

Europe's Creative Hubs

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Executive summary of: Europe's Creative Hubs Update 2018. The study was compiled in June 2018 by Enders Analysis in collaboration with Bertelsmann. Authors of the study: Dr. Alice Enders, Director of Research and Chris Hayes, Enders Analysis.

Economic overview

France, Germany and the UK are Europe's three largest creative hubs. A 'creative hub' is a large and diversified market for the products of the creative industries (CI) encompassing:

- Millions of consumers enjoying films, TV programmes, videos, news, books, magazines, music and games, often without directly paying for them, such as advertising-supported news services, free-to-air (FTA) television and over-the-top video services
- Thousands of enterprises with millions of employees and freelancers, engaged in: publishing, printing and distributing books, newspapers and magazines; broadcasting, producing music and audiovisual (AV) works and associated retailing; and supplying professional and technical services to other businesses, such as advertising and design

There is no common definition of the creative industries (CI) in Europe. The definition in this report spans enterprises with a cultural purpose, such as book publishing, and those with a more prosaic commercial purpose, such as the AV, advertising, design and games software segments. This highlights the salient characteristic of the CI: the spark of an idea may be at the heart of a creative work, but the production and distribution of such works by enterprises requires a large diversity of roles and skills, spanning creative, technical and other roles, many requiring post-secondary education. For the small and medium-sized enterprises of the sector, locating operations in a creative cluster, a form of industrial organisation found in knowledge-intensive sectors, can compensate for lack of scale and/or competences.

Creative industries are with growth rate of 25% in terms of gross value added (2010-2015)



Source: Eurostat SBS

Using Eurostat's SBS Database to measure the significance of commercial activity, the three creative hubs of France, Germany and the UK generated an estimated €161 billion of Gross Value Added (GVA) in 2015 together; 4.1% of non-financial GVA of €3,890 billion. This value-added was produced by 453,000 enterprises employing 2.15 million people. These data do not count the contribution of thousands of sole

traders and freelancers, which are both a salient feature of the CI. The not-for-profit and the public sectors are also excluded, although central to supporting commercial activity.

Our summary metrics for 2015 reveal:

- The UK was the leading creative hub in Europe in 2015, with an estimated GVA of €76 billion (representing 5.4% of the non-financial economy) generated from the activities of 118,000 employers of approximately 725,000 people; officially, the more expansively defined UK's "creative industries" generated £88 billion of GVA in 2015 and occupied 1.9 million people directly, excluding distribution
- Germany's creative industries (CI) generated €52 billion of GVA, accounting for 3.3% of the non-financial economy, via the activity of 157,000 businesses employing over 947,000 people; including sole traders and freelancers, the expansively defined "cultural and creative industries" (CCI) generated an estimated €100 billion in GVA in 2016, from the activity of 253,200 enterprises employing 1.1 million people¹⁾
- France's CI delivered GVA of €32 billion, equivalent to 3.5% of the non-financial economy, through the activity of 178,000 companies employing 478,000 people; the last official account reported €44.5 billion in GVA for the cultural industries for 2015²⁾, and France Créative reported 1.25 million people in 2013 directly engaged in the activities of creation, production and distribution of cultural and creative products across the territory³⁾

Creative industries generate €161 billion in gross value added and jobs for 2.2 million people³⁾ in France, Germany and UK in 2015



Source: Eurostat SBS / Enders

1) Federal Ministry for Economic Affairs and Energy (BMWi), 2017 Cultural and Creative Industries Monitoring Report, Summary, December 2017. BMWi relies on a database of VAT-paying enterprises, yielding 253,200 business units in the CCIs, overlapping with 253,200 self-employed/low turnover VAT registered enterprises.

2) Ministère de la Culture et de la Communication, Médias et Industries Culturelles, Chiffres clés 2018.

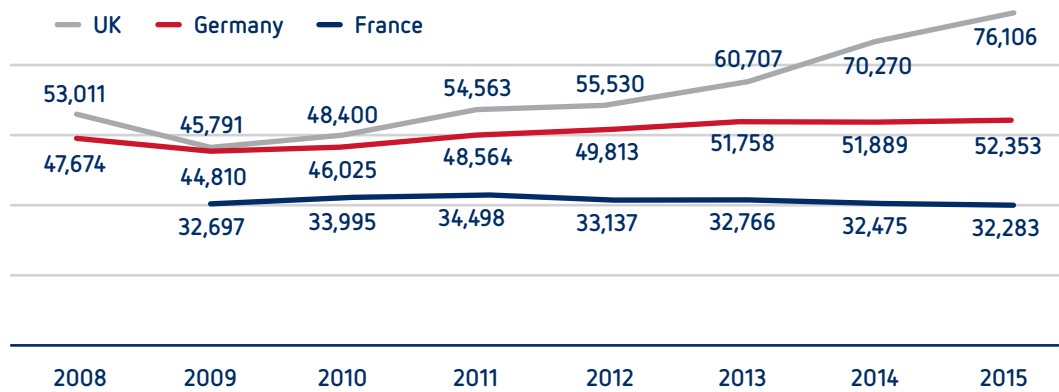
3) EY, Création sous tension, 2e Panorama de l'économie de la culture et de la création en France, Octobre 2015; EY, 1er Panorama des industries culturelles et creatives, Au Cœur du rayonnement et de la compétitivité de la France, Octobre 2013.

4) numbers do not include thousands more self-employed people

On a per capita basis, the UK is even further ahead of the other two: an estimated €1,164 in GVA per head in 2015, compared to €641 and €501 per head in Germany and France respectively. One reason is that UK domestic consumer expenditure on recreational and cultural services (including pay-TV, TV licence and video subscription fees) is the highest, at €774 per head in 2015. Other reasons for the relatively larger supply-side of the UK include the strength of exports of English-language AV and advertising products, and the UK's earlier recovery from the 2008-09 recession.

This relatively robust trend in the UK highlights the risks to the CI of Brexit. Since the UK's vote to leave the EU, the economy has softened, putting pressure on advertiser budgets and expenditure on media. Enterprises are holding back on investment decisions due to uncertainty. Exports of the AV cluster to the EU amounted to £4 billion in 2016 (46% of total UK AV exports) and are exposed to the UK's exit from the Single Market for AV media services. Furthermore, if free movement ends, it will be much more challenging for UK enterprises to attract creative talent.

Creative industries GVA, 2008-15 (€m)



Source: Eurostat SBS

The combined GVA of the three creative hubs rose to €161 billion in 2015 compared to €128 billion in 2010 (+25%, CAGR of 4.6%). In France and Germany respectively, the CI mainly serve domestic users and customers, apart from the games software industry, making the state of the domestic economy the primary differentiator of growth between the three creative hubs over 2010-15. In terms of GVA:

- UK CIs grew 57% over 2010-15, broadly outpacing the non-financial economy as a whole. The UK has chiefly ridden an advertising wave, in turn propelling the AV sector, which is a successful exporter of TV programmes to Europe and the United States
- Germany's CIs grew 14% over 2010-15. Since 2013, the CI have stalled, held back by mounting pains in print media and by stagnation in the advertising sector, despite moderate growth in AV and dynamic growth in games software
- France's CIs shrank by 5% due to the stagnant economy holding back advertising, although improving recently, and a decline in the print cluster

Performance of CI clusters, 2015

Cluster	France		Germany		UK	
	GVA (€m)	No of enterprises	GVA (€m)	No of enterprises	GVA (€m)	No of enterprises
Print media	9,707 ¹⁾	38,347	18,343	27,724	21,715	25,025
Audiovisual	10,805	24,338	13,906	11,592	19,941	26,204
Advertising	6,144	23,567	9,326	31,829	20,607	19,125
Other	5,628	91,767	10,779	86,276	13,804	47,776
Creative industries	32,283	178,019	52,353	157,421	76,067	118,130
% of non-financial economy	3.5%	6.1%	3.3%	6.5%	5.4%	6.1%

Source: Eurostat SBS

1) One component has been extrapolated

Looking to the future

Leaving aside the UK's risks from Brexit, the creative industries of France, Germany and the UK respectively face common challenges in the digital age from new consumer behaviours and the advent of new competitors and new forms of competition for users and customers. As the digital age advances, it is no longer fanciful for publishers to envisage an absolute decline in the volume of content brought to market, menacing the tissue of enterprises, workers and freelancers that are the core value producers of the CI.

Consumers have switched out of physical formats in favour of digital formats. More generally, most people have migrated a large portion of their time to online services serving news, ebooks, on-demand music and video, and digital native applications like games and social media. Wide-spread adoption of smartphones, tablets and high-speed mobile and fixed-line broadband packages have delivered a digitally attuned customer base to all suppliers of goods and services.

This switch to digital by consumers has inevitably been detrimental to traditional media, despite the rise of multi-tasking. Publishers and retailers of music, books, video, news and magazines have been hit harder by these consumer trends than the AV and games segments. Points of sale for physical media are vanishing, and with them the potential for serendipitous discovery. There is some compensation for the music industry from consumers switching expenditure to 'experiences' such as live music festivals and events.

For news and magazine publishers, the switch of eyeballs to online has disrupted the flow of funds imperilling their survival. Circulation and advertising revenues are in decline, and news kiosks are being closed. Printing, advertising sales and back office functions are encountering diseconomies of scale, compelling consolidation. Online, the competition for user attention is far more intense than in the offline world.

The display advertising paradigm for companies has fundamentally changed due to the advent of social media platform Facebook and Google's video viewing platform Youtube. Each serves a vast inventory of targeted or personalised impacts to advertisers and marketers thanks to user data harvested from applications and web-tracking. Because publishers lack such deep data resources, Facebook and Google are attracting most of online display advertising expenditure.

TV advertising by contrast has held share of total display advertising budgets (about 1/3), and continues to surpass online display revenues. TV serves brands well, including digital natives. This stability has sustained the flow of funds from FTA and pay-TV broadcasters to the AV sector, along with the stability of the public broadcasting sector.

Yet many broadcasters are equally concerned by meeting the challenge of audience migration to online. One aspect is the prominence of broadcaster apps on connected TVs developed by Original Equipment

Manufacturers (OEMs). They also must aim to match the targeting served to advertisers by Youtube. The impact of digital on the advertising market is profound and far-reaching.

Some things however don't change. There are still large up-front costs and risks of funding content production. News origination may be lower cost than AV production, but a service still needs to fund a news room, impossible to cover on digital revenues alone.

The digital age also does not change the reliance of creators on a backbone of commercial enterprises to bring their works to the market. Publishers retain their core importance in terms of discovering and nurturing creative talent to produce hits, and navigating the fragmented landscape of digital platforms and formats to license works for digital distribution.