

# The creative industries – an overview

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- 1.1** 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 DCMS Mapping 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 knowledge economy

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

- 1.8** 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.

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## The creative industries as part of the knowledge economy

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- 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.

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**1.20** 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

...each creative industry has a core business model 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.<sup>1</sup> 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.

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**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.

The ‘cultural industries’... commercialise acts of origination of expressive value.

**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 ‘creative industries’... produce... a high degree of both expressive and functional value.

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- 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.
- 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.
- 1.30** Building a business around the commercialisation of expressive value presents particular business challenges. Demand for a film, novel, painting, *haute couture* 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.
- 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

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- 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.

...copying and downloading have become much easier.

- 1.36** 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.

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- 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 increasing the diversity of outlets through which products are exhibited to consumers. Digitisation also raises the prospect of smaller production companies distributing their content more 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.

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Demand...

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**1.40** 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...

Education and skills...

Networks...

Public sector...

Intellectual Property...

**3. A level playing field.** Creativity flourishes 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.

**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.

**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.

**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.

**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.

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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.

**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.

**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.

**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

## Chapter 1

- 1 In what follows we refer to the 13 creative industries as the 'DCMS 13' 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 developers are 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 desperation 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.”

