations of data collection: It is not possible to identify crafts businesses in national survey data because the survey used to collect national data cannot identify small firms below the VAT threshold where a large proportion of firms in the crafts sector are.²¹ GVA and exports statistics are therefore not available from government sources. However an employment estimate is published, but is derived only from data from members of the labour force who class themselves in 'crafts-related occupations', so will exclude those in other occupations who work within the crafts industry.

Size: In 2006 the following figures were recorded for the crafts sector:²²

- Total creative employment of 95,500 in 2005.

Alternative data sources and information

In 'Making it in the 21st century' [2004] the Crafts Council estimates that for 2003:

- Turnover for the crafts sector was £826 million.
- Around 30,000 people were working as craft-makers.
- The main craft sectors as proportions of overall craft employment were textiles (23 per cent), ceramics (21 per cent) and jewellery (15 per cent).
- 87 per cent of crafts enterprises were sole traders.
- 59 per cent of crafts workers were full-time.

'Making it to Market' [2006], an Arts Council England research document suggests that the crafts sector has the capacity to grow by 60 per cent. Creative employment in crafts thousand(s) 1997 – 2004



Structure of the industry

The core activity of the crafts industry is the design and manufacture of crafts for sale or exhibition. Crafts are typically categorised as:²³

- ceramics
- wood
- textiles
- glass
- metal
- jewellery
- fine art.

The industry is made up of a large number of small companies (often self-employed individuals), and the majority of the workforce is female and works part-time.

Craftspeople design and produce a range of products as identified above and this is marketed through private sales and the exhibition of crafts.

Issues

Annex Snapshots of the creative industries: data and issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:

- Very few people generate enough income from crafts for it to be considered their main source of income (and many individuals make a loss from their craft activities). There are a very high number of women working in the sector and part-time work is very common. Portfolio working is the norm, though fulltime professional working is increasing, with more people entering the sector with very high levels of qualifications, often at MA level.
- The market is constrained because the infrastructure for craft is fragmented and underdeveloped. It is patchy across the country with the South West having very high levels of success compared with other regions like the East.
- A big issue for the sector is the loss of these subject areas in Higher Education and the absence of craft in the curriculum.
- Cuts in local authority museums and galleries are reducing opportunities for showing work and the ability for work to be acquired for public collections.

Design

Annex

Snapshots of the creative industries: data and issues

Description: The activities of the design sector are defined as design components of industry, interior and environment design and design consultancy. Services provided by the design consultancy sector include brand and corporate identity, exhibitions, information design, literature, multimedia, new product development, packaging and websites.²⁴

Measurement: Data for design is not identifiable as a sector from government sources so turnover and exports data from the 'Design Industry Valuation Survey' by British Design Innovation (BDI) are published in the CI Economic Estimates bulletin series.²⁵ However, due to the limitations of the BDI data, explained below, the Design Council's 'Business of Design' survey is used here to report key facts about the size of turnover in the design sector.

An employment estimate is published in the CI bulletin that reflects members of the labour force who classify themselves as working in design occupations.²⁶

Size: The following figures were recorded for the design sector:

From the Design Council's 'Business of Design' publication:

- Total turnover for the industry of £11.6bn in 2004 05, which can be broken down into:27
 - £5.5bn spent by in-house design teams.²⁸
 - £5.1bn turnover across 12,450 design consultancies.
 - £2bn turnover across 47,400 self-employed, freelance and non-employing designers.

From the Creative Industries Economic Estimates Bulletin:

- Total Creative Employment of 115,500 in 2005.²⁹

Limitations of data collection: The methodology for measuring the design sector is different to that used for most others in the creative sectors. A turnover estimate is used as a proxy for Gross Value Added though in reality turnover will always be higher than a corresponding GVA figure.³⁰

The BDI's survey, which collects turnover and exports data and is used in the CI Bulletin, is a membership survey that does not capture the full extent of activity within the industry. Results may be skewed towards the main members within the survey and are also likely to fluctuate according to membership levels. Furthermore, design within companies is excluded if design is not the company's main business. As such, the estimates of the extent of turnover and exports below may underestimate the true size of this sector. For this reason, the Design Council's survey results for turnover have been used in the section above.

The estimate of employment is derived only from data from members of the labour force who class themselves in design-related occupations, so will exclude those in other occupations who work within design industries. It is a combined estimate for the design and designer fashion sectors.

Alternative data sources and information

Annex Snapshots of the creative industries: data and issues

Bearing in mind the limitations explained above, the BDI figures reported in the CI bulletin show the following:

Total turnover for the industry was £3.9bn in 2004.
Exports of £550million in 2004.

The Design Council also carries out research into the size of the design sector which includes other aspects of design.³¹ More detailed information from the Business of Design report and other research show that:

There were 134,000 designers working in the UK in 2003–04, with a further 51,500 design directors and managers. This equates to total design industry employment of 185,500.

Large design consultancies are relatively rare and the design industry is characterised by very small businesses: 59 per cent of design consultancies employ fewer than five people and a further 23 per cent employ 5 to 10 people.

In-house teams tend to be larger than consultancies: half of in house teams comprise five or more designers, while only a quarter of consultancies do so.

The main clients of 60 per cent of UK design consultancies were located outside of the UK.

More recent research suggests that every £100 spent by a business on design increases turnover by £225.³²

In the very latest research among design buyers from large companies and design companies facing international competition almost three in five of these designers report that they had seen their international work increase and almost half expected it to do so in the next three years. More than half of those not currently working for overseas markets are taking steps to win work overseas or will be considering doing so in the next three years.³³
Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:³⁴

- The recent Cox Review of Creativity in Business highlighted a need to raise awareness about the importance of design and the competitive advantage that it has been shown to bring to SMEs. This need is currently being addressed through the roll-out of the Design Council's Designing Demand programme by RDAs across the country.
- More effective use of design in the public sector is needed. There are some good examples of how design can drive innovation in public procurement and help improve the delivery of core public services.³⁵
- Fragmentation of the industry raises important skills issues with no clear continuous professional development path currently apparent within the industry. This issue has recently been highlighted in the Design Industry Skills Development Plan 'Higher Level Skills for Higher Value' which also highlights how design companies need graduates with better communication, social and management skills.
- There is also a need for a professional practice framework in the industry. The Design Council is bringing the trade bodies together to develop this. It would not be mandatory, but could be developed to include benchmarking.
- The design industry needs to access global networks in order to continue working with an increasingly global manufacturing industry. The UK manufacturing industry is declining.
- Better design is an important factor in the drive to achieve better sustainability and reduced waste. The industry will need to prioritise education and skills development in this area to meet the growing demand for sustainable products, services and business solutions.

Designer fashion

Description: The activities of the designer fashion industry are defined as clothing design, manufacture of clothes for exhibitions and consultancy and diffusion lines.³⁶

Measurement and limitations to data: Activity in this sector is very difficult to identify in official national survey data. Government data identifies several categories as relevant firm classification codes but these mainly refer to clothing manufacture rather than specifically to designer fashion.³⁷ As these are fairly broad categories DCMS only takes a very small proportion (between 0.5 and 2.5 per cent) for measurement.

This means the trends identified in the graphs that follow largely reflect the growth of the overall categories (which mainly refer to all types of clothing manufacture) rather than trends specific to the designer fashion sector. This is more of a notable issue in this sector as it is such a small proportion taken.

Size: The latest figures shows the following figures for the designer fashion sector:³⁸

- GVA of £380 million in 2004.
- Total creative employment of 115,500 (including all designers) in 2005.³⁹
- 1,400 businessesin 2005.

Alternative data sources and information: It is not possible to produce annual figures for the designer fashion industry's exports because sample sizes are too small. However, DTI carried out a study of the sector⁴⁰ and estimated exports at £390m in 2001.⁴¹



Structure of the industry

There are four key stages in the designer fashion supply chain: design, production, distribution and consumption.

Designers: Typically choose to work independently. They both design and produce 'designer' clothing for their own labels. Their collections and ranges are usually showcased through UK trade fairs, as they tend to sell to independent shops.

Production: tends to be sourced globally to underpin the design function.

Retailers: the retailer's primary function is to distribute fashion garments to the public. However they are also an increasingly important source for jobs within the industry, as they typically employ designers, sourcing and production management, PR and marketing.

Annex Snapshots of the creative industries: data and issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:

- There is in part a lack of robust industry data on the fashion industry. For example there is no data to establish the value of incremental sales from the fashion designer sector into the retail, shoe, sunglasses, accessories, telecommunication or magazine sector and limited statistics that show the size of the growing fashion retail sector which is a significant wealth generator and employer in fashion for the UK.
- British fashion is seen as 'retail led', due to both the dominance of a few large stores which commission or buy ranges from high fashion designers and the massive presence and influence of the large high street chains.
- The industry is characterised by a large number of small companies, mostly in London, which have a high rate of failure or re-formation.
- Independent fashion designers and respective labels sometimes run their businesses without business plans, which partly reflects the high degree of sunk costs in the preparation of their collections.
- Copyright law is relevant to original designs but the businesses place a strong reliance on trademarks, on rapid and regular production of new designs and lines, and on production and marketing measures to make copying more difficult.

- Students traditionally are highly qualified in creative skills; however the fashion industry is changing, for example with greater internationalism and global markets. There is now an educational need and opportunity to address these changes and recognise the varied roles created by these changes within the industry, for example sourcing and distributing goods.
- London has built a reputation as an unconventional cutting-edge, 'street' design, which attracts students to its top colleges from all over the world. Their products result in admiration, and influence the global fashion directions, however a greater commercial support at the early stages of business, would lead to credibility to the international buyers.
- London Fashion Week displays many of the characteristics of the British fashion scene, however it is lightly resourced and organised compared with the bigger shows in Paris, Milan and New York.
- There is an increasingly broader profile of the fashion industry, for example the welfare of catwalk models, which is highlighting the absence of powerful trade and employee institutions in the industry.
- There are increasing sustainable development issues, which suggest that some major changes in materials, products and production methods may be on their way.
- Distribution: retail sales are a growing area, with functions going beyond selection from shows to include sourcing and product development.

film

Annex

Snapshots of the creative industries: data and issues

Definition: The activities of the film and video sector are defined as screenwriting, production, distribution and exhibition. Products include feature films as well as training, education, promotion and other videos.⁴² The key ways in which these products reach the public are through cinema, video, DVD and television. Linking production and exhibition, the distribution industry provides services such as film and tape delivery and storage, and buying and selling of film and video distribution rights.

Measurement: Activity in this sector is measured using data for film production, distribution and projection, video recording and photographic activities.⁴³

Size: In 2006 the following figures were recorded for the film sector.⁴⁴ All figures are for film, video and photographic activities combined:

- GVA of £2.3 billion in 2004.
- Total creative employment of 63,800 in 2005.
- Exports of £940 million in 2004.
- 8,600 businessesin 2005.



Alternative data sources and information

The UK film Council produces their own statistics using a similar method to Government but removing video and photography. These are published alongside further comprehensive data on topics such as cinema admissions and film production in their Statistical Yearbook, which can be found on their website.

(www.ukfilmcouncil.org.uk/information/statistics/ statisticalyearbooks/)

Taken from the film Council Statistical Yearbook:

- In 2005, the UK had the third-largest filmed entertainment market in the world, after the USA and Japan. The USA accounted for 43 per cent of the world market. The next biggest territories after the UK were Canada, Germany, France, Italy and South Korea.
- There were 157 million cinema admissions in 2006, an average of almost three visits per person in the UK. Admissions have increased approximately 40 per cent in 10 years.

Structure of the industry

There are four key stages in the film chain: development, production, distribution and exhibition.

Development: The script is written, and various elements of the film start to be provisionally put in place; director, cast, subject to the necessary finance being raised.

Production: Independently-produced films are typically part-financed by licensing the rights to the film to distributors in return for advances. This licensing process is generally handled by a sales agent. Other forms of finance that are important for independent producers are direct subsidy, tax relief, broadcasters and forms of gap finance.

Distribution: Distributors are responsible for negotiating the timing and scale release of the film with cinema chains. The distributor pays for the prints of the film and the costs of advertising it – together these are known as P&A costs. The distributor is also responsible for arranging the release of the film on DVD through retail stores and online retailers. Exhibition: The release of a film at the cinema is the key determinant of a film's commercial success since it acts as a showcase for its subsequent distribution in other media – eg DVD and television. Cinemas and distributors divide the box office receipts of a film according to a preagreed formula. The amount retained by the distributor is known as the 'rental'. Collection Agents collect receipts from the commercial exploitation of a film and disburse them to those with entitlements to income.

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP and beyond:

- The likely shift from packaged goods (DVDs) to electronic downloads via the internet, will impact on revenues and profitability.
- The impact of a continuing shift in consumer leisure patterns toward spending increased time online with multiplayer games, user-generated content etc, will affect cinema going, and time spent watching DVDs and films on television.
- Intellectual Property Crime and Piracy is a major issue, highlighted in the HM Treasury-commissioned 'Gowers Review of Intellectual Property'. There is increased awareness that effective solutions need to be found.
- There are strong UK industry concerns that the current DCI specifications (US studio-led international standards for the production, distribution and exhibition of digital film) will raise the cost of entering the market for smaller and independent studios and postproduction companies; and thus threaten their ability to operate.
- A lack of diversity among the workforce across UK film. The UK film Council has prioritised making progress on diversity in the film industry employment via its equality charter and Equality Leadership Forum.

Music

Description: The activities of the music sector are defined as production, distribution and retailing of sound recordings, administration of copyright in composition and recordings, live performance (non-classical), management, representation and promotion, and songwriting and composition.⁴⁵

Measurement: Using official Government statistics it is not possible to easily separate music from the performing arts sector. The standard industrial classifications for official statistics make it impossible to separate firms specifically involved in music activity from those in visual and performing arts so these sectors are brought together into one in Government data collection.⁴⁶

Size: The latest figures for the music and visual and performing arts sector as measured by DCMS (please note the figures include visual and performing arts but the rest of the section refers only to music):

- GVA of £3.6 billion in 2004.
- Employment of 236,300 in 2005.
- Exports of £150 million in 2004.
- 29,000 businessesin 2005.







Exports for music sector £ billion 1997 – 2004



Limitations

The music industry is a fast moving sector and standard measurement techniques struggle to keep up with technological changes, such as the increasing importance of new media. In particular this comes through in the music exports data where downloads are not accounted for. There are further definitional issues for this export data as it measures services and not goods, meaning total industry exports are likely to be underestimated.

Alternative data sources and information

Creative and Cultural skills, the sector skills council for this sector, carried out their own analysis of national survey data in 'The Footprint: A baseline survey of the creative and cultural sector' [2006]. This included GVA and employment estimates for the music sector. Their definition includes substantially more industrial classifications⁴⁷ than DCMS consider and methodological differences also create a higher value than DCMS estimates. They found:

- GVA of £6.1bn for 2004.

- Total creative employment of 95,010 in 2004.

Frontier Economics' assessment of the music industry for DCMS⁴⁸ suggested the sector is highly vertically integrated, with most of the major and independent record labels undertaking production, manufacturing, marketing and distribution activities. Online marketing and distribution has ever increasing importance as the primary route to sales. Weekly single track download sales are approaching 1.5 million per week.⁴⁹

There are four major record companies – Universal Music, Sony BMG, EMI Music and Warner Music. Between them, they account for around 80 per cent of recorded music sales. Independent record companies account for the remaining 20 per cent.⁵⁰

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:

- The launch of major online retailers including iTunes and Napster, resulting in substantial increases in online music sales via downloads with the consequence that the industry needs to continue to adapt and refine new online business models.
- The risks associated with physical and online piracy and confusion amongst consumers about the role of IP.
- The growth of the live music industry, and its increasing importance as a major income generator for creators/artists/promoters.
- The slowing down of the overall export market because greater focus has to be placed on sustaining local markets.
- The need for more rehearsing, performing and recording facilities at grass roots level (as identified by the Live Music Forum's work which considers more use should be made, for example of local authority

 owned spaces and education establishments outside school hours).
- The extent to which improvements in diversity in the industry could make the sector more successful, for example by increasing the competitiveness of UK urban artists in the US where the urban music genre is more prominent than in the UK.

Performing arts

Description: The activities of the performing arts industry are defined as content origination, performance production, live performance of dance, drama, musictheatre and opera, touring, costume design and making, and lighting.⁵¹

Measurement and limitations of data collection: Using official Government statistics it is not possible to easily separate the performing arts from the music sector. This is because there is significant crossover in the classifications relevant to both sectors and it is therefore impossible to identify firms specifically within performing arts in official national survey data.

Size: In 2006, the headline figures for the combined sectors of performing arts and music were recorded as GVA of £3.6bn in 2004 and total creative employment of 236,300 in 2005. More information and trend graphs to be found in the music industry snapshot.⁵²

Alternative data sources and information

Creative and cultural skills carried out their own analysis of national survey data in 'The Footprint: A baseline survey of the creative and cultural sector' [2006].⁵³ This included GVA and employment estimates for 'The Arts' sector which they define as visual, performing and literary arts. This definition includes substantially more industrial classifications than DCMS consider and methodological differences also create a higher value than DCMS estimates. They found:

- GVA of £8.7bn for 2004.

- Total creative employment of 186,580 in 2004.

The DCMS Taking Part Survey provides information on how people interact with DCMS sectors. The first annual publication⁵⁴ showed that for 2005/06:

- 26 per cent of adults attended a theatre performance (excluding plays or dramas).
- 23 per cent attended a play or drama.
- 4 per cent attended an opera or operetta.
- 4 per cent attended a ballet.
- 2 per cent attended a contemporary dance event.

Structure of the industry

The activities of the performing arts industry relate to the commissioning of new and existing work and the production and performance of live shows as well as the casting, marketing and technical aspects of the shows. Types of performing arts include:

- dance
- drama
- musicals
- opera.

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP and beyond:

- Skills and workforce development is an issue for the sector:
 - In the arts, education roles are hardest to fill. There is indication that education staff shortages are primarily in the performing arts sector. This is supported by the growing importance of the artist as an educator.
 - Recruits are considered to be qualification rich but skills poor.
 - Management positions have the highest skills gaps.
 - As well as management being a skill missing from the industry, management roles are also most likely to lack specific skills. Managers, in general, customer service and finance and accounting skills. Technical skills are also lacking in many organisations
- Infrastructure performing arts, and in particular dance, require space for a mass of people to rehearse and perform, for the public to participate in and for new works to be created. London remains the key place because it has this infrastructure while regionally there are still gaps.
- Performer's health this is an issue for the dance sector mainly, with injury costing the subsidised sector money as dancers are unable to perform for extended periods.
- Values and business skills many organisations in the performing arts are vision driven by the quality of their art – and not profit driven; as a result, many people in the industry are highly qualified but poorly paid.

- The performing arts sectors are more reliant on Government funding than others in the creative industries and have highlighted the importance of this funding. However many organisations are non-profit and therefore use models which are similar to charities which can hold them back and make them more risk averse. If this could be changed then it would allow financial support from a range of different investors.
- There is a clear diversity issue in this industry especially in terms of those from BME groups reaching the higher levels of leadership, and also in terms of audience development.
- A challenge for the performing arts sector is to exploit the opportunities offered by broadcast and new technology. In order to fulfil their central role at the heart of the UK creative economy, the sector will need to develop new distribution strategies which maximise the impact of, and access to their work and artistic resources. Technology is a 21st century resource to extend audience engagement, artistic ambition and creativity.
- Within the performing arts sector, and specifically within music, a new kind of organisation is emerging. Typically it combines a range of public services including promoting performances, supporting artists to develop at different stages in their career, creating new work, providing education and training and coordinating provision across a wide geographical area.
- We are beginning to see new alliances and funding partnerships in the performing arts sector. These can include formal relationships between a large scale organisation and a major HE institution or a broadcast relationship with a new media distribution platform.

Publishing

Description: The activities of the publishing industry are defined as origination, book publishing, learned journal publishing, newspaper publishing (national and regional), magazine publishing (consumer, business to business and customer) and digital content publishing.⁵⁵

Size: In 2006 the following figures were recorded for the publishing sector:⁵⁶

- GVA of £9.2 billion in 2004.
- Total creative employment of 253,300 in 2005.
- Exports of £1.5 billion in 2004.
- 6,700 businessesin 2005.











Alternative data sources and information

Annex Snapshots of the creative industries: data and issues

The UK has the largest publishing industry in Europe, with around 3,000 more firms than Germany, the next largest market in Europe.⁵⁷

Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006, which was a report to DCMS, presented the following information:

- The worldwide journals market is estimated at £5bn-£7bn, and involves around 17,500 publishers and 35,000 journals based on data from The Publishers Association. They also estimate that the UK has around 25-30 per cent of the world market, with a total turnover of £1.5bn-£2.0bn. Exports account for 60-75 per cent of sales for most journals, and for some, the figure will be as high as 85 per cent.
- The industry is characterised by a small number of relatively large firms, with large chains (such as Waterstones) contributing 43 per cent of all books sales by value.⁵⁸
- Over 180,000 new titles were published in the UK in 2005 (including 120,000 for the consumer market). In total, there were almost 2 million titles in print.⁵⁹
- Most national newspapers have seen circulations decline in recent years. Over the past three years, only Vj g'Kpf grgpf gpv has managed to increase its readership, and it remains the smallest of the major players.
- There are almost 1,300 regional newspapers in the UK. They are read by 84 per cent of the adult population, according to the Newspaper Society, which is more than the 70 per cent who read national newspapers.

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:

- Open access to information via the internet is impacting on business models of academic publishers.
- A 'long tail' of small publishers is becoming increasingly significant, while user-generated content is also growing.
- The move from print to digital is impacting on the skills needs of the industry. Publishers require expertise in both fields in order to make the transition, meaning they need the ability to run what are essentially two businesses at the same time.
- Publishing is a fast-changing sector. This makes it difficult to pull together with a single voice, although there are some alliances.

Software and computer services

Description: The activities of the Software and Computer Services industry are defined as development of system software, contract/bespoke software and turnkey solutions, systems integration, systems analysis and design, software architecture and design, project management and infrastructure design.⁶⁰

Measurement: Activity in this sector is measured using data for publishing of software, other software consultancy and supply and a proportion of reproduction of computer media.⁶¹ Using official Government statistics it is impossible to separate out software from computer games or electronic publishing and the figures set out here include all of these sectors".⁶²

Size: In 2006 the following figures were recorded for the Software and Computer Services sector.⁶³ All figures are for software, computer games and electronic publishing combined:

- GVA of £20.7 billion in 2004.
- Total creative employment of 596,800 in 2005.
- Exports of £4.7 billion in 2004.
- 51,200 businessesin 2005.







Exports for software sector £ billion1997 - 2004



Alternative data sources and information

- financial services are the UK's largest consumers in this sector, commanding 23 per cent of spending on software and 33 per cent of spending on computer services – a total of over £10bn in 2003.⁶⁴
- At the end of 2005 there were around 10 million broadband internet subscribers in the UK with availability to 99.8 per cent of the population.⁶⁵

Structure of the industry

The Software and Computer Services supply chain can be broken down into three stages:⁶⁶

Development: Software is developed either for bespoke use – designed to fit the particular needs of a customer – or for off-the-shelf use, eg Microsoft's Office package. Software development is closely linked to the computer hardware industry, as software must be designed specifically to the hardware on which it will be installed.

Systems design: Designing large and complex business IT systems requires expertise, and a consultancy industry has arisen from this requirement. Large international consultancies like Accenture specialise in providing IT solutions and advice on information management to large organisations.

Retail and implementation: Computing customers will draw on a range of sources to complete their overall package – acquiring hardware and software through retailers, resellers or via IT consultancies.

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:

- A poor state of pull-through in the education system.
 There is a focus on ICT skills, but more needs to be done in secondary education to attract the mathematicians, physicists, etc that the industry needs.⁶⁷
- A shortage of appropriate skills. Because the industry is evolving so quickly, GCSEs and University degrees cannot necessarily provide students with the right skills. Re-skilling and up-skilling those already in work are also issues for the software and computer services industry, where SMEs do not have the capacity to train their workforce.
- The industry currently lacks a connection to allow quick communication. It has been suggested that the key to success in the software and computer services industry is to be fast to the market.
- The importance of upgrading infrastructure. Some parties feel there are insufficient incentives to invest in next generation broadband.
- Offshoring and outsourcing pose major competitiveness, skills and other challenges for the UK. As well as cheap labour, the skills capabilities of emerging economies are accelerating. Offshoring may be interrupting some traditional IT career pathways in the UK – displacing some entry-level jobs and skills acquisition. There is a need to make sure that there are conditions for businesses to develop top-flight skills in the UK and exploit global sourcing.

Television and radio

Description: The activities of the TV and radio sector are defined as production, programme and packaging (libraries, sales and channels), broadcasting (scheduling and media sales) and transmission.⁶⁸

Measurement: For producing DCMS statistics this sector is well defined and easy to identify in national survey data with a catch-all industrial category of 'Radio and TV activities'.⁶⁹

Size: In 2006 the following figures were recorded for the TV and radio sector:⁷⁰

- GVA of £7.1 billion in 2004.
- Total creative employment of 108,700 in 2005.
- Exports of £1.3 billion in 2004.
- **4,400 businessesin 2005.**







Exports for TV and radio sector £ billion 1997 – 2004



Alternative data sources and information

Ofcom provide quarterly data on the take-up of digital television:⁷¹

- During quarter 4 2006, the number of households with digital TV equipment connected to their main television set rose by around 1 million to reach over 19.5 million. The total number of homes receiving multi-channel television at the end of quarter 4 2006 stood at 78.6 per cent.
- Over 2.4 million Digital Terrestrial Television (DTT) units were sold during the quarter, meaning sales have now exceeded the million mark for each of the last six quarters. Year on year, quarter 4 2006 sales were 24 per cent higher, assisted by growing take-up of integrated digital televisions (IDTVs), with sales exceeding 1million in quarter 4.



Structure of the industry

The supply chain for TV and radio can be divided into three stages:⁷²

- Production: Programmes for TV and radio come from one of two sources: in-house productions and external productions. In-house production teams are vertically integrated with the broadcaster who commissions the programmes. External productions are commissioned or acquired from independent production companies or other broadcasters/ studios and legislation is in place to ensure a minimum level of competition in the production sector, setting public service broadcasters minimum quotas for independent programme production.
- Broadcasting: UK TV and radio is a mixed economy. There are public service broadcasters: the BBC funded through the television licence fee; S4C – the Welsh Fourth Channel, grant-aided by DCMS and benefiting from some BBC programming; Channel 4, a non-profit distributing public corporation funded by advertising; ITV1 and Channel 5, commercial broadcasters with some public service broadcasting responsibilities. And there are purely commercial television broadcasters funded either by advertising and sponsorship, or subscription, or a mix. There are also BBC and commercial public service text services. Commercial radio is funded by advertising and sponsorship.
- Consumption: The most common TV platform for main TV sets is terrestrial (land-based transmitter to an aerial) at 51.8 per cent of the platform share as at quarter 4 2006,⁷³ and these sets are moving from analogue to digital. Satellite share of main sets was 34.7 per cent, with the large majority of viewing on a subscription basis. Cable was 13.5 per cent.
- Radio can also be listened to in a variety of formats. Analogue terrestrial is almost ubiquitous. By quarter 4 of 2006, 16 per cent of the adult population lived in households with DAB digital radio, 38.9 per cent had listened to radio via TV, 22.2 per cent had listened via the internet, and 17.4 per cent of MP3 owners listened to radio programme 'podcasts'.⁷⁴

 Traditionally TV and radio were two clear and very separate entities. Rapidly increasing competition, and 'convergence' between platforms (which sees, for example, radio stations also available via digital TV and the web), is blurring the boundaries between TV, radio and other forms of content delivery such as mobile phones, portable devices, and the internet. Traditional TV and radio are still by far the most popular formats to access broadcasters' output – but it is not yet clear whether or for how long this will remain the case.

Issues

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the course of the CEP and beyond:

- The switchover to digital television will release spectrum and bring increased opportunities to industry. This is likely to increase the current proliferation of services, allowing current players to expand but also spreading advertising revenues more thinly.
- The relationship between broadcasters and their audiences is evolving, with users increasingly generating content and expecting services on-demand across a range of platforms.
- The extent to which current public service broadcasting obligations and current regulation covering broadcasting will need amending to take account of the above changes. The Government is committed to a 'funding review of public service broadcasting' towards the end of digital switchover if not earlier, and Ofcom is taking forward several work strands to consider the future of public service television broadcasting and of radio.

Video and computer games

Description: The activities of the sector are defined as games development, publishing, distribution and retail.⁷⁵

Measurement: Being a relatively young sector, it is not possible to use official Government statistics to measure the size of the games sector. This is because it is impossible to identify relevant firms in official national survey data. DCMS does not produce an estimate for the size of the games sector for this reason.⁷⁶

Limitations of data collection: For the purposes of central Government data collection (Creative Industries Economic Estimates) games has no distinct category and is included in the bigger classification of 'Software, Computer Games & Electronic Publishing'. Data for this classification can be found in the software industry snapshot pages.⁷⁷

Alternative data sources and information: Alternative data provided by Entertainment Leisure Software Publishers Association (ELSPA) is presented in the section below but it should be noted that this is indicative, not necessarily endorsed by DCMS and not comparable to any of the other sectors.

ELSPA collects its own statistics on the size of the UK games sales market⁷⁸ and other information.

ELSPA found that in 2006, sales of console, PC and handheld games software, console hardware, and console and PC gaming peripherals in the UK totalled £2.18 billion.⁷⁹



This makes the UK the 3rd largest sales market in the world after the US and Japan for games with 12 per cent of global sales.⁸⁰



- The UK has the largest games development community in Europe.⁸¹
- In 2004 the games market continued to make a positive contribution to the UK trade balance of £280m.⁸²
- Proprietary console hardware platforms are developed by large international companies. The market is lead by Sony (PS3 and PSP), Nintendo (DS and Wii) and Microsoft (Xbox 360); Sony is the UK market leader, with its Playstation format commanding around 70 per cent of software sales during the PS2/Xbox cycle.
- New consoles are released on average every 5 years. The console cycle makes the industry quite volatile and reliant on learning new technical skills. Since the introduction of Playstation1 in 1995 the team sizes needed to build a console game have roughly doubled with the introduction of the new hardware (Playstation1 10–15 developers, Playstation2 20–30 developers, Playstation3 50–120+ developers).
- PC gamers remain an important element of the market and in the last couple of years, mobile phone manufacturers and network providers have targeted the games market to add to the revenue generation by mobile communication.

Key issues, opinions and discussion points raised by industry representatives during summits and discussions through the CEP and beyond:⁸³

- The rising cost and complexity of games development is leading to increasing pressure to consolidate both independent teams and publishing companies and is making it harder for smaller independent production companies to break into the console market.
- The growing prominence of online subscription gaming and digital retail may change the face of retail in the industry.
- There is a strong need for business and project management skills in games development, particularly in light of the pace of change in the sector and the need to reduce development costs.
- Businesses need to target and engage a more diverse cross section of consumers.
- Overseas governments offering incentives to games companies threaten the creative base and strength of the UK industry.
- The need for greater understanding of the value of intellectual property to the industry.

Notes

- Annex
- 1 This is the definition set out by the 2001 Creative Industries Mapping Document. The 2001 Mapping Document refers to the video games sector as 'Interactive Leisure Software'.
- 2 Gross Value Added (GVA) is a measure of economic activity commonly used to assess the contribution of an industry to the national economy.
- 3 The Pembridge/BOPModel (which segments into originals/ content/services/experiences) and the London Business School model (which segments into process, product and media businesses).
- 4 All figures in the bulletin relate to the UK, except employment which is for the UK only. Exports figures are primarily sourced from 'International Trade in Services' (ONS) and as such will not include exports of certain goods within the creative industries (particularly in the music sector).
- 5 This is how the 2001 Creative Industries Mapping Document defines the advertising industry.
- 6 The 2006 DCMS Creative Industries Economic Estimates bulletin records these figures. Activity in this sector is measured using data for advertising which is Standard Industrial Classification 74.40.
- 7 'The Competitive Position of London as a Global Advertising Centre'2007.
- 8 Ibid.
- 9 The 2001 CIs Mapping Document defines the architecture industry in this way.
- 10 For the architecture industry we take SIC code 74.20. Only a proportion (25 per cent) of activity in this whole field is included in our measurement.
- 11 The 2006 DCMSCreative Industries Economic Estimates bulletin records these figures.
- 12 Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006.
- 13 Aedas Architects website, www.aedas.com
- 14 This is how the 2001 Creative Industries Mapping Document defines the sector.
- 15 Standard Industrial Classifications 52.50 and 52.48.
- 16 The 2006 DCMSCreative Industries Economic Estimates bulletin records these figures.
- 17 Note that the exports figure for this sector is not taken from the same source as for the other measures. This is because there are sample size/methodology issues with ONS export data in this area. Instead, DCMS uses the export estimate of the Antiques Trade Gazette which carries out analysis of HM Revenue and Customs data. This only covers exports to non-EU countries. Note that an export figure greater than GVA is possible as the export figure values sales revenue whereas GVA removes the value of inputs.
- 18 The European fine Art Foundation 'The European Art Market in 2002' [2002].
- 19 Taken from the Antiques Trade Gazette. This is the same source as is used to estimate exports in the Creative Industries Economic Estimates bulletin, but this figure relates to 2006, whereas exports to 2005.
- 20 The 2001 Creative Industries Mapping Document describes the sector in this way.
- 21 This survey is the Annual Business Enquiry (ABI).
- 22 The figures were recorded in the Creative Industries Economic Estimates 2006.
- 23 Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006.
- 24 This is how the 2001 Creative Industries Mapping Document defines the design sector.
- 25 No industrial classification codes for this sector were identified following publication of the Mapping Document. Therefore, figures from an alternative source have been used to date in the Economic Estimates bulletin. The BDI survey has been able to provide a consistent annual series on which to base analysis of trends, but due to limitations identified here, its use will be reviewed for future editions.
- 26 Based on Standard Occupational Classifications in the Labour Force Survey, ONS.
- 27 Due to overlaps between different parts of the industry the breakdown sums to more than the £11.6bn total. Note that this is turnover and not Gross Value Added (GVA), which is used for the majority of other sectors.
- 28 For the other sectors in-house teams working in firms outside the specified creative industry would not be included so the turnover and employment figures are not comparable to other sectors.
- 29 This figure includes those working in the designer fashion industry also.
- 30 Gross Value Added (GVA) is a measure of economic activity commonly used to assess the contribution of an industry to the national economy. This is how most of the creative industries are measured.
- 31 As well as design consultancies they include in-house design teams and freelancers.
- 32 Design Council's 'Design in Britain 2005–06'.
- 33 Design Council's 'Design Industry Research: International Competition'2007.
- 34 These are issues raised by industry representatives and do not necessarily reflect the opinions of DCMS.
- 35 For example, The Design Council, collaborating with NHS patients, the Bolton Diabetes Network and Kent County Council, have developed new and more effective ways to manage chronic disease.
- 36 The 2001 Creative Industries Mapping Document defines the designer fashion industry in this way.
- This data is recorded in the Creative Industries Economic
 Estimates using Standard Industrial Classifications17.71, 17.72, 18.10, 18.21, 18.22, 18.23, 18.24, 18.30, 19.30 and 74.87.
- 38 The latest figures are recorded in the 2006 Creative Industries Economic Estimates.

Notes

- 39 Employment in designer fashion industries as defined above is estimated at 3,400 in 2005. However, the estimate of total creative employment includes both fashion and non-fashion designers working in creative occupations outside firms in the creative industries. Therefore it is presented as a combined Design & Designer Fashion estimate in the statistical bulletin.
- 40 DTI 'A Study of The UK Designer Fashion Sector' [2003].
- 41 This figure is quoted in the Creative Industries Economic Estimates.
- 42 This is how the 2001 Creative Industries Mapping Document defines the film sector.
- 43 Standard Industrial Classifications 92.11, 92.12 and 92.13 for film, a proportion (25 per cent) of 22.32 for video, and a proportion (25 per cent) of 74.81 for photography. Photography is included as it is a related creative activity defined in the Mapping Document that fits best into this sector for measurement purposes.
- 44 The 2006 DCMSCreative Industries Economic Estimates records these figures.
- 45 The 2001 Creative Industries Mapping Document defines the sector in this way.
- 46 Government data for these combined sectors is recorded in the Creative Industries Economic Estimates and is measured using data for publishing of sound recordings, artistic and literary creation and interpretation and operation of arts facilities along with proportions of reproduction of sound recordings and entertainment and recreational activities not elsewhere classified. They use Standard Industrial Classifications22.14, 92.31 and 92.32, and proportions of 22.31 (25 per cent), 92.34 (50 per cent) and 92.72 (25 per cent).
- 47 Such as including manufacture of musical instruments, wholesale of audio and TV, radio and hi-fi manufacture.
- 48 Frontier Economics 'Comparative Analysis of the UK's creative industries' 2006.
- 49 BPI 2006.
- 50 BPI 2005.
- 51 This is how the 2001 Mapping Document defines the sector.
- 52 The Creative Industries Economic Estimates record these figures for music and performing arts sectors combined.
- 53 It should be noted that the CCSkills data is indicative, not necessarily endorsed by DCMS and not comparable to any of the other sectors.
- 54 DCMS 'Taking Part: The National Survey of Culture, Leisure and Sport Annual Report 2005/06' [2007].
- 55 The 2001 Creative Industries Mapping Document defines this sector in this way.
- 56 The Creative Industries Economic Estimates recorded these figures. Activity in this sector is measured using data for publishing of books, newspapers, journals and periodicals, news agency activities and a proportion of other publishing activities.
- 57 EU Commission, NACE [2004].
- 58 Based on the Competition Commission's assessment of the market.
- 59 Based on the Competition Commission's assessment of the market.
- 60 The 2001 Mapping Document defines them in this way.
- 61 Standard Industrial Classifications 72.21, 72.22 and a proportion (25 per cent) of 22.33.

- 62 It should be noted that computer games and electronic publishing are very small as a proportion of this sector.
- 63 The 2006 DCMSCreative Industries Economic Estimates bulletin records these figures.
- 64 UK Trade & Investment.
- 65 DTI 'UK Broadband Status Summary March 2006'.
- 66 Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006.
- 67 Government has made major policy commitments to increasing the supply of science, technology, engineering and maths (STEM) skills to the workforce, such as actions in the Science and Innovation Framework Next Steps, the DTI/DfES STEM Programme Report published in October 2006.
- 68 This is how the 2001 Creative Industries Mapping Document defines the TV and radio sector.
- 69 Standard Industrial Classification 92.20.
- 70 The 2006 DCMSCreative Industries Economic Estimates records these figures.
- 71 Of com Digital Television Update Q4 2006.
- 72 Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006.
- 73 Of com Digital Television Update Q4 2006.
- 74 Ofcom 'The Future of Radio' 17 April 2007.
- 75 The 2001 Mapping Document refers to the games sector as 'interactive leisure software' and defines its activities in this way.
- 76 Data collection arrangements are set to change following the revision exercise for the Standard Industrial Classifications (2007). A new code (58.21) will be introduced at an EU wide level for 'Publishing of computer games' – as a result of Government negotiations. This will come into full effect in data published in 2009.
- 77 It should be noted that games are small as a proportion of this measurement.
- 78 Note that sales figures are not directly comparable to turnover or GVA figures that are found elsewhere in the snapshots.
- 79 Chart Track/ELSPA.
- 80 ELSPA.
- 81 ELSPA.
- 82 Frontier Economics 'Comparative Analysis of the UK's Creative Industries' 2006.
- 83 These are issues raised by industry representatives and do not necessarily reflect the opinions of DCMS.





3G mobile	The newest generation of mobile telephony. In this, third-generation protocols support much higher data rates, measured in Mbps, intended for applications other than voice.
Amazon	Amazon is an American e-commerce company based in Seattle, Washington. It was one of the first major companies to sell goods over the internet.
Apache	The Apache HTTP Server, commonly referred to simply as Apache, is a web server notable for playing a key role in the initial growth of the World Wide Web.
Apple iPod	iPod is a brand of portable media player designed and marketed by Apple and launched in October 2001.
Arts Council England	The Arts Council is the strategic body for the arts in England. Formed in 1994 when the Arts Council of Great Britain was divided into three separate bodies for England, Scotland and Wales. It is a Non Departmental Public Body (NDPB) of the Department for Culture, Media and Sport. Since 1994, Arts Council England has also been responsible for distributing lottery funding.
BBC	The British Broadcasting Corporation (BBC) is the largest broadcasting corporation in the world in terms of audience numbers, employing 26,000 staff in the United Kingdom alone and with a budget of more than 4 billion. Founded in 1922 as the British Broadcasting Company Ltd, it was subsequently granted a Royal Charter and made a state-owned but independent corporation in 1927. The corporation produces programmes and information services, broadcasting globally on television, radio, and the internet.
BBC Charter renewal	The BBC is governed by a Royal Charter which sets out what it is for, what it does and how it does it. The 1996 Charter and Agreement expired on 31 December 2006. DCMS undertook a major public consultation to help decide the details of the new Charter and Agreement. The new Charter and Agreement took full effect on 1 January 2007.
Bebo	Bebo is a social networking website, designed to allow friends to communicate in various ways. It has developed into an online community where users can post pictures, write blogs and send messages to one another.
Betamax	An early home video cassette tape recording and play format which became obsolete due to the success of the rival VHS system.

BitTorrent	A peer-to-peer file-sharing (P2P) communications protocol. BitTorrent is a method of distributing large amounts of data widely without the original distributor incurring the entire costs of hardware, hosting and bandwidth resources.
BME	Black and minority ethnic.
Brown and white goods	The term 'brown goods' is used to describe domestic electronic equipment for use solely in the home including televisions, video recorders etc. The term 'white goods' is used to describe domestic utility equipment such as fridges, freezers and ovens.
C1 and A/B groups	 These refer to social groupings in the National Readership Survey (NRS) Social Grade demographic classification by occupation. The groupings are: A - Higher managerial, administrative or professional B - Intermediate managerial, administrative or professional C1 - Supervisory or clerical and junior managerial, administrative or professional C2 - Skilled manual workers D - Semi and unskilled manual workers E - State pensioners, casual or lowest grade workers
CAD software	Computer-aided design (CAD) is the use of a wide range of computer-based tools that assist engineers, architects and other design professionals in their design activities.
Capgemini	Capgemini is a large information technology, consulting, outsourcing and professional services company.
CBI	The Confederation of British Industry is a lobbying organisation for the UK business on national and international issues. It works with the UK Government, international legislators and policy makers to help the UK businesses compete effectively.
CD-ROM	A compact disc that contains data accessible by a computer. While the compact disc format was originally designed for music storage and playback, the format was later adapted to hold any form of binary data. CD-ROMs are popularly used to distribute computer software, including games and multimedia applications.

Channel 4 Channel 4 is a public service British television station, broadcast to all areas of the United Kingdom (and also the Republic of Ireland), which began transmissions in 1982. Though entirely commercially self-funded, it is ultimately publicly owned: originally a subsidiary of the Independent Broadcasting Authority (IBA), the station is now owned and operated by the Channel Four Television Corporation, a public body established in 1990 for this purpose and which came into operation in 1993, following the abolition of the IBA.

- Computacenter Computacenter is a computer services company operating in Western Europe.
- Cox Review The Cox Review of Creativity in Business was commissioned by the Chancellor of the Exchequer at the time of Budget 2005. Led by Sir George Cox, its remit was to consider how best to exploit the nation's creative skills. It focused on how smaller businesses use creative skills, with particular concern for manufacturing. The Review Report was published on 2 December2005.
- Crafts Council The Crafts Council was established in 1971 as the national agency for crafts and was granted a Royal Charter in 1982. The object of the Crafts Council is to advance and encourage the creation of work of fine craftsmanship and to foster, promote and increase the interest of the public in the work of craftspeople and in the accessibility of those works to the public.
- Creative &CCS is the Sector Skills Council for Advertising,Cultural SkillsCrafts, Cultural heritage, Design, Music, Performing,
Literary and Visual Arts. It is an industry-led
organisation which aims to have influence over the
supply of education and skills across the UK.
- Creative Established in 2002 by DCMS and the UK Trade and Exports Group Investment, the CEG provides a national forum for copyright-based creative industries and Government to examine issues affecting the export of goods and services and considers ways of enhancing export performance.

CST	Council for Science and Technology is the UK Government's top-level independent advisory body on science and technology policy issues. Its remit is to advise the Prime Minister and the first Ministers of Scotland and Wales on strategic issues that cut across the responsibilities of individual government departments. CST organises its work around five broad themes (research, science and society, education, science and government, and technology innovation) and takes a medium to longer term approach.
DCMS	The Department for Culture, Media and Sport is the Department responsible for Government policy on the arts, sport, the National Lottery, tourism, libraries, museums and galleries, broadcasting, creative industries including film and the music industry, press freedom and regulation, licensing, gambling and the historic environment. It is also the Department responsible for 2012 Olympic Games and Paralympic Games.
Design Council	The Design Council is a Non Departmental Public Body sponsored by the DTI and DCMS with an overarching objective to improve prosperity and wellbeing in the UK by inspiring and enabling the best use of design.
Digital Rights Management (DRM)	Technologies to give content providers control over redistribution and access to material.
Downloading	To obtain digital content via the internet.
DTI	Department of Trade & Industry is working to create the conditions for business success and help the UK respond to the challenge of globalisation. As the Department responsible for trade, business, employees, consumers, science and energy, the Department is in a unique position to contribute to the wider challenge of globalisation – enabling business and employees to prosper in the UK. Delivering outcomes will require ever closer working with others – reaching out to more stakeholders, and working with Whitehall Departments to raise awareness of the Government role in addressing globalisation.
e-skills	Licensed by Government as the Sector Skills Council for IT & Telecoms, and lead body for Contact Centres. Its mission is to ensure the UK has the skills it needs to compete in the global economy, bringing together employers, educators and Government to address together the technology-related skills issues no one party can solve on its own. It provides advice, services and programmes that have a measurable impact on IT- related skills development in the UK.

Glossary	EDS	Electronic Data Systems is a global business and technology services company.
	EMI	The Electric and Musical Industries Ltd (EMI) formed in March 1931 from a merger of the UK Columbia Graphophone Company and the Gramophone Company. EMI Music is one of the Big Four record companies, making it among the largest in the world.
	EU Commission	The European Commission (formally the Commission of the European Communities) is the executive body of the European Union.
	Facebook	A social networking website which allows users to upload an unlimited number of photos, share links and videos. It was originally developed for college and university students but has since been made available to anyone with an email address.
	Flickr	A photo sharing website and web services suite, and an online community platform. In addition to being a popular website for users to share personal photographs, the service is widely used by bloggers as a photo repository. Its popularity has been fuelled by its innovative online community tools that allow photos to be tagged and browsed.
	FTSE	The FTSE is a joint venture between the financial Times (F-T) and London Stock Exchange (S-E) to provide stock market indices and associated data services. FTSE operates the FTSE 100 Index, a share index of the 100 largest companies on the London Stock Exchange.
	GDP	Gross Domestic Product (GDP) is a measure of the total economic activity in a country. It can be measured in three ways: the production method, the income method and the expenditure method (for more information see the ONS website at www. statistics.gov.uk/about/glossary/economic_terms.asp. The contribution of individual industries to GDP is measured using GVA (see GVA).
	GLA	Greater London Authority is the strategic citywide government for London. It is made up of a directly elected Mayor – the Mayor of London – and a separately elected Assembly – the London Assembly. The GLA's main areas of responsibility are: – Transport – Policing – fire and emergency planning – Economic development – Planning – Culture – Environment – Health

Gowers Report	In December2005, the Chancellor of the Exchequer asked Andrew Gowers to conduct an independent review into the UK Intellectual Property Framework. The Review examined all elements of the IP system, to ensure that it delivers incentives while minimising inefficiency. The Review was published on 6 December 2006.
GVA	Gross Value Added (GVA) is a measure of economic activity commonly used to assess the contribution of an industry to the national economy. It is measured as the difference between output and intermediate consumption for the given sector/industry. That is the difference between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production. GVA for every industry in the economy can be added together plus taxes and less subsidies to find total GDP (see GDP).
ICT	Information and Communications Technology.
IDBR	The Inter-Departmental Business Register (IDBR) is a comprehensive database of the UK businesses that is used by government for statistical analysis and for sampling other surveys. It includes firms registered for Value Added Tax (VAT), employers operating a Pay As You Earn (PAYE) scheme, and incorporated businesses registered at Companies House.
'Indie'	An independent record label, ie not one owned by one of the major record companies.
InnoCentive website	InnoCentive is an 'open innovation' company that takes research and development problems in biology or chemistry, frames them as "challenge problems", and opens them up for anyone to solve them. They give cash awards for the best solutions to scientists who meet the challenge criteria.
Institute For fiscal Studies	The UK economic research institute. It specialises in research on the UK taxation and public policy. It is politically independent and produces both academic and policy related findings.
Intellectual Property	IP allows people to own their creativity and innovation in the same way that they can own physical property. The owner of IP can control and be rewarded for its use. The term generally refers to formal rights such as copyright, trade marks, patents and designs, for which the UK-IPO has responsibility. IP may also include informal methods of protection such as trade secrets, know how and confidentiality agreements.
ISPs	Internet Service Providers are businesses or organisations that provide to consumers access to the internet and related services.

Glossary	IPSOS	Survey and independent research company, now Ipsos MORI.
	KTPs	Knowledge Transfer Partnerships are a mechanism that enables companies to obtain knowledge, technology and/or skills. Knowledge Transfer Networks (KTNs) are part of the DTI Technology Programme, the purpose of which is to provide funding to facilitate further investment in science, engineering and technology with the active participation of business and industry. KTNs provide businesses and members of business, research and technological organisations with the opportunity to network and share mutually beneficial information. They can play a vital role in making the necessary connections between these various players, helping industry to access knowledge and information central to innovation growth.
	Lambert Review	The Lambert Review, commissioned by HM Treasury, the Department for Education and Skills and the Department of Trade and Industry in November 2002, made a series of recommendations aimed at smoothing out the path between the UK's strong science base and the business community. The Review reported on 4 December2004.
	Limewire	A peer-to-peer file-sharing site.
	Live Music Forum	The Live Music Forum was set up to take forward a DCMS Ministerial commitment to maximise the take- up of reforms in the Licensing Act 2003 relating to the performance of live music, to monitor the impact of the Act on live music, and to promote live music performance. It comprises representatives from across the industry and non- commercial sectors, as well as local government and the hospitality industry. It is expected to report in July 2007.
	London Fashion Week	A fashion industry event, taking place each September, that allows fashion designers or 'houses' to display their latest collections.
	'Long tail'	A phrase first coined by Chris Anderson in an October 2004 $Y kgf$ magazine article to describe certain business and economic models which works on the principle of selling millions of items in small quantities rather than a handful of best-sellers. Examples include Amazon.com or Netflix.
	Lossy data compression	Data compression methods where acceptable degradation to data quality occurs in return for a substantial reduction in bit rate. Examples of lossy file formats include MP3 and JPEG.

Misys	A global software company that provides products, solutions, and services to the financial services and healthcare sectors.
MORI	Survey and independent research company, now Ipsos MORI.
Mozilla firefox	A cross-platform browser, providing support for various versions of Microsoft Windows, Mac OS X, and Linux.
MySpace	A popular social networking website offering an interactive, user-submitted network of friends, personal profiles, blogs, groups, photos, music and videos internationally.
NACE	The National Association for Able Children in Education.
Napster	A file-sharing service that paved the way for decentralized P2P file-sharing programs such as Kazaa, Limewire, imesh, and BearShare, which are now used for many of the same reasons and can download music, pictures, and other files.
NESTA	The National Endowment for Science, Technology and the Arts was established in 1998 with a £200 million endowment from the Lottery. NESTA invests in early stage companies in the fields of Science, Technology and the Arts, informs innovation policy, and encourages a culture that helps innovation to flourish. NESTA secured an extra £75m for their endowment in 2006 (£15m each year 2006–11) to counter the effect of prolonged low interest rates.
OECD	The OECD brings together the governments of countries committed to democracy and the market economy from around the world to: • support sustainable economic growth • boost employment • raise living standards • maintain financial stability • assist other countries' economic development • contribute to growth in world trade.
ONS	The Office for National Statistics is responsible for collecting and publishing official statistics about the UK's society and economy.
OpenGL	Open Graphics Library is a standard specification defining a cross-language cross-platform API for writing applications that produce 3D computer graphics (and 2D computer graphics as well).
OVUM	Business providing advice on the commercial impact of technology and market changes in telecoms, software and IT services.

P2P	A peer-to-peer (or P2P) computer network relies primarily on the computing power and bandwidth of the participants in the network rather than concentrating it in a relatively low number of servers. Peer-to-peer networks are primarily used to share content files containing audio, video, data or anything in digital format.
Press Association Group	A trade association representing a global family of information and media services businesses.
Publishers Association	The leading trade association serving book, journal and electronic publishers in the UK.
R&D	Research and development.
RDAs	Regional Development Agencies. The eight regional economic development agencies in England are responsible for raising national and regional economic performance by working to promote regional regeneration, investment, skills, training, employment, efficiency and competitiveness. They are sponsored by the DTI.
Realtone	A ringtone which has been encoded with a high fidelity format such MP3, AAC, or WMV format, and represents the latest evolution of the ringtone.
Skillset	The Sector Skills Council for the Audiovisual Industries (broadcast, film, video, interactive media and photo imaging). Jointly funded by industry and government, its objective is to make sure that the UK has the right level of skills to ensure the audiovisual industries remain competitive.
SMEs	Small and medium-sized enterprises, ie typically those businesses with less than 250 employees.
The Creative Economy Programme Working Groups	The DCMS/DTICreative Economy Programme identified seven issues that are key to the success of the creative industries: • Education and skills • Competition and intellectual property • Technology • Business support and access to finance • Diversity • Infrastructure • Evidence and analysis
	Separate working groups were established to investigate these areas. Membership was made up of representatives from Non Departmental Public Bodies, government departments, and Trade Associations, to investigate. The Working Groups delivered their

reports to Government in October 2006.

DTI Innovation Survey	The UK Innovation Survey provides a regular snapshot of innovation inputs and outputs and the constraints faced by the UK businesses in their innovation efforts, across the range of the UK industries and business enterprises.
Royal Institute of British Architects (RIBA)	The professional body for architects in the United Kingdom.
V&A	The Victoria and Albert Museum. Comprises of the main museum at South Kensington, the V&A Museum of Childhood at Bethnal Green and the archive and stores at Blythe House, Olympia. Established in 1852, to make works of art available to all and to inspire British designers and manufacturers.
The Work Foundation	The Work Foundation is a not-for-profit organisation, that brings all sides of working organisations together to find the best ways of improving both economic performance and quality of working life.
Thomson financial	An arm of The Thomson Corporation, an international information company.
TrueType system	The most common digital font techonology on Mac and PC. It is an outline font standard originally developed by Apple Computer in the late 80s.
The UK IP framework	The legislative framework within which the UK Intellectual Property Office operates.
UNCTAD	The United Nations Conference on Trade and Development. It is the principal organ of the United Nations General Assembly dealing with trade, investment and development issues. Established in 1964 as a permanent intergovernmental body.
UNESCO	United Nations Educational, Scientific and Cultural Organization. Its stated purpose is to contribute to peace and security by promoting international collaboration through education, science, and culture in order to further universal respect for justice, the rule of law, and the human rights and fundamental freedoms.
Video on demand	Video on demand systems allow users to select and watch video and clip content over a network as part of an interactive television system. VOD systems either stream content, allowing viewing in real time, or download it in which the program is brought in its entirety to a set-top box before viewing starts. The term encompasses a broader spectrum of delivery devices, including computers, mobile phones and any system that can receive on-demand audiovisual content over a network.

- Voice over IPVoice over internet Protocol, is the routing of voice
conversations over the internet or through any other
IP-based network. Companies providing VoIP service
are commonly referred to as providers. Protocols that
carry voice signals over the IP network are commonly
referred to as Voice over IP or VoIP protocols.
 - WARC World Advertising Research Center. A leading supplier of information, knowledge, insight and data to the global marketing, advertising, media and research communities. WARC is an independent organisation, working closely with international trade associations, industry bodies and blue chip companies.
 - WikipediaA web-based, free content encyclopedia. Wikipedia
is written collaboratively by volunteers; the vast
majority of its articles can be edited by anyone with
access to the internet. Initially launched in English
in 2001, Wikipedia has approximately 7.5 million
articles in 253 languages, 1.8 million of which are in
the English edition.
- YouTube Created in 2005 as a video sharing website for users to upload, view, and share video clips. The wide variety of site content includes movie and TV clips and music videos, as well as amateur content such as videoblogging and short original videos.



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