

Creativity  
Innovation

# Europe's creative hubs

ENDERS|ANALYSIS

**BERTELSMANN**  
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## Enders Analysis

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Enders Analysis is a research and advisory firm based in London, specialising in the media, entertainment, mobile and fixed telecoms industries in Europe, with a special focus on new technologies and media. Enders Analysis supplies its subscribers with over 100 reports annually and clients with bespoke projects. For more information see [www.endersanalysis.com](http://www.endersanalysis.com) or contact [info@endersanalysis.com](mailto:info@endersanalysis.com).

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## Executive Summary

This report concerns the creative economies of France, Germany and the United Kingdom (UK), respectively, the three largest of the European Union (EU). These vibrant economies encompass the millions of consumers that enjoy or purchase TV programmes, films, videos, books, magazines, music and games, the brands and businesses that place advertising, and, on the supply side, the enterprises and people whose main activity it is to produce and disseminate creative products and services.

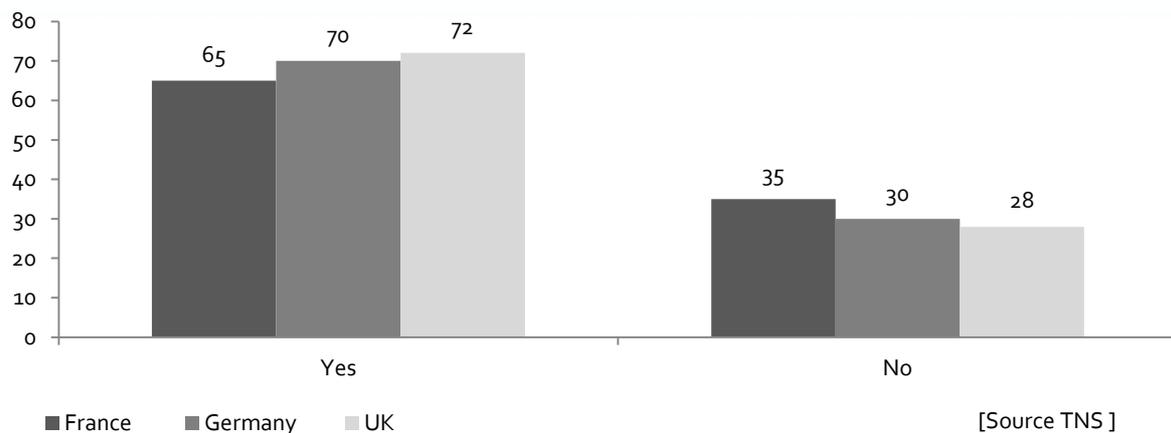
Bertelsmann is just such an enterprise. It is active in the sub-markets of: advertising and TV programme production via *RTL*, the free-to-air commercial broadcaster, and its subsidiary *Fremantle Media*, an 'independent' production company that is the international leader in its field of 'format' sales; book publishing through global giant *Penguin Random House*; publishing German-language magazines through *Gruner + Jahr* and printing via its international group *Be Printers*, and French-language magazine publishing through *Prisma Média*; and music publishing, label and artist services through *BMG Rights Management*, ranked fourth in the world. *Arvato*, the business process outsourcer (BPO), also serves many enterprises inside and outside the creative industries.

### Creative consumers

Enterprises of the creative industries aim to engage consumers with their products and services. According to TNS survey data for France, Germany and the UK, respectively, consumers regularly (weekly basis) engage with a variety of media:

- TV is the medium used by almost all consumers, music and listening to radio appeal to most consumers, followed by surfing the internet
- Most young people watch videos on the internet, validating new channel publisher strategies on YouTube
- About half of the consumers in the UK and Germany read books; a steady 30-40% of young people regularly read books to explore ideas and issues in detail, critical in the digital age, as change accelerates and attention spans diminish
- 'Baby Boomers' and 'Generation X' (adults in the age range of 35-65) are prolific magazine readers, especially in Germany, and as these multi-media consumers concentrate disposable income and savings, this should make them a key target for advertisers
- Consumers that attend the cinema or live events do so infrequently

This exposure to media is one reason why so many consumers see themselves as creative (Figure 1). Consumers express their creativity through hobbies and artistic activity, using media to deepen their skills. The wider scope of user-generated content is blurring the line with professional content, providing a deeper pool of creative talent for publishers to nurture.

**Figure 1: Are you a creative person? (%)**

Creative consumers are of great value to society, even if this value is not directly quantifiable. The ideas people are exposed to shape their identities, aspirations and relations to others and the world, at home, at work and on the move. Creative experiences help meet societal goals such as participation in democratic processes and promotion of social inclusiveness.

Surrounded as they are by the products and services of the creative industries, whose purchase is a significant component of household budgets, 100 million consumers in France, Germany and the UK view the creative industries as 'important' or 'very important' to the economy.

### Creative industries

How important are the creative industries to the economy?

This is measured by the contribution to Gross Value Added (GVA) or GDP of the enterprises whose primary activity it is to supply creative products and services. This approach focusses on the private sector, leaving aside the many entities of a creative or cultural purpose that are in the public sector or are not-for-profit. A healthy public and not-for-profit creative sector is seen as vital by all enterprises in the creative industries.

Market interventions are commonplace in certain sub-markets. France, Germany and the UK heavily regulate broadcasting and support audiovisual production by tax, employment and other policies. Under the EU Treaties, Member States are generally free to shape their own cultural and industrial policies (within the confines of EU competition law), leading to significant variation in the scale, nature, purpose and application of policies adopted for the creative industries.

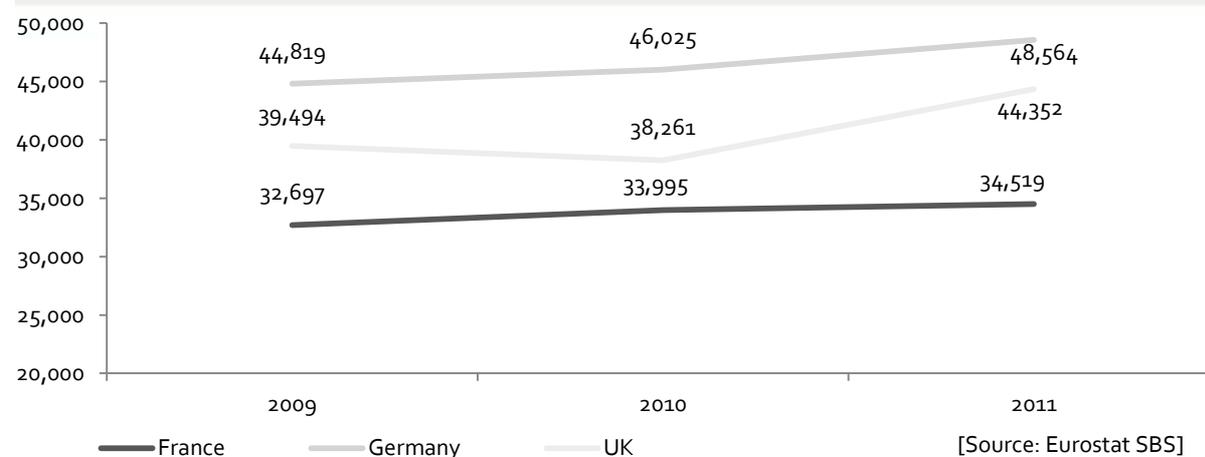
In 2011 (the latest available like-for-like data published by Eurostat):

- Germany is the leading Creative Hub in Europe, with €49 billion of Gross Value Added (GVA) generated by 133,000 enterprises; this amounts to 3.5% of the non-financial economy in 2011
- The UK stands at €44 billion generated by 101,000 enterprises, which amounts to 4.6% of the non-financial economy; the UK has the largest creative industries sector in Europe in per capita terms with €700 (vs €605 in Germany and €545 in France)
- France had GVA of €35 billion generated by 158,000 enterprises; this amounts to 3.9% of the non-financial economy
- Together, France, Germany and the UK had €128 billion in contribution from the creative industries in 2011, close to 4% of non-financial GVA of €3,250 billion

Growth of the GVA of the creative industries in France, Germany and the UK, respectively, has been resilient during the recovery from the 2009 recession (Figure 2). The UK's creative industries' GVA rose at 12.3% over 2009-11; Germany's creative industries' GVA rose at 8.4% over the same period; and France's GVA has risen by 5.6%. This growth of GVA is due mainly to moderate increases in consumer expenditure on creative goods and services, confidence on the part of broadcasters and studios in commissioning professional audiovisual content for broadcast and for online distribution, and the recovery of advertising in line with the household consumption trends of each market.

This contribution to the economic recovery has justifiably attracted the interest of policymakers in France<sup>i</sup>, Germany<sup>ii</sup> and the UK<sup>iii</sup>, respectively, and at the European Commission<sup>iv</sup>, each taking its own approach to defining the sector and policy levers to be deployed.

**Figure 2: Creative industries GVA, 2009-11 (€m)**



Four clusters have been defined: print media, namely the publishing, printing and retailing of books, newspapers and magazines; audiovisual - namely production of music and video - broadcasting; advertising; and other professional and technical, including the sub-market of design. (See Appendix I for details.)

France, Germany and the UK each have similarly sized audiovisual and advertising clusters, but France's print cluster is much smaller than in the UK or Germany. This is partly due to Germany's population of 80 million, the largest in Europe, and also the popularity of print media with its consumers. Print media is also more popular in the UK than in France.

In all three countries, the audiovisual cluster stands out by its robust growth. Cinema and TV have avoided disintermediation by the internet, leaving audiences intact and the core of their business models unchanged. Digital broadcasting has expanded channel choice, also stimulating audiovisual production. In Europe as a whole, TV has 97% penetration (at least weekly usage) and audiences watch on average 4 hours of TV programming daily.

Over-the-top subscription channels such as Netflix in France, Germany and the UK, and many local variants, provide a new and incremental source of revenues for audiovisual producers. In addition, free-to-the-user YouTube is the leading video streaming platform globally, hosting both user-generated videos and increasingly professional content, although monetisation per stream is low.

Since the advertising cluster hit the recession-induced bottom in 2009, it has been more dynamic in the UK and Germany - in keeping with their stronger economic recoveries - than in France.

## Creative jobs

Reports issued recently by regulators according to their national definitions of the creative industries indicate a total of 1.2 million jobs in France, 1.1 million in Germany and 1 million in the UK (excluding the entire IT and software sector).

Creative talent is the core input of the creative industries, developed and enhanced into a marketable product or service by the professional skills of those working in these enterprises. This talent is drawn from school leavers, thus tying the dynamism of the creative industries to policies that support education, training and skill acquisition.

Freelancers loom large in the creative industries. In Germany, freelancers account for up to 60% of jobs in sub-markets like the performing arts and arts generally. France has designed a specific employment regime for workers in the creative industries to reflect the intermittent nature of the work performed and resulting income insecurity.

## Challenges and opportunities of digital

Most enterprises in the creative industries fully recognise that the internet is an additional channel to reach consumers, in addition to the longstanding channels of retailing and broadcasting. Enterprises also recognise the opportunity to their commercial health from realizing a 'digital dividend' by reducing or entirely removing costs of producing and distributing physical formats.

There are challenges too. Publishers must acquire the new skills and human resources to purpose content for distinct device and content eco-systems. Distribution partnerships must widen to encompass e-commerce and digital stores, each with their own 'terms of trade', also influencing the remuneration of artists and authors.

Publishers must compete hard – arguably harder – for the customer made 'smarter' by digital tools. Helping the consumer discover must-have content in the cluttered environment of an app store is more demanding than in the spacious confines of a good bookstore or entertainment retailer. Publishers also assume additional costs to protect their intellectual property rights from piracy, a huge challenge of the digital age for books, newspapers, magazines, music and video.

Despite the appeal of free illegally distributed content on the internet, many consumers continue to enjoy TV programmes on the TV, thus driving advertising and audiovisual commissions. Consumers also are choosing to purchase goods and services from the creative industries. Despite piracy, consumer expenditure on the creative industries has been largely preserved to date.

For creative enterprises, the digital age doesn't change the risks and large up-front costs of developing creative content, such as games, animation, films, TV programmes, music and books. These costs loom even larger for the sector's many small and medium-sized enterprises. A number of enterprises, including Bertelsmann, recently appealed to the incoming European Commission to explore policy levers that provide "support for innovation, access to finance and a level playing field in terms of regulation".

Notwithstanding these challenges of the digital age, the opportunities for the sale and distribution of professionally-produced content have never been greater. Although authors may now go direct to consumers, publishers retain their core importance in terms of discovering and nurturing creative talent. Artists and authors also benefit from publishers' marketing and distribution expertise for creative works across offline and digital channels of increasing complexity.

The value to society of creative consumers has also never been higher. Creative experiences reinforce individuals' self-images of being creative, spilling over into positive attitudes towards work, family and society. Creative consumers are also more likely to participate in democratic processes and possess attitudes favourable to social inclusiveness.

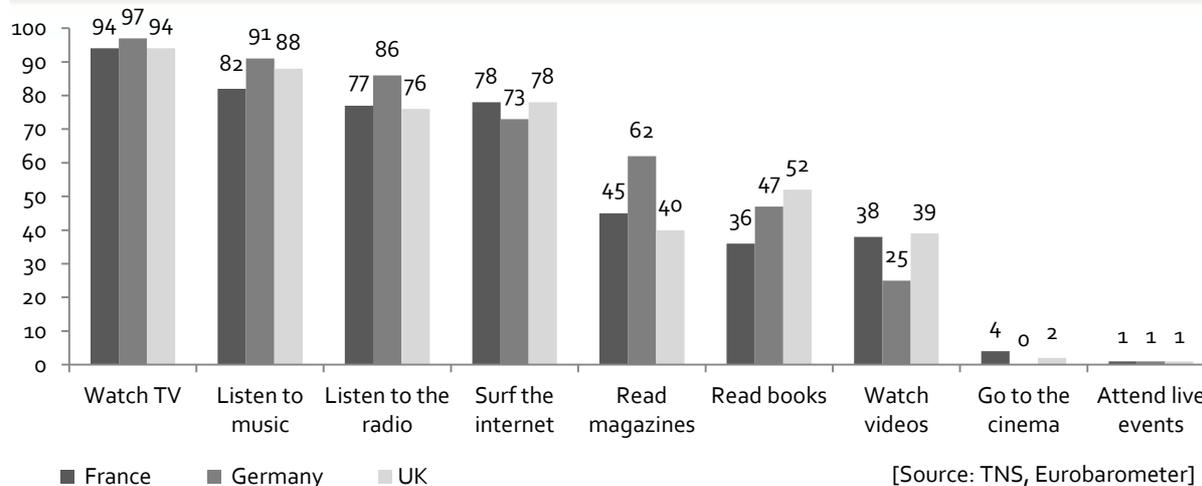
## Creative consumers

TNS Emnid was commissioned to perform a survey in France, Germany and the UK, respectively, in July 2014, to better understand consumer interactions with a variety of media, their creative activities, their attitudes towards creativity and the creative industries.

### Consumer media touchpoints

Consumers in France, Germany and the UK, respectively, interact with a variety of media on a weekly basis (Figure 3). Watching TV is the medium used by the highest share of consumers, followed by listening to music and to the radio, surfing the internet, reading magazines and books, then watching videos. Germany has the highest share and number of devoted magazine readers, while the UK has the highest share reading books on a weekly basis. Germany has lower penetration of watching videos than France or the UK, although this could rise in the near future.

**Figure 3: Engaged with media in past week (% of population)**



Aside from TV, listening to music appeals to all age groups in France, Germany and the UK, respectively (Figure 4). Channels to enjoy music include radio, music video services like YouTube, freemium and paid-for digital music services, on top of accessing existing music collections on CD players, personal computers or on mobiles through the MP3 function.

**Figure 4: Listen to music at least weekly (%)**

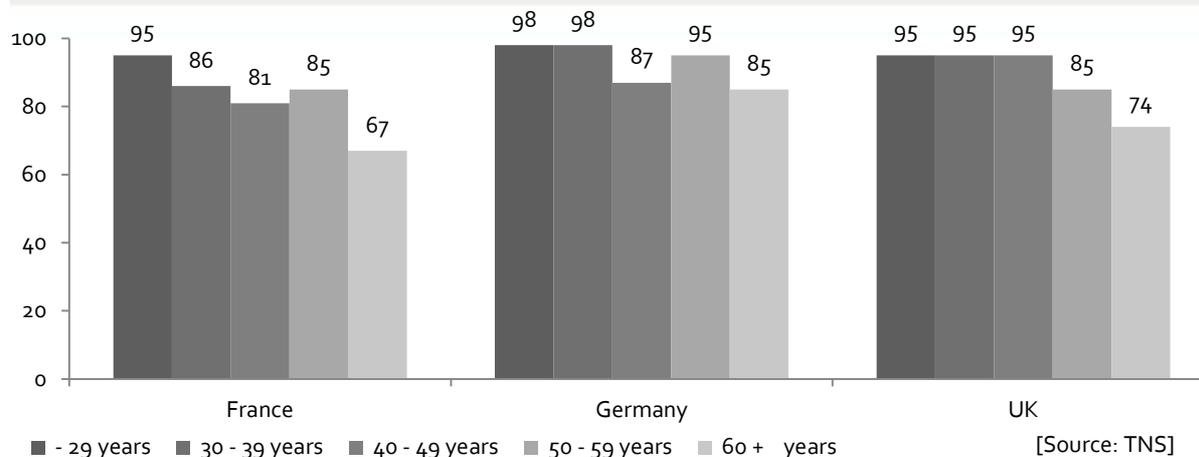
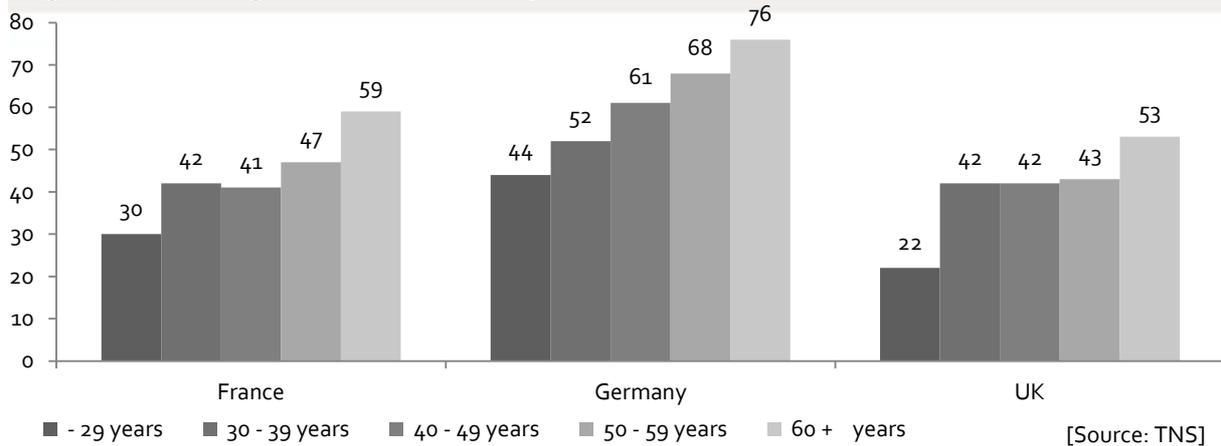


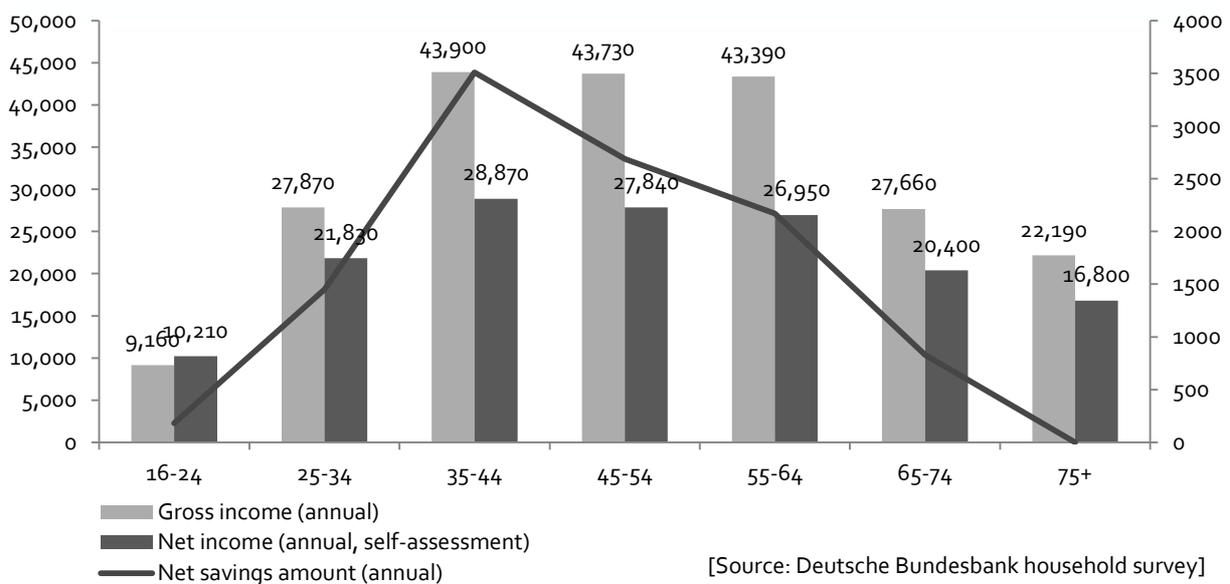
Figure 5: Read magazines at least weekly (%)



Relative to France or the UK, magazines are more highly penetrated in Germany in all age groups (Figure 5), with engagement rising with age. Germany is the home market for titles produced by Bertelsmann subsidiary *Gruner + Jahr*, such as *Stern*, *Gala*, *Geo* and *National Geographic*, printed by *Be Printers*. In Germany, magazines are mainly sold to consumers on subscription, making for a stronger business model than titles sold primarily through newsstands, like in France and the UK.

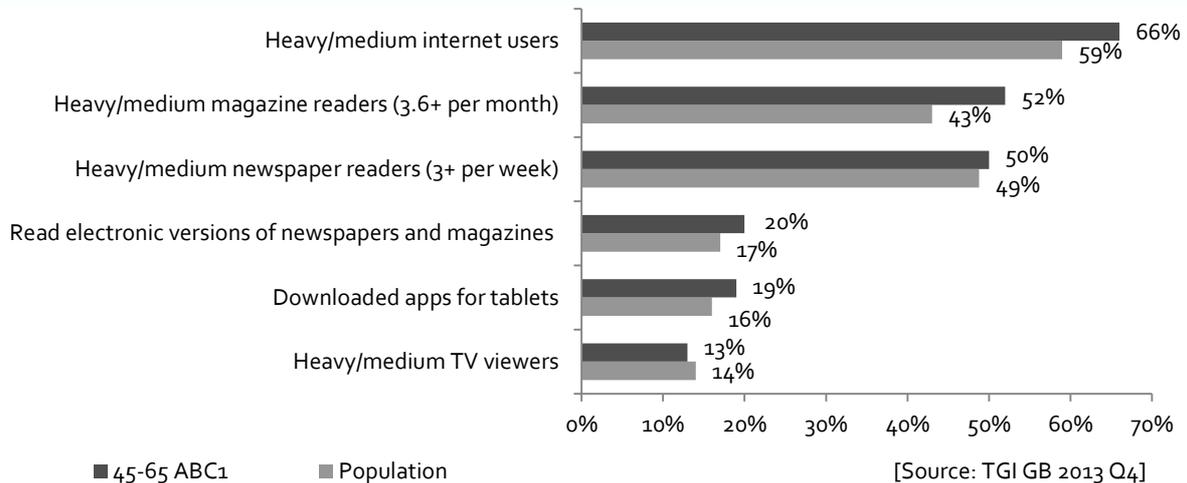
Baby boomers and Generation X (together those 35 to 64) are higher-income on a gross and net (of savings) basis (Figure 6), which should make them of strong interest to advertisers. These consumer groups have more time to engage with media, maintain 'modern' lifestyles and attitudes, continue to spend money on themselves, and are in tune with younger generations in their extensive use of the internet – very different from previous generations. They are especially attractive to brand advertisers and those providing e-commerce solutions to travel, clothing, financial services, etc.

Figure 6: Distribution of income in Germany, 2012



This overlaps with a finding made for the UK: people aged 45-65 and in the top three income categories (ABC1) were heavily engaged both with print media like magazines and books, as well as regularly using the internet (Figure 7). Some are more multi-media than others, reading both newspapers and digital editions, but all are savvy about the choice offered by digital editions and websites.

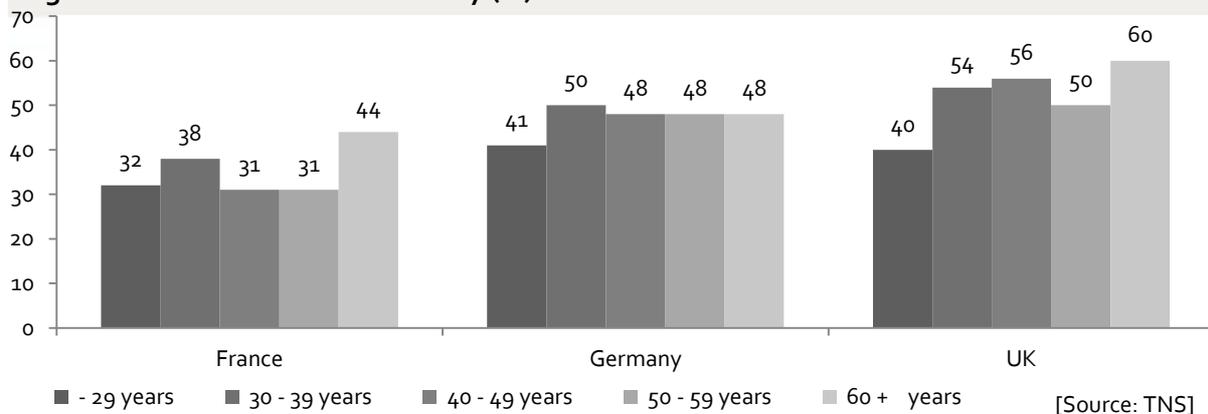
**Figure 7: Media-related activities in the UK, Q4 2013 (% of total)**



In France, *Prisma Média*, the magazine publishing subsidiary of *Gruner + Jahr*, has some 20 titles including the very popular weekly TV guide *Télé-Loisirs*. The title was presented in 2013 with a prize for its successful transformation to a digital edition by the Syndicat des Editeurs de Presse Magazine (SEPM), and the site attracts 58 million visitors and 187 million page views. SEPM also named *Geo* the best magazine brand in 2013. *Prisma Média's Femme Actuelle* is the top women's weekly and the most widely-read magazine in France.

Reading books is an activity undertaken by half the population of each of Germany and the UK, and closer to one-third in France (Figure 8). In the UK, young people are more engaged with books than with magazines. Engagement with books – and print media in general – is critical to maintaining literacy levels in younger generations as has been highlighted by Dame Gail Rebeck (Baroness Gould)<sup>vi</sup>.

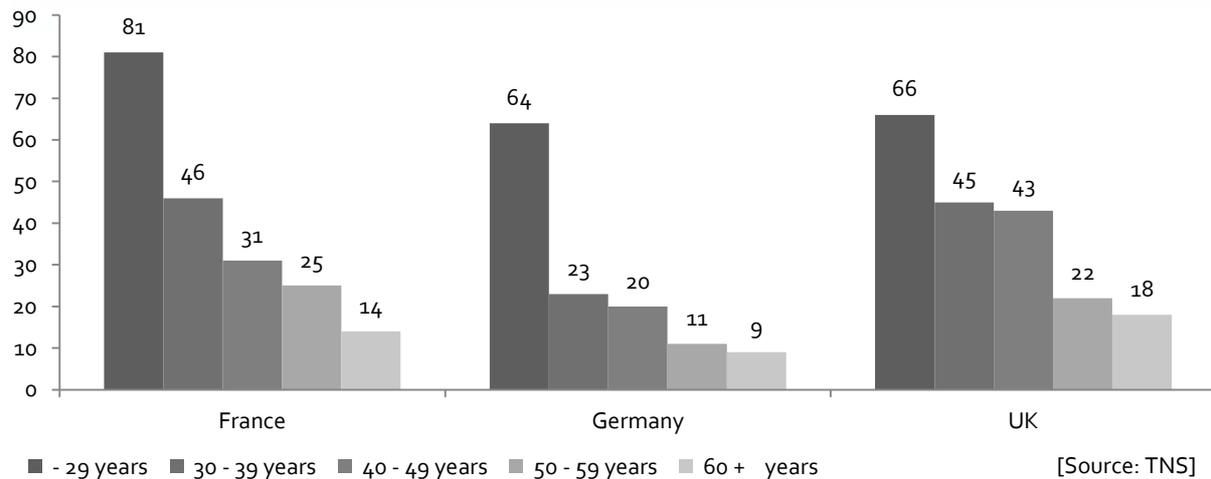
**Figure 8: Read books at least weekly (%)**



*Penguin Random House* is among the largest book publishers operating in France, Germany and the UK and globally. It has made its mark recently with EL James' *Fifty Shades of Grey* series which has sold 100 million books worldwide, including e-books. A film adaptation will be released on 14 February 2015 in the US. This is a good example of a film leveraging the strong source material of a bestseller, which will further boost sales of the book.

In relation to TV, music, radio, internet, magazines and books, watching videos emerges as a very popular activity among young people, less so among older age groups (Figure 9). This explains why companies like Bertelsmann have been intent upon adapting to new audience expectations on YouTube, while also focusing on preserving audiences for traditional media.

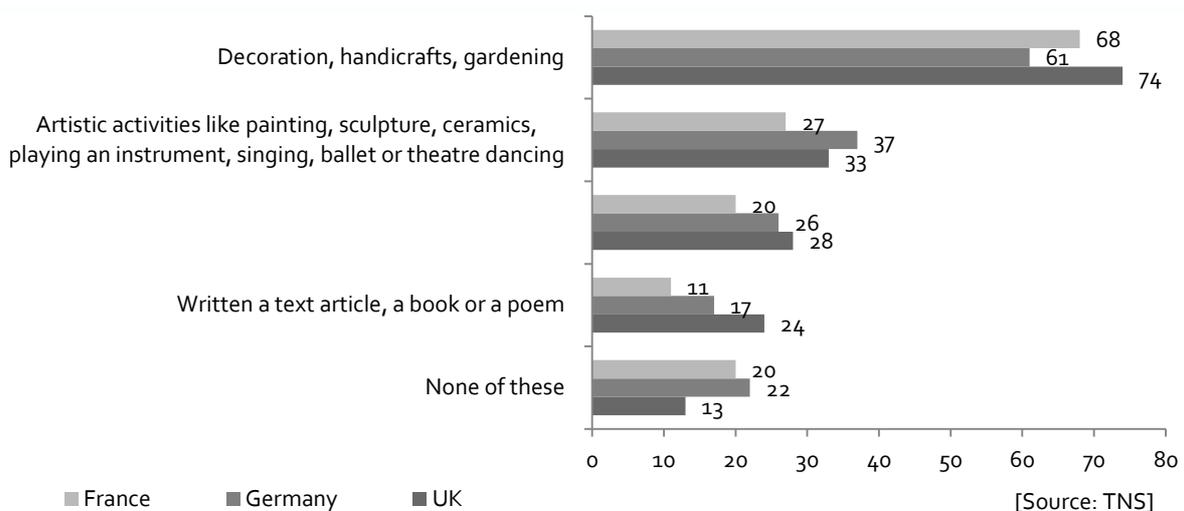
**Figure 9: Watch videos at least weekly (%)**



**Creative activities**

Books and magazines, and increasingly apps as well, are extremely important in stimulating regular creative activities, such as decoration, handicrafts or gardening, which engage most people in their leisure time (Figure 10) because they are fun, stimulating and entertaining.

**Figure 10: Creative activities engaged with in past week (%)**



Artistic activities like painting, photography, playing an instrument etc. occupy about one-third of consumers in the coverage countries, slightly more in Germany. Artistic activity of this kind is more widely adopted than creative activity on the internet.

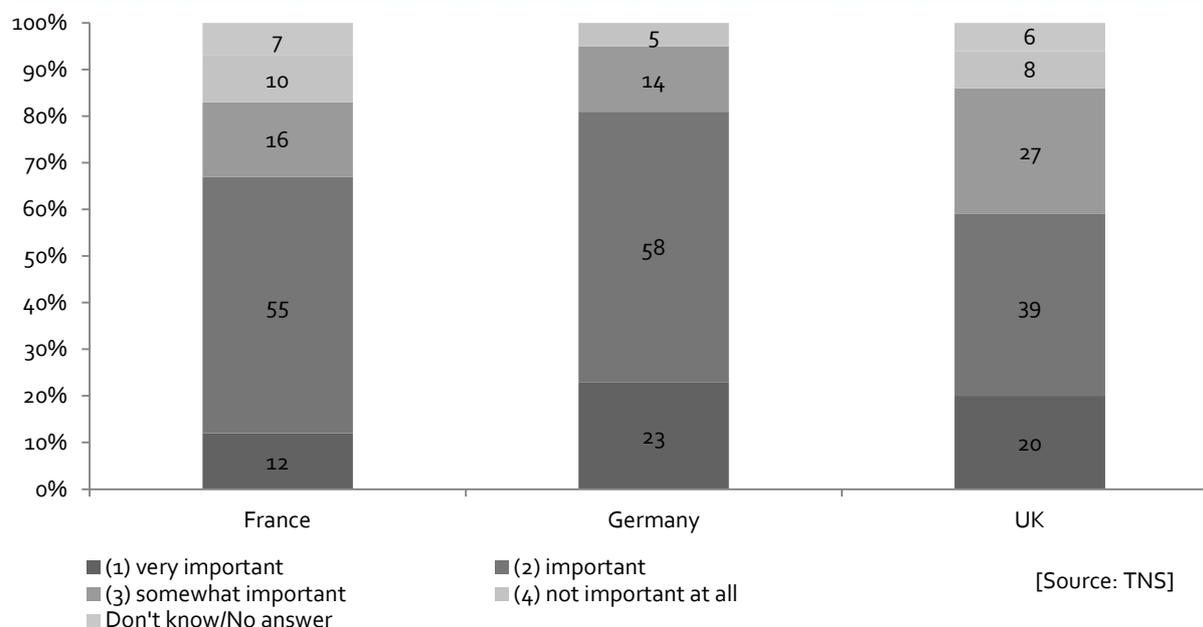
These creative activities are also good for society, to help creative people stay creative, at home and at work. This helps explain why around 70% of people, the overwhelming majority in France, Germany and the UK, see themselves as creative (see Figure 1 in Executive summary).

For society as a whole, the interactions of consumers with media, just like their interactions with family and friends and fellow workers, are central to shaping self-identity, to develop interests, to acquire skills, to be inspired in daily life. Media is just as important as it ever has been in fulfilling less tangible goals of society, such as values of tolerance and inclusiveness, and political participation.<sup>vii</sup>

### Perceived importance of the creative industries

Surrounded as they are by the products and services of the creative industries, which is also an important category of consumer expenditure (see below for section on Creative industries), a very large number of people in France, Germany and the UK appreciate the economic significance of the creative industries (Figure 11). People in Germany are more likely to give them a higher economic importance than in France and the UK.

**Figure 11: Perceived economic significance of the creative industries (%)**



## Creative Industries

The creative industries have recently gained the interest of policymakers in France, Germany and the UK, respectively, as well as the European Commission, due to their relative resilience in the economic downturn. There is also a broader economic policy theme according to which developed economies' competitive position in the global economy becomes more reliant upon innovation and the ability to exploit information and creative content, less on manufacturing, distribution and retailing.

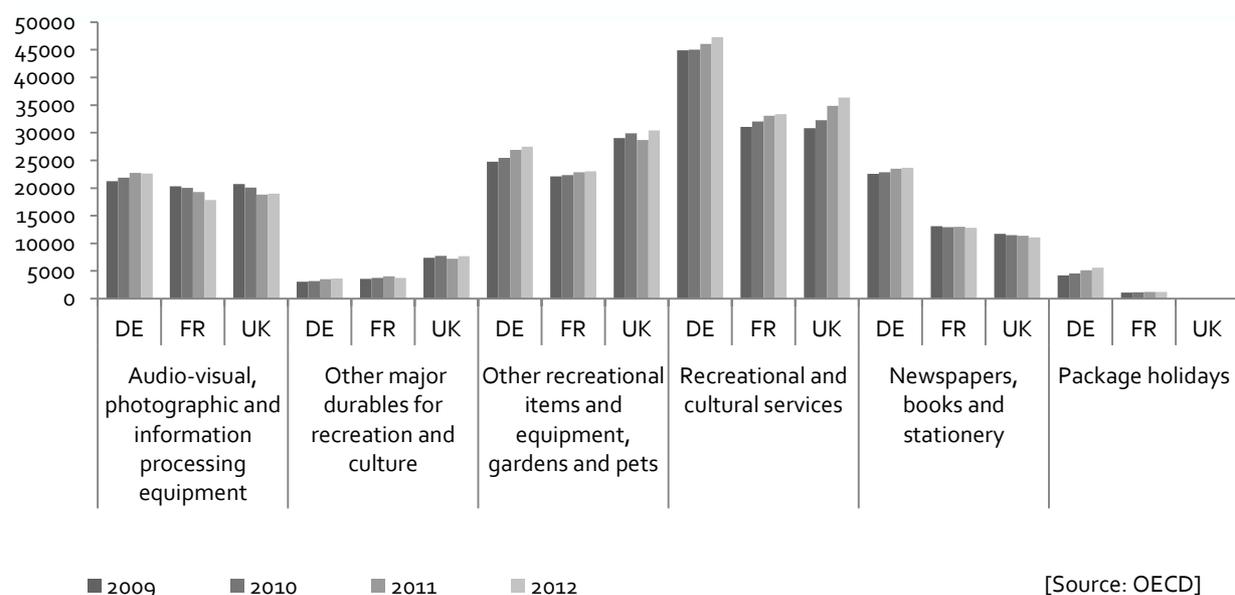
### Flow of funds for the creative industries

Fundamentally, the revenues of the creative enterprises rely on actions by their consumers and customers, first and foremost. Total funding made available from private and public sources is substantial in France, Germany and the UK, respectively, consisting of:

- Expenditure devoted by consumers on products and services of the creative industries, such as books, music, newspapers, magazines, cinema admissions, digital media, pay-TV subscriptions, TV licence fees etc.
- Expenditure by enterprises on placing advertisements in TV, radio, print media and online, and buying services from advertising agencies
- Commissions from broadcasters and studios for in-house and out-sourced audiovisual production, including those funded partly or wholly via tax credit regimes (recently expanded in the UK to encompass animation and high-end TV productions)
- Exports of creative products and services to external audiences (other EU Member States, US, emerging markets), which have been rising rapidly for English-language productions and formats

Historically, relatively high expenditure of consumers on recreation and culture coincides with relatively high incomes, since many cultural products and services fall into “nice-to-have” as opposed to “need-to-have” categories of expenditure. As a result of sluggish economic conditions during the past five years (2008-13), the growth of consumer expenditure in France and on sub-categories of recreation and culture, has been relatively weaker than in Germany or the UK (Figure 12).

**Figure 12: Household expenditure on recreation and culture, 2009-12 (€m)**



In addition to what they spend on purchasing media, European consumers enjoy large swathes of media on an ad-supported basis, such as free-to-air commercially-supplied TV and radio. Advertising is hyper-cyclical, following the economic cycle, so the stronger private consumption growth profiles of Germany and the UK have also made this segment more dynamic than in France.

## Gross Value Added

The core measure of economic significance is contribution to Gross Value Added (GVA), similar to GDP. Creative activities have been clustered into four domains: print media, which is the publishing, printing and retailing of books, newspapers, magazines; audiovisual, which is the recording, production and broadcasting of visual and musical works; advertising; and other, encompassing a diverse mix of professional and technical activities, including design.

The relative size of these clusters is about the same in France, Germany and the UK, respectively, with the exception of print media, which is higher in Germany and the UK (Figure 13), as is indicated by their higher levels of print media consumption revealed by the survey discussed previously.

**Figure 13: Performance of industry clusters, 2011**

Cluster	Germany		France		UK	
	GVA (€m)	No of enterprises	GVA (€m)	No of enterprises	GVA (€m)	No of enterprises
Print media	20,660	29,535	10,325	40,059	17,494	26,545
Audiovisual	10,733	8,407	10,785	19,367	10,821	18,993
Advertising	8,487	26,458	7,458	22,177	8,042	17,024
Other	2,714	32,406	1,574	44,861	3,874	25,588
<b>Creative industries</b>	<b>48,564</b>	<b>132,541</b>	<b>34,519</b>	<b>157,716</b>	<b>44,352</b>	<b>101,035</b>

[Source: Eurostat SBS]

Germany's creative industries were worth €48.6 billion in 2011, equivalent to 3.6% of the non-financial economy. With €20.7 billion, the print media cluster is Germany's largest. The audiovisual cluster was worth €10.7 billion, nearly as large as the cluster's size in the UK or France, albeit smaller in per capita terms given Germany's population of 80 million. It also has a powerful advertising sector, worth €8.5 billion in 2011.

Total GVA for the UK's creative industries was €44.4 billion in 2011, equivalent to 4.6% of the non-financial economy. The UK is the European market leader in the audiovisual cluster, benefitting from demand for English-language productions in Europe, where English is the prevailing second language (38% of adults claim conversational ability)<sup>viii</sup>; and other export markets. The UK's advertising cluster was worth €8 billion in GVA, whilst the category of other professional, scientific and technical activities was also significant, notably design.

GVA of France's creative industries was €34.5 billion in 2011, representing 3.9% of the non-financial economy. Despite a similar-sized population, France's print media cluster is less than 60% of the level of the UK. France matches the UK in the size of the advertising and audiovisual clusters.

Looking at the performance of the creative industries during 2009-11 (Figure 2 of the Executive Summary) in relation to the pace of growth of the non-financial economy as a whole:

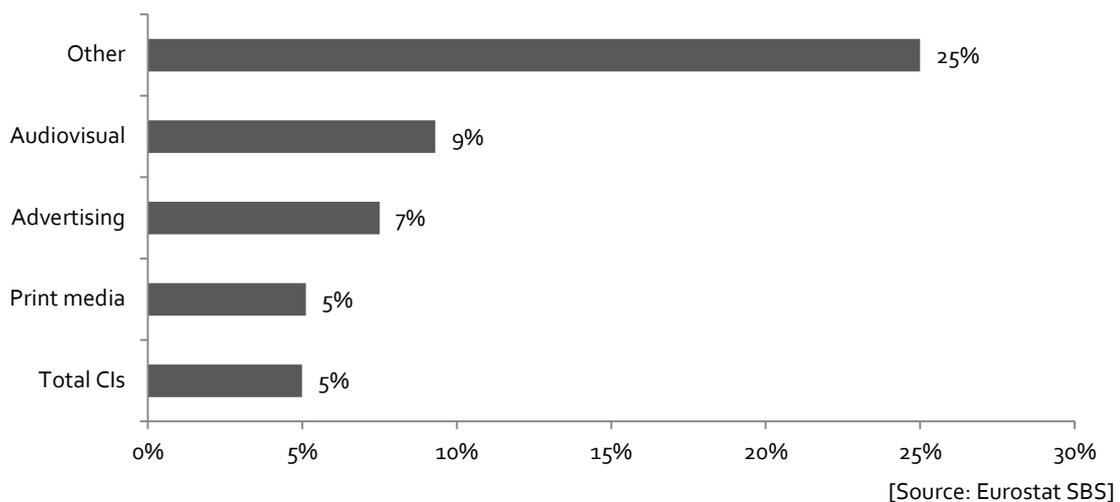
- France’s creative industries’ GVA has risen by 5.6%, more than double the pace of 2.6% for the non-financial economy as a whole
- Germany’s creative industries’ GVA rose at 8.4% over 2009-11 compared to 12.9% for the non-financial economy as a whole
- The UK’s creative industries’ GVA rose at 12.3%, about the same pace as the 12.5% growth of the non-financial economy as a whole

At the level of clusters, the picture is mixed with some growing at a higher rate than the wider non-financial economy, driving forwards the recovery. The print cluster shows slower growth rates in France, Germany and the UK, respectively, than the advertising or audiovisual clusters. Sales of print media have been impacted more by the structural forces unleashed by the digital age.

**France**

France’s audiovisual cluster has performed better than advertising or print media (Figure 14), buoyed, as in other markets, by the relative resilience of TV audiences. RTL’s subsidiary Metropole Télévisions serves channels M6 and W9 (the digital version of M6), and each has tended to gain market share in recent years (Figure 15).

**Figure 14: GVA growth across creative industry clusters, France, 2009-11 (%)**



**Figure 15: TV audience shares in France of private channels**

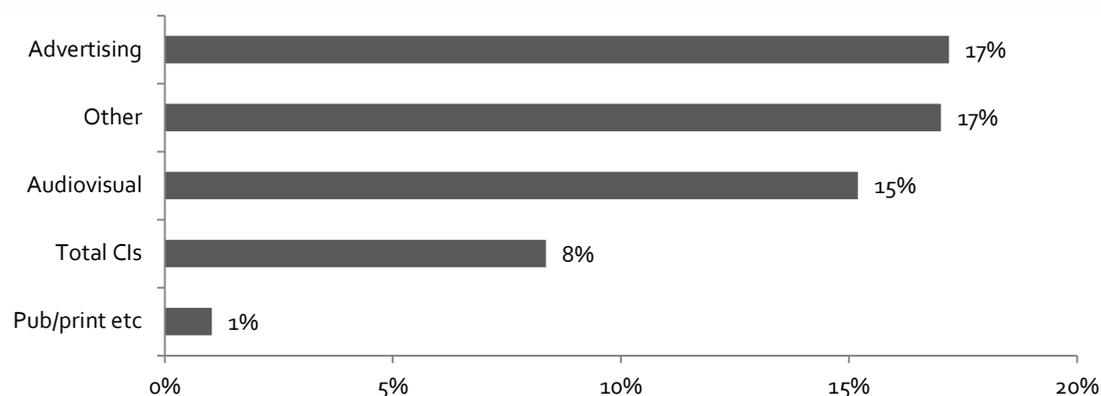
	2009	2010	2011	2012
TF1	26.1	24.5	23.7	22.7
M6	10.8	10.4	10.8	11.2
TMC	2.6	3.3	3.5	3.6
W9	2.5	3.0	3.4	3.2
Canal+	3.1	3.1	3.1	2.9

[Source: EAO 2013]

## Germany

Advertising has been the top-performing cluster in Germany, with growth of GVA of 17% during 2007-11, twice the rate of growth of the non-financial economy as a whole. Audiovisual has also been a strong performer, rising 15%. This contrasts with the sluggish performance of the print media cluster.

**Figure 16: GVA growth across creative industry clusters, Germany, 2009-11 (%)**



[Source: Eurostat SBS]

TV broadcasting and programming production have a robust business model in Germany. With 39 million TV households, the medium attains 97% household penetration. Audiences for programming are steady and are being expanded by the consumption of films, TV programmes and videos on computers, smartphones and tablets. Advertising on the TV medium remains efficient, relatively inexpensive and the return on investment is high.

This sub-market is of particular importance to Bertelsmann due to its shareholding in *RTL*, the audience leader for commercially-provided free-to-air television in Germany, and seven other European markets. *RTL* has been able to retain its share of TV audiences since 2009 (Figure 17).

**Figure 17: TV audience shares in Germany of private channels, 2009-12**

	2009	2010	2011	2012
RTL	12.5	13.6	14.1	12.2
SAT.1	10.4	10.1	10.1	9.4
Pro 7	6.6	6.3	6.2	5.9
Vox	5.4	5.6	5.6	5.8
RTL 2	3.9	3.8	3.6	4.0
Kabel Eins	3.9	3.9	4.0	3.9
SuperRTL	2.5	2.2	2.2	2.1

[Source: EAO 2013]

More generally, *RTL*'s families of channels throughout Europe have been quite resilient to fragmentation. To address burgeoning consumer audience needs, *RTL* has invested in its families of channels, and continues to launch new channels in Germany and in France (it has no broadcasting presence in the UK). *RTL* has also massively increased its non-linear television activities and reach to meet the new demands of audiences in the internet age. In online video, *RTL Group* acquired a 51% stake in the third largest multichannel network on YouTube, Broadband TV and recently acquired a majority stake in programmatic video advertising platform SpotXchange.

**The UK**

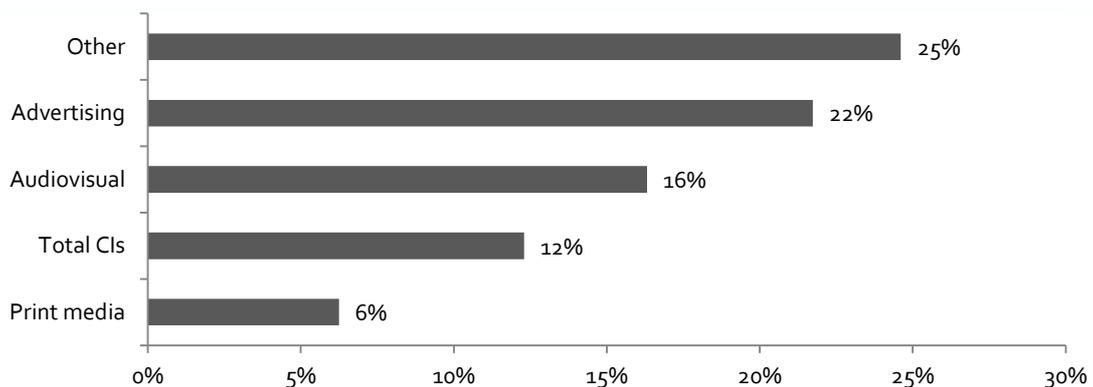
Audiovisual production is relatively built-up in the UK due to the substantial programming investment by broadcasters including in outsourced or 'independent' productions<sup>ix</sup>. Pay-TV is also well-established with expenditure by consumers on subscriptions exceeding the expenditure of advertisers on the TV medium<sup>x</sup>. The UK appeals to studios to produce English-language films and TV programmes intended for theatrical release, broadcast or sale (DVDs, Blu-Rays).

*Fremantle Media* is a longstanding business in this lucrative market. Guinness World Records has officially confirmed the *Fremantle Media* talent show „Got Talent“ is the “Most Successful Reality TV Format” of all time, with 59 adaptations<sup>xi</sup>. “Got Talent” is one of three leading formats, the other two being “The X Factor” and “Idol”, produced by *Fremantle Media* that fascinate viewers around the world and attract high ratings. *Fremantle Media* also operates 135 YouTube channels.

Bertelsmann's *Arvato* business unit operates in many sectors of relevance to the creative industries, handling the distribution of 71% of physical albums in 2013 (BPI). *Arvato* archived and digitized 500,000 original recordings from nearly 100 years of music history for its customer Universal Music Group International. In 2013, *Arvato* also was chosen to operate the first independent shared service centre (ISSC<sub>1</sub>) on behalf of the government of the UK, part of an initiative to reduce redundant functions and out-source them where efficiency gains can be made.

Advertising, reflecting the relatively stronger private consumption profile of the UK, rose 22% in the period to 2011 from the bottom reached in 2009, and this is likely to have persisted in 2013 and 2014. Like in France and Germany, the audiovisual cluster has also performed strongly since 2009. The print cluster is however at the lower end of the sector's growth performance (Figure 18), for similar reasons of structural disruption as in France and Germany.

**Figure 18: GVA growth across creative industry clusters, UK, 2009-11 (%)**



[Source: Eurostat SBS]

## Creative Jobs

To complete the picture of the creative economies of France, Germany and the UK, this section compiles data on employment published by official sources in those countries, noting that each regulator has a distinct approach to defining the scope of the sector (see Appendix I).

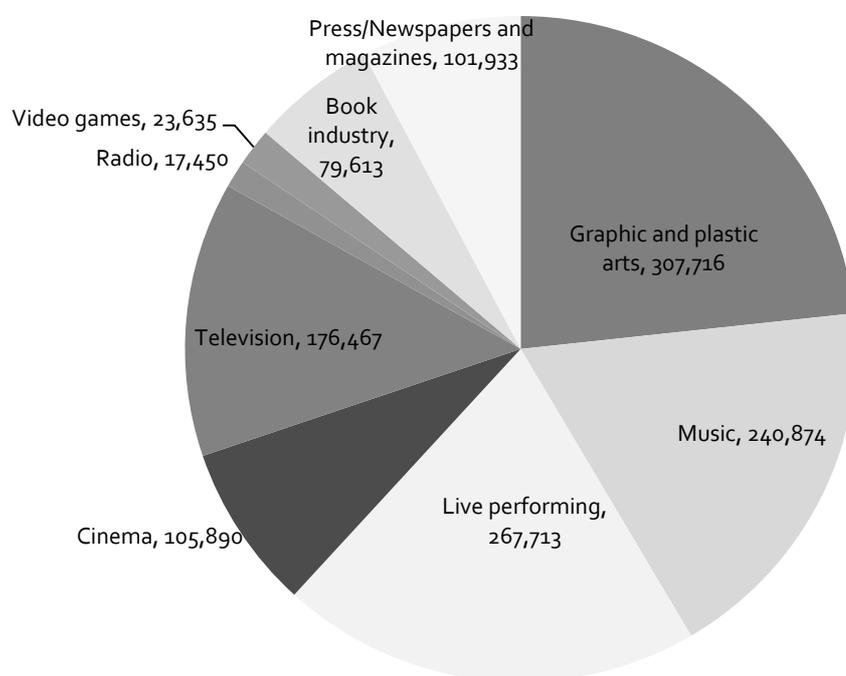
When looking at employment in the creative industries, jobs held down by employees or freelancers in the non-commercial segments of the sector also need to be included. The mainly non-commercial performing arts for example are not included in the business surveys conducted by Eurostat for its SBS Database.

The European Cluster Observatory noted in their study of regional employment in the cultural and creative industries that Germany's is spread quite evenly throughout the national territory. Those of France and the UK are concentrated in and around Paris and London, respectively<sup>xii</sup>.

### France

France was estimated to have 1.2 million people engaged in its creative and cultural industries in 2011, representing 5% of total employment of the economy<sup>xiii</sup>. Graphic and plastic arts are the single largest employer with over 300,000 persons (Figure 19), followed by live performing arts and music. France has a specific regime for its "*intermittents du spectacle*", by definition artists or technicians that work intermittently on film productions, the audio-visual and the live-performing industries and artist-performers.

**Figure 19: Employment in creative industries, France, 2011**



[Source: EY2013]

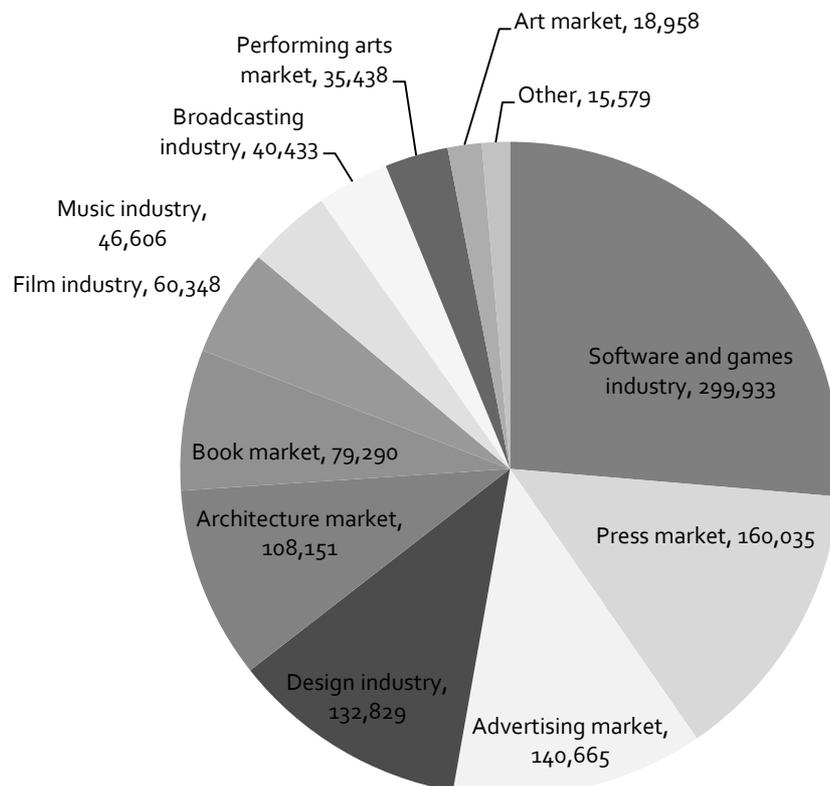
## Germany

The Federal Ministry for Economic Affairs and Energy (BMWi) reported that employment in the private-sector activities of the creative industries in 2012 totalled 1.1 million jobs, including freelancers (Figure 20)<sup>xiv</sup>.

The software and games industry is by far the biggest single employer with close to 300,000 employed, about one-quarter of the total. Over the period 2010-12, employment trends in Germany have closely followed the trends observed for sub-markets: audiovisual production has recorded the strongest growth in employment.

BMWi tracks the number of 'artists' in each segment that is 'own-account', i.e. working on their own. This includes authors of books or composers of music. BMWi notes the prevalence of freelance work amongst the creative sectors relative to other employment in 2012 in the performing arts and arts market generally. (BMWi does not report significant freelance activity in the software and games industry or in design.)

**Figure 20: Employment in creative industries, Germany, 2012**



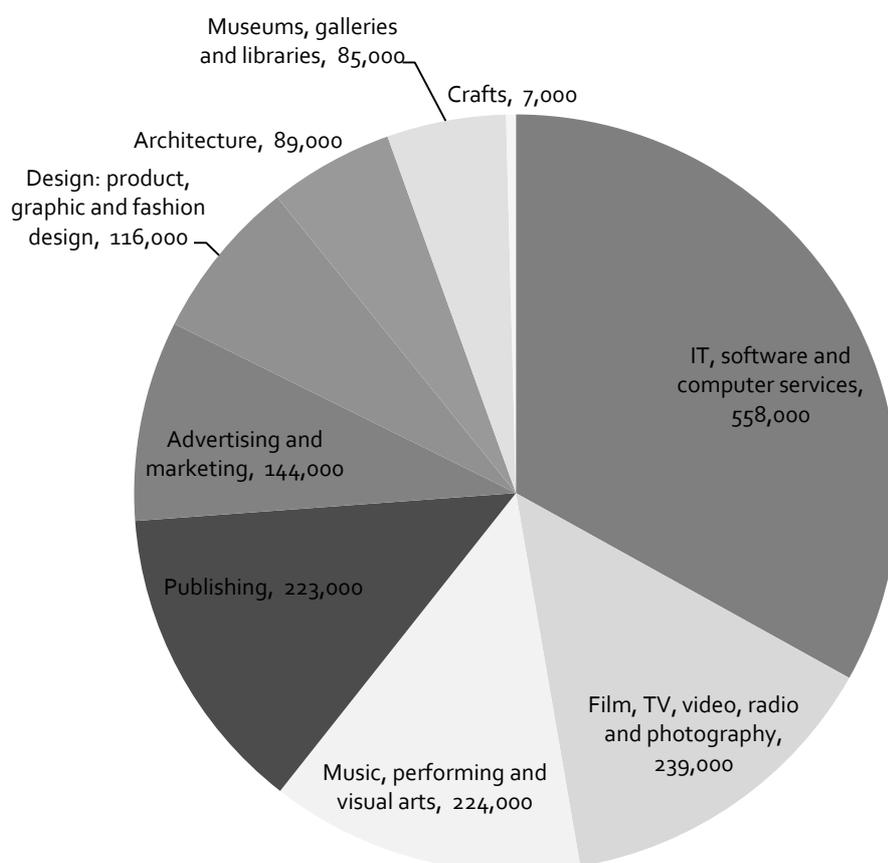
[Source: BMWi]

## The UK

The Department for Culture Media & Sports (DCMS) defines the creative industries as those making intensive use of people in 'creative occupations'<sup>xv</sup>. DCMS includes all IT, software and computer services, unlike Germany or France, leading UK policymakers to focus on promoting Science, Technology, Engineering and Mathematics (STEM) subjects in education to supply the skills base of the industry.

According to DCMS, the UK had 1.6 million directly employed in the creative industries, of which 35% were employed in the IT, software and computer sub-market alone (Figure 21). Without this inclusion, the UK had 1 million jobs in the creative industries, on a par with France and Germany.

**Figure 21: Employment in creative industries, UK, 2012**



[Source: DCMS]

## Challenges and opportunities of digital

Most enterprises in the creative industries and indeed in the wider economy fully recognise that the internet is an additional channel to reach consumers, alongside channels of retailing and broadcasting. They also recognise that digital distribution is an opportunity to reduce or entirely remove the costs of selling creative products in physical formats. But there is also ample evidence that consumer behaviours are more complex, and new skills are required to be harnessed by publishers to purpose content for distinct device and content eco-systems. The nature of partnerships has also changed, as publishers join forces with e-commerce and digital distributors, alongside longstanding retail partnerships.

### Wider markets

The internet has spawned a wide variety of tools for enterprises to reach and develop this new audience. Most enterprises leverage digital channels to reach consumers. According to a survey conducted by Eurostat (Figure 22), most enterprises located in the UK and in Germany have a website, although the share is lower in France, and many use social media to interact with customers.

**Figure 22: Use of technology by enterprises**

	France	Germany	UK	EU
Website	65	84	82	73
Use at least one type of social media	19	33	42	30
Formal policy for social media use	4	7	15	8
Social networks	17	29	40	28
Multi-media content-sharing websites	5	13	15	11
Blogs or micro-blogs	5	7	23	10
Wiki-based knowledge-sharing tools	3	11	6	8

[Source: Eurostat]

Markets may be wider but suppliers of creative products and services must compete hard – arguably harder. The customer is made ‘smarter’ by digitization and is better able to compare products and prices, offline and online.

Digital piracy drains some portion of potential demand. Digital rights management (DRM) solutions may prevent some consumers from sharing eBook files with other people, but not all. As Dame Rebeck has emphasized<sup>xvi</sup>, book publishers are assuming increasing costs to protect their copyright and reduce the amount of revenue lost to piracy.

### Discovery

The scattering of consumers across traditional, e-commerce and digital distribution channels presents novel challenges for the discovery of content.

Adoption of mobile devices drives greater consumption of games, social media and video apps. Consumers are also using their devices at key times when other media have been consumed – on commutes, on the sofa and in bed. To blunt the impact of lost consumption time on sales of creative products and services, publishers must make ever greater efforts to make their content discoverable.

In the UK, the main casualty of the rise of e-commerce giant Amazon in book retailing has been the independent book store, which offers a better discovery experience to most book buyers. Publishers' social media initiatives such as online reading groups have engaged users in a positive reading environment. Much more can be done to stimulate interest in authors, books and reading.

The nature of the discovery challenge is very different for music, which is broadcast on radio and online, than for content and apps. The cluttered environments of digital stores make it hard for any single product to stand out. The sheer 'embarrassment of riches' on app stores (what track, album, book, magazine or game should I choose?) leads consumers to rely upon social recommendation, charts listing top apps, including by category, or even 'app discovery' apps.

## The digital dividend

It's a simple truism that the cost of delivering a book to the consumer as a digital file is a fraction of those incurred in the production and distribution of physical books. The same is true of the CD, where up to 50% of the retail value of the product is absorbed into physical costs<sup>xvii</sup>. This makes the promise of the digital dividend of significant appeal to publishers' shareholders: it permits an enterprise experiencing a moderate topline decline to maintain cash flow as the share of digital rises.

This however is not the whole story. Publishers must purpose their content/apps for each major operating platform, namely iOS (iTunes, Apple devices) and Android (Amazon, Google Play, Android devices). Then, because devices are 'tied in' to digital stores like iTunes, Amazon's Kindle or MP3, Google Play, publishers must enter into new partnerships, widening the scope beyond physical retailers to an entirely different group of enterprises. Publisher revenues from sales realised through digital stores are reduced by VAT and by a 'commission' or revenue-share of at least 30% (iTunes, Google Play) or perhaps higher (Amazon) on the VAT-exclusive price.

For publishers, the shift to digital stores raises novel issues of pricing and more generally the 'terms of trade' with relevant partners. If pricing of digital content is discounted against the physical product, as may be the case, then part of the digital dividend is lost.

In Germany, for example, many enterprises in the creative industries report in a business survey that they are challenged by increased demands from consumers combined with increased pressure on prices, pressure to innovate and invest<sup>xviii</sup>. These are incremental to the demands of consumers that are wedded to the physical product, leading to duplication of business operations.

Forming direct relationships with customers is an opportunity for publishers, but does require access to the device selected by customers. In the US and UK, Amazon's Kindle app reigns supreme (on Kindle devices, smartphones and tablets), while other ereaders (Nook, Kobo, Sony) have struggled to compete and been abandoned.

The situation is very different in Germany, where the Tolino Shine (launched by a consortium of Bertelsmann, Deutsche Telekom and three booksellers) could have more success, because the alliance has a 37% market share of eBook sales versus Amazon's 45% – but Amazon will remain a towering competitive threat. One reason is that ereaders may not be remembered for long: in Germany only 832,000 ereaders were sold in 2013 compared to more than 8 million tablets. Apple's iPad sales have stalled as sales of cheaper tablets take off.

## Artists, authors and publishers

Self-publishing is a notable trend among authors keen to write and publish a book. To assist authors, *Penguin Random House* has established the *Book Country* (<http://www.bookcountry.com/>) platform providing peer review of manuscripts and helping authors to be discovered. Self-publishing authors may purchase modestly-priced packages of services to this end (cover design, distribution), and retain 85% of trade revenues.

On Amazon, self-published authors become “Amazon partners”, earning up to 70% of trade revenues. High profile successes include Theresa Ragan, but few self-publishing authors on Amazon survive on their earnings from sales.

Publishers remain at the core of the industry since they nurture the creative talent of authors, provide editing services, marketing and distribution expertise across both offline and digital channels, also sustaining the key relationships with retailers, e-tailers and platforms like iTunes, Kindle and Google Play. Just like other sectors of the creative industries, publishers have integrated technology solutions in their activities to become more efficient and meet the needs of customers.

The ability of publishers to nurture talent over a writer’s career is exemplified by John Green’s *The Fault in our Stars*, published by *Penguin Random House*. Green himself told *The Atlantic*: “This is my fifth novel and it’s the first one to be very, very commercially successful. But my publisher has been extremely supportive of my work for a decade, and that is the reason why all of this has been possible. That would never happen in the world of adult literary fiction anymore. You never see a writer’s fifth novel become the successful one, because you don’t get five chances anymore.” The book, chronicling the love story of two teenagers with cancer, was an instant bestseller and is being translated into many languages. It was Amazon’s No.1 bestseller six months prior to the publication date, before Green had even finished it. This was a result of the pre-publication coverage, driven by the author revealing its title to his 1.1 million followers on Twitter and his committing to signing pre-orders and the first print-run. The subsequent film grossed \$263 million worldwide, and cost a mere \$12 million to make.

*BMG Rights Management*, a subsidiary of Bertelsmann, is also a prominent provider of artist services. Bryan Ferry, who co-founded the world-famous art rock group *Roxy Music* in 1971, has signed a “Master Recording” contract with *BMG* for his next three albums. Bryan Ferry has also granted *BMG*’s British subsidiary, *BMG Chrysalis UK*, the publication rights to the majority of his 40-year song catalogue.

*BMG Rights Management* exploits the rights to its catalogue of over 1 million copyrights in a variety of commercially significant ways across the markets of the US, UK, Germany and other European markets: mechanicals are earned from sales of tracks and albums or from plays on digital music services; performance revenues arise from plays of these songs on radio or in public places, or the broadcast of audiovisual productions containing a song. In addition, *BMG Rights Management* promotes the use of compositions in advertising and audiovisual productions.

*BMG Writers Services* also works with some 600 songwriters around the world, developing their ideas on songs. Many top recording artists today often rely on songwriters to write their hits. The most renowned and currently most successful *BMG* songwriters include stars of the scene such as Steve Mac, Will.i.am, Bruno Mars, Claude Kelly, Dan Omelio, Juicy J, Sacha Skarbek, Wayne Hektor, No ID, Hillary Lindsey and busbee. Collaboration among the 10 teams of *BMG Writers Service* is central to placing as many songs as possible with recording artists.

## Appendix I – Defining the creative industries

### Enders Analysis definition

The approach in this report closely follows those taken by regulators in the UK, Germany and France, respectively, which is to focus on the commercial side of the sector. The analysis therefore does not cover the large segment of the cultural industries – notably public sector broadcasting, the preservation of cultural heritage or cultural education, much of the performing arts - that lie outside the private sector because it is publicly-owned and/or funded by licence fees, grants or donations. It should however be clear that the commercial activity in the creative industries does rely on significant public-private interactions.

Another constraint on the cross-country analysis of the creative industries is the scope of the data made available by Eurostat in the *Structural Business Statistics* database. This database contains like-for-like data on enterprises (excluding micro-enterprises), their employment (but not freelancers), turnover, contribution to GVA, and so on, for each EU Member State. This database, which relies on business surveys in EU28, covers manufacture, trade and services in the creative industries, but does not provide any coverage of the business side of the performing arts<sup>xix</sup>. This may be because the performing arts are highly reliant on public funding and donations by individuals and companies, along with ticket and merchandise sales. Fortunately, there is some coverage of the performing arts in publications of regulators in France, Germany and the UK.

**Table A.1 – Definition of the creative industries**

Sector	NACE Rev 2 code
Printing and reproduction of recorded media	18.1, 18.2
Retail sale of books, music and newspapers (in specialised stores)	47.61, 47.62, 47.63
Publishing activities	58
Motion picture, video, and television programme production	59.1
Sound recording and music publishing activities	59.2
Programming and broadcasting activities	60
Architectural and engineering activities; technical testing and analysis	71
Advertising and market research	73
Other professional, scientific and technical activities	74
Creative, arts and entertainment activities	90

[Source: Enders Analysis based on SIC(2007)]

### UK government definition

The Department for Culture Media and Sports (DCMS) defined the creative industries in 1998 as those industries which 'have their origin in individual wealth and job creation through the generation and exploitation of intellectual property'. This application of creative content to commercial ends distinguishes the creative industries from cultural industries, which are not primarily defined by their economic value, but by their contribution to society in promoting identity, shared values and a common idiom, alongside individual creativity (see Creative consumers).

Recently, DCMS has adopted a definition of the creative industries based on their common trait, which is a relatively intense use of workers in creative occupations<sup>xx</sup>. Prominently featured are cultural products and services - TV, film, video, radio and photography, publishing, arts institutions,

like museums, galleries and libraries; music; and performing and visual arts; advertising and marketing; design; and IT, software and computer services. This latter inclusion is controversial insofar as neither France, Germany or the European Commission have chosen to follow this approach.

Some salient differences:

- Unlike ESSnet, DCMS does not include in its definition the retailing of books, music, films, newspapers
- DCMS has included the entire sub-market of software publishing (section 62), not just entertainment software

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%)<sup>xxi</sup>. 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.

### German government definition

The Federal Ministry for Economic Affairs and Energy (BMW<sub>i</sub>) began reporting on the creative industries in 2009, defined to include 12 sub-markets<sup>xxii</sup>. These are: music industry; book market; art market; film industry; broadcasting industry; performing arts market; design industry; architecture market; press market; advertising market; software and games industry; and other. Of note is the fact that only certain software publishing activities are included by Germany, in contrast to DCMS in the UK, which has an expansive definition.

Each set of data on jobs, companies, turnover and GVA contribution include all aspects of the manufacture, production and distribution of products and services, including the retailing of books, music, newspapers and magazines, as well as films. For example, the book market is further broken down into discrete steps such as the “own-account” writers, book publishing, binding of books, retail sale of books including second-hand bookstores, and translation.

The report from BMW<sub>i</sub> states: “The culture and creative industries comprise all cultural and creative enterprises that are mainly market-oriented and deal with the creation, production and/or dissemination through the media of cultural/creative goods and services. The main criterion for the definition is the commercial character of the company. All market-based companies which are subject to VAT or which simply desire to profit from art, culture and creativity, belong to this group of companies. Companies not included in this group are institutions or other types of associations, which are largely not financed by the market, but instead receive funds from public financing, license fees or are supported by non-profit funds or private investors. Such a distinction between commercial or market-based companies on the one hand and non-market based companies on the other is of particular importance for the situation in Germany for reasons concerning policies of regulation and governance.”<sup>xxiii</sup>

In 2012, the culture and creative industries accounted for €62.8 billion or 2.4% of GVA, with 1.6 million jobs involved (employees and self-employed freelancers) at 247,000 enterprises – despite being the most populated state amongst EU Member States, the sector has a smaller relative presence. In fact, 30% of business units were constituted by self-employed freelancers, especially prevalent in journalism, photography, film and TV production, the book market and music industry. The micro-enterprise is relatively well-suited to the needs of artists, which then entrust publishers with the commercial exploitation of their works.

## **French government definition**

The Ministry of Culture has defined the culture and creative industries as composed of 9 sub-markets: graphic arts and design (including architectural services); music; performing arts; cinema; television; radio; videogames; books; press. It has measured their significance via final consumer expenditure on cultural products and associated jobs in the production, distribution and/or dissemination of cultural products.

## **European Union definition**

The cluster of “creative and cultural industries” (CCIs) comprises a broad range of products and services that incorporate significant creative talent inputs. This cluster includes: heritage and performing arts; cinema; music; publishing; the manufacture of fashion and design products, including luxury goods and crafts<sup>xxiv</sup>. These were estimated to account for 3.3% of GDP and 3% of employment in 2010.

## **UNESCO definition**

UNESCO has focused on ‘cultural products and services’ rather than the ‘creative industries’.

**Appendix II – Sub-markets excluded from our headline figures**

Several sub-markets have been excluded that may be included in other organisations’ definitions. This is a largely arbitrary decision owing to creativity being a rather nebulous and indeterminate concept. For the sake of completeness, the 2011 GVA and employment figures for these sub-markets are listed below.

Number of persons employed, 2011	Germany	France	UK	Grand Total
C267 - Manufacture of optical instruments and photographic equipment	24,411	2,014	-	26,425
C268 - Manufacture of magnetic and optical media	775	-	-	775
C322 - Manufacture of musical instruments	7,645	2,343	1,340	11,328
J5829 - Other software publishing	11,186	50,075	-	61,261
J62 - Computer programming, consultancy and related activities	526,521	337,850	524,675	1,389,046
M70 - Activities of head offices; management consultancy activities	372,844	354,873	421,470	1,149,187
M732 - Market research and public opinion polling	18,490	23,391	49,366	91,247
M749 - Other professional, scientific and technical activities n.e.c.	59,675	29,781	93,515	182,971

[Source: Eurostat SBS]

Value added at factor cost, 2011 (€m)	Germany	France	UK	Grand Total
C267 - Manufacture of optical instruments and photographic equipment	2,639	-	-	2,639
C268 - Manufacture of magnetic and optical media	36	-	-	36
C322 - Manufacture of musical instruments	311	101	30	443
J5829 - Other software publishing	1,653	4,570	947	7,171
J62 - Computer programming, consultancy and related activities	43,136	24,929	43,178	111,243
M70 - Activities of head offices; management consultancy activities	28,850	29,388	31,567	89,805
M732 - Market research and public opinion polling	1,121	1,290	2,818	5,229
M749 - Other professional, scientific and technical activities n.e.c.	3,775	1,917	6,006	11,697

[Source: Eurostat SBS]

- <sup>i</sup> EY, *1er Panorama des industries culturelles et creatives, Au Cœur du rayonnement et de la compétitivité de la France*, Novembre 2013.
- <sup>ii</sup> Federal Ministry for Economic Affairs and Energy (BMWi), *Monitoring of Selected Economic Key Data on the Cultural and Creative Industries 2012*, Summary, January 2014.
- <sup>iii</sup> Department for Culture, Media & Sport (DCMS), *Creative Industries Economic Estimates January 2014*.
- <sup>iv</sup> The European Commission's directorate responsible for Creative Europe published a Communication in 2012 on "Promoting cultural and creative sectors from growth and jobs in the EU" (COM/2012/0537).
- <sup>v</sup> "Cultural and creative industries are ready for a new Europe", Letter to President-elect Claude Juncker on behalf of Europe's creative industries, dated 13 August 2014.
- <sup>vi</sup> Fintan O'Toole links participation in cultural activities to broader notions of participation in society: "If you participate in one form of human activity it is vastly more likely that you have the capacity to participate in other forms. So (...) cultural participation is very strongly linked to citizenship, to the reality of citizenship. So, just as you are implicitly being defined as not being fully human if you don't have the capacity to participate in cultural life, you're also defined as implicitly not a citizen if you don't have that capacity", cited by Elena de Federico, *Measuring cultural participation: a state of the art*.
- <sup>vii</sup> *The Economic Contribution of the core UK music industry*, UK Music, December 2013.
- <sup>viii</sup> Eurobarometer 386, *Europeans and their languages*, June 2012.
- <sup>ix</sup> The UK chose to implement the Directive expansively, and set aside the quota of 25% of broadcaster commissioning budgets for network programming since passage of the Broadcast Act 1990. A very significant shift in commercial incentives occurred in 2003, when changed 'terms of trade' vested the secondary exploitation rights in the hands of the independent producers, leading them to develop export markets for British TV content.
- <sup>x</sup> European Audiovisual Observatory, *Yearbook 2013*, Volume 1.
- <sup>xi</sup> "Got Talent," which launched in the US in 2006 as "America's Got Talent" and in the UK in 2007 as "Britain's Got Talent," has long since developed into a global TV phenomenon. The show, the rights to which are owned by *Fremantle Media* and Simon Cowell's production firm *Syco Entertainment*, has local versions across Europe, Asia Pacific, the Middle East, Africa and the Americas. Most recently, the format has launched in Kazakhstan (Kazakhstan 1), Brazil (Rede Record), Moldova (Channel Prime TV) and Iceland (Channel 2).
- <sup>xii</sup> The stage for the development of the independent production sector was set in the early 1990s with the adoption of the Audiovisual Media Services Directive by the EU in 1989 (for linear services and expanded to non-linear VOD services in 2010). This provided incentives additional to film tax credits or publicly supported financing regimes for the establishment of *producers independent from public service and commercial broadcasters*. The Directive requires these broadcasters allocate a minimum quota of 10% of programming budget or transmission time to producers independent of them. However, as a Directive, every Member State has transposed its provisions into law and regulation according to their own interpretation of the provisions and desired industrial policy goals for the sector.
- <sup>xiii</sup> EY, *1er Panorama des industries culturelles et creatives, Au Cœur du rayonnement et de la compétitivité de la France*, Novembre 2013
- <sup>xiv</sup> Federal Ministry for Economic Affairs and Energy (BMWi), *Monitoring of Selected Economic Key Data on the Cultural and Creative Industries 2012*, Summary, January 2014.
- <sup>xv</sup> DCMS, "Classifying and measuring the creative industries: Consultation on proposed changes".
- <sup>xvi</sup> Creative UK conference, March 2014, [www.creative-uk.co.uk](http://www.creative-uk.co.uk).
- <sup>xvii</sup> RIAA, "The Cost of a CD", August 2000.
- <sup>xviii</sup> Federal Ministry for Economic Affairs and Energy (BMWi), *Monitoring of Selected Economic Key Data on the Cultural and Creative Industries 2012*, Summary, January 2014, Figure 3.4, p.9.
- <sup>xix</sup> The Structural Business Statistics (SBS) embrace business units (market-oriented). The survey does not cover enterprises listed under Division 90 which would contain the domain of Performing arts.
- <sup>xx</sup> DCMS, "Classifying and measuring the creative industries: Consultation on proposed changes".
- <sup>xxi</sup> Department for Culture, Media & Sport (DCMS), *Creative Industries Economic Estimates January 2014*.
- <sup>xxii</sup> Federal Ministry for Economic Affairs and Energy (BMWi), *Monitoring of Selected Economic Key Data on the Cultural and Creative Industries 2012*, Summary, January 2014.
- <sup>xxiii</sup> Federal Ministry for Economic Affairs and Energy (BMWi), *Monitoring of Selected Economic Key Data on the Cultural and Creative Industries 2012*, Summary, January 2014, p.3.
- <sup>xxiv</sup> The European Commission published in 2010 its "Green Paper - Unlocking the potential of cultural and creative industries" (COM/2010/0183).

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