



CREATIVE UK

Overview of the digital transformation of the UK creative economy

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Executive summary

This report has been produced by Enders Analysis and Bain & Company, Inc. to support the Creative UK event held on 18 March 2014 at the BT Centre. The event celebrates the success of the creative industries and their role in powering the UK's future and leveraging a generation of investment in telecoms and mobile and TV platforms. Ed Vaizey, Minister of Culture, introduced the event and it featured interventions from:

- Claire Enders, Founder and CEO of Enders Analysis
- Dame Gail Rebeck, Chair of Penguin Random House UK
- Alex Mahon, CEO of Shine Group
- James Purnell, Director, Digital and Strategy, of the BBC
- Josh Berger, President and Managing Director of Warner Brothers UK, Ireland and Spain
- Sir Martin Sorrell, Founder and CEO of WPP
- Sir Peter Bazalgette, Chair of Arts Council England

The website www.creative-uk.co.uk hosts the agenda, videos of the event and this report.

The UK has embraced digital transformation and is among the most digitally ready of the major economies. Consumers have embraced e-commerce, spending more per capita on goods and services purchased online than any other large economy. Consumers benefit from the choice, convenience and lower prices, with the working population finding the time-saving especially valuable. The scope and depth of UK e-commerce have translated into business success for native British companies like ASOS and Net-A-Porter, and have made the UK a significant e-commerce market for global giants like Google and Amazon. As UK consumers have embraced e-commerce, they have also embraced connected devices, and this is beginning to change their media consumption patterns with knock-on effects for the creative industries, which we will discuss.

Despite the lengthy recession and, until recently, slow economic recovery, the UK is experiencing a wave of business creation, higher than in any other major economy in the Organisation for Economic Co-operation and Development (OECD). A major cause is the expansion of self-employment, as professionals are now able to work much more flexibly, often from home. Of the 1.8 million net new jobs created since 2010, 1.1 million come from small and medium-sized enterprises (SMEs). This has contributed to the UK's unemployment rate falling to 7.2%, comparing very favourably with other developed nations.

At the centre of the UK's digital transformation lie the creative industries. These span music, film, TV, books and the arts, but also include software, newspaper and magazine publishing, and advertising. The Department for Culture, Media & Sport (DCMS) reports that the sector directly accounted for 1.7 million jobs in 2012 and contributed £71 billion to the economy in 2012 (5.2% of GDP). The sector has grown by 19% since 2010, much faster than the UK economy as a whole, and it now contains more than 222,000 registered companies.

The case studies in this report reveal the myriad trajectories that subsectors of the creative industries are experi-

encing. In advertising, while TV remains the largest single form of media, online now accounts for 36% of all advertising in the UK, higher than any other major economy, including the US. Despite the robust nature of TV consumption and investment in programming (helped by investments in producing original content), growth in online media consumption poses a threat to traditional media. For some sectors, the growth of the Internet offers a new way to access customers. For example, Etsy (a digital marketplace for arts and crafts) has been especially important for the craft industries. Classified advertising in property, autos and jobs has been transformed by the Internet, benefiting the consumer but damaging newspaper revenues. Retail sales of recorded music halved in the past decade, but live music and the increasing use of music in films, TV programmes and advertising has helped artists survive the decline.

The creative industries are undoubtedly a driver of economic growth. Most of the companies in the sector create value through intellectual property rights (IPRs) like trademarks, patents, copyright and geographical indications. But challenges such as piracy, access to finance and finding skilled workers limit their potential and drain their value.

However, the full value of the creative industries to British society goes far beyond their monetisable aspects. British people of all ages are among the most energetic and devoted consumers of all media, old and new. Total media consumption in the UK now exceeds nine hours a day, and rapid device adoption has boosted online media consumption, much of which is free to the user.

As the opening ceremonies of the Olympics and Paralympics demonstrated, the UK's cultural identity has deep-seated roots in the arts, supported by the Arts Council England and favourable tax regimes for philanthropy and film production. The UK is a top exporter of creative goods, from fashion to TV programmes and films. The UK projects to the world an image as a magnet for tourism, an adjacent sector strongly reliant on creative companies. In this report, we will explore the significant contribution the creative industries make to the UK economy and society, and what government and other stakeholders can do to foster this critical and fast-growing sector.

The UK is 'digitally ready'

Due to digital technology, many companies in the creative sector worldwide are in the midst of a transformation in how they produce and distribute their products, and in the use of digital technology to improve core functions.

The UK is absolutely in the vanguard of this transformation. With 85% household penetration of broadband, the UK ranked seventh in the 2013 edition of the Networked Readiness Index, calculated by the World Economic Forum and INSEAD, ahead of the US, ranked ninth.¹ The UK population has been an especially rapid adopter of the Internet, of connected devices like tablets and smartphones, and e-commerce (and now m-commerce). And the much-discussed Big Data is beginning to transform the creative sector's insights into consumers and how to run its businesses.

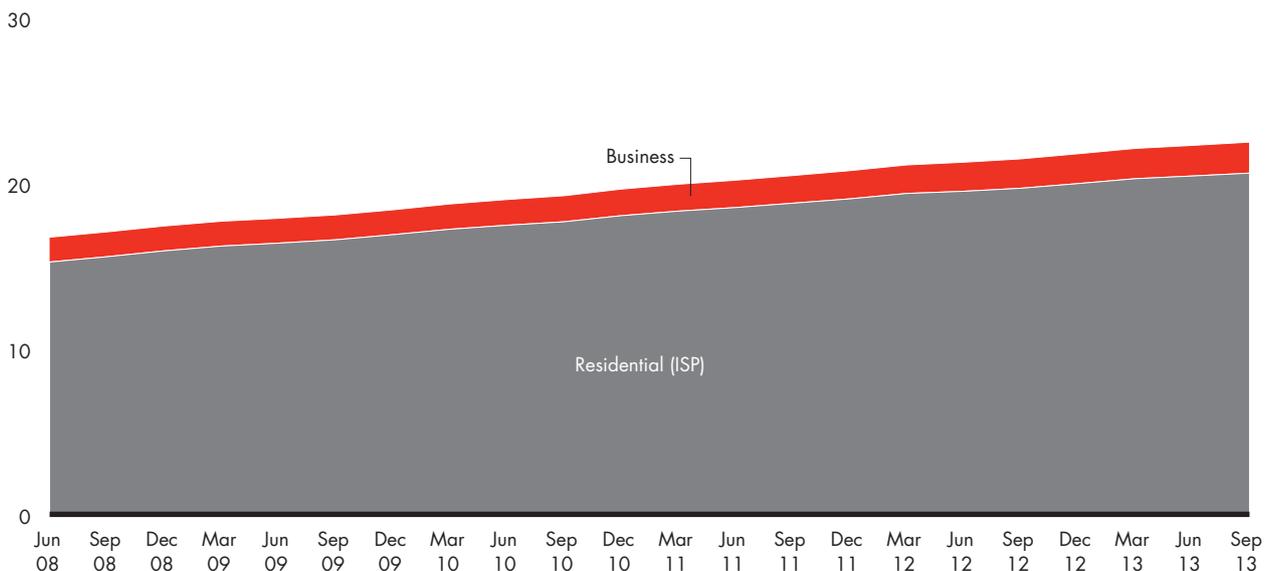
This section explores these drivers for the digital revolution of the UK's creative sector: a connected population and their connected devices, e-commerce (and m-commerce) and Big Data.

Connected businesses and consumers

The digital transformation we are seeing is enabled by the widespread adoption of broadband by both businesses and consumers (*see Figure 1*). On the business side, we count some 1.9 million connections, and therefore believe that a substantial number of SMEs are using residential broadband subscriptions. Of the 4.9 million SMEs in the UK Office for National Statistics (ONS), a survey in 2012 conducted by Lloyds Banking Group found that

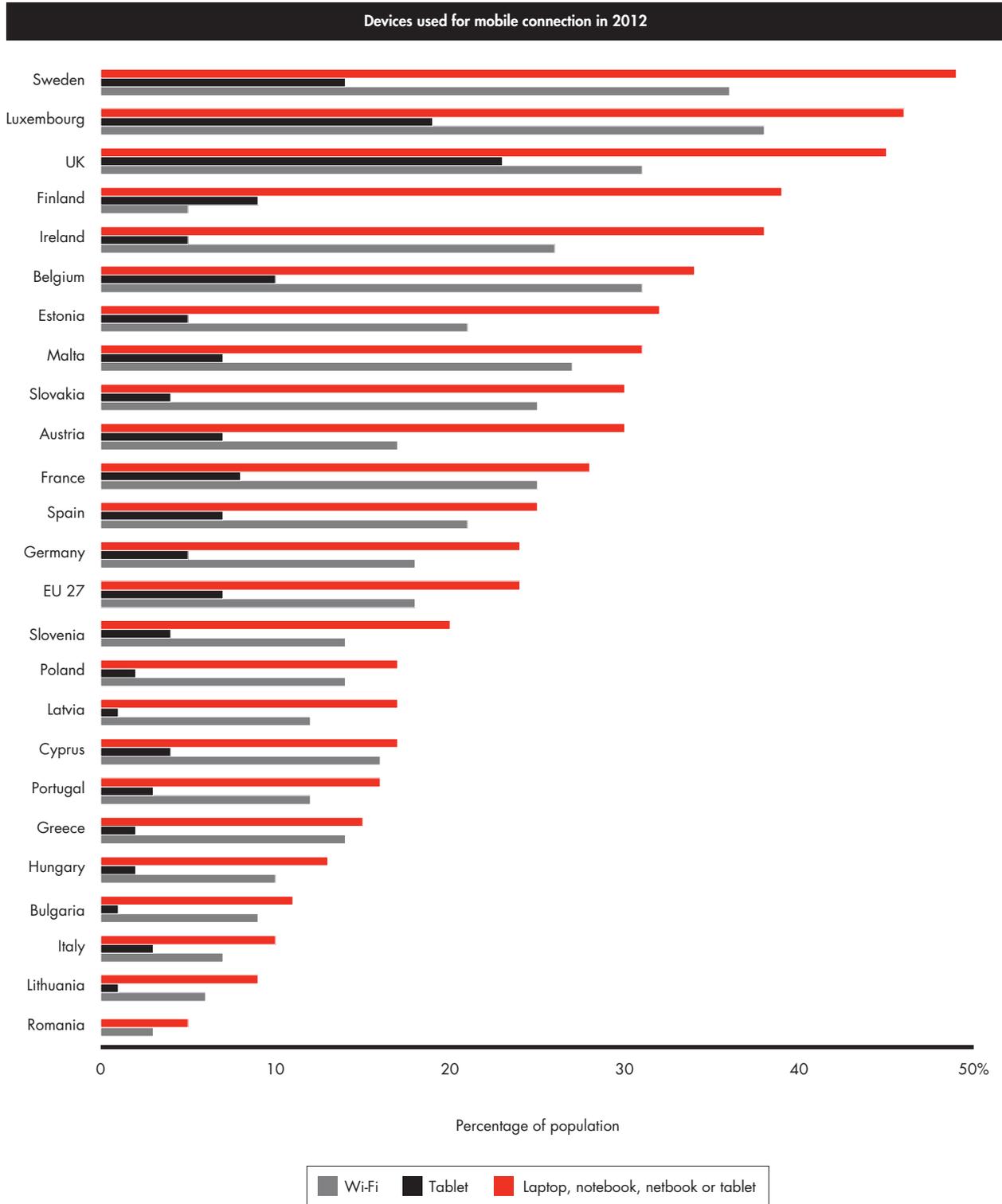
Figure 1: UK broadband subscribers are steadily increasing, especially through residential connections

UK broadband subscribers (in millions)



Source: Enders Analysis

Figure 2: The UK is a strong user of tablets for Internet connections



Note: Does not include smartphones
Source: Eurostat

20% are deliberately not online. It's easy to think of businesses that have no real need to be online, such as corner shops.

Apart from these companies, most UK businesses embrace the connectivity which allows them to widen their markets, interact more effectively with consumers, gain access to online advertising and marketing tools, and recruit more effectively. Even further investment by SMEs in software, hardware and skills will come from the following drivers, according to the Federation of Small Businesses (FSB): an increased capital allowance (this increased by a factor of 10 in the 2012 Autumn Statement); an improved digital infrastructure for rural areas; increased IT skills; better broadband packages for SMEs; and better advice for SMEs.²

Devices: From households to individuals

Connected platforms and devices like smartphones and tablets are quietly revolutionising the way we consume media. Over the last few years these devices have reached mass markets not only in the UK and the US (where more than 60% own a smartphone and almost 40% own a tablet), but also in emerging countries (*see Figure 2*). These devices challenge the historical notion of household consumption by making content personal, customised and influenced by larger, online social communities, rather than only by nearby friends and family. Increasingly, they are taking share from traditional media delivery mechanisms. Thirty per cent of UK survey respondents say they watch less traditional TV in order to watch their programmes on mobile screens, higher than the global average of 25%.

In the UK, thanks to the widespread installation of Wi-Fi routers, each household broadband connection sustains a multitude of connected devices. A high percentage of the UK population is using tablets for their mobile connection, and many are using Wi-Fi and laptops, notebooks and netbooks, too (*see Figure 3*). This expands the opportunities for all kinds of connected experiences, from the consumption of digital cultural products to e-commerce transactions.

Digital media consumption is growing steadily, and according to a Bain survey, the UK is at the leading edge of this adoption, ahead of other EU countries and broadly in line with the US (*see Figure 4*). Seventy per cent of respondents in the UK reported having watched videos online and 40% reported having read an e-book over the past year. UK respondents read significantly more e-books (8.2) than their counterparts in the US (6.4), France (4.5) and Germany (5.5). Streaming-music consumption is also rising, though it is lower than in other countries.

Connected devices and cloud subscription services like Netflix in video, Spotify in music and Oyster in books rely on pervasive communication networks to deliver always-on, on-demand models, shifting the value proposition from owning to renting. These devices and services also increase the total time spent consuming media. In Western countries almost 70% of subscribers to an online video-streaming service watch more video content than they did three years ago. Nearly 60% of subscribers to a streaming-music service spend more time listening to music than they did three years ago.

Ultimately, connected devices and services are likely to erase the scarcity of content and of physical shelf space that has long been a source of value in content industries. The rise of digital platforms also highlights the evolving modes of curation. Social networks, though not publishers or distributors per se, reinforce this, as user recommendations become critical to content popularity. Bain's survey confirms that sharing playlists, 'liking' a film on Facebook or reviewing a book on Amazon have all become mainstream ways to influence choices, at par with or above traditional recommendations (*see Figure 5*). By aggregating and analysing user behaviour, the often-discussed Big Data curation is also becoming automated. More and more consumers trust such algorithms to

Figure 3: Ownership of smartphones and tablets is increasing rapidly in the US, UK, France and Germany

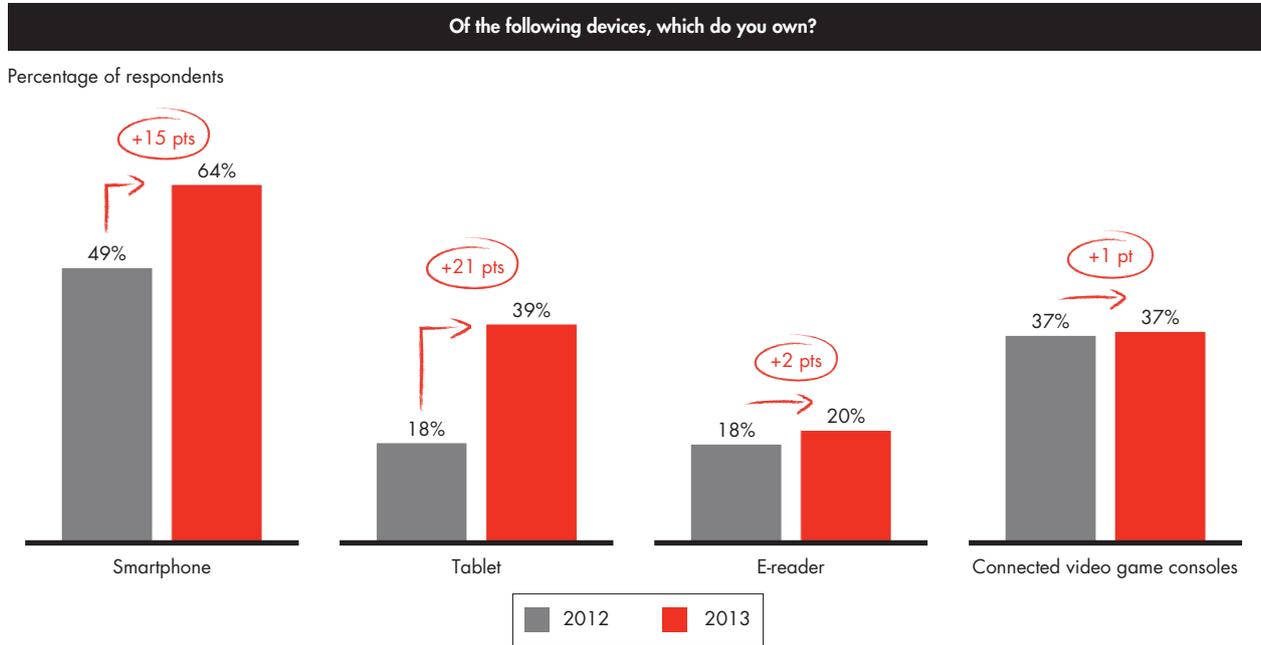


Figure 4: The UK and the US have the highest levels of digital media consumption

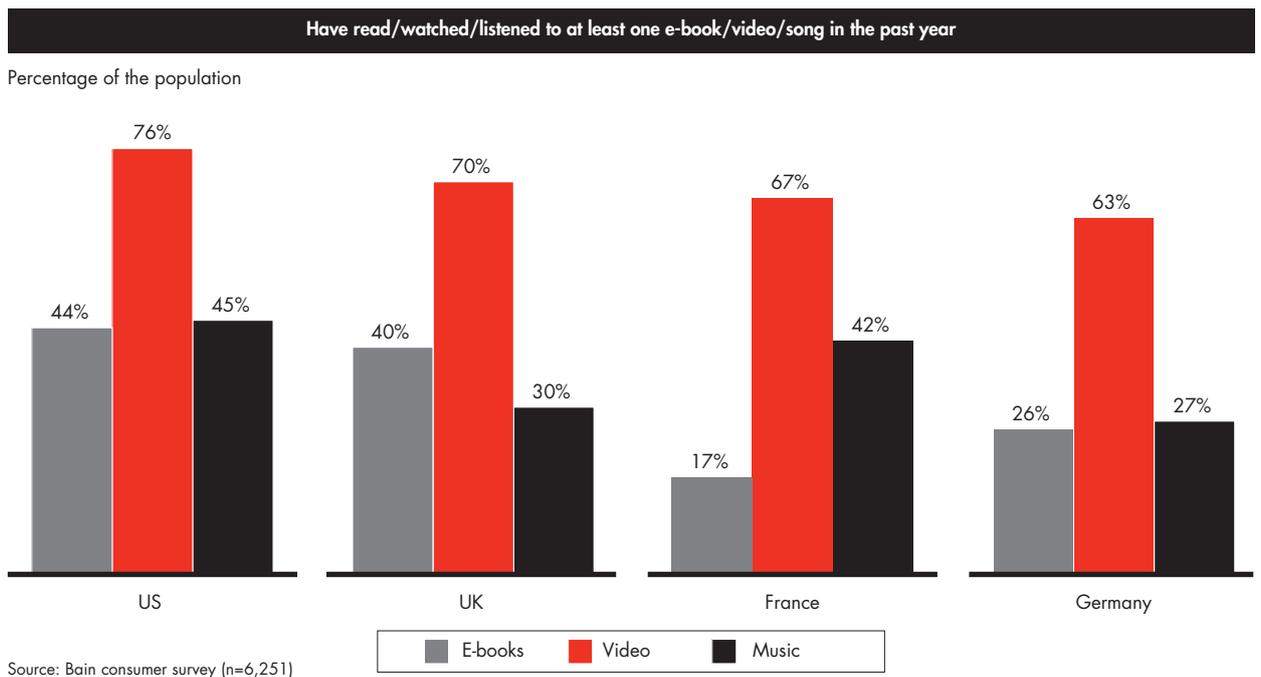
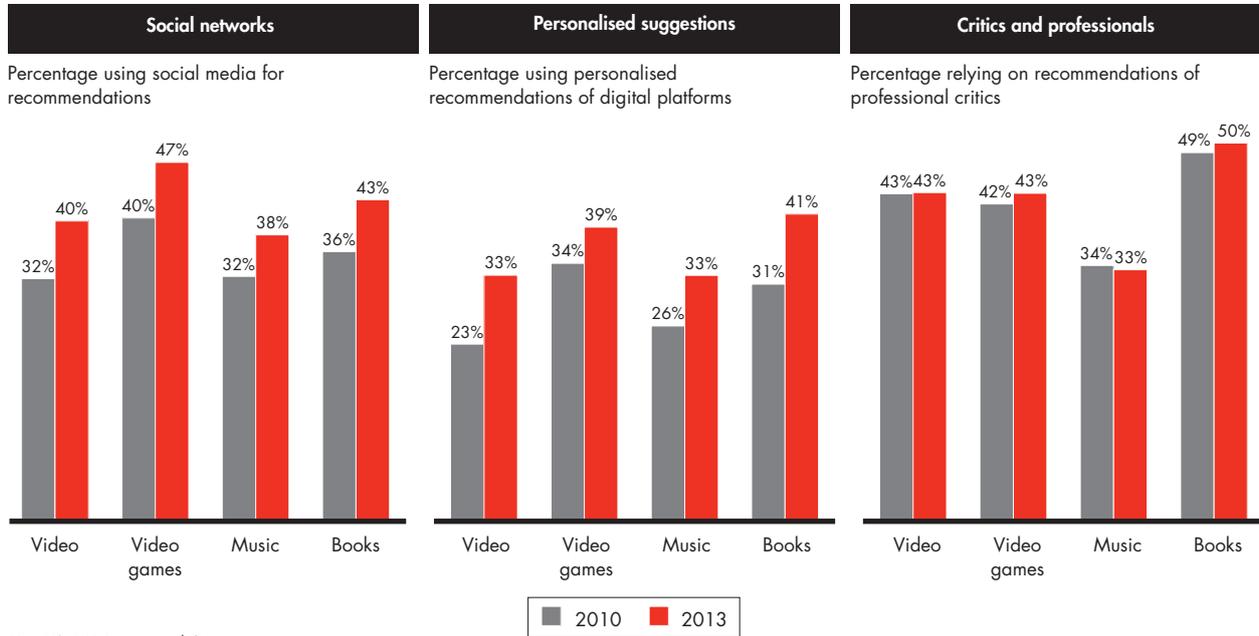


Figure 5: Social networks and personalised suggestions are now relied on almost as much as those from professional critics*



*For US, UK, France and Germany
Source: Bain consumer survey (n=6,251)

determine their choices. For books, about 30% of respondents in Western countries trusted such recommendations in 2010, compared with approximately 40% today.

Some players even use these algorithms as tools to assess the potential market for new products, adapting budgets and giving incentives to production studios according to these scores.

The UK: A nation of online shoppers

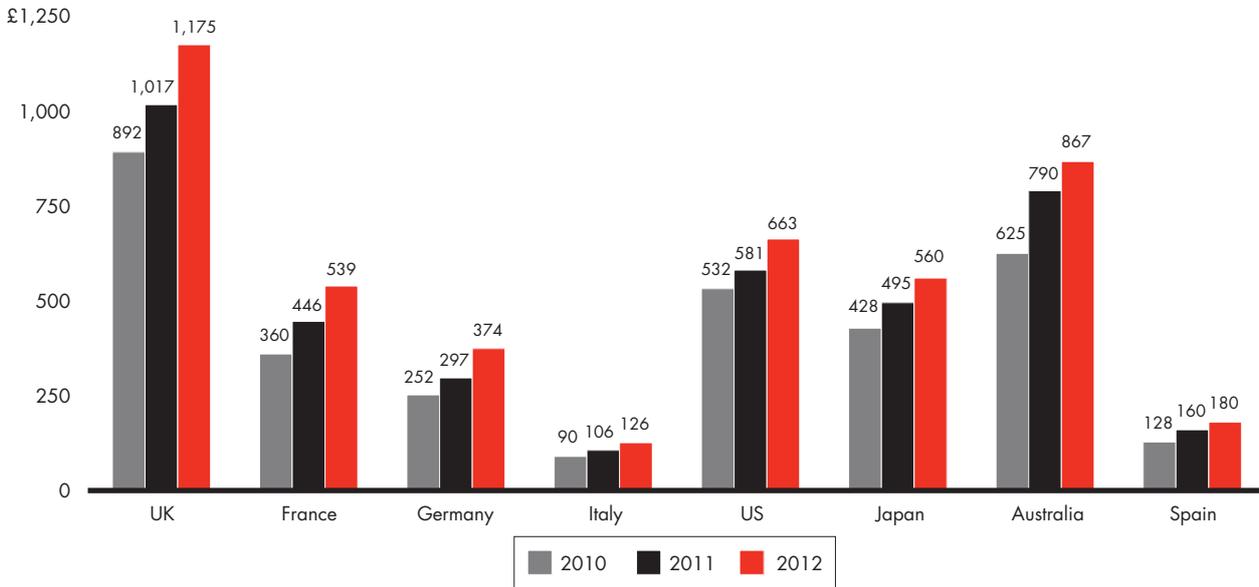
The UK has one of the fastest-growing and most productive online economies in the world. This is largely due to the enormous success of e-commerce, with an estimated £1,175 average spending per adult in 2012. This level of spending is just under double the average spending per head in the US, and is well ahead of spending in many of the biggest economies (see Figure 6).

Not surprisingly, Britons are also the most frequent online shoppers. A report by British media regulator Ofcom states that almost three-quarters (73%) of the online population in the UK buys goods for delivery over the Internet at least monthly, and almost one-quarter of the population does so at least weekly. Furthermore, a high number of those who do consume online state that they are doing so more often, leading to a higher net increase in the UK than in comparable countries (see Figure 7).

This growth will further expand opportunities for existing and new businesses to sell to one of the biggest online economies in the world. We see significant value for consumers in the competition among online suppliers, and also in the expanded opportunity to consume digital content on devices.

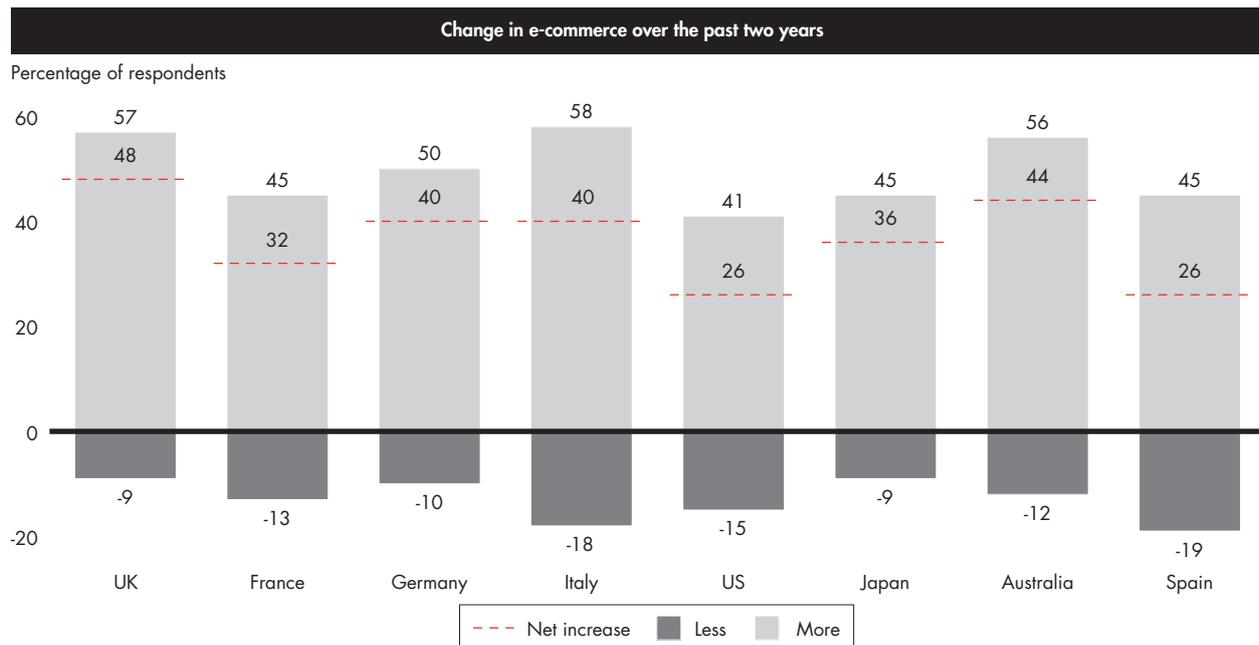
Figure 6: The UK population spends nearly twice as much per person online as residents of the US

Business-to-consumer online spending per person



Source: IMRG X-border Training Guide 2013

Figure 7: UK consumers are also more likely to have increased their online spending in the last two years



Source: Ofcom research, September 2013

Figure 8: Investment in fixed and mobile broadband is crucial to e-commerce in digital culture products

Enabler		Attributes
PCs/fixed-line	➔	<ul style="list-style-type: none"> • Investment in fixed-line telecoms networks • Broadband (>10 MBit/s to enable seamless consumption of audiovisual digital products) • Reasonably priced flat-rate data plans
Smartphones or tablets/ mobile broadband	➔	<ul style="list-style-type: none"> • Investment in mobile networks • Reasonably priced flat-rate data plans • Reasonably priced
Means of payment	➔	<ul style="list-style-type: none"> • Bank accounts • Debit, credit and e-money cards • PayPal

Source: Enders Analysis

This huge demand for online consumption has led to some important British success stories, such as ASOS in online fashion retail. ASOS has grown significantly since its inception in 2000. It now enjoys annual UK retail sales growth of 34%, and in August 2013 the company had more than 7 million active customers buying its goods across 237 different countries worldwide.

We regard the adoption of fixed and mobile broadband, PCs and mobile devices, and online payment systems to be the core customer drivers of e-commerce, in that order (*see Figure 8*).

Mobile payments

The UK consumes a significant amount online. According to the UK's Office of National Statistics, the share of e-commerce in goods retailing was 11.8% in December 2013. However, only 6% of this is via a mobile device. M-commerce volumes topped \$6 billion in the UK, and there has been significant growth (183% from 2010-2013). However, in-store mobile payments are relatively small. Only 3% of UK consumers have used their phones to buy goods in stores, vs. 7% in the US and 5% in Germany and France. But that number too is growing fast: More than twice as many consumers used mobile payments in 2013 than in 2012. Another 22% of consumers in the UK say they are willing to try.

Many retailers expect mobile interactivity to become a critical part of future strategy. They expect mobile payments to increase customer loyalty by helping to support a unified shopping experience in the store and across digital and mobile channels. Creative industries will increasingly need to consider parallels in their value chains to stay ahead of the curve.

This is exemplified by John Lewis, the UK department store, for which more than 42% of online traffic now comes from smartphones and tablets, and by ASOS, which now has 30% of traffic from mobile.

While it's difficult to say with certainty when mobile payments will hit critical mass (a clearer value proposition over existing payment options like credit cards must still be defined to users), there are questions that banks, retailers and others should be asking now to make sure they have an appropriate strategy in place. The majority of consumers have indicated they are likely to keep only one or two payment apps on their phones, so a first-mover advantage will be critical.

Use of Big Data analytics

New curation approaches all rely extensively on analysis of consumer data. For example, David Abraham, chief executive of Channel 4, has remarked how important data collection and analytics are to its online platform in terms of serving recommendations. The world over, data and analytics are seen as increasingly important drivers of business success. 'Big Data' has entered the lexicon of firms across sectors: Industry analysts and media observers hype it as the next big thing, and many companies have been rushing to climb on board. This mining and processing of petabytes' worth of information can provide firms with insights into customer behaviour, supply chain efficiency and many other aspects of business performance, offering up crucial differentiators. Improvements in connectivity have also led to an increase in available data, affording firms more opportunities to monetise user information.

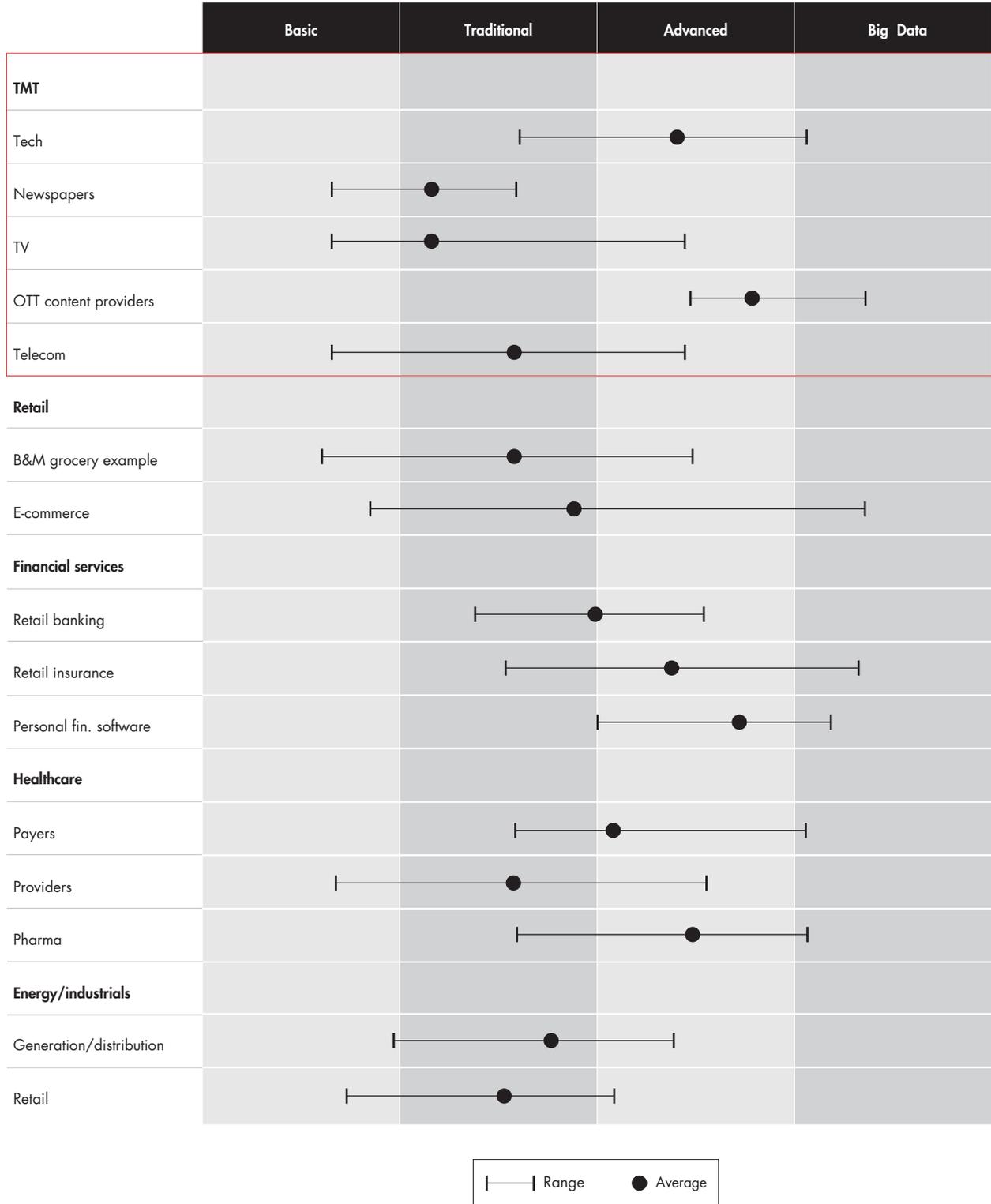
A recent survey by Bain & Company of more than 400 companies around the world, most with revenues greater than \$1 billion, showed that early adopters of Big Data analytics have gained a significant lead over the rest of the corporate world. Bain found that those with the most advanced analytics capabilities are outperforming competitors by wide margins. By embedding real-time data into their decision-making processes, the leaders are:

- Twice as likely to be in the top quartile of financial performance within their industries
- Twice as likely to use data very frequently when making decisions
- Three times as likely to execute decisions as intended
- Five times as likely to make decisions much faster than market peers

The Technology Strategy Board is an independent body operating at arm's length from the government, and sponsored by the Department for Business, Innovation & Skills (BIS). It finds that data is similarly transformative for the creative industries. Data helps us understand audiences, pilot products and increase the efficiency of production processes. Metadata solutions enable new ways of driving content discovery, licensing, consumption and new, as yet undetermined, business models.

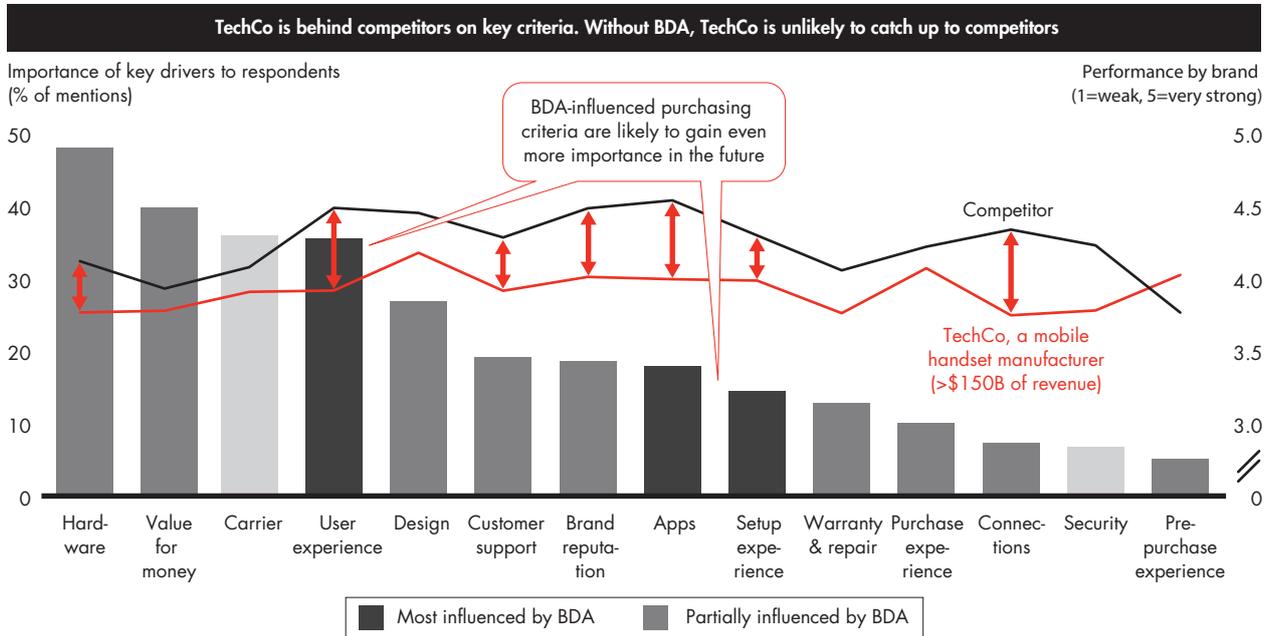
But the National Endowment for Science, Technology and the Arts (NESTA) argues that relatively few creative businesses have been willing or able to take full advantage of data analytics, despite some excellent innovations in the sector (*see Figure 9*). As the Technology Strategy Board has stated: 'The sector is often characterised (and caricatured) as being dominated by start-ups, micro enterprises and 'lifestyle businesses' that put too much emphasis on creative rather than commercial objectives'. This is certainly not the case of industry leaders like *The Guardian*, *Financial Times*, WPP, Shine Group or Warner Bros. Entertainment. But many businesses are sole traders, lacking the professionalism of bigger teams, which explains the significance of clusters to sustaining their development, benefiting from significant government and private sector support.

Figure 9: TMT companies have often lagged behind other sectors in their Big Data capabilities



Source: Expert interviews

Figure 10: Big Data analysis (BDA) influences many aspects of business



To get in the Big Data game, a company needs three kinds of table stakes. The first is the data itself: large quantities of information in a format that allows for easy access and analysis. Most large companies already have this—in fact, they generally have more than they can use. The second is advanced analytical tools, such as Hadoop and NoSQL. Both proprietary and open-source tools and platforms are widely available these days—all you need are people capable of putting them to work. That brings us to the third, and usually the most challenging, set of table stakes: expertise. Advanced analytics requires staff with state-of-the-art skills in everything from data science to worldwide privacy laws, along with an understanding of the business and the relevant sources of value.

Bain recently helped a global mobile handset manufacturer (TechCo) quantify the impact of Big Data on its future sales (see Figure 10). A survey of around 3,000 customers showed that Big Data influences most key purchasing criteria for mobile handset manufacturers today. Factors like overall user experience, setup experience, and the quality and quantity of available apps are significantly directed by Big Data analysis and likely to gain importance—which would expose TechCo to significant top-line risks, including a failure to recognise important market trends, loss of its technological advantage, and loss of customers and ultimately market share.

In fact, analysis revealed that TechCo could see its sales reduced by approximately 8% over a five-year period if it failed to prioritise Big Data initiatives (see Figure 11). On the other hand, investing in Big Data could yield an uplift of approximately 12% sales in addition to loss avoidance (see Figure 12).

Personal data and privacy

This gap in the use of Big Data is gradually closing, bringing with it growing concerns over how data is collected, stored and used. The rise of giants like Apple, Google, Amazon, Microsoft and Facebook makes headlines as much

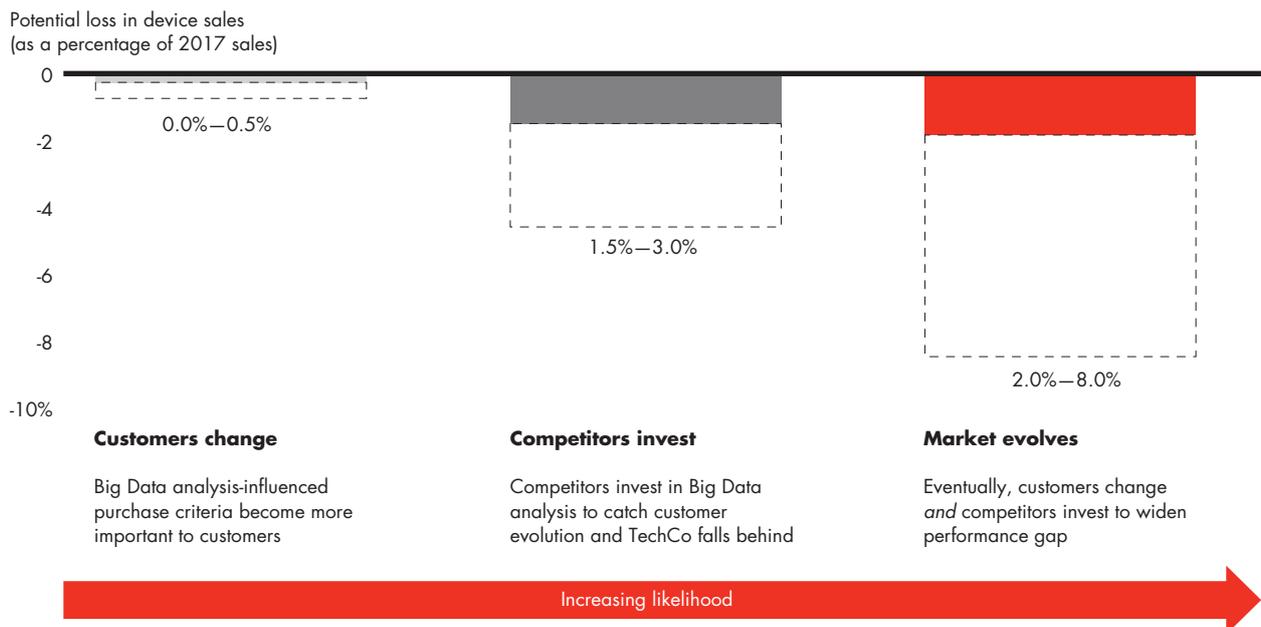
for the business, regulatory and cultural controversies they generate as for the new behaviours they have fostered.

In September 2013, the *Financial Times* predicted that through 2016, 25% of organisations using consumer data would face reputational damage due to inadequate understanding of information trust issues, and 20% of chief information officers in regulated industries would lose their jobs for failing to successfully implement the discipline of information governance.

Content providers, for instance, rely extensively on analysis of consumer data to develop, curate and distribute content. Recent events have drawn attention to increasing sensitivities surrounding the capture and analysis of personal data, and providers will have to adapt their strategies to accommodate local concerns. A 2013 survey by Bain & Company of more than 6,000 consumers of digital content also showed significant geographic differences in people’s concerns over privacy. In the UK, only 30% of users would be likely to share personal data to get recommendations, and most users in France and Germany are ready to do away with useful personalised recommendations to keep their personal data confidential. On the other hand, consumers in India and China seem much less aware of, or less concerned about, privacy issues. More than 60% of them would rather obtain personalised recommendations, even if it means relinquishing some personal data.

Similar findings are also reflected in Bain & Company’s work on mobile payments. A survey of 25,000 consumers in the US and major Western European markets revealed that concern for privacy was one of the top three reasons people gave across countries for not using mobile payments. French and German consumers were less open to sharing personal information to get better offers than consumers in the UK and the US (approximately 36% in France vs. 43% in the UK). Addressing such concerns as how mobile payment propositions are developed, deployed and marketed will be critical to success.

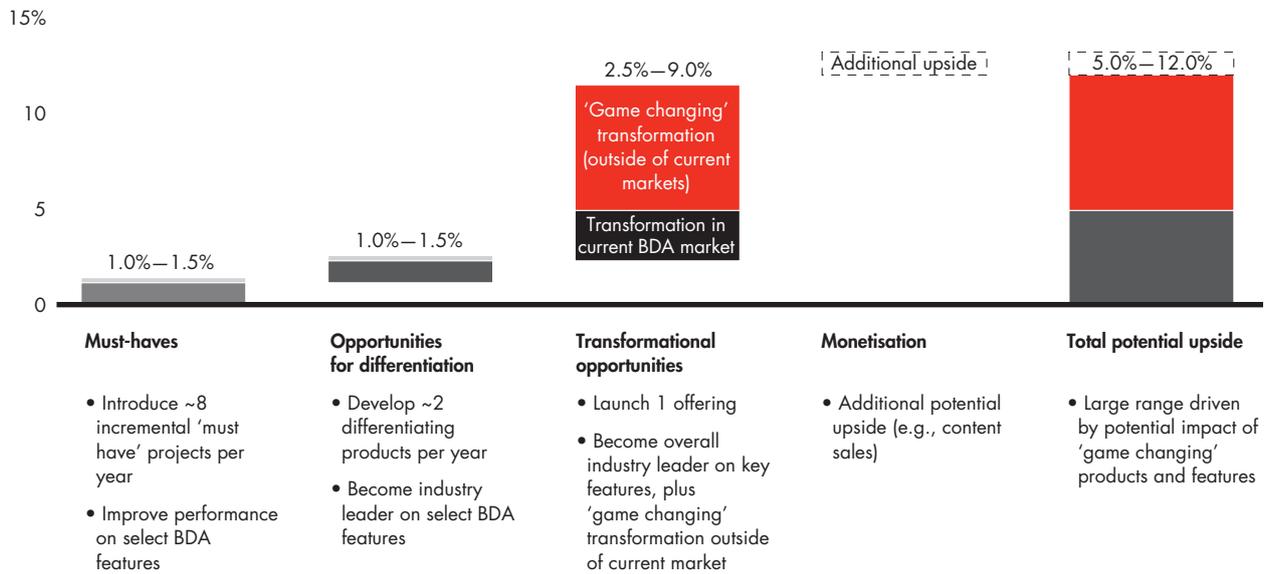
Figure 11: Potential sales loss over a five-year period if TechCo failed to invest in Big Data



Sources: Bain analysis; TechCo internal projections

Figure 12: Potential sales increase over a five-year period if TechCo invested in Big Data

Potential device sales upside from Big Data analysis
(as percentage of 2017 sales)



Sources: Expert interviews; Bain analysis

Ofcom has also repeatedly pointed to the challenges that user-generated content (UGC) presents, stating: '[S]ecurity and privacy are potentially compromised by massive online engagement'. A report recently published by the US National Academy of Sciences, based on an extensive study of the Facebook activity of 60,000 users, concludes: 'Facebook Likes can be used to automatically and accurately predict a range of highly sensitive personal attributes including: sexual orientation, ethnicity, religious and political views, personality traits, intelligence, happiness, use of addictive substances, parental separation, age and gender'. Ofcom now questions whether there is a need for more education around the consequences of publicly sharing information to the extent we see today, and recommends convening a special-interest group to help monitor these areas and offer shared strategic advice.

Digital platforms and media companies will have to invest in non-invasive, 'opt-in' viral marketing techniques to share recommendations via social networks, rather than mine the data consumers may have inadvertently left open to marketing uses. Firms will need to develop robust Big Data strategies that have a set privacy policy and access rights, and determine accountability for data security and compliance with local laws.

As they tread new ground, the creative industries will have to manage these new sensitivities carefully, working with consumers and regulators to find the right balance between personalised services and privacy.

Creative industries

Policy makers pay attention to companies and sectors that are significant to the economy, as measured by value created, jobs or companies. This section shows that the creative industries are a driver of growth, job creation, exports and business creation.

The first step towards measurement of the creative industries is to define their scope. Regulator DCMS includes advertising and marketing; design; TV, film, video, radio and photography; IT, software and computer services; publishing; arts institutions, like museums, galleries and libraries; music; and performing and visual arts. Many of these industries have invested in intellectual property rights (IPRs) spanning copyright, trademarks, design and patents, but of course the copyright industries are most affected by piracy.

What these sectors have in common is that UK consumers spend their media time with these industries' products, whether on the TV set or radio, in newspapers or on the Internet, thanks to their connected devices.

However, by their nature, their full value to the UK as a society cannot be captured by commercial significance alone. Free-to-air TV remains a very cheap medium to enjoy (with the licence fee of £145.5 per year); choice is wide; and consumption is high and robust, sustaining TV advertising notably.

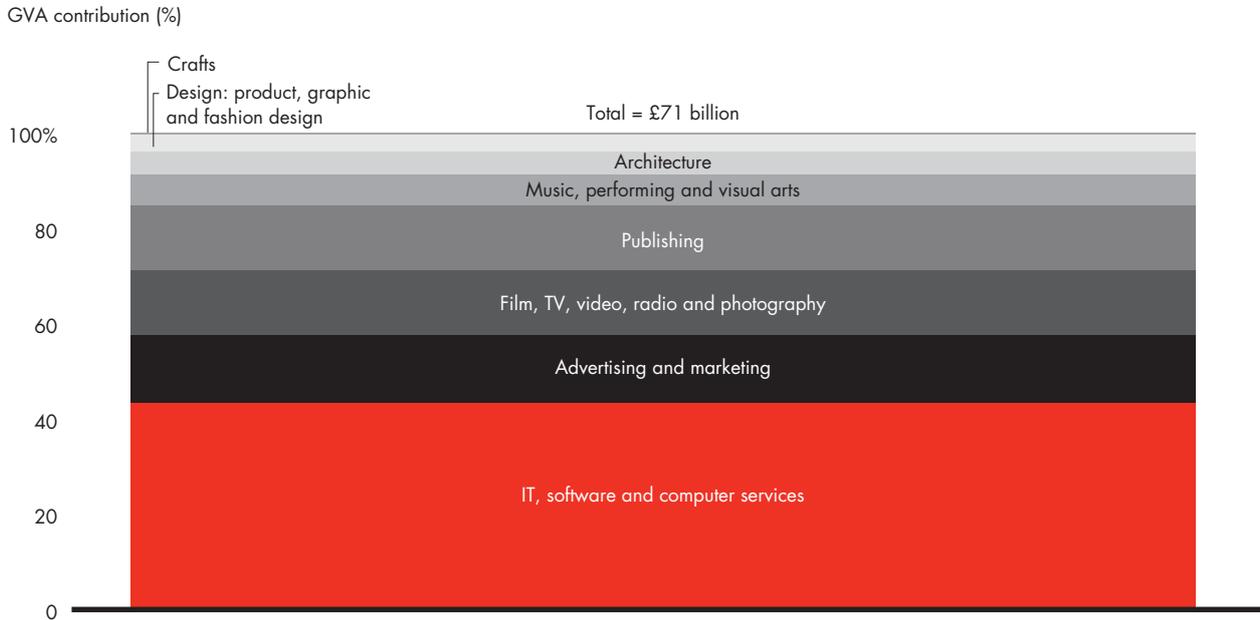
Finally, the ideas people are exposed to at all stages of their lives through TV, films, books and music, as well as through education and informal exchanges, shape their attitudes towards creativity and entrepreneurship.

UK government definition. DCMS reported in January 2014 that the creative industries accounted for gross value added (GVA) of £71 billion in 2012, up from about £60 billion in 2010, a level of growth (19%) that was nearly five times the growth of UK GVA itself (4%). DCMS also estimated that the creative industries account for 1.7 million jobs directly and another 900,000 indirectly. They also are a major export earner, with £15 billion (8% of total UK exports of goods and services) in 2011.

The DCMS estimates, based on the ONS Annual Business Survey, are disputed by some industry trade groups as being 'too low' (see *Figure 13*). UK Music, for example, recently produced its own estimate of the contribution of music to UK GVA of £3.5 billion, including all forms of earnings of artists and adjacent services like venue management and concert promotion.³ Similarly, the British Fashion Council estimates that the fashion industry was worth £21 billion in 2009, including retail, a much bigger industry than is implied by the companies in the design segment alone.⁴

The role of digital in the creative industries. Many companies today in the UK leverage digital channels to reach consumers. The creation of a company website starts the process of building an online identity, followed by the purchase of keywords on Google or other search engines to reach potential customers. In addition, many companies use social media like Facebook to build their image and interact with customers, encourage fans to engage more with their brand or product and build communities.

Consumers in turn benefit from expanded choice, competition and lower prices, and the convenience of home delivery. The Internet enables the distribution of cultural content such as films, TV programmes, books, news and magazine articles, music and games in digital format. Video distributors like Netflix and Channel 4, and music services like Spotify and Pandora, use digital technology to improve service to consumers and the use of their platforms based on the collection and processing of onsite customer data.

Figure 13: GVA of the creative industries in 2012, by category

Source: DCMS 2014 based on ONS Annual Business survey

The Digital Cinema Initiative (DCI) from the major studios is another example of digital technology at work. Intended to convert spools of film into hard drives containing files for projection in 2D and 3D by digitally ready cinemas, it has transformed the quality of the visual experience and also the production techniques used to harness this capability.

For the creative industries, however, the act of creation—writing a song, or penning a novel or script—remains the decisive feature of the creative industries. And creative talent is its bedrock. As the Technology Strategy Board has stated: ‘[D]igital technologies themselves are not what make the market. Rather, it is compelling content that attracts consumers and audiences, and which gives creative businesses the opportunity to transact over digital platforms, using data to maximise value’.⁵

Digital technology is changing how many creative-sector companies produce and distribute products. And they are using digital technology in new ways to improve core functions. But few companies’ trajectories resemble each other, as our case studies in the body of the report make clear:

- For advertising and marketing companies, which are business-facing, the transition has been benign on the top line, as advertisers demand a wider range of media, expanding from traditional media like TV (although this has also been transformed by the advent of digital terrestrial television, or DTT) to social and online media properties. The UK has the highest share of online in total advertising, at 36% in 2012.
- Consumer-facing newspapers have undergone a painful transition, as pennies from digital replace pounds from print and ad sales, although business-facing newspapers have successfully built new revenue sources behind paywalls.

- New online pure-play businesses have sprung up, like ticketing aggregators for the performing arts, and property advertising platforms like Rightmove and Zoopla Property Group, AutoTrader UK, LoveFilm and Spotify.
- Museums and arts institutions use their digital platforms to augment customer and donor interactions—for example, by showcasing exhibitions—but remain as reliant as ever on visits to physical locations.
- The crafts industries have been transformed by online marketplaces like Etsy, which allow them to serve their customers wherever they may be, and specialty food suppliers also have vastly expanded their Web presence and Web sales.
- The UK's design-intensive fashion industry, the fourth largest globally, has embraced online distribution, with hugely valuable companies like Net-A-Porter, ASOS and NEXT.
- Collaborative creative networks are transforming publishing and production of all content.
- For recorded music companies, which are consumer-facing, growing digital sales have failed to compensate for the decline of physical format sales, halving the top line in a decade, although we see the UK reaching a turning point in 2014. By contrast, revenue from live events has been increasing, as it has from the use of music in TV programmes, films and ads. For artists, online is a powerful tool to reach and connect with fans worldwide, helping to manage the artists' releases, tours and fan interactions.

Some commentators believe that access to the Big Data generated by individuals online and collected by the likes of Google could transform the marketing of niche products and services that normally only few would demand.⁶ This grand vision lacks common sense: The Internet has already enabled numerous niche business models. SMEs with novel products can purchase keywords on search engines to drive clients to their sites, or they can join online marketplaces like Etsy to reach potential clients.

But Big Data is an important tool for companies in the creative industries. Channel 4's CEO, David Abraham, has remarked how important data collection and analytics are to its online platform in terms of serving recommendations and advertising. But Channel 4 does not commission TV programmes from the production sector based on analytics of its online audience's preferences, since this is a small share of total viewing. In the context of its public service broadcaster (PSB) obligations, Channel 4 uses a variety of offline and online audience metrics, including those from industry standard Broadcasters' Audience Research Board (BARB), to decide what works with targets, and when, so the schedule is optimised.

Business creation and the creative industries. One feature of the UK that stands out is the relatively high rate of new business formation since 2007, stronger than in the US and a broad group of OECD countries (*see Figure 14*).⁷ As the OECD points out, this is mainly due to a strong trend to self-employment by professionals. Enabled by the UK's telecoms infrastructure, which permits flexible working, this ongoing trend has played a significant role in job creation, reducing unemployment to 7.2% since the recession peak of 8%.

To track the contribution of the creative industries to business creation, we have used the ONS Inter-Departmental Business Register (IDBR), which contains information on VAT traders and PAYE employers. About 10% of registered businesses were engaged in the creative industries in 2013, up by 17% since 2010, faster than the growth of all businesses (*see Figure 15*). Business creation in the IT, software and computer services segment (45% of the sector's total) was particularly rapid, with growth of 25% between 2010 and 2012; but growth was also strong in other segments of the creative industries (*see Figure 16*).

Figure 14: The UK has relatively high rates of new business formation

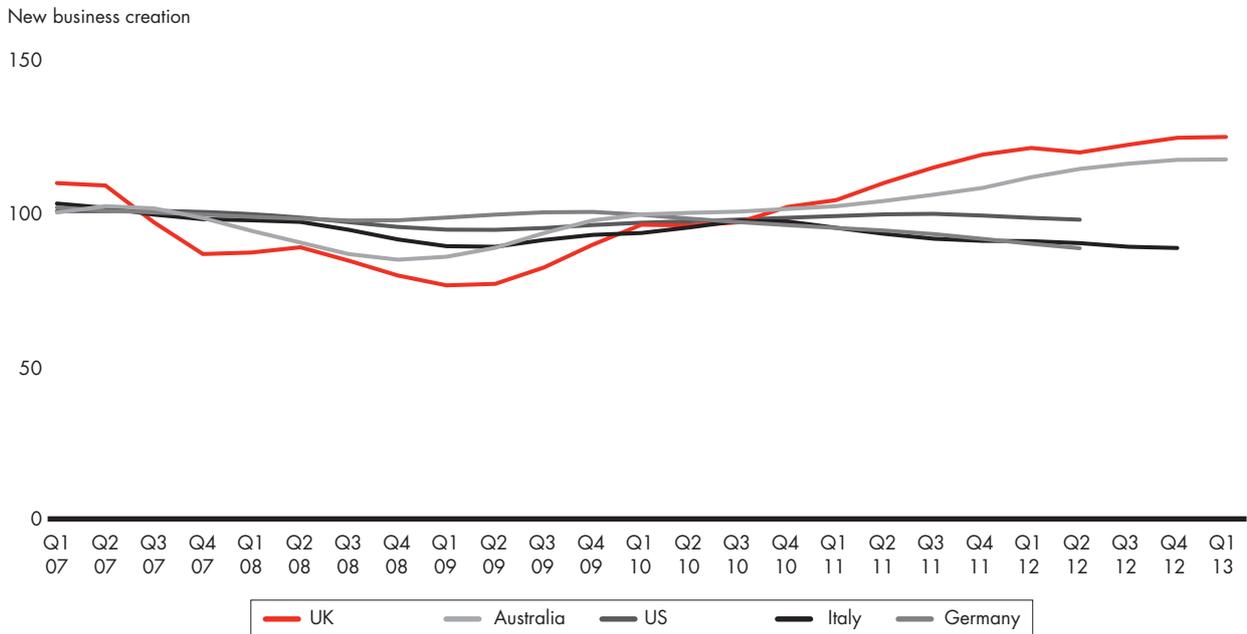


Figure 15: The number of creative businesses has grown 17% since 2010

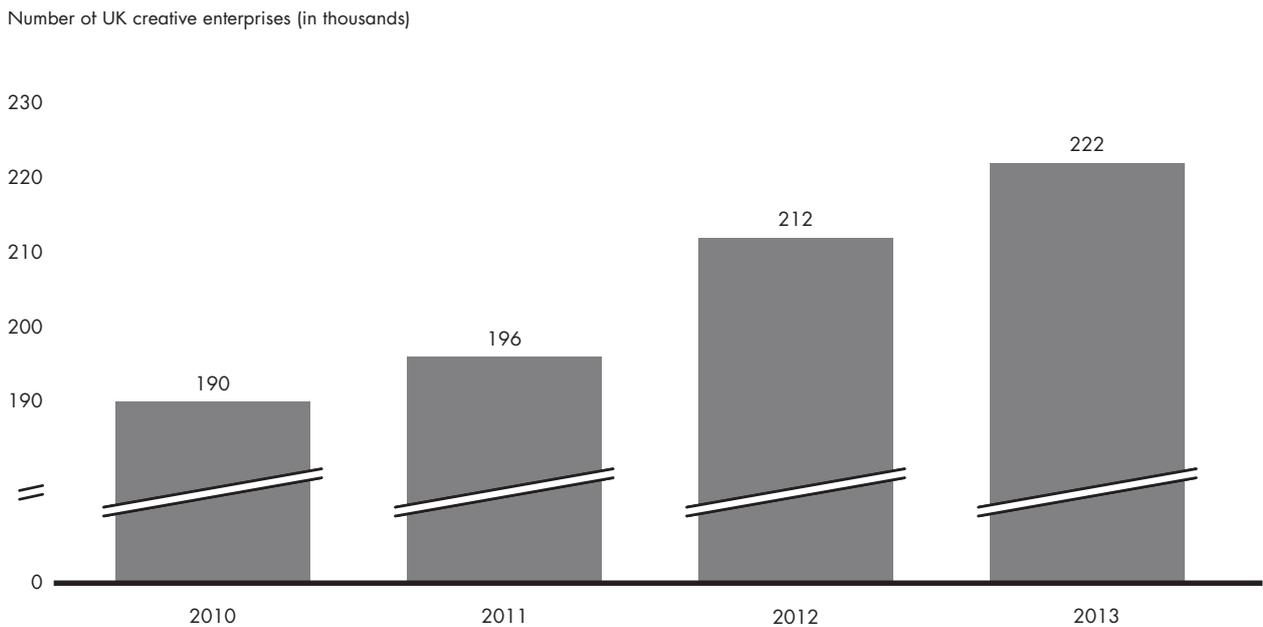
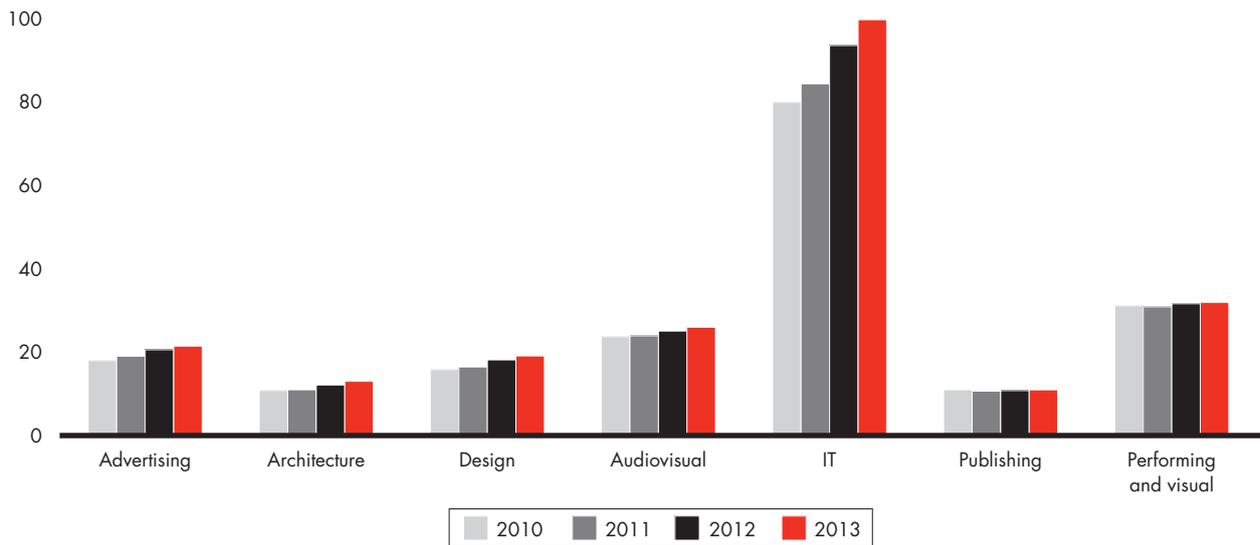


Figure 16: Business creation in IT, software and computer services is especially rapid

Number of UK creative enterprises (in thousands)



Sources: DCMS 2013; ONS

IPRs and the creative industries. The UK government initially defined creative industries as ‘those industries which have their origin in individual creativity, skill and talent and which have the potential for wealth and job creation through the generation and exploitation of intellectual property’.⁸ Activities may be highly creative, but if they do not lead to IPRs, then they would not be considered part of the definition.⁹

The range of IPRs engaged by the creative industries varies from the copyright vested in Richard Florida’s book *The Rise of the Creative Class*, to the design in a Burberry bag, to the mix of patent and copyright IPRs for the software contained in top-selling video game *Grand Theft Auto V*. Almost uniformly, however, trademarks are extensive across the segment, securing the most elemental form of protection—a business name or identity—to avoid infringement and prevent consumers from being misled as to the product’s maker and nature. It’s also true that the creative industries generate only a small share of IPRs in the UK. Hundreds of companies outside the creative industries create and exploit intellectual property: The UK’s manufacturing sector uses trademarks, and patent and design rights, but these companies are not part of the DCMS definition.

Across all industries, some 47% of UK employment occurred in IPR-intensive industries and some 63% of UK GDP was generated by such businesses, according to data produced by a joint project of the European Patent Office and the Office for Harmonization in the Internal Market, issued in September 2013 (see *Figure 17*). If we consider that 21% of UK GDP is due to the public sector, which does not generate IPRs (with the exception of the BBC), then this shows how significant IPRs are to most jobs in the UK’s private sector.

As an illustration: The UK has registered many cheeses and spirits produced in specific locations for recognition. Such ‘geographical indications’ allow consumers to identify the provenance of the product, and are extremely

Figure 17: A significant portion of the UK economy relies on IPRs

	Patent	Trademark	Design	Copyright	Geographical indication
Percentage of GDP EU total	13.9	33.9	12.8	4.2	0.1
Percentage of employment EU total	10.3	20.8	12.2	3.2	0.2
UK percentage of GDP	13.6	33.6	11.4	4.7	0.2
UK percentage of employment	10.1	22.2	10.9	4.1	0.0
High employment shares	Czech Republic, Finland, Germany, Slovakia, Slovenia and Sweden	Czech Republic, Estonia, Finland, Germany, Hungary, Italy, Slovakia, Slovenia, Sweden and the UK	Austria, Bulgaria, Czech Republic, Estonia, Finland, Germany, Hungary, Italy, Poland, Portugal, Slovakia, Slovenia and Sweden	Denmark, Estonia, Finland, France, Germany, Ireland, Luxembourg, the Netherlands, Sweden and the UK	France, Germany, Italy, Portugal, Spain and the UK (due to Scottish whisky)

Source: European Office for the Harmonization in the Internal Market

important in driving conceptions of value. Whisky produced outside of Scotland cannot be labelled Scottish whisky, just as Champagne must be produced in the French region. Thus, a geographical indication expresses the product's distinctive nature and rewards the creativity involved in developing the product.

The economic significance of copyright-intensive industries appears much smaller than for trademark-intensive sectors. However, if we count UK enterprises using any form of IPRs, and not just intensively (since intensity only refers to one IPR), we find there is a substantial overlap in the use of trademarks, designs, copyright, patents and geographical indications across all IPR-using industries.

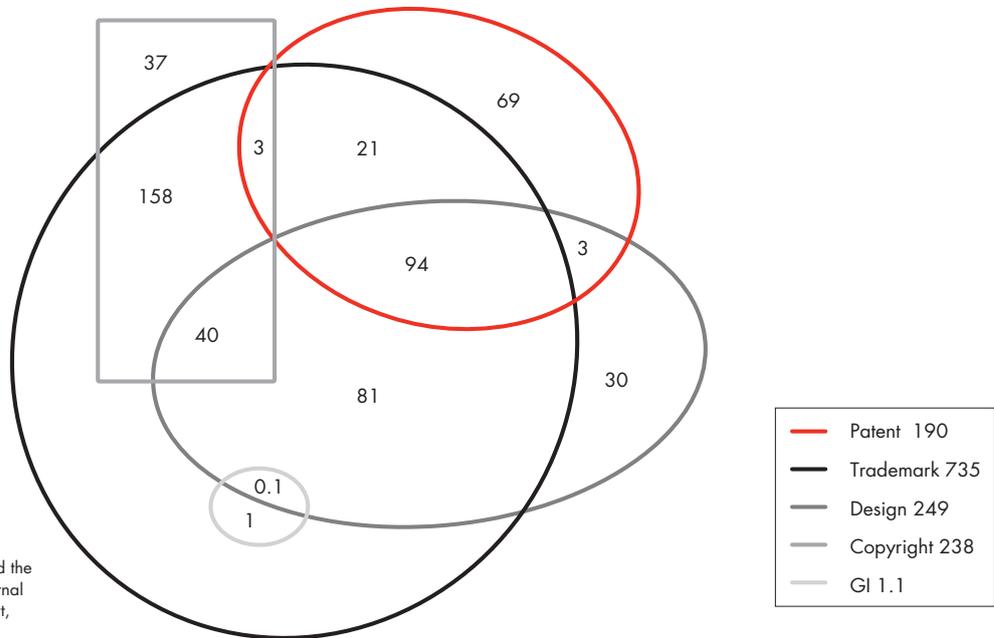
The main overlap of copyright-dependent UK enterprises is with trademark rights, complementary in their activity (*see Figure 18*). Because so many enterprises have an overlap with multiple IPRs, a holistic understanding of IPRs is necessary for the creative industries and for knowledge-intensive industries in general.

The piracy of copyrighted works is a major impediment to the development of the creative industries, draining the sector of revenues and undermining the value of all IPRs. According to Ofcom's survey on piracy of copyrighted works from March 2013 to May 2013, some 30% of UK Internet users who consumed content did so illegally.¹⁰ The UK's implementation of the anti-piracy provisions of the Digital Economy Act passed in 2010 has been repeatedly delayed.

The UK government does not have a policy towards the creative industries, as such. Due to EU directives being implemented by the UK, the audiovisual sector is supported through the film tax credits regime, expanded in 2012 to animation (including for games) and high-end TV productions. Since the early 1990s, quotas on commissioning budgets of PSBs, notably the BBC, apply to the independent production sector, a factor instrumental in turning

Figure 18: Trademark rights have the biggest overlap with other forms of IPR

UK enterprises for IPR-intensive industries (in thousands)



Sources: European Patent Office and the Office for Harmonization in the Internal Market Industry-Level Analysis Report, September 2013; ONS

it into a world-class player. Arts institutions are supported by public and donor funding. Other segments of the creative industries either enjoy benign neglect (e.g., advertising and marketing) or have not been adequately served by government policy, notably the planned introduction of private copying without compensation, unlike the EU member states with such a regime.

This policy failure was recognised by the DCMS Committee’s report last September on support for the creative industries, which stated: ‘[I]llegal piracy, combined with proposals arising from the Hargreaves review to introduce copyright exceptions, and a failure to strengthen copyright enforcement along the lines envisaged by the Digital Economy Act 2010, together threaten the livelihoods of the individuals and industries that together contribute over £36 billion annually to the UK economy’. The committee added: ‘This cannot be allowed to happen’.

Digital transformation of the UK creative sector

With the rise of the Internet, growth in connectivity and the explosive popularity of smartphones and tablets, the shift towards digital is certainly transforming the creative industries. The opportunities created are boundless, especially as barriers to audience reach and scale are brought down. Online platforms can give Britain's creative talent a voice, through business creation (Etsy) and talent exposure (YouTube); they also benefit the consumer through the abundance of new services and marketplaces. Content combination is a new possibility, merging the benefits of online video content with the traditional written content of newspapers, and vice versa. Although content will always be king of the creative industries, the embrace of a digital-technology mesh will enable an increase in reach, deepen engagement with customers and ultimately further the success of the creative sector. In the following section, we will illustrate how the main pillars of the creative sector have adapted, and bring to light the potential opportunities still to be tapped as we enter the new digital and tech age.

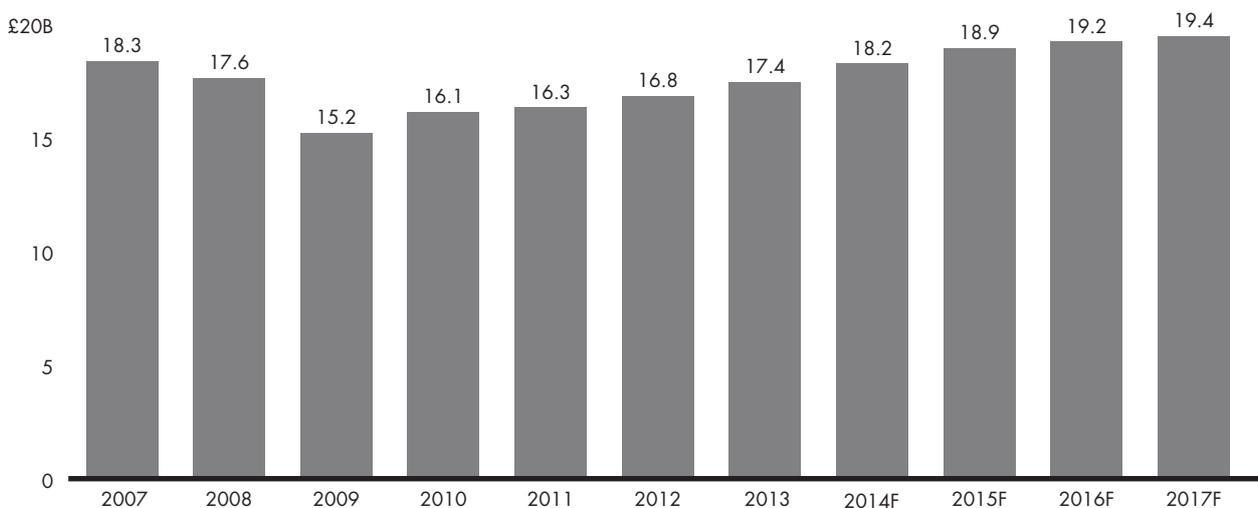
Internet advertising

After five years of flat growth, the UK advertising market is once again buoyant, with marketers reporting the greatest upwards revisions to budgets since 2007. We forecast total advertising spending will grow by a compound annual growth rate (CAGR) of 4% through to 2015, taking total spending to £19 billion (see Figure 19).

The positive outlook reflects improving economic news on growing consumer confidence. This upbeat mood seems set to last through 2014 and probably into the election year of 2015, as the coalition government leans in to keep the consumer happy and the housing market bubbling.

Figure 19: UK advertising expenditure has rebounded but slow growth is forecasted

UK advertising expenditure



Source: Enders Analysis

Growth is apportioned very differently across individual media, which is split into three distinct groups:

- The Internet stands out as the medium that is continuing to grow rapidly, driven by e-commerce and marketing spending by companies on their digital presence, and increasingly by mobile advertising, due to the rapid take-up of smartphones and tablets.
- Traditional display media, comprising TV, radio, outdoor and cinema, are holding on to their audiences, and we expect modest growth in advertising to continue.
- Print is the medium suffering most audience erosion in terms of circulation and readership due to the rise of the Internet, leading to advertiser substitution to other media (as newspapers operate two-sided business models), including online classified marketplaces.

Just as the creative industries seem to occupy a disproportionately important place in the UK psyche and economy, the Internet—by far the largest advertising medium in the UK, having overtaken television and print in recent years—now accounts for 36% of UK advertising spending, more than in any other major economy (see *Figure 20*). The UK's strength in Internet advertising is powered by high levels of Internet penetration and e-commerce. The latter is both a key driver and beneficiary of the rapid growth in search advertising, which accounts for the lion's share of Internet advertising. In 2013, UK consumers spent £91 billion online, according to IMRG/Capgemini e-Retail Sales Index, up 18% year-on-year. Consumers are set to spend an estimated £100 billion through the Internet this year. Online spending per capita is higher in the UK than in any other major economy. The 'nation of shopkeepers' is also the nation of e-shopkeepers and e-shoppers. Internet advertising per user is higher than in other major advertising economies. We estimate that advertisers in the UK spent £112 per Internet user in 2013, just above Australia's level and significantly more than in Canada, the US, Japan, Germany and other countries.

UK e-commerce and online advertising look set for further robust growth, as the Internet's audience reach and consumption continue to expand, increasingly powered by rising penetration of smartphones and tablets, and supported by better targeting and new ad platforms and formats. By 2015, we expect that nearly two-thirds of time spent accessing the Internet will be via mobile devices.

Classified advertising and the rise of digital marketplaces

Classified advertising is not an area of media automatically associated with the concept of creativity. Nonetheless, in the last decade, a print landscape dominated by entrenched regional newspapers and printed directory companies has been dismantled. A more vibrant and innovative, albeit smaller, digital marketplace has developed in its place. We estimate that between 2004 and 2014, online share increased from 7% to approximately half of total UK classified advertising spending (see *Figure 21*).

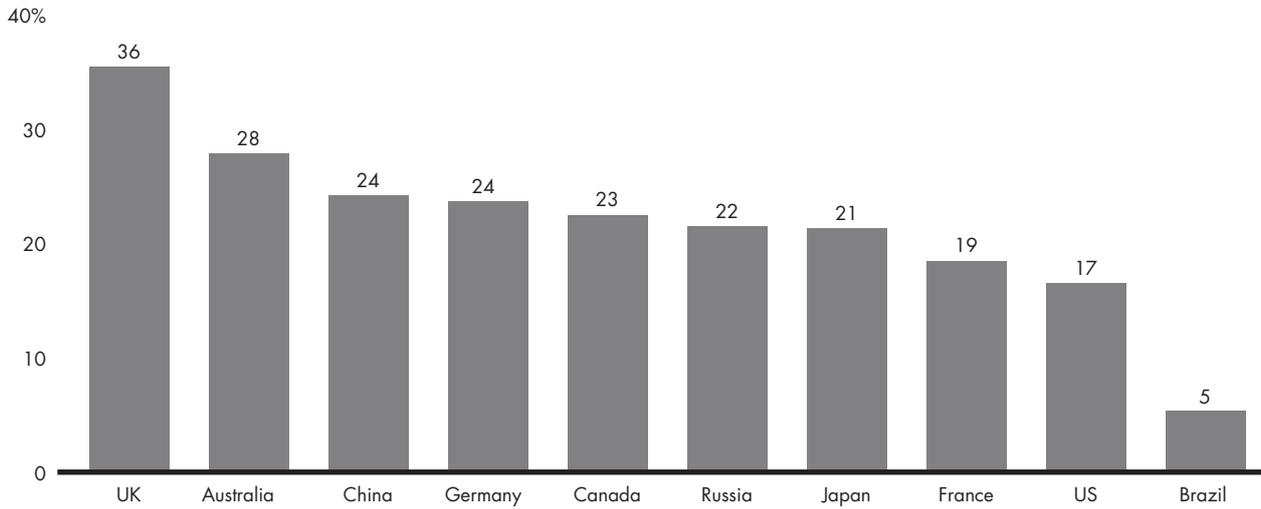
The UK classified advertising market's rapid adoption of digital technologies has resulted in myriad new options for advertisers, including national reach, measurability and tracking software; value for money listings; dense user experience; and advertiser add-ons.

In the rest of this section we assess the degree of this digital innovation in each of the main classified advertising categories and potential future developments in mobile and social.

Recruitment. The UK online recruitment market serves a wide variety of professional segments and recruiters

Figure 20: The Internet accounts for a higher proportion of advertising spending in the UK than in any other major economy

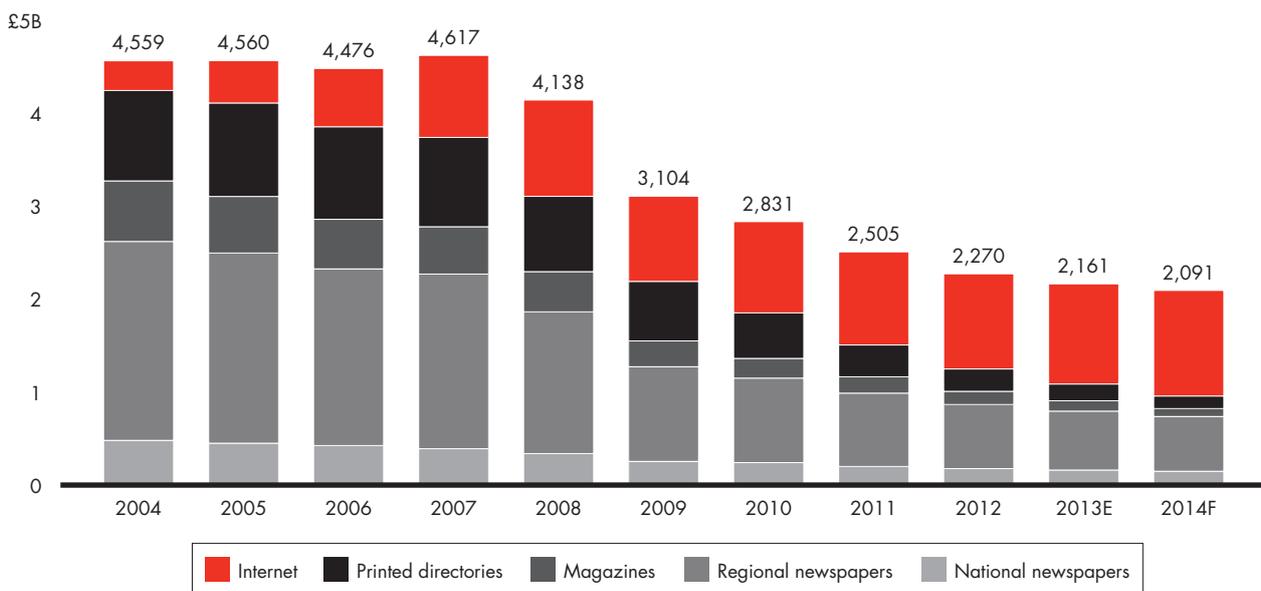
Internet share of advertising spending in top 10 markets in 2013
(percentage of total)



Notes: UK estimate from Enders Analysis; estimates for other countries from GroupM
Sources: Enders Analysis; GroupM

Figure 21: Classified advertising has declined and moved online

Classified advertising expenditure by medium



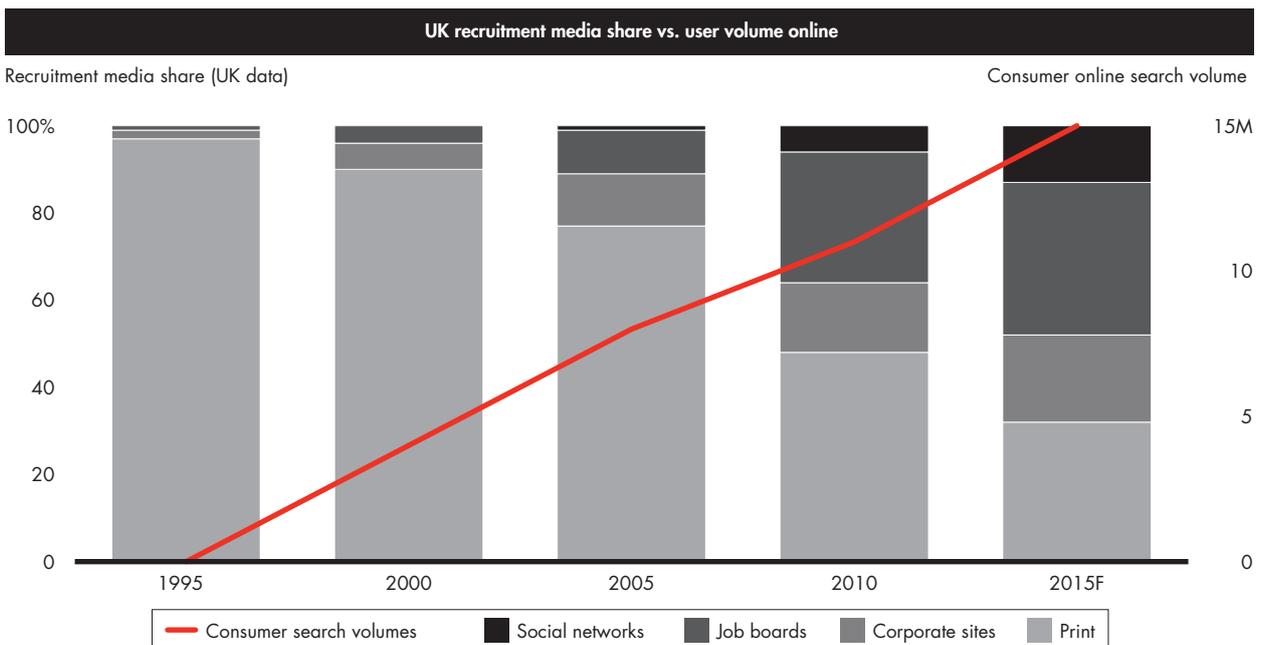
Sources: Enders Analysis; WARC

with different needs. At the top end, job boards such as Totaljobs.com and Monster, for 15 years the digital anchors of recruitment classified advertising, are being squeezed by the international social media giant LinkedIn, which passed 11 million UK members in January 2013, making the UK the company’s third-largest market, alongside Brazil. LinkedIn has driven innovation in social networking and recruiting with its three-pronged offering as a professional network, a marketing network for companies and a means for professionals to make available their profiles for multiple purposes.

The development of digital recruitment in the UK has not been confined to early adoption of the tools offered by LinkedIn. We also expect that, given the splintered nature of recruitment, longer-term opportunities in social reside in a diverse mix of ‘pebble businesses’ in each job category, providing a combination of community, data, editorial content, and career and job services to users and advertisers. We thus expect the growth in social to continue, with LinkedIn growth supplemented by further innovation from niche players in specific recruitment verticals (see Figure 22). The next frontier is mobile, a platform with a high take-up and existing usage (49% of Jobsite.co.uk traffic in January 2014, as reported by ComScore). But it is often implemented as an extension of the desktop solution, rather than developed from scratch as a mobile-optimised service.

Property. Print maintains a higher share in property because real estate agents use local print media for display and branding, to generate new leads and to reach older audiences. However, the duopoly of Rightmove and Zoopla Property Group has driven online take-up among real estate agents. We estimate that the UK’s two online property leaders’ revenues rose by 23% and 17%, respectively, year-on-year in 2012, while spending on regional newspaper property listings declined by 11%, according to the WARC Quarterly Advertising Expenditure report.

Figure 22: Further declines in print’s share of recruitment media are expected



Source: Enders Analysis

At the same time, strong growth in the UK's two main online property portals is expected to trigger further M&A and investment activities. The context of a housing market mini-boom is propitious for Zoopla's possible sale or IPO in 2014 or 2015, and we expect further reconfiguration in the marketplace over the next two to three years to accelerate the innovation cycle.

Scope for developing new services resides largely in the mobile space, as property market transactions by their nature provide little opportunity for LinkedIn-style social platforms. In mobile thus far, both Zoopla and Rightmove have been fully attuned to the smartphone explosion and have developed effective products that reflect the transfer of UK media consumption from desktop to phone screen. Thirty per cent of Rightmove property searches are now on mobile, while its iPhone app has already been downloaded more than 1.3 million times.

Auto. The online auto classified space has been dominated by AutoTrader UK, which remains the vertical's sole player of scale, accounting for 85% of online revenues. AutoTrader UK's success has been based on a pioneering spirit in digital; it was the first UK classified brand to launch a website in 1996, and has continued to invest in online tools that supplement its successful core dealer offering. Data analytics provider Deltapoint was acquired in 2012, and AutoTrader UK has also developed RAZSOR, a digital marketing business that supplies websites to more than 3,400 car dealers in the UK.

AutoTrader UK's transformation from a weekly print title with a peak circulation of 368,000 in January 2000 to an online portal with a monthly multiplatform audience of more than 4.5 million in December 2013 is emblematic of UK advertisers' and audiences' wholehearted embrace of digital.

In addition to the growth in mobile and social, we see the digital engagement of UK news brands as an area of potential development, with advertising opportunities afforded by unprecedented audience scale. The global audiences of online news products such as *Mail Online* and *The Guardian* provide their publishers access to advertising markets previously unreachable in print. The question is whether they can emulate the likes of AutoTrader UK and Rightmove and monetise their impressive online audiences. The last decade of digital transition has shown that creative and dynamic approaches to the growth of online can produce digital revenue growth to alleviate the accelerating declines in print revenues.

Etsy and the UK crafts industry

Etsy is one of the largest online marketplaces for crafts; it saw global sales in excess of \$1.2 billion in 2013 by facilitating the sale of more than 60 million homemade products. While Etsy didn't start the craft revival, it has been instrumental in making the buying and selling of handmade goods online a more visible and accessible option. Launched in 2005 from New York, Etsy borrowed its vendor-aggregator e-commerce model from eBay, and combined it with an ethical ethos and a strict company policy that forbids the sale of commercially manufactured products.

Although the craft revival emerged in the US, interest in British crafts and craftsmen has also been growing. Leading British artists like Grayson Perry have popularised the high-end of contemporary crafts. TV shows like *Kirstie's Handmade Britain* on Channel 4 and *The Great British Bake Off* on the BBC (the final episode reached 8 million viewers) have helped promote the homemade lifestyle. And do-it-yourself workshops and hobbyists learning traditional techniques (such as jam making, book binding, knitting and so on) have become more common.

The Crafts Council, in collaboration with Creative Scotland, Arts Council of Wales and Craft Northern Ireland, estimates that the total income for all contemporary craft-making businesses in the UK was £457 million in 2012.

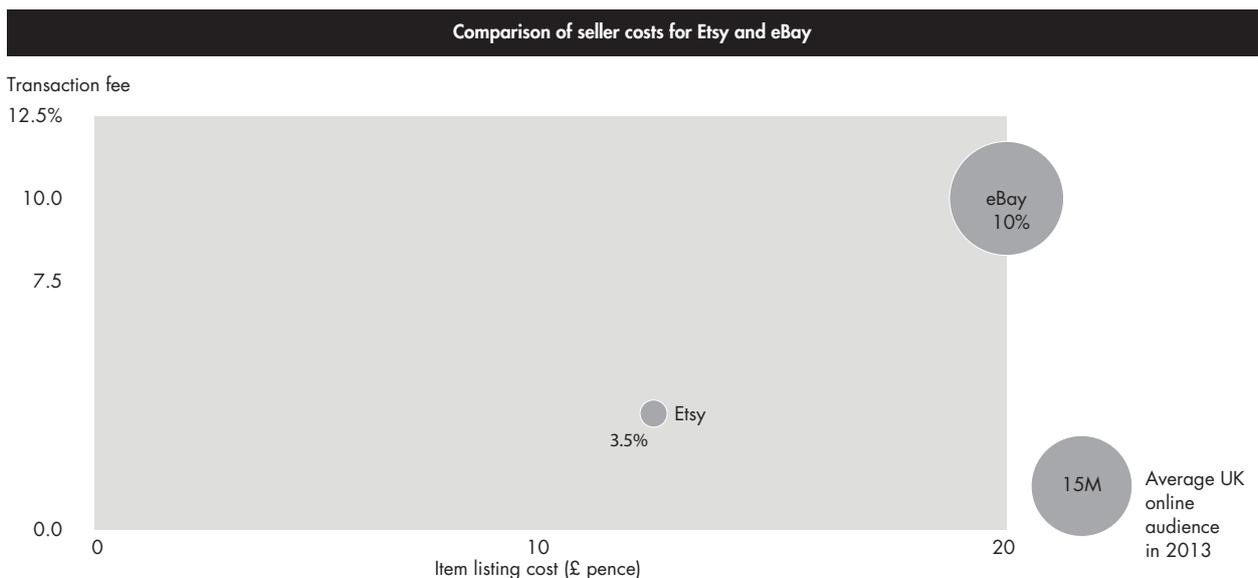
By comparison, music downloads accounted for £384 million in the same year. The number of craft-making businesses in the UK is estimated to exceed 23,000; however, portals like Etsy allow anyone to sell their home-made products online, so there may be thousands more unaccounted for.

Etsy allows individual producers and craft-based micro-businesses to reach a global audience of 30 million, and encompasses homemade products from furniture to food. The cost is low for sellers, giving them an easy-to-manage digital shop-front, replacing marketing spending with consumer-driven discoverability features, and offering lower overall sales fees compared with other online e-commerce platforms (see Figure 23).

Etsy provides a valuable bridge between seller and consumer, and gives UK sellers the ability to reach a valuable international market interested in the more than 700,000 British products listed on the website. It is also an instigator of craft production, encouraging interest in DIY among amateurs on a platform that makes distribution easy. Forty-two per cent of US Etsy sellers started their business on Etsy, meaning Etsy must have been significant in providing them with the inspiration or resources—such as marketing, transactional services, community support and a global audience—to start their creative businesses, typically without need for start-up capital or investment. Only 2% of sellers report taking a bank loan or using crowdfunding platforms; the rest built their businesses on their savings, on support from friends and family or by using their credit card.

Barriers to entry are therefore incredibly low, and mainly depend on spending time refining a crafting skill and creating goods—often while working in full- or part-time employment. Amateur crafters can sell the results of their hobby, and there are numerous cases of full-time, non-crafts-related professionals supplementing their incomes or starting new full-time businesses via Etsy.

Figure 23: Seller costs on Etsy’s online craft marketplace are low



Notes: eBay item listing cost based on rate for private sellers with a basic eBay shop (excluding media); eBay transaction fee based on average fixed price rate for business sellers of 'clothes, shoes and accessories, jewellery' and 'collectables'
Sources: Enders Analysis, Nielsen

According to research conducted by Etsy on sellers within the US, the vast majority of vendors are middle-aged women (the average age was 39, and the gender ratio was four women to every man) running their micro-businesses from home. Only 18% of vendors sell full time; for the rest, Etsy sales supplement other income and give them some independence and financial security, including money for household expenses and discretionary spending. Nearly 50% of Etsy sellers are independent, part-time or temporary workers.

Professional sellers (those with a qualification or significant experience in their craft), meanwhile, are veteran crafters, sometimes with an existing brick-and-mortar shop, wholesale business or website, with Etsy as one among several digital channels for listing and selling their wares.

As with all ventures, Etsy doesn't equate to immediate or guaranteed success. While research indicates that a large proportion of sellers started their business on Etsy, many sellers hedge their bets by establishing shops on other online platforms or standalone websites. There are strict rules on what cannot be sold, which means some sellers find that not all of their wares are eligible for sale.

Case studies

Vanessa Bullick Ceramics is the online Etsy shop of a professional contemporary ceramicist based in Scotland. Vanessa has 19 years of training and experience. Her Etsy shop opened in late 2011, and she intends to open a brick-and-mortar café, whole foods shop and ceramics gallery in a local town in March 2014. She also runs a basic website for sales and showcase.

Vanessa discovered Etsy through another mother at her children's school—also a crafter, who sold crochet yarn on Etsy. Vanessa found that Etsy provided her a way to sell directly to customers, as well as to contemporary ceramics galleries, particularly smaller, less-established galleries specialising in Scottish artists. She also uses Etsy mini, a sales module that embeds into her website, so she doesn't have to employ a Web designer to set up a separate payment platform. Etsy has provided her with new sales from customers around the world, including the US, Canada, New Zealand, Australia and Europe. In fact, her sales on Etsy have been mainly international.

Vanessa says sales through Etsy are supplemental to her ceramics business as a whole, and don't provide enough standalone revenue, but the low set-up costs and Etsy's value as a discovery tool have made it a good investment.

Gibson Bespoke is run by Debbie Bailie-Collins, who worked in high fashion for almost 15 years. The company is run from Northern Ireland, and employs seven people to produce the designs. The Etsy shop is paired with a sophisticated website, through which they display their various collections and generate sales. They also sell on two other online fashion portals (Saxastore.net and Swoop.ie).

Although a young company (launched in 2012), Gibson Bespoke already has an international following and has been widely featured in more than 20 bridal magazines and websites around the world.

Debbie says Etsy is a useful marketing tool that gives her access to a global audience. In fact, she says 90% of her sales on Etsy are international. It provides a safe and trusted platform, which offers guarantees for both seller and buyer that if something goes wrong in a transaction there is support and advice on how to resolve it. Etsy also provides regular workshops and meetings to support the selling community.

'Without Etsy my business wouldn't have had the platform to take off', Debbie said.

PlantsFromSeed is run by John Watkins and his wife from their home in Wales. John worked in IT for 20 years

and had always grown a few chilli plants, but decided to sell his handmade seed packs full time in May 2013.

He started on eBay, with sales growing month-on-month, and began expanding his catalogue of unusual plant varieties to more than 100 products, including aromatic coffee plants, Venus flytraps and 'sensitive' plants. Using his experience in IT, John built a database hub of his products, his own primary sales website and several sub-sites for resellers, giving them a 30% to 40% margin. John now sells on Etsy, Amazon, eBay and a few other platforms, as well as in several local shops (with plans to expand his retail presence within the next year).

Fashion design

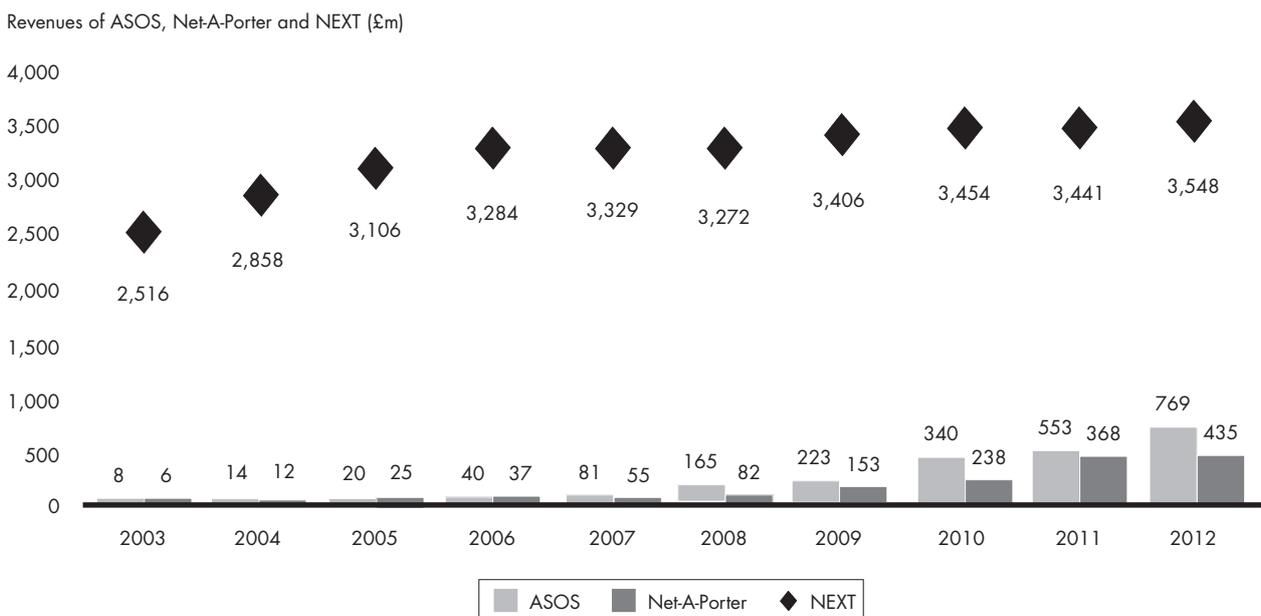
The UK is a global leader in e-commerce, and fashion has played a central role in building the market, thanks to pure plays like Net-A-Porter and ASOS, omnichannel retailers like John Lewis and NEXT, and numerous flash sale and group buying sites.

Recent developments in the online fashion space include the proliferation of mobile apps, the richer use of media through embedded videos of catwalk shows, and brand extensions to flagship print magazines.

Online sites are also leveraging social media and recommendation systems to augment traffic, alongside conventional email marketing to registered customers and the use of search engines. Some sites go further. On Lookbook.nu, users post their 'look' and get 'hyped' (or not) by other users.

ASOS has seen rapid growth in users and revenues over the past decade. The average basket value including VAT increased by 43% from £42.80 in FY2007 to £61.03 in FY2013, with a total of £769 million for FY2013. Launched in 2007, *ASOS Magazine* is a free monthly publication; circulation closed on 450,000 in December 2013.

Figure 24: NEXT migrated sales online early and grew its customer base



Note: ASOS changed its FY end from March 31 to August 31 in 2011
 Source: Company data

Natalie Massenet, who founded Net-A-Porter in 2000, has been described by *Vogue* as ‘the woman who changed the way we shop’. Net-A-Porter gained the confidence of luxury brands and has more than 300 designers, like Marc Jacobs, Stella McCartney and Gucci. Revenues rose 18% to £435 million in FY2013, but Net-A-Porter lost £23 million on expansion to foreign markets such as China, according to the *London Evening Standard*.

The Net-A-Porter Group includes an outlet site—The Outnet, launched in 2009—and a menswear counterpart—Mr Porter, launched in 2011. In February 2014, it launched *Porter*, a glossy magazine published six times a year and available for purchase in 60 countries. *Porter*’s innovation is that it contains ‘shoppable’ content that can be scanned via the retailer’s mobile app, enabling a connection between its readers and its e-commerce store.

NEXT Directory, the home shopping catalogue of the high-street retailer NEXT, is a much bigger operation than either ASOS or Net-A-Porter. The print directory has been delivered by mail order for years to many UK households, and the extension to online was early, allowing NEXT to migrate sales online in sync with its customer base (see *Figure 24*).

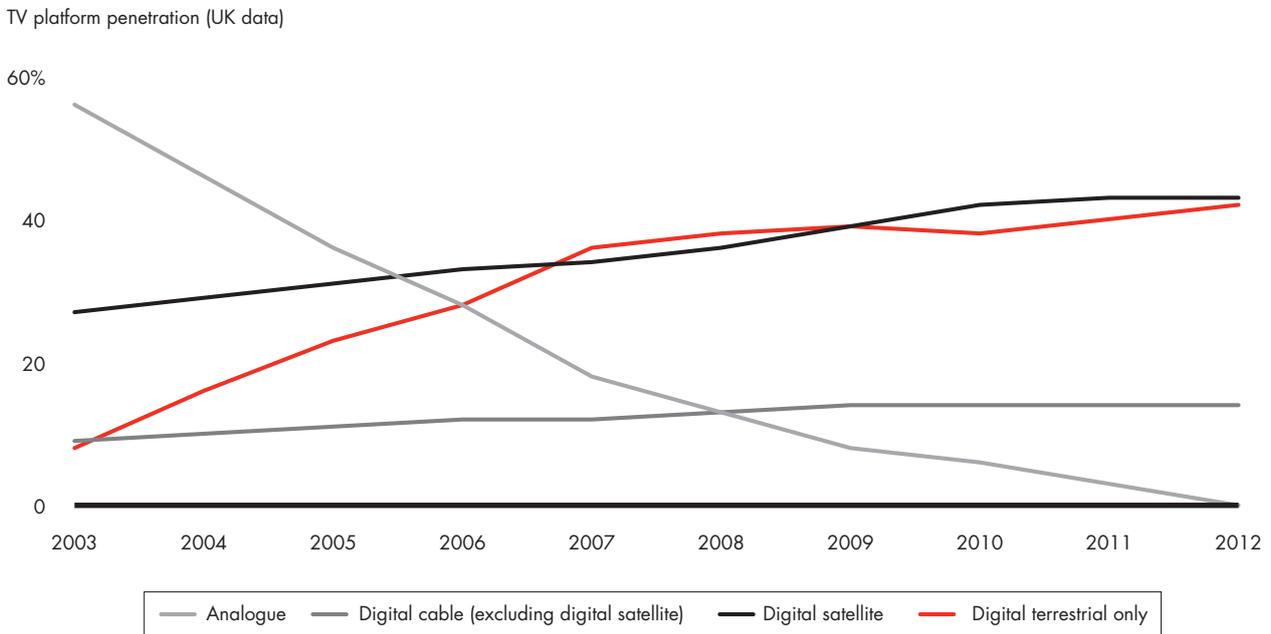
TV and its digital transformation

TV’s digital transformation has come in two parts. In the first phase, digital transmission to the TV set replaced analogue transmission over the course of the last decade, bringing multichannel to all 26 million UK TV homes by the end of 2012. The second phase—that of increasing Internet connectivity to both TV sets and other screens—is still in its infancy. If broadcasting is to have an ‘iPod moment’ it is yet to happen, but various forces are chipping away and making inroads into the linear TV landscape. We examine both of these trends, and the effect they have had on the UK TV market, in the next couple of pages.

Phase 1: Digital switchover. Digital switchover in the UK began with the launch of Sky Digital in 1998, swiftly followed by the launch of the ITV-backed digital terrestrial service ONdigital. The two services fared rather differently: Sky successfully migrated all of its satellite households to digital by September 2001, but ONdigital, rebranded as ITV Digital, shut down in May 2002, to be replaced by Freeview in October of that year. Freeview, backed by all the PSBs, saw far greater success, with 80% of the country receiving digital TV. While the past decade saw a shift in platform penetration, the decade ahead will see far more in the way of platform stability—digital cable penetration will hover at around 14% of UK homes, while digital terrestrial and digital satellite will remain between 40% and 45% (see *Figure 25*). There will, however, be some growth in the low end of the pay-TV market as BT TV and TalkTalk push their YouView-based products. These hybrid digital terrestrial/IPTV boxes are marketed at homes interested in connected boxes and PVRs, but unwilling to pay large sums for TV.

The main effect of digital switchover was bringing multichannel to every home in the UK. In 2003 the five main PBS channels’ viewing share was 76.4%, which fell to 53.3% in 2013, according to BARB data. But overall viewing of the PSBs held up better, only dropping from 80% to 72.2% over the same time period, as the introduction of PSB digital family channels (BBC3, ITV2, More4 and so on) went some way to capturing migratory audiences. Not nearly as much a revolution as once envisaged.

Digital switchover also enabled the introduction of new technologies, notably PVRs and HD transmissions. The PVR, championed by pay-TV operators and now in about 66% of homes, gave viewers the choice and freedom to watch programmes at times better suited to them. At first greeted with doom and gloom, with naysayers pronouncing the end for the linear schedule and viewers skipping through advertising breaks, time-shift viewing accounts for only 15% of total TV set viewing, while ethnographic studies show viewers skipping ads far less often than claimed.

Figure 25: Users were rapidly switching to digital well in advance of the analogue switch-off

Source: Enders Analysis

Phase 2: Digital convergence. With digital switchover now at an end, attention has shifted to the second phase of digital transformation in the broadcasting space: digital convergence. Increasing broadband and associated Wi-Fi connections and, to a lesser extent, 3G and 4G technologies have enabled audiovisual content to be delivered across multiple screens and connected devices.

A panoply of new services has sprung up to take advantage of this new way to deliver content. YouTube, by far the market leader in online video, launched in 2005 and now accounts for more than 60% of online viewing in the UK. First known for skateboarding dogs and other user-generated content, it has recently shifted more into professional content (we discuss YouTube in greater detail later in the report). The PSBs entered the online market at various stages between 2006 and 2008, first as catch-up services but now with the functionality to live-stream content and with the occasional show premiering online. More recently, subscription video-on-demand (VOD) services like Netflix and Now TV have entered the market with some success, generating revenues of £166 million in 2012, according to ScreenDigest.

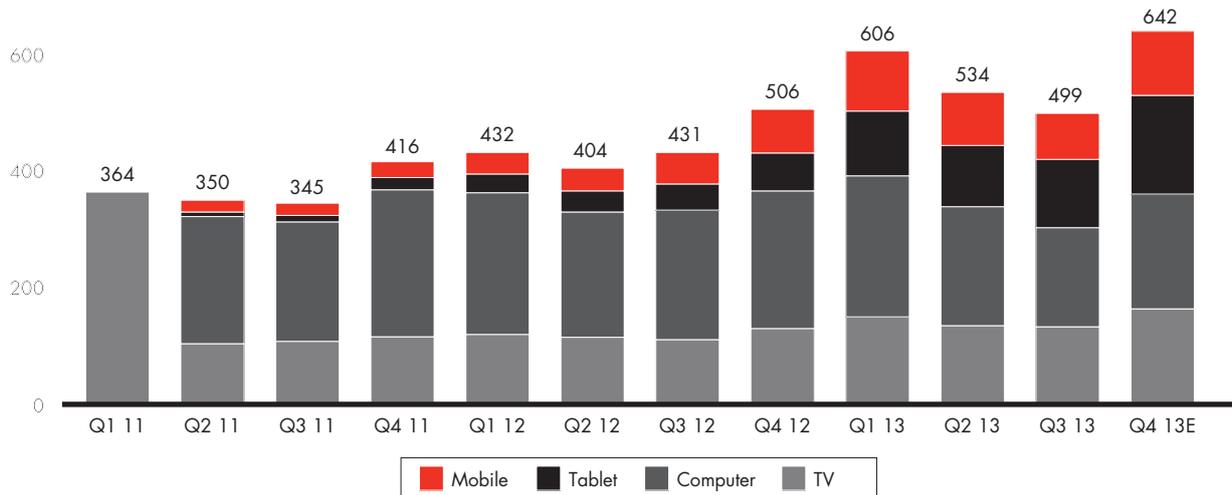
Alongside this proliferation of new service providers we have also seen the growth of new screens on which to watch. The majority of devices with a screen and the ability to connect to the Internet can display audiovisual content, both broadcast and other. Mobiles and tablets, the latter seen as a natural replacement for the secondary TV set in the bedroom or kitchen, now account for 40% of BBC iPlayer requests (see Figure 26).

We estimate that 20% of total viewing will be delivered over either mobile or fixed-broadband networks by 2020.¹¹ Of this, the overwhelming majority—about 75% according to our estimates—will be to devices other than the TV screen, and most will be with content providers who did not exist in the UK 10 years ago. But the UK TV market will not look completely different in 2020; the oligopolistic nature of content provision will remain rela-

Figure 26: Mobiles and tablets now account for 40% of BBC iPlayer requests

BBC iPlayer video requests

800M



Sources: Enders Analysis; BBC iStats

tively unchanged. Successful content will drive large audiences, which in turn will drive large revenues, which will feed back into quality content, making it hard for new entrants to gain traction. The main pay-TV players will be rather untroubled by the growth of connectivity. Sky has put a lot of effort into connecting its existing set-top boxes, with the number now standing at 4.4 million, while Sky Go, its mobile app, is one of the market's most successful. There is significant overlap between the Netflix and pay-TV operator subscriber bases, while Sky's Now TV is targeting free-to-air households.

The first phase of digital brought new players to the market through multichannel to every home in the UK, while at the same time allowing for some important technological innovations. The second phase looks set to do much the same, introducing viewers to YouTube and Netflix and the ability to watch content on any number of devices. However, there are still a number of unanswered questions and hurdles to overcome, with no clear path towards 'an iPod moment'. The only thing we can be sure of is that quality content, whether digital or analogue, connected or not, PSB or otherwise, will continue to thrive.

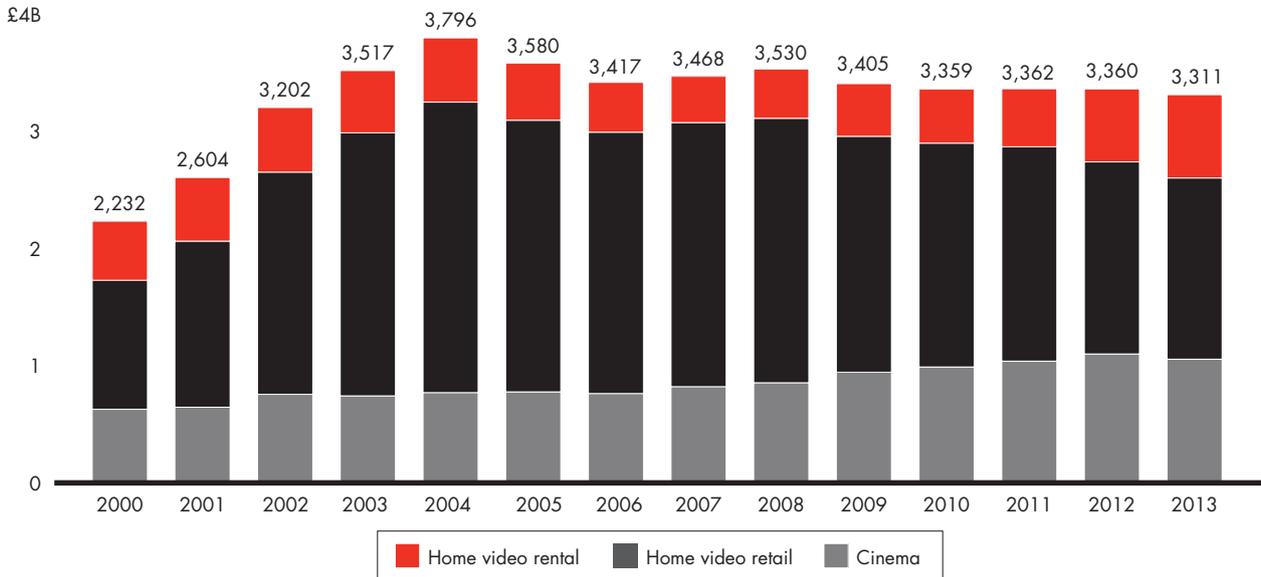
UK film entertainment goes digital

The UK is one of the world's largest markets for filmed entertainment (cinema and home video—TV covered separately) (see *Figure 27*). UK consumers spent £3.3 billion on filmed entertainment in 2013, excluding pay-TV and TV and Internet advertising, or three times the amount spent on recorded music.

Cinema remains the crucial shop window for feature films, generating over £1.05 billion in box office revenue in 2013, slightly down from 2012, which saw the release of *Skyfall*, the latest James Bond film and the biggest-ever

Figure 27: UK consumers spent £3.3 billion on film entertainment in 2013

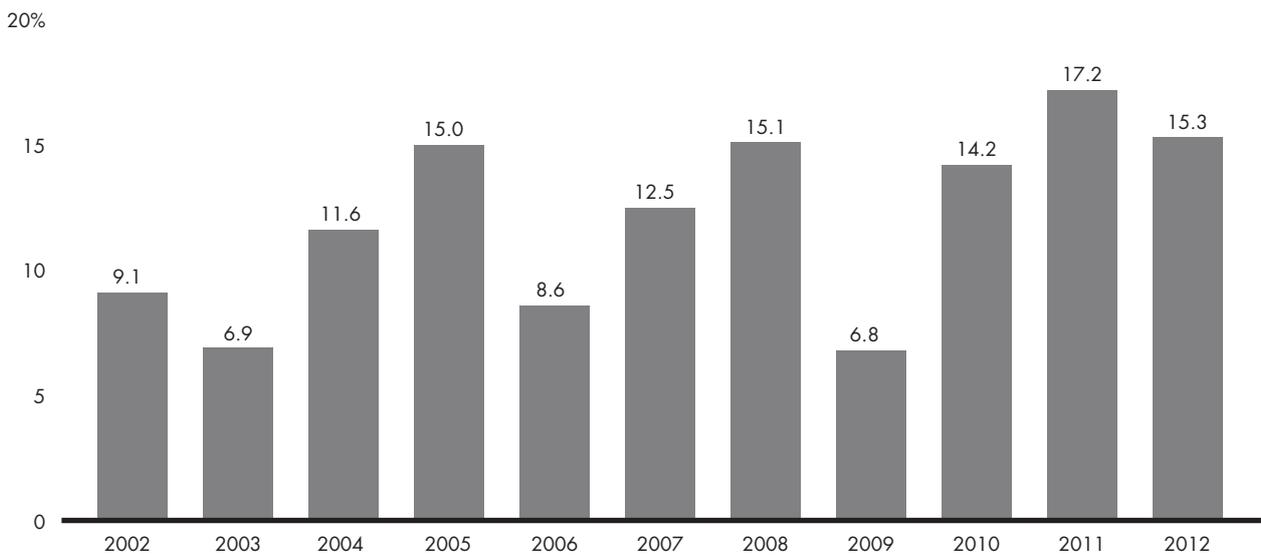
UK cinema and home video expenditure



Notes: Includes TV and Internet VOD; excludes pay-TV subscriptions
Sources: CEA; BVA/OCC/ERA/IHS; IHS/Kantar Worldpanel/BVA/MRIB

Figure 28: UK films perform extremely well, earning £1 on every £7 spent at global box offices in 2012

UK share of global box office in 2012

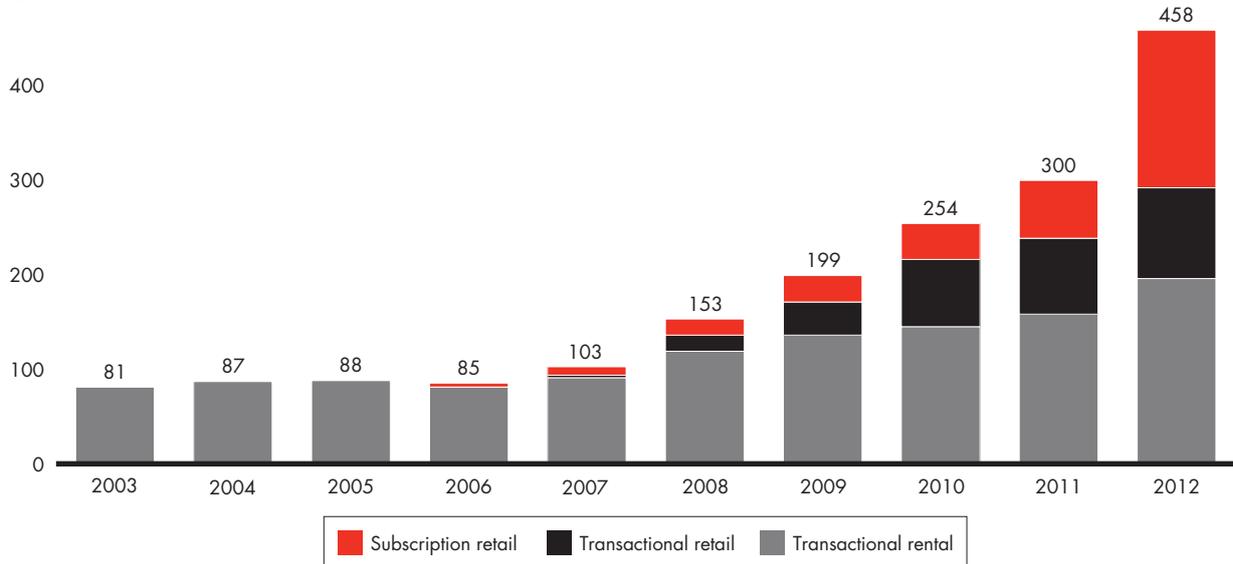


Notes: UK estimate from Enders Analysis; estimates for other countries from GroupM
Sources: Enders Analysis; GroupM

Figure 29: UK consumer spending on home video has been reenergised by the rollout of online subscription-based services

UK expenditure on digital video

£500M



Source: BVA

box office success in the UK. Globally, the UK was the fourth largest market by box office in 2012, behind the US and Canada, China and Japan, but ahead of France, India and Germany.

UK films also perform extremely well internationally, generating \$5.3 billion or £1 in £7 (a 15.3% share) of global box office spending in 2012 (see Figure 28). This includes studio-backed and independent films.¹² Major successes in 2013 include *Gravity*, a sci-fi film backed by Warner Bros. and produced in the UK, with special effects developed by Framestore, the UK visual effects company.

Consumer spending on home video has been reinvigorated by the rollout of online subscription-based services from Netflix and Sky's Now TV (see Figure 29). In 2013, according to the British Video Association (BVA), digital video sales generated £621 million or 28% of expenditure on home video, up from 22% in 2012.

YouTube UK: Multichannel networks and content creators

YouTube has come a long way since its first video, filmed by one of its co-founders at a zoo, was uploaded to the site in 2005. Since Google acquired YouTube in 2006, YouTube has been transformed slowly but continuously from a site known for home videos of cute pets and funny accidents to a diversified content platform that offers a wide variety of video clips, ranging from amateur home videos to professionally produced premium TV.

This development was enabled and driven by Google's focus on monetising the platform through advertising and introducing measures to resolve copyright disputes. As part of this process, users with popular videos were offered the chance to join YouTube's partner programme, providing them with the opportunity to monetise and improve the quality of their content. This segmentation allowed a unique type of 'middle tier' of content to

flourish on the platform: High-quality online video began to populate the gap between amateur video and professional TV content.

Over the last years we have seen savvy individuals and Internet entrepreneurs take advantage of this opportunity, in particular in the US but also in the UK. Many YouTube content creators have been able to turn their hobbies into successful careers, producing content for their YouTube channels and enjoying high levels of profitability—as long as relatively low production costs are met with a high number of views monetised through advertising or other opportunities (such as sponsorship or branded content). In parallel to successful individual creators morphing into YouTube stars, multichannel networks (MCNs) emerged on YouTube as umbrella organisations that aggregate YouTube channels and exploit the scale thus achieved to drive traffic, improve monetisation and enhance content quality.

While professionalising online video in this way remains small in the overall context of the TV industry, it nevertheless represents an area of significant growth, with many individuals and digital media companies building successful SMEs and contributing to the creative economy of the UK.

A prominent example of a successful British YouTube entrepreneur is the Londoner Jamal Edwards. As a teenager, Edwards started uploading videos on YouTube of rap freestyles and interviews with then-unknown but emerging artists like Rita Ora and Ed Sheeran. His success enabled him to work with filmmakers and entertainers like Spike Lee, P. Diddy and Will Smith; numerous leading businesses and brands; Channel 4; and Virgin Media. SBTU, which Edwards founded in 2006, developed into an online music and youth lifestyle broadcaster that secured private equity funding in October 2013, with the company valued at £8 million. The investment will be used to launch e-commerce, mobile services and live events.

There are many successful YouTubers in the UK, producing and monetising content across all genres. Many of those video bloggers, or vloggers, looking for further professional development to advance their channels and careers, take the step to join MCNs, which offer services ranging from production to monetisation and talent management in exchange for a share of the revenue generated.

Various types and sizes of MCNs exist, specialising in different genres, geographies and services. While the majority of MCNs are based in the US, a number of MCNs have developed in the UK, such as Base79, ChannelFlip and Little Dot Studios. In addition, some international, often US-based, MCNs are opening offices in the UK to work with local talent. This includes the leading MCNs for gaming (Machinima), fashion (StyleHaul) and music (Vevo). We also see a number of emerging specialised digital media start-ups that offer services related to the YouTube and online video ecosystem, such as analytics, fund-raising or talent management. An example of the latter is the London-based talent agency Gleam Digital.

As the most popular online video platform, YouTube provides the opportunity for creative individuals and start-ups to showcase their talent and content on a global scale, build a fan base and then translate this popularity into business success by employing various monetisation mechanisms (see *Figure 30*). While the success of such ventures still varies on a case-by-case basis, the general trend of strong growth in the online video sector is supported by cycles of improvements in monetisation and content quality.

More and more traditional media companies are investing in the MCN space to gain exposure to the market's growth. We estimate the UK online video market to reach around £300 million in advertising revenue in 2013, which—while representing only about 8% of TV advertising revenue—offers high growth potential. Not only do online video and MCNs provide established media companies an opportunity to redistribute and monetise clips of their linear TV or movie content, but the online space also increasingly is a place where traditional media com-

Figure 30: Successful British YouTubers

Content creators	Subscribers	Total views	Genre
SBTV	0.4 million	202 million	Music, lifestyle
Tomska	2.6 million	466 million	Comedy, animation
Shirley B. Eniang	0.3 million	15.6 million	Beauty, style

Note: As of January 2014
Sources: Enders Analysis; YouTube

panies are looking to find and develop talent. There are several examples of YouTube creators transitioning to produce content for linear TV. A recent example in the UK is the commissioning of several original programmes from YouTube creators for the local television service London Live, which will launch at the end of March 2014.

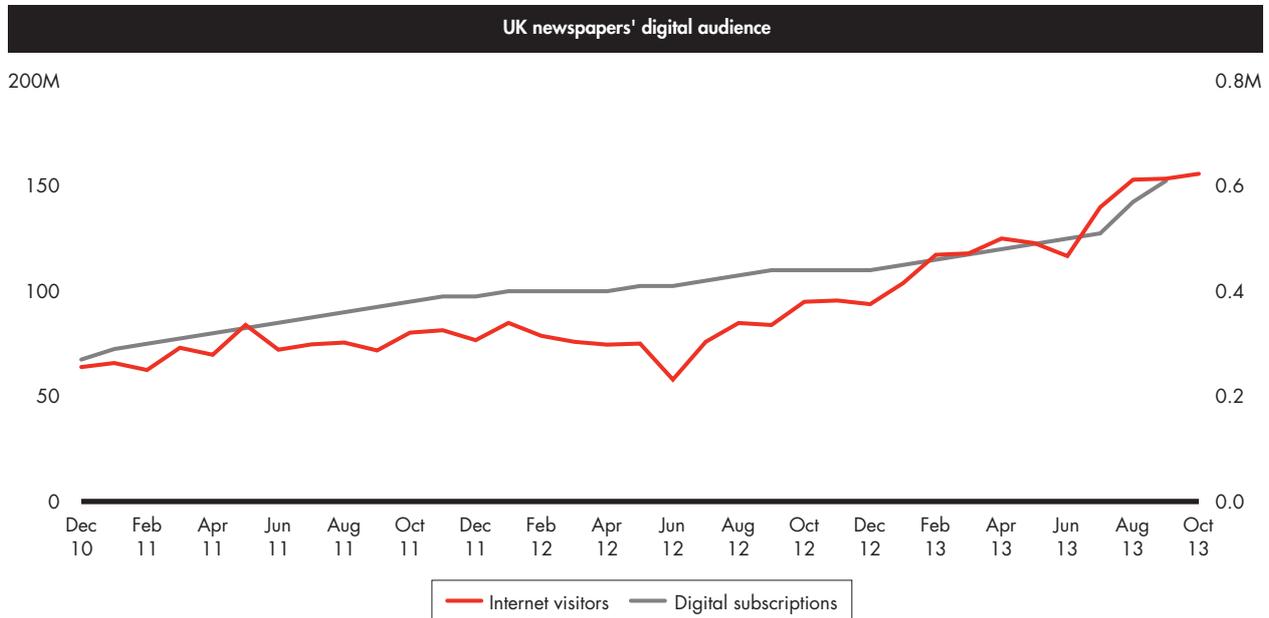
With linear and online worlds converging on all devices, online video will be a dynamic space for creative talent and companies to emerge and build expertise in their respective areas, contributing to the UK's creative economy.

The UK press

The UK has one of the most extensive and influential newspaper sectors in the world: 11 national titles (about 20 if we include discrete Sunday editions) and 1,100 local titles, which combined sell more than 10 million copies per day. On top of this, there is a proliferation of free newspapers. Digital technology has presented the press with two challenges and a huge opportunity. The newspaper distribution model has been undermined by ubiquitous digital media, which has also caused a collision of different business types, including news start-ups, aggregators, and search and news broadcasters. But underlying demand for news and news-related content has not fallen, and indeed digital audience figures would suggest the reach of many UK news brands—and UK-sourced news content in aggregate—has grown substantially (*see Figure 31*). Income may be down, but demand would appear to be up.

The frenzied debate about subscriptions (so-called paywalls) will continue for some time, with—perhaps surprisingly—some major publishers assuming positions at either end of the spectrum rather than clustering in the middle. We observe that most publishers have not welcomed technology advances—understandably, because the enormous revenues afforded by 'closed' print distribution have unravelled. But this is hardly the point. UK publishers

Figure 31: The digital audience for UK-sourced news content has grown dramatically



Note: Internet visitors = US + UK PC Internet users plus smartphone users from February 2013
Sources: Company data; comScore

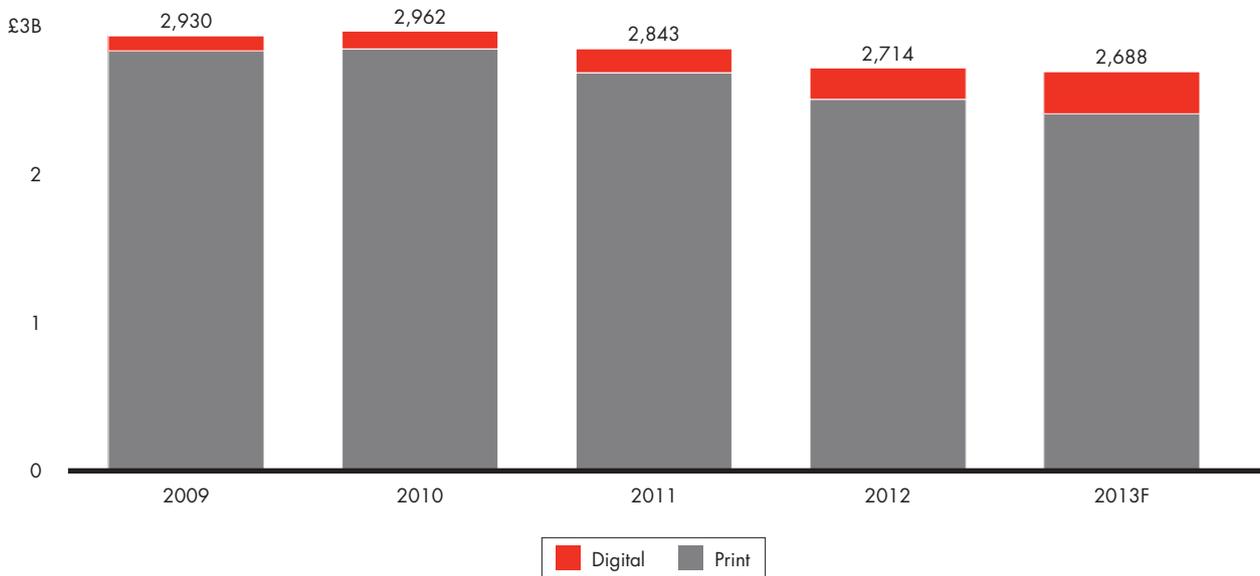
have nonetheless embraced technology. The scale and reach of services such as the *theguardian.com*, *mailonline.com* and *telegraph.co.uk* signal the realisation of substantial editorial and brand ambitions that were unimaginable in the pre-Internet age. Likewise, magazine publishers such as Future have used technology to reach global audiences for a variety of specialist content. UK print media has always been disproportionately large, and in the last few years its publishers have extended their share of voice on the global stage by creatively developing social and mobile digital media, although overall revenues from print and digital remain in decline (*see Figure 32*).

Some UK publishers may fear technology (as News UK CEO Mike Darcey indicated at the Enders Analysis Media & Telecoms 2014 Conference), but digital has created many exciting new frontiers for journalists and newsrooms. As a way to increase reach, digital enables newspapers to combine print, mobile apps and broadcast content, as well as live interactive content. Real-time reader comments have become a ubiquitous feature of modern news provision. Data, so critical for modern media businesses to embrace as they develop their consumer and commercial services, is also intrinsic to the content development of digital news, with interactive charts and elegantly illustrated data becoming core to how information is presented and disseminated.

Perhaps because the UK news industry is so large and influential, and doubtless also because of the central role of the BBC, established UK news brands continue to play a disproportionately important role in digital news and information discovery, despite the rapid growth of social and aggregator media. The UK content sources remain central, perhaps more central than in some other territories; and their creative, energetic digital development should secure them a future in the new digital ecosystem, even though the overall scale of such services will inevitably diminish.

Figure 32: Digital news revenue is increasing but is not yet offsetting the decline of print revenue

Print vs. digital revenue (UK)



Notes: Circulation and advertising revenue only; excludes Metro
Source: Enders Analysis

Books: A sector of many sectors

All markets vary greatly, but if news is one of the most homogeneous, then the book category is the most heterogeneous, even more so than the highly diverse magazine sector. Publishers and consumers engage in the market for an extraordinarily disparate set of reasons, some of them inner-directed (pleasure, self-development), many of them outer-directed (problem-solving, guide, professional resource and so on). The £3.3 billion (Publisher Association figures) UK book market has been very steady for many years, though the transition to e-commerce and, more recently, to e-books has been, respectively, substantial and rapid.

Famously, Jeff Bezos built his Amazon e-commerce model using books. To oversimplify, he reasoned that small, unbreakable products with an existing, detailed and enormous database of lines that retailers could never comprehensively stock provided an unambiguous competitive advantage for an e-commerce service. He also focused on the retail infrastructure, believing that consumers would respond to discounts, convenience and exemplary service levels. Meanwhile, in the UK, the Net Book Agreement (preventing retail price differentiation) had fallen in 1997, before Amazon UK was created.

Focused on building market share at the expense of margin, Amazon quickly became the largest book retailer in the UK (Amazon is less successful in territories like France where discounting is restricted through policy). Yet Amazon's share of UK book sales has not grown to (say) 50% for two key reasons. First, we believe the heaviest UK book buyers remain enormously promiscuous consumers, buying books in a wide variety of outlets. Second, being convenient and ruthlessly efficient is not the same as providing a brilliant discovery solution; digital can never recreate the serendipity, pleasure and attractive curation of a good bookshop. Indeed, one of the effects of

the rise in Amazon's share (alongside the rise in share of supermarket bookselling) has been that it has tended to split the market, making the big sellers even bigger and sustaining the very long tail of low-selling niche titles, but damaging the profitable 'mid-sellers' of many publishing lists. These are the books that consumers are inspired to purchase in the environment of a good bookshop.

E-books. Digital books existed online at a very early stage, but the e-books explosion came very late in relation to most media. The industry was waiting for a game changer like the iPod that arguably has not and will never come. Nevertheless, Amazon effected the explosion by introducing the Kindle e-reader, and despite the launch of numerous other e-readers by businesses including the giant US chain Barnes & Noble (Nook) and Sony, Amazon's share of the e-book market is substantially greater than its share of physical books.

When the explosion came, it came quickly because the consumer did not need educating, and suppliers fulfilled the market en masse. Readers understood how e-readers would work because they already had iPods for their music collection. However, growth in e-books started to plateau just two years later, in 2013. Bertelsmann CEO Thomas Rabe told the 2014 Enders Analysis conference that e-books represented about 20% of total sales for Penguin Random House, but that growth was slowing.

E-books do not comprehensively solve a problem for consumers in the way that digital music does. Consumers rarely need to carry more than one book at a time (the annual vacation being the obvious exception). CDs (or DVDs) are not physical objects with a strong emotional connection for consumers. We believe the heterogeneity of books and the diversity of the consumer's reading objectives is manifest in the wide disparity of penetration across e-book categories. For example, popular and genre fiction titles have migrated to digital very rapidly. The Kindle is compact and light (ideal for a handbag); it enables the reader to adjust font size (ideal for readers with poor eyesight, including older readers); and it elegantly prevents one's home or office from filling up with books (an advantage perhaps also welcomed by those people who are less attracted to dedicated bookshops).

In volume terms, we expect e-books to become about 35% of the total market in the next two years, and then continue to rise only very slowly. Amazon clearly owns the e-book market, and its concentration of power in digital sales is a central reason why consolidation among publishers has continued. However, the single biggest challenge for publishers will be ensuring they can economically supply a market that can realistically support a much smaller number of dedicated bookshops; and, by extension, that the remaining retail infrastructure can survive on the lower volumes of physical book sales.

One additional challenge is time itself: Consumers are increasingly spending time on mobile devices (smartphones, tablets and e-readers), only some of which is dedicated to reading. Consumers are increasingly snacking on shorter-form activities than books.

But some developments are more positive. We don't believe book pricing has been 'disintermediated' by digital options, as albums have been in music. And, while curated services may evolve (think of a guide to New York that takes all the best bits of the various guides you know), publishers should be able to maintain control over this process. We consider mass-market subscription services to be a bigger challenge in books than in music (audiences and their reading needs are again too heterogeneous), though some categories could perhaps develop successful specialist and niche services, and international subscriptions may also evolve.

As with other media, piracy is a huge problem in books. E-reader suppliers operate digital rights management (DRM) solutions, preventing consumers from passing books from one device type to another, but overcoming

DRM restrictions appears to be relatively trivial for some types of consumer. Piracy is particularly problematic in some genres, such as student textbooks, but it damages creative incentives across the sector as a whole.

Beyond e-book editions, how much digital innovation have we seen in book publishing? Faber and Faber's app for *The Waste Land* offers a genuinely new means of experiencing T.S. Eliot's poem (and there are doubtless many such examples), but innovation on this scale across the product inventory would be onerously expensive given a UK industry that publishes more than 100,000 new titles every year. Digital development will be no different from the vigorous innovation that takes place in the UK's print publishing marketplace: It will vary enormously from sector to sector, category to category, title to title. For example, music, film and art subjects offer authors and developers extraordinary new options for creating and curating content.

A critical layer in the next five years will be the crossover between the consumer and educational sectors, where content services that have traditionally existed in print are already assuming a very different format in digital. Enterprise, institutional and government spending decisions in the coming years will hugely influence outcomes for Amazon, Apple and traditional publishers. But it seems doubtful that the core narrative thrust that lies at the heart of book reading will be much changed in the next 10 or 50 years, as that communication technique speaks so directly to who we are. And a still safer bet: UK publishers will continue to play a critical role in what is a rapidly growing global reading industry.

Collaborative creative networks

The Internet breaks the barriers to many forms of collective activity erected by physical distance, offering unprecedented opportunities for collaboration and collective organisation. Although collaboration was embedded from the beginning, it was confined to a small subset of Internet users who only needed the basic Internet infrastructure (pre-Internet payment systems, social networks and platforms friendly to the less technically skilled user). As the Internet's infrastructure has developed, collaboration has become feasible on more projects by a larger share of users. The advent of connected devices, as discussed earlier, continued this process by expanding the Internet's reach.

We have highlighted four key examples of this collaboration:

1. **Content contribution.** For example:

- *Birds & People*, an edited collection of photography composed of contributions from around the world
- Articles for online encyclopaedias and wikis, ranging from Wikipedia to the *Game of Thrones* wiki to the *Stanford Encyclopedia of Philosophy*
- Blogging collectives
- Open-source software

2. **Soft resources.** Includes editing, fact checking, reader comments, administration, technical support. These forums require administrators to regulate content, but include the use of blogs to draft fiction and appeal to fan fiction communities. Even the most open projects tend to rely on volunteers to resolve disputes and administer the basic rules that allow further contribution to take place, e.g., Wikipedia.

3. **Hard resources.** Usually includes money, but also website hosting and so on. Crowdfunding websites help fund projects—typically small ones—which can range from short films to product development to journalistic investigations. Broadly construed, this category includes social networks, which help facilitate creation by linking people and advertising creative projects taking place at a particular time and place.
4. **Promotion and marketing.** Some examples:
 - The Wikimedia Foundation. Includes Wikipedia, Wikisource, Wiktionary. Online fund-raising enables the foundation to continue to exist, but the strength of its resources is its openness to user contributions, the platform for which is laid by a smaller number of volunteers dedicated to implementing rules and maintaining editorial standards.
 - Crowdfunding. Includes Kickstarter, the popular fund-raising platform which funds creative projects. Since its launch in 2009, 5.7 million people have pledged \$965 million to fund 55,000 creative projects. It also includes Peter Jukes, a freelance journalist, who has been live-tweeting the UK phone-hacking trial in detail and crowdfunding his expenses. He has raised more than £20,000 from 786 donations. A collaborative collects each day's tweets into pages on Storify, and other Twitter users are able to correct any misheard names or mistaken details in real time, according to his blog. The result may be the most comprehensive, accurate account of a British trial in history.
 - GuardianWitness. This smartphone app allows readers to submit photos of events or on a particular theme, to be used in *The Guardian* articles.
 - Wikia. A free Web-hosting service portal of wikis dedicated to video games, film franchises, TV series, comic books and so on. Anything with a fan base probably has a wiki, and most of those wikis are hosted by Wikia.

UK recorded music on the global stage

The UK's recorded music industry is one of the most dynamic and exciting in the world. Following One Direction's worldwide success in 2013, British artists have topped the global best-seller lists for six of the last seven years (see *Figure 33*).

Adele's *21* has now sold almost 30 million copies worldwide, putting it in the top 30 highest-selling albums of all time. In January 2014, One Direction were named Global Recording Artists of 2013 by IFPI (International Federation of the Phonographic Industry), beating Eminem and Justin Timberlake, and becoming the first group to top the US *Billboard* chart with their first three albums.

In total, British acts account for more than one in eight of all albums sold around the world, generating 13.3% of global album sales in 2012 (the latest year for which figures are available), with steady growth in share in the last few years (see *Figure 34*).

The flip side of the popularity of UK artists is that they attract piracy. According to data produced by Musicmetric, a London-based music technology start-up, in 2013 UK artists accounted for 212 million BitTorrents, part of a total of more than 1 trillion illegal downloads. Obtaining copies of Adele's works, of course, was a major factor behind this popularity.

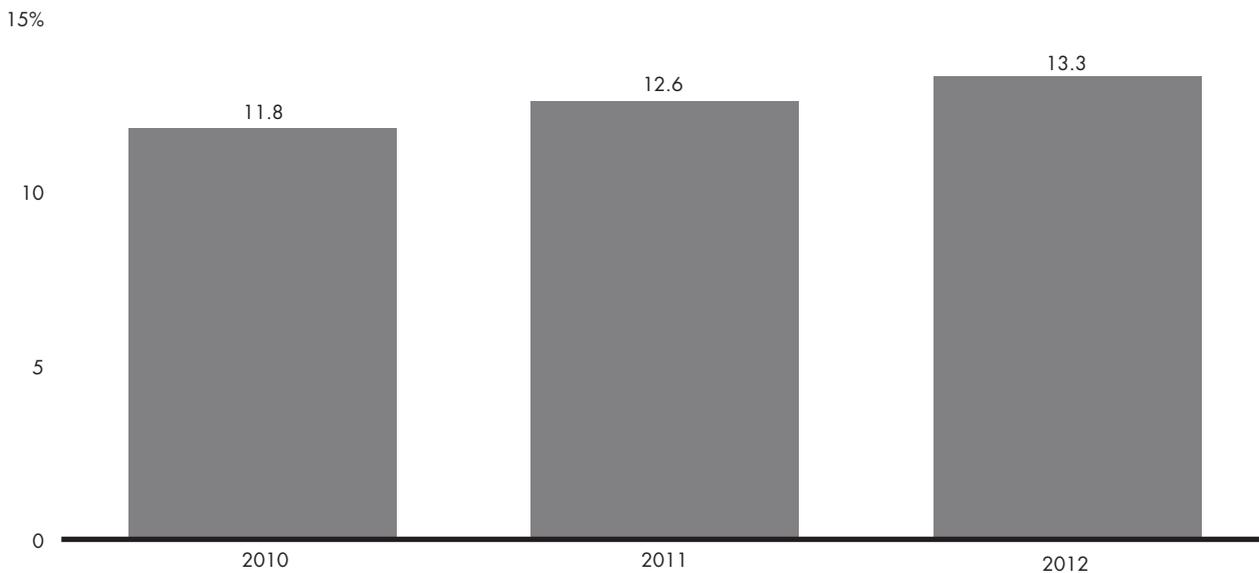
Figure 33: British artists have topped the global best-seller lists for six of the last seven years

Year	Artist	Album
2013	One Direction (UK)	<i>Midnight Memories</i>
2012	Adele (UK)	<i>21</i>
2011	Adele (UK)	<i>21</i>
2010	Eminem (US)	<i>Recovery</i>
2009	Susan Boyle (UK)	<i>I Dreamed a Dream</i>
2008	Coldplay (UK)	<i>Viva La Vida</i>
2007	Amy Winehouse (UK)	<i>Back to Black</i>

Notes: 2007–2012 based on album sales; 2013 based on all physical and digital sales
 Source: IFPI

Figure 34: British artists are gaining share of global album sales

British artists' share of global album sales



Note: 2012 latest year available
 Source: BPI

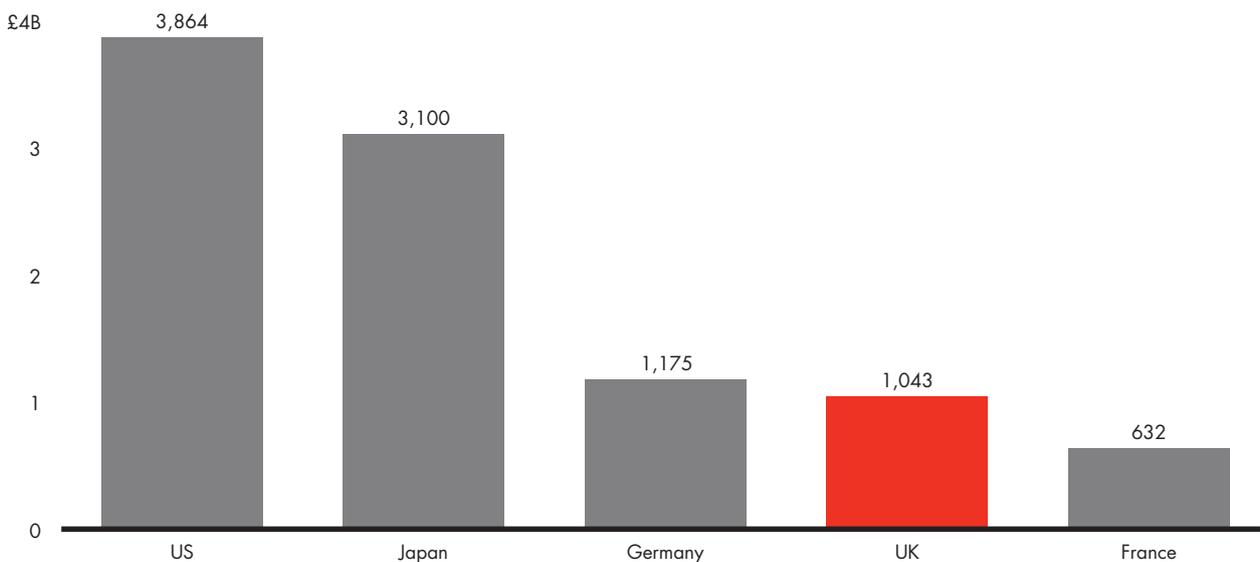
Recorded music was the first creative industry to confront the physical-to-digital transition. iTunes launched in the UK almost a decade ago, in June 2004. Since then, consumer spending on digital tracks has grown rapidly, as downloads replaced the CD as the standard format for personal music listening. More recently, on-demand streaming services, usually sold on subscription, have come to the fore, powered by the rapid take-up of smartphones.

Following a period of steady decline in the last decades, spending on recorded music flattened out in 2013, dropping just 0.5% year-on-year compared with 2012, with total spending of £1,043 million (see Figures 35 and 36). Digital formats now account for half of total spending. In 2013, spending on streaming services such as Spotify and Deezer topped £100 million for the first time.

In this context, UK artists derive the bulk of their revenues from other channels to the music consumer, including live events, music publishing (e.g., the use of compositions in broadcasts) and brand partnerships.¹³ Technology is a vital adjunct to artist management, allowing artists to locate their most successful platforms for fan interaction (via Facebook, Twitter, SoundCloud); to assess sales and plays across all platforms; and to share files (via BitTorrent). Musicmetric's artist analytics dashboard is designed to help managers optimise touring, promoting, plugging and releasing music. For example, Jake Bugg, one of the breakout acts of 2013, finds his fans on Facebook and uses Twitter to interact with them, while SoundCloud is the more important platform for fans of Laura Mvula. Indeed, SoundCloud is a platform for new artists to make their music available; it's also used by professional musicians to distribute their music (via links to Amazon and iTunes).

Figure 35: The UK is the fourth largest market for music retail spending but has the highest spending per capita

Top five recorded music markets by retail spending, 2013

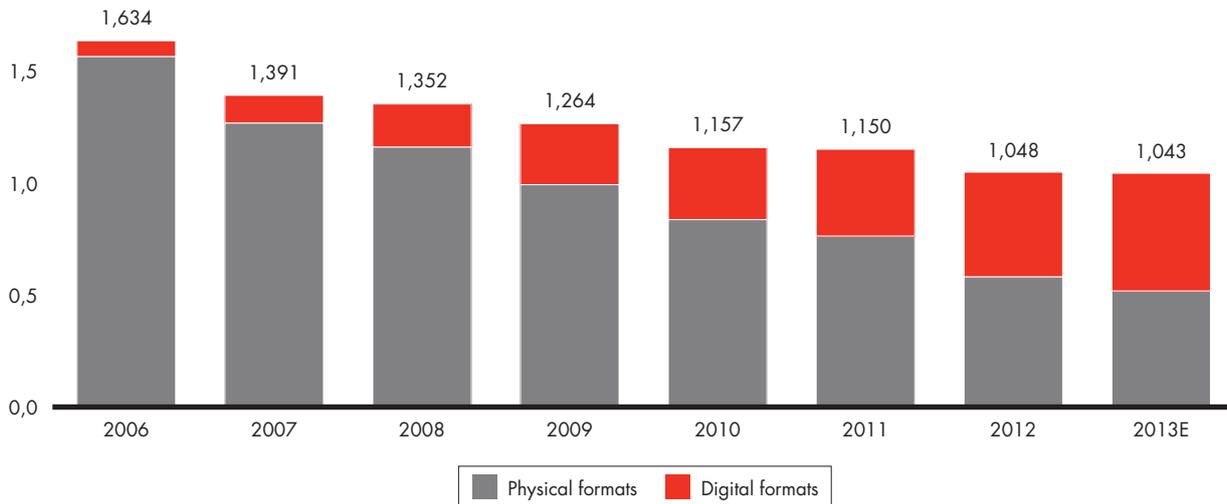


Sources: Enders Analysis; BPI; BVMI

Figure 36: The rise of digital is slowing the decline in spending on recorded music

UK recorded music retail spending

£2,0B



Source: Enders Analysis based on BPI

Arts institutions and digital

This section was submitted by the Arts Council England

Digital activity in the arts is expanding, with many arts and cultural organisations reaping benefits and positive experiences from their increased use of digital technology, according to the *Digital Culture* report—a summary of findings of the first year of the three-year Digital landscape survey, commissioned by the Arts Council, NESTA and the Arts and Humanities Research Council (AHRC), as part of the Digital R&D Fund for the Arts.¹⁴ However, the report also identifies three significant barriers for organisations attempting to achieve their digital ambitions: funding, resources and skills. Of these, 68% identified lack of in-house staff time; 68% cited a lack of internal funding; and 61% had difficulty accessing external funding for digital projects.

Significant skills gaps were reported in technical areas, such as data analysis (41% of organisations), software development (40%), user interface design and testing (39%), and database management and customer relationship management, or CRM (41%). Of these organisations, 40% also felt underserved with respect to legal advice around IPRs.

Digital leadership is a key issue; one-third of organisations say their senior management is not knowledgeable about digital. A cultural and attitudinal shift is needed for organisations to better understand the benefits of investing in digital skills, content and technologies to support their core work.

The availability of high-quality, live-streamed or pre-recorded digital arts content appears limited; currently, only

15% of organisations say they live-stream performances online. For smaller organisations, in particular, professional-standard recording of performances remains difficult, due to insufficient capacity and skills.

The Arts Council's 2012 creative media policy aims to achieve 'an increase in the quality, volume and reach of digital content and experiences from the arts and cultural sector to support artistic and audience development and economic growth'. The Art Council's vision is of an extensively connected and dynamically 'networked' cultural ecology, in which it supports a wide range of projects and ideas and invests strategically in some large initiatives to catalyse developments in key areas. These include stimulating a new wave of high-quality original-content production, pushing artistic practise forward; ensuring the widest distribution of UK publicly funded art and culture globally; and supporting and encouraging organisations to use data more effectively to drive audience engagement.

Through the work of their funded portfolio, grants for the arts programme and their strategic funding initiatives, artists and arts and cultural organisations will be supported to adapt to and thrive within the complex, fast-moving digital landscape. The hoped-for outcome will be an increase in public access to, and engagement with, high-quality arts and cultural content, and an evolution in the capture, sharing and use of data to help cultural organisations better service audiences (including new audiences) and develop more resilient business models.

The Arts Council will play an active development and coordination role, helping to create the conditions for a more dynamic digital ecology for arts and culture. They will broker conversations between the arts and cultural sectors and the wider creative media and technology industries to encourage and attract other regional, national and international partnerships and investment.

Digital content production and distribution. The last five years have been an exciting time in the online arts and culture market. New content creators are emerging, along with new types of service and innovative content formats, replicating trends in other content markets. Arts organisations such as Tate Media and the National Theatre's NT Live are now successfully distributing arts directly to audiences online, and are broadcasting theatre performances in cinemas internationally. Services such as Digital Theatre and HiBROW are playing an important role as online video aggregators for artists and arts organisations, and broadcasters are providing arts content through specialist linear channels, generalist channels and online services such as Channel 4's 4oD.

However, there are areas of opportunity and need, with a paucity of high-quality 'born digital' and 'captured' arts and cultural content currently available to audiences. Funding for original broadcast and digital arts content is limited and much of the arts and cultural sector lacks the expertise, skills and capacity to produce high-quality digital content and experiences. There is a major opportunity, therefore, to extend the public value and reach of arts and culture, and possibly to generate commercial returns, through greater investment in digital content production and distribution.

High-quality arts content available on the major aggregators (e.g., YouTube) is limited. It can be difficult for audiences to discover this content, and the audience reach of specialist digital distribution platforms for arts content is currently small. However, there are opportunities through partnerships with MCNs, device manufacturers, corporate sponsors and technology providers to build a UK arts sector content supply of quality, volume and scale. This year, the Arts Council will be commissioning a new MCN for the arts, tapping into existing industry expertise in programming, monetisation and discoverability, to increase the availability of quality content and extend the public value and reach of Arts Council-funded work.

Linked to this is the challenge of search optimisation. To aid the discoverability of content, new sector-wide approaches to metadata are being explored internationally, with major initiatives underway to open up cultural collections (e.g., the Digital Public Library of America and Europeana). There is an opportunity for the UK to

better promote its cultural assets within this ambitious vision. Metadata alignment across collections and arts institutions is a complex challenge but is essential to improve discovery and provide links between previously siloed digital assets.

Data and audiences. In a 2013 report by Jonathan Drori and Dominic Tinley of ThoughtSmith, *Digital Marketing and Customer Relationship Management*, commissioned by the Arts Council, a range of data-related digital capacity needs are identified. It notes that, compared with their commercial counterparts, many arts organisations fall short of achieving their potential return on investment. While digital data could deliver significant value to arts and cultural organisations, exploiting it effectively will require additional investment in technology and specialist skills.

The report recommends that the arts and cultural sector:

- Improve its CRM and digital marketing techniques
- Improve its data gathering and analysis to cross-sell, maximise income and encourage philanthropy
- Reduce costs and achieve economies of scale through digital collaboration, including better procurement and shared functions (e.g., ticketing, yield management, collaborative buying and sharing specialist skills)
- Share understanding of technology and its management and increase the level of such skills on executive and trustee boards

Unlike commercial companies, Arts Council-funded organisations have public sector objectives that commit them to extend the reach of arts and culture as widely as possible. This requires them to balance commercial and public service considerations. As a responsible funder, the Arts Council needs to ensure that organisations develop their income and resilience, but that their overarching priority is to increase public access.

There is a significant opportunity for arts organisations to work together to gain a larger market share for the arts. This will require better collaboration across the publicly funded arts and cultural sector. In the entertainment sector, larger businesses are investing in data scientists, digital asset management platforms, social CRM systems and more. Without cross-industry collaboration, it will be very hard for the arts and cultural sector to keep up with state-of-the-art approaches to data management.

How policy makers can help creative industries benefit from the digital transformation

There can be little debate that the creative industries in the UK are in an enviable position in relation to their counterparts in many other economies. They boast an unusually large economic representation, and have shown resilience in growth that has eluded most other sectors during, and after, the recent financial recession.

Statistics published recently by the DCMS showed that the creative industries accounted for 1.68 million jobs in 2012, 5.6% of all jobs in the UK. And employment in the creative industries increased by 8.6% between 2011 and 2012, a higher rate than for the UK economy as a whole (0.7%).

There was significant growth even in terms of GVA: The creative industries contributed £71.4 billion (5.2%) to the UK economy in 2012, an increase of 15.6% since 2008. Contrasted with a corresponding increase of 5.4% for the UK economy as a whole, the economic argument for supporting and fostering further growth in the creative industries becomes evident, even without considering the contributions of creative endeavours outside of the traditional creative industries. Researchers are now looking at the relationship between the creative industries and the broader economy. The UK Design Council tracked 166 public 'design intensive' firms over a 10-year period between 1994 and 2004, and showed that they outperformed the FTSE 100 by 200% through bull and bear markets.

There has been, and continues to be, significant focus in the UK on both the challenges and opportunities facing creative industries. Digitisation has proved disruptive for many, but new business models are emerging that capitalise on the explosion of available data and bandwidth. Encouragingly, debates on future strategy are positive and routinely engage both the government and private participants. We highlight below a few subjects that policy makers must consider in order to continue to support and enable growth.

Technical infrastructure

The UK's digital readiness is down to a virtually ubiquitous and competitive supply of high-speed broadband (over asymmetric digital subscriber line, or ADSL, and cable) to households and businesses, with 85% of households having chosen to connect. According to Ofcom, 73% of postcodes were served by superfast broadband services by June 2013, supplied over next-generation access (NGA) networks (either Virgin Media's cable network or BT Openreach/Kcom's fibre broadband service), up from 65% in June 2012.

Ofcom says the UK is on course to serve NGA to 90% of postcodes by the end of 2015; the principal technology being used is fibre-to-the-cabinet (FTTC) as opposed to fibre-to-the-home (FTTH).

NGA will support the further development of the UK's digital economy. Even more specifically, the British Council states: 'Digital infrastructure, with high-speed broadband capacity and universal reach, is probably the most effective single driver of modern creative industries—as well as delivering wider social and cultural benefits'. For businesses, NGA allows the exchange of much bigger files (e.g., graphics), the ability to run more complex e-commerce sites that serve global customer bases, high-speed bandwidth Wi-Fi and remote monitoring through closed-circuit television (CCTV).

Multiple reports from Ofcom point to its belief that superfast broadband will mean more investment, innovation, differentiation, choice and competitive prices for consumers.

However, the FSB, which describes itself as the UK's largest campaigning pressure group protecting the interests of small and midsize businesses, published a report in early 2013 highlighting the importance of connectivity to SMEs and issues of concern.

According to the BIS 2012 Small Business Survey relating to employers, 91% of SMEs accessed the Internet through broadband, of which 70% promoted goods and services through a website and 41% actually sold them online.¹⁵ This shows that the UK still has considerable unexploited potential for SMEs to build their online presence.

The UK ranks high on most demand-side metrics of digital consumption, but there are still pockets of failure (usually geographic) in the supply side of the digital economy. High-density areas like cities and business hubs are easier to serve with NGA commercially than lightly populated towns and rural areas, which tend to be the most difficult. Like other sizeable countries, the UK faces the challenge of including rural SMEs in the rapid connectivity gains that larger cities and business hubs have enjoyed.

Happily, this is a priority for a number of government bodies and private telecoms and broadband providers. The DCMS has a stated ambition to achieve a transformation in broadband in the UK, with everyone in the UK able to access broadband speeds of at least two megabits per second (Mbps) and 95% of the UK receiving far greater speeds (at least 24 Mbps) by 2017. A number of underlying initiatives target rural communities. Unique public-private partnerships are proving successful in addressing the problems of rural connectivity.

Superfast Cornwall, a pioneering partnership funded by the EU, BT and Cornwall Council, has already made fibre-optic broadband available to about 100,000 Cornish homes and businesses. Funded to the level of £132 million, including £78.5 million from BT alone, the programme aims to bring fibre-optic broadband to 95% of homes and businesses in Cornwall and the Isles of Scilly by 2015, with the remaining 5% enjoying faster broadband speeds thanks to alternative technologies such as satellite.

In order to realise the economic benefits of Superfast Cornwall, demand stimulation among businesses and households has been key, with traditional and online advertising campaigns deployed. Businesses are also receiving training on the additional opportunities they can enjoy with superfast broadband. Research is being undertaken to identify ex-post gains for the business community, thus providing valuable lessons for other similarly isolated areas.

In 2012, the government pledged £530 million to stimulate commercial investment to roll out superfast broadband in rural communities. This rollout is being managed by Broadband Delivery UK (BDUK), a team within the DCMS, in partnership with BT Openreach. BT has already committed some £700 million to BDUK, anticipating that up to £1 billion will be invested. To date, 44 BDUK contracts have been signed, and nearly half of these projects have 'live' street cabinets.

The Rural Community Broadband Fund, jointly funded by the Department for Environment, Food & Rural Affairs (Defra) and BDUK, will have up to £20 million to enhance connectivity in the 10% hardest-to-reach areas, which risk only receiving standard two Mbps broadband. BDUK is currently undertaking a significant amount of work in Cumbria, as it develops its proposals to bring superfast broadband to the county.

Improved rural connectivity could have a disproportionately significant impact on the creative industries, as they currently tend to form regional clusters and hubs. A 2010 analysis by NESTA found that two groups of creative sectors tended to be co-located. One group comprised software, games and electronic publishing; the other group comprised music, film, radio and TV. Geographical proximity and increased interactions play a crucial role in

information and knowledge spill-overs and in improving the innovative capacity of firms. However, multiple academic studies suggest that geographical proximity need not be a condition for an efficient cluster. The development of broadband will make networking less dependent on geographical co-location.

Improving connectivity for businesses across the UK will expand markets, increase competition and innovation, and facilitate more geographically balanced (and potentially more sustainable) development of the creative industries.

Skills and education

As our dependence on technology has increased, the skills required to participate in the creative industries have become correspondingly more diverse. The education sector, however, is still learning how to adapt to the needs of this transforming economy. Many commentators have warned about the UK's fairly stagnant rankings in global education surveys (such as that by the OECD where the UK currently ranks 19th in math, 16th in reading and 14th in science out of 65 countries). While education reforms are under way, it is worth noting some concerns specific to fostering our local creative economy.

Demos estimates that 30% of young people in the UK want to work in the creative sector. However, many (and particularly those from nontraditional backgrounds) do not have the relevant prior skills or experience to qualify, and potential employers are seldom prepared to bear the costs of providing this education. The BIS points to a historical lack of apprenticeships in the creative industries, because apprenticeship schemes have traditionally not accommodated small businesses looking for higher-skilled employees on a contract basis. The gap, then, is filled by unpaid work and periods of unemployment, which can be far more easily borne by those with financial and social resources.

Creative and Cultural Skills, one of several Sector Skills Councils established by the government, believes the creative sector faces a shortage of both technical and professional skills across the board. It estimates that only 28% of current employees in creative industries are qualified to the level required by their jobs. Clearly, there are no simple answers here, and a number of factors are at play.

Some feel the science, technology, engineering and mathematics (STEM) subjects are justifiably being made priorities in our education system. But not enough of our graduates have attained the levels of proficiency in these subjects required to satisfy the needs of high-tech industries. This is likely to improve with further focus, and perhaps also with the introduction of computing as a mandatory subject from September 2014. The DCMS has welcomed this initiative, stating: '[I]n the digital age, a practical ability to program computers amounts to basic literacy'.

But there is a second point of view, which cautions that the increased focus on the STEM subjects comes at the cost of other traditionally creative subjects like art, drama and music. There is some concern that without a diverse curriculum, we are not providing our students with the opportunity to develop their imagination and the creative-thinking skills vital for future success—critical for creative, non-creative and entrepreneurial organisations alike. Other business planning skills and the 'softer' employability skills like teamwork, management and communication may also be taking a backseat to the STEM subjects but may prove vital for candidates to find, and succeed at, jobs in the creative sector.

Both the government and the creative industries need to act in concert to address the yawning skills gap. The Creative and Cultural Skills group points out that only 6% of businesses in the sector have a dedicated training budget, and 89% of businesses surveyed had never accessed support for training needs. Programmes offered by organisations like the Technology Strategy Board can go a long way in helping creative SMEs; its Knowledge

Transfer Partnerships allow SMEs to access external experts. However, an even greater impact may well be achieved by facilitating internships—this will not only provide a focused and relevant set of skills, but will also democratise the industry so all parts of society have equal opportunities to participate. The DCMS believes that the government must play a greater role here, communicating clearly and widely what opportunities exist and sharing best practises. There is also confusion about what vocational qualifications exist and how businesses can gain support to access such qualifications. Finally, there may also be economic incentives the government can consider for making apprenticeships more valuable.

The fiscal environment that creative industries face in the UK

The primary challenge policy makers face in supporting the creative industries is that there is no concept of an ‘average firm’, either in terms of focus, size or business model. Thus, while issues and barriers to growth may sometimes be common across the sector, potential solutions need to be targeted and their efficacy measured through a fairly narrow lens.

The Confederation of British Industry (CBI) suggests that while there are a few large players involved in film, TV, music and publishing, the sector has a significant proportion of small and micro-businesses; entrepreneurship and start-ups are common. This leaves creative industries particularly vulnerable to economic contractions. Additionally, as highlighted earlier in this report, the creative industries have seen significant, and rapid, structural changes as a result of digitisation. Consequently, business models in this sector are often innovative and dynamic compared with more traditional industries.

Access to finance and awareness of financing options have time and again been raised as factors limiting the growth of the UK’s creative industries. However, in December 2012 the Creative Industries Council (a joint industry and government forum) highlighted research identifying specific market failures for creative-content SMEs (gaming, music, film and TV, publishing, and other crossover social and digital businesses), rather than highlighting the big distribution companies and service industries that have different issues, even though they are also part of the creative industries.

The government has been a willing and supportive market participant through a variety of channels: offering tax breaks for the production of film, television, animation and video games; funding organisations like the Arts Council and the British Film Institute; and supporting other lending schemes for SMEs. The approach to target the average entrepreneur, however, still relies on banks serving as the primary financial intermediary.

As can be imagined, the challenges faced by creative-industry SMEs in accessing bank funding are even more exaggerated than in other sectors. Usual culprits include a lack of public information and disclosure for smaller firms, a higher perceived risk profile (such as the difficulty in predicting future success or demand for a book), and a comparative lack of ‘hard’ assets on firms’ balance sheets—intellectual property is not consistently disclosed and can be tough to value as there are no recognised frameworks to do so. Additionally, traditional debt financing may not be optimal without a guaranteed, steady cash-flow profile. Given the lack of available loan collateral, entrepreneurs are often unwilling to approach banks, believing they do not stand a good chance.

Analysis conducted on behalf of the government by Dr Stuart Fraser and IFF Research suggested that in sectors such as software and in other creative content, businesses were likely to have greater difficulty in accessing finance than those in the wider economy with similar risk profiles. However, analysts at Demos have challenged the suggestion that the creative industries are more inherently ‘risky’ than other industries. They suggest that wider factors could in fact be more decisive in the difficulties faced by such firms in accessing finance—including a

lack of business skills. A 2006 study in the UK by NESTA found that only 35% of businesses have established specific financial goals for the future, and only one-third of small creative businesses have included the goals in a formal business plan. Such a lack of business skills means that creative entrepreneurs may not make a convincing business case when they seek investment.

Any possible solutions will only surface from the continued involvement of financiers, members of the creative industries and the government. Both Demos and the CBI have called upon the government to review and improve existing measures—such as the Enterprise Finance Guarantee scheme, the Enterprise Investment Scheme and venture capital trusts—to enable creative firms to access finance. The Technology Strategy Board tries to address the known seed-funding gap for start-ups and early-stage companies as well as for small enterprises that want to invest in their own development and growth. It offers SMEs financial support for ideas through competitive application across a variety of programmes, such as Eurostars, which helps businesses internationalise through collaboration with EU partners.

Improved disclosure requirements could hold the key to improving overall statistics on the industry: This would reduce the cost of gathering information (making small investments more attractive) and enable accurate analysis of an investment opportunity. In parallel, more needs to be done to help investors understand and evaluate the value proposition offered by early-stage creative ventures, especially those with risks equivalent to those assumed by lenders in other sectors (and which may earn significant yields). This could be facilitated by educating owners on how best to value intellectual property when creating or disclosing business plans, and suggesting frameworks for investors to evaluate these. The sector is calling out for alternative funding, and the government is well placed to facilitate and support new solutions. A possible contender is crowdfunding, which has proven very successful in identifying and funding talent and creative ventures while allowing small creative start-up companies to retain control of their intellectual property. It would be worthwhile to look at the regulations that currently surround such social platforms to ensure that they can appropriately support and foster growth.

Preparing for the storm: A case study

It's no secret that new digital channels have turned the media world topsy-turvy. Advertising and subscription revenues have been migrating from traditional media to websites, mobile applications and other forms of digital media. New entrants have proliferated to steal market share. Nearly all competitors, meanwhile, struggle to get people to pay for digital content.

Perhaps the toughest challenge for incumbent companies is figuring out how to respond to and anticipate further disruption, while keeping the best aspects of their current lines of business. It's a central issue for a large European media group with operations in TV, online, radio and magazines.

The media group worked with Bain & Company to address this challenge. Bain helped the company benchmark against competitors, develop several future scenarios and stress-test the company's current operations and strategic plans against each scenario. The stress tests produced estimates of how each scenario would affect its financial performance. Based on this scenario planning, Bain recommended options for shaping the corporate strategy to better manage the digital wave, as well as ensuring that the individual business unit plans were robust enough to withstand various levels of disruption.

This media group had seen advertising and subscription revenue drop sharply in its print businesses, while TV,

radio and online had fared better. For each business, Bain drew up a plausible, negative scenario to assess how the disruption would affect different parts of the portfolio. The overall question: How should the company shape its portfolio to successfully navigate such disruption with solid profitability and a strong position for future growth?

After defining and sizing the specific markets, by country and by type of media, Bain's team modelled projections for each market under three scenarios: accelerated digitalisation, a general economic downturn and a scenario that combined the first two, causing extensive disruption.

Consider the magazine business. Under the accelerated scenario, revenues from print circulation would shift from a linear to a nonlinear decline, with advertising revenues following readers online. Most online revenues, however, would migrate away from traditional publishers and to pure-play companies, aggregators and video companies. Under the economic downturn scenario, a Europe-wide recession on the scale of the 2008 crisis would create further turbulence in every market. Finally, the combined scenario would cause the most disruption in each country and type of media. The results of these scenarios would substantially erode the company's finances. Earnings before interest and taxes would experience a similar trajectory, though at different levels in different countries.

After modelling how each scenario would affect the portfolio of businesses and products, Bain assessed the portfolio for potential synergies that could be found across different media, as well as each media product's ability to convert to a profitable digital business. Incorporating the effects of already-planned portfolio adjustment moves, combined with further high-potential moves, Bain defined at a high level the resulting media platforms the company could invest in for future growth. The platforms specified likely business models, and paths to invest in such technologies as on-demand programming.

Finally, Bain recommended how the company could reshape its strategy in ways that would strengthen its position as digitalisation accelerates. Certain business units and regions merit big capital investment bets, while others should be divested, and the company has begun this series of transactions. The scenario planning process, in short, has helped inform the best next moves for this media group in the turbulent transition to a hybrid digital and physical media world. 

¹ World Economic Forum, 'Global Information Technology Report 2013'

² Federation of Small Businesses, 'The Digital Imperative', 2013 <http://www.fsb.org.uk/frontpage/assets/fsb-intellect-april13.pdf>

³ UK Music, 'The Economic Contribution of the Core UK Music Industry'

⁴ British Fashion Council, 'The Value of the UK Fashion Industry'

⁵ Technology Strategy Board, 'Creative Industries Strategy 2013-16'

⁶ See Saint John Walker, 'Big Data + Creative Industries: Slim Pickings?'

⁷ OECD, 'Entrepreneurship at a Glance 2013'

⁸ <https://www.gov.uk/government/publications/creative-industries-mapping-documents-2001>

⁹ DCMS has, however, moved to a definition that relies less on IPR creation and more on the relatively high share of people in 'creative occupations' in the labour forces of covered industries.

¹⁰ <http://stakeholders.ofcom.gov.uk/market-data-research/other/telecoms-research/oci-wave4/>

¹¹ Enders Analysis, 'Where have all the young viewers gone?' [2014-006]

¹² Studio-backed films are UK films wholly or partly financed and controlled by US studios but featuring UK cast, crew, locations, facilities, post-production and often UK source material.

¹³ UK Music, 'The Economic Contribution of the Core UK Music Industry'

¹⁴ This report can be accessed at <http://native.artsdigitalrmd.org.uk/digitalculturerecherche/>

¹⁵ 'Small business survey 2012: SME employers', BMG Research for the Department for Business Innovation & Skills, April 2013. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193555/bis-13-p74-small-business-survey-2012-sme-employers.pdf

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