



## Have the cultural and creative sectors found the formula for development in the digital age?

The imperative of moving towards business-model hybridisation to sustain and promote culture

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## ***Culture is digital, digital is culture<sup>1</sup>***

### **Tracing cultural experience**

Since 2009, analysts at Kurt Salmon have been outlining in a series of studies the framework and future prospects of cultural experience, a changing, exciting and energetic dynamic between the stakeholders who create, produce and diffuse it, and the public who needs to *feel* (according to Yves Michaud), discuss and transmit it with enthusiasm, expectations or increasingly *fluid* rejection, as sociologist Zygmunt Bauman clear-sightedly underlines<sup>2</sup>. Challenging the views of declinists or ideologists from all backgrounds, Kurt Salmon continues its task of identifying the most stubborn stereotypes – the so-called immaturity or weakness of consumer demand, the myth of Bohemian artists rejecting all economic reality or culture reduced to a commodity like any other – offering us some thoughts, some examples and... some solutions!

### **Creators and cultural locations have to rely on digital technology, not vice versa**

After sketching the changing profile of an *e-consumer* in 2014<sup>3</sup>, this new study modifies the image of a new generation of cultural and creative entrepreneurs by first discussing the challenges of value-sharing from a new angle. Kurt Salmon encourages us to reconsider the links between culture, economy and digital technology through the prism of “digital entropy,” a notion of thermodynamics that is favoured over the concept of flawed Schumpeterian *creative destruction*, which is out of sync with the forces of the present ecosystem. This digital entropy yields an indicator that correlates the digitisation rate of the cultural sectors and the hybridisation of different business models. While in thermodynamic terms entropy transforms the transition from destruction to reconstruction, in terms of cultural economy, it encourages creators to anticipate the necessary hybridisation of their funding according to the level of digitisation of their production (which is not synonymous with destruction here). This comes with a universally accepted principle: digital technology and the hybridisation of models it accelerates “produces” diversity, but is hardly significant in terms of how this diversity is “consumed”.

### **Awareness and reasons to act**

Creators have numerous reasons to have hope in this new digital strength: access, dissemination, diversity and responsibility.

Moreover, each creator’s personal way of operating and their various activities in time and space symbolise a new social model that is honed by the collaborative economy. It is also important to realise that the emergence of a new generation of cultural and creative entrepreneurs will be possible only by:

- Distinguishing between cultural diversity that is “produced” and “consumed,” taking into account public expectations and practices while meeting the challenge of paid-for digital cultural goods and services;
- Consolidating a European model of the cultural and creative sectors offering competitive services, by promoting artistic creativity, defending creators’ interests, and highlighting that the payment of artists on the single digital market suffers from an endangered legislative framework (copyright);
- Defining broadcasters’ responsibilities (economic, fiscal and ethical) by laying down the terms and conditions for fair sharing of value and tax treatment; some operators like Orange are leading the way;
- Providing support at all stages of their development, by developing the terms and conditions for sustainable operation – whether legal (copyright protection), economic (labelling of funding sources) or social (flexibility of regulations).

### **Accepting a real Copernican revolution**

“We have gone from the role of creating culture to the role of producing culture,” noted Yves Michaud at the Forum d’Avignon debate held on 10 June 2015 at Futur en Seine. “Leisure time and sociability now seem to play a key role in people’s experience of culture”. Drawing on Kurt Salmon’s analyses and recommendations, creators have a profound and essential role to play, whatever the digitisation rate of their work.

Laure Kaltenbach General Manager and Olivier Le Guay, Editorial Manager of the Forum d’Avignon Think Tank – Culture, Economy, Innovation

1- Topic of the fourth Forum d’Avignon sessions, Ruhr.

2- Zygmunt Bauman, *La vie liquide*, Fayard/Pluriel, 2013.

3- *How the culture sector can best respond to the challenges of the digital age?*, Kurt Salmon for the Forum d’Avignon 2014.





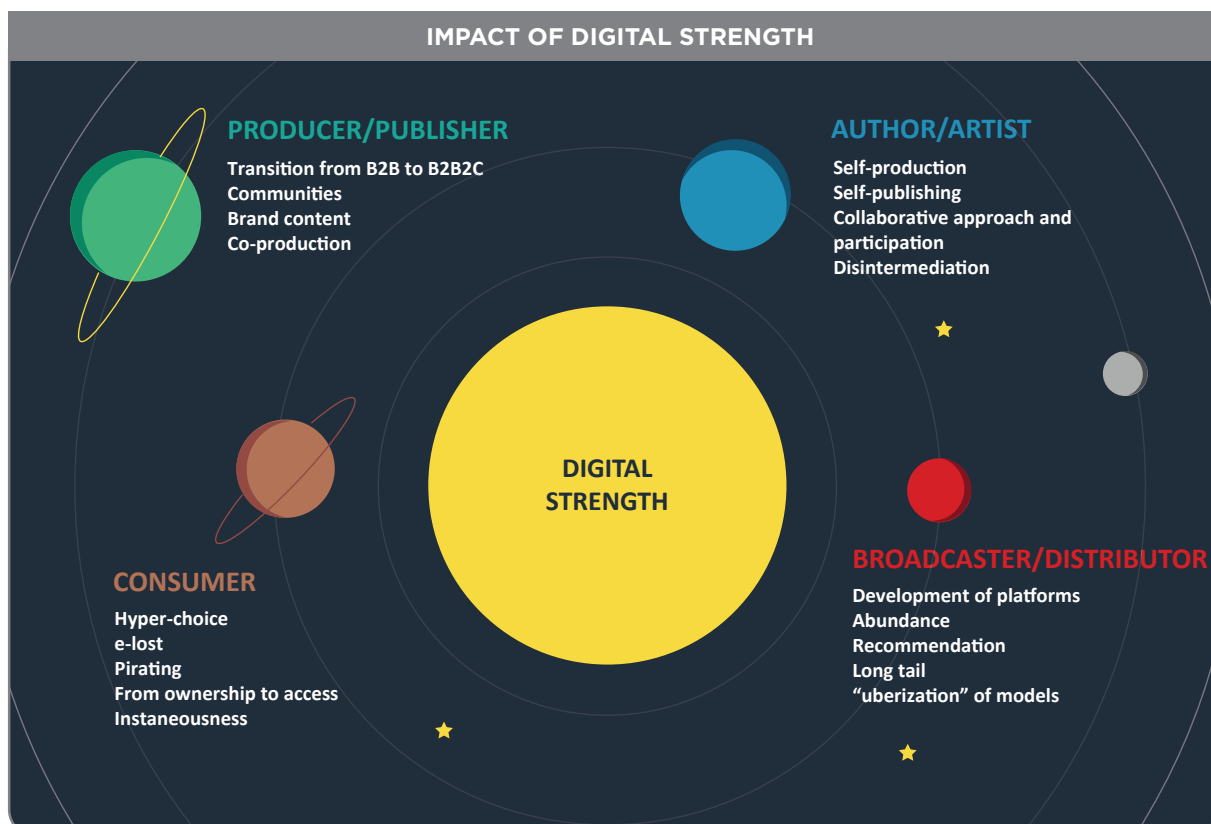
**Digital strength is fully expressed in the cultural and creative sectors. It very often leads the way in innovation, yet it is not clear whether it ultimately creates value.**

In fact, this strength is entropic:

- It destroys value; consider for example the effect of piracy on the music market, or the

impact of digital technology on the press sector...

- At the same time it recreates value. Digital technology has equipped stakeholders in the cultural sector (with self-production, self-publishing, etc.) and allowed them to innovate and create new formats for their works, etc.



**The issue is therefore to determine the conditions under which this "digital entropy" creates value and how this value is distributed among stakeholders in the cultural and creative sectors.**

The mechanisms of value creation are based on business models that have multiplied in the digital age with the emergence of new cultural patterns, and then have to be distinguished from traditional models. In the video sector, for example, several business models are at work and are accompanied by distinct uses:

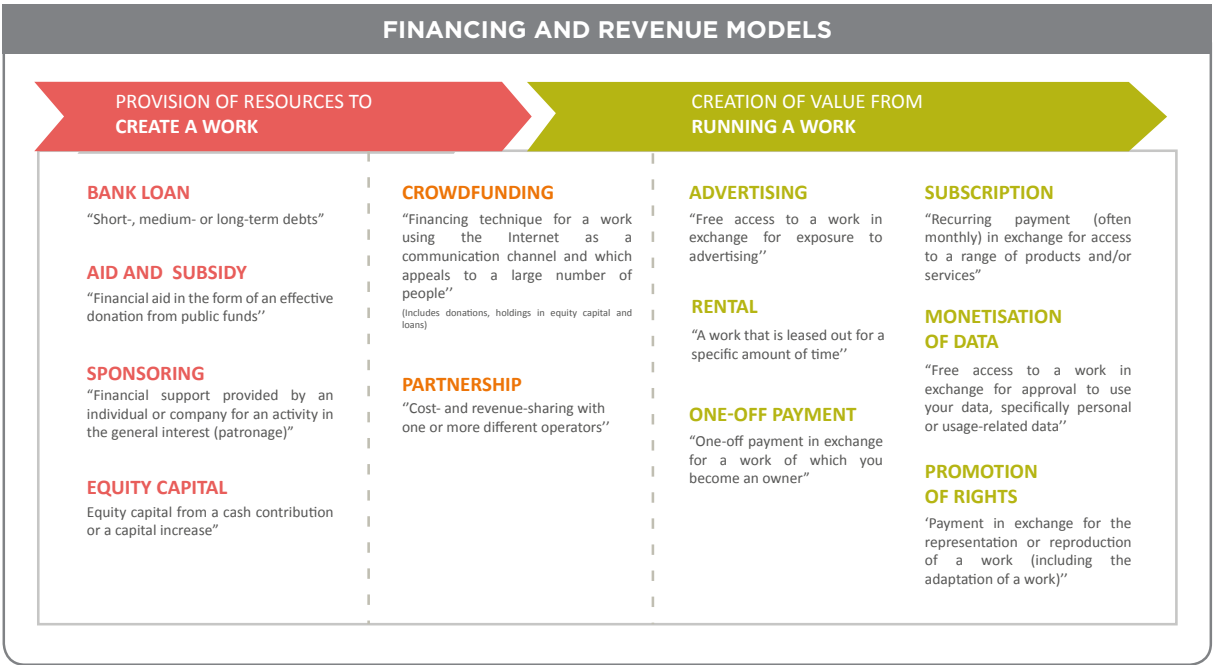
- Buying a DVD based on the model involving a one-off *physical* payment;
- Buying a digital film based on the Electronic Sell Through (EST) model involving a one-off *digital* payment;
- Renting a *physical* film in a video store, which is available in a digital format as a Video On Demand (VOD) film;
- A subscription to a service giving access to a catalogue of films based on the Subscription Video On Demand (SVOD) model.

**This phenomenon of multiple, joint and mixed business models is known as the hybridisation of business models.**

While it is not new, this phenomenon has expanded considerably in the digital age:

so-called *traditional* models (e.g., purchasing a printed book) now have a *digital* equivalent (e.g., purchasing an e-book).

**This hybridisation concerns both revenue and financing models:**



**This has not failed to have an impact on cultural projects, which are balanced with increasing complexity between:**

- On the one hand, **unavoidable costs** to create, produce and distribute a work;
- On the other hand, **sources of funding and revenue that are fragmenting** somewhat more with the proliferation of business models.

**Are the multiplication and hybridisation of models – in particular digital ones – ultimately contributing to economic dynamism and diversity in the cultural and creative sectors?**

**Through this study, interviews with industry experts, and the exclusive international survey that we conducted as part of our work,**

**we wanted to understand and quantify this business-model hybridisation phenomenon and its impact on cultural diversity.**

First of all, we wanted to understand the effects of digital strength in the cultural sector, by quantifying the creation or destruction of value generated by the hybridisation of revenue models – in particular, digital ones – and analysing the conditions for these mechanisms to create value. This specifically led us to define and compare the “digitisation rate” of the cultural and creative sectors with their “hybridisation index” to deal with this phenomenon in a tangible way. We were consequently able to identify a “formula” whose “ingredients” allow value to be created in the cultural and creative sectors.

Second, we wanted to know whether the hybridisation of models benefitted cultural diversity. To this end, we analysed the extent to which the “boundaries” had moved in terms of the distribution of value among players in the cultural and creative sectors in light of these new models, especially how artists and authors were able to benefit from the value created by the hybridisation of models. It is clear that, while the hybridisation of models creates value for the benefit of creators, it nevertheless encourages more “produced” cultural diversity than “consumed” cultural diversity<sup>4</sup>.

Finally – bearing in mind that the “hybridisation formula” alone was necessary but not sufficient

for the development and sustainability of the cultural and creative sectors – we worked towards identifying other “ingredients” that could contribute to this. Drawing on the wealth of viewpoints of the individuals we were able to interview, we therefore propose a series of measures to consider and preferable models to promote culture, along with its innovative and creative dynamics in an increasingly “hybridised” world.

This work enabled us to report on the continually renewed capacity of the cultural and creative sectors to innovate and propose bold and virtuous models that could expand beyond merely the cultural and creative sectors.

4- According to the expression used by Mr Pierre-Jean Benghozi, Professor at the Ecole Polytechnique and Commissioner of the French National Authority for Electronic Communications and Postal Services (ARCEP).

## Digital strength generates a hybridisation of models and creates value, but only under certain conditions

**The effects of digital strength on the cultural and creative sectors are entropic: it destroys value at the same time as creating it.**

The issue is knowing whether the combined effects of digital technology on culture are ultimately positive. To this end, it is important to understand and quantify the mechanisms underlying the creation and destruction of value, and therefore the business models that produce them.

The development of digital “consumption models” has coincided with the proliferation of business models. For a given work, business models hybridise with each other: the same work can be exploited by very distinct business models depending on whether the “cultural consumer” buys the work, rents it, subscribes to an offer or even accesses it free of charge in exchange for watching an advertisement, for example. Does this mean that the digitisation of consumption correlates with the hybridisation of business models? To what extent is it virtuous for the cultural and creative sectors? We first attempted to understand and quantify this phenomenon and its ability to create value within the cultural and creative sectors.



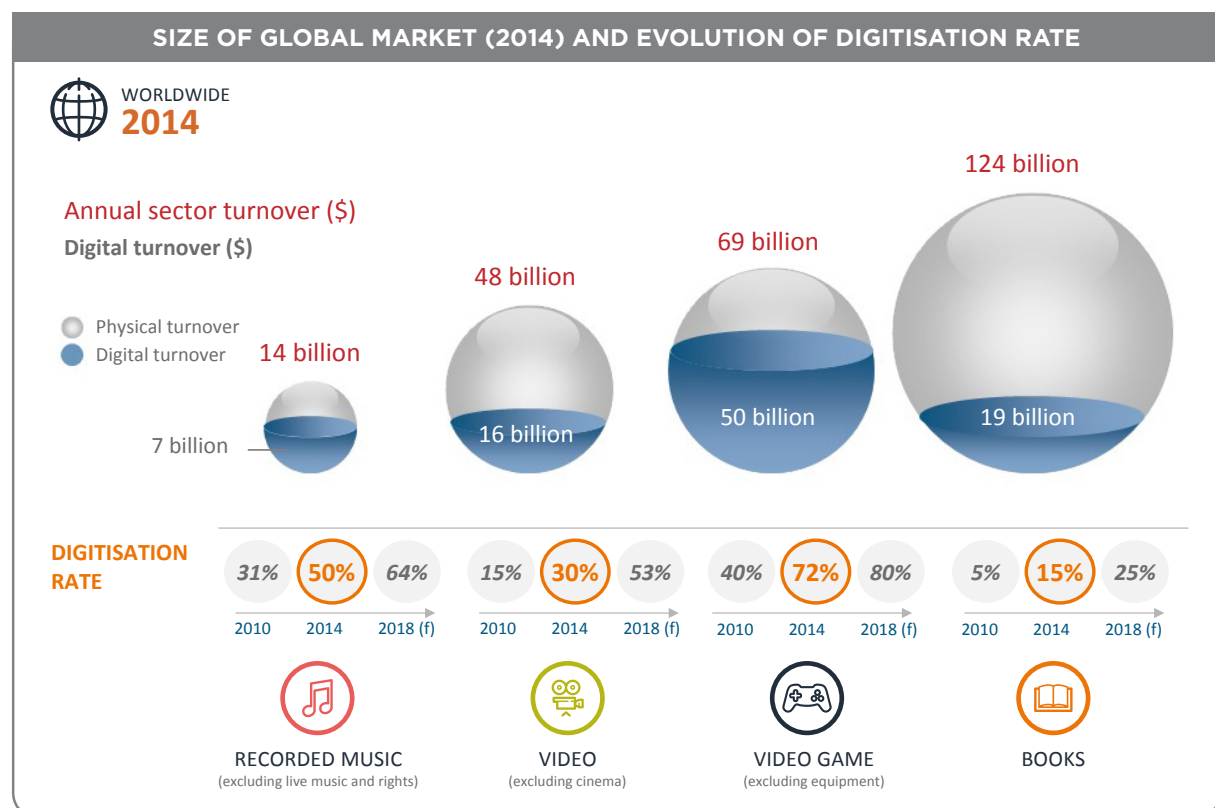
## ● The more a cultural and creative sector is digitised, the more it is “hybridised” – with the notable exception of the music industry

In order to compare the digitisation of consumption and the hybridisation of models in cultural sectors, we calculated two key indicators: first, the “digitisation rate”, measuring a sector’s level of digital maturity; and second, “the hybridization index”, measuring a sector’s ability to create a balanced mix of revenue from different business models.

First, a particular cultural sector’s level of

**digital maturity can be measured through its “digitisation rate,” i.e., the share of revenue from the digital field in relation to the global market<sup>5</sup>.** We chose to analyse four cultural and creative sectors that are representative of “digital entropy”: recorded music, videos (excluding cinema), video games and books.

**While the level of digital maturity varies greatly from one cultural sector to another, it is growing very quickly overall:**



5- The digitisation rate does not take into account pirating, given that it is based on income generated by the different cultural sectors studied.



The book sector – the largest market in terms of revenue, with \$124 billion generated globally in 2014 – has a digitisation rate of 15%. This is the lowest rate of the four sectors studied, showing that the public still has a very strong appetite for books in their traditional format.

Conversely, the video games sector, which is essentially technology-driven, has the highest digitisation rate (72%), which is set to reach 80% in 2018.

While the video sector has a digitisation rate of 30% – which may seem low compared to that of the recorded music sector, for example, which recently exceeded 50% in 2014 – it is however a sector that is going digital very rapidly. The digitisation rate of the video sector is set to grow by 38 percentage points between 2010 and 2018, an increase

that is almost the same as that of video games (up 40 percentage points over the same period).

Second, **we defined a hybridisation index as follows: it is based on the number of business models that coexist within a sector and is weighted by the Gini coefficient, which measures income concentration**<sup>6</sup>. In other words, the greater the number of business models at work in a cultural sector, and the

more the revenue generated by these models is evenly distributed in the market, the higher the hybridisation index will be (with a maximum index of 100).

For example, four business models are at work in the book sector<sup>7</sup> (one-off physical payment, one-off digital payment, physical subscription and digital subscription) and the income derived from these models is not distributed evenly, insofar as the income from the model involving a one-off physical payment (purchase of a “printed” book) still predominates, representing 83% of total global market revenue. Consequently, the book sector had a relatively low hybridisation index of 23 in 2014. In contrast, the hybridisation index of the video games industry is very high (80).

Of the four sectors studied, **it is clear that there is a correlation between the digitisation rate and hybridisation index of the sectors;**

6- Hybridisation index (I): 
$$I = \frac{m}{n} \times 100 \times \sum_{k=0}^{m-1} (X_{k+1} - X_k)(Y_{k+1} + Y_k)$$

Where

m = the number of business models in the sector

n = the maximum number of business models

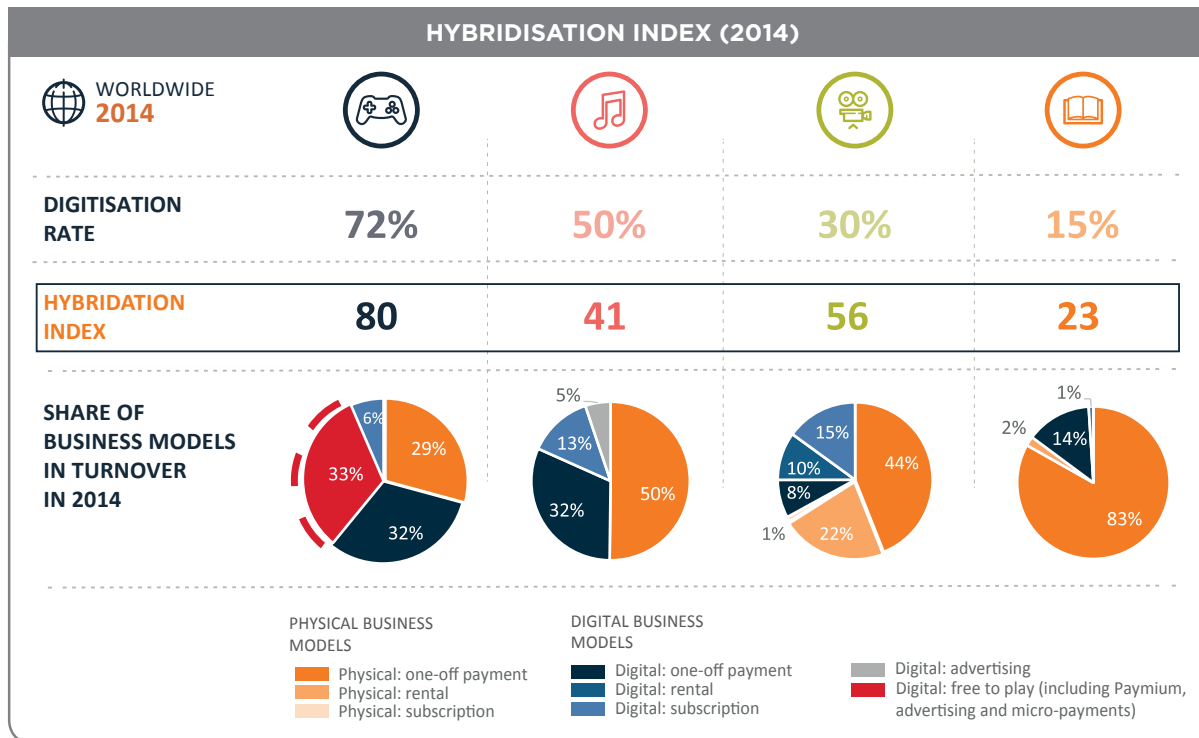
X = the cumulative frequency of the business models within a sector

Y = the combined share of a sector's turnover.

7- A “traditional” business model (e.g., one-off physical payment) and its digital equivalent (e.g., one-off digital payment) are differentiated because the distribution of value generated by these models is not the same.

the more a sector is digitised, the more it is hybridised with a hybridisation index that is

higher than its digitisation rate<sup>8</sup> – with the notable exception of the music sector:



Sources: IFPI, Strategy Inc, PWC, Marketline, DFC Intelligence, Think Equity, Kurt Salmon analyses.

The music sector is the only one whose hybridisation index (41) is lower than its digitisation rate (50%). In other words, consumption patterns have evolved more quickly than business models. While the public “consumes” most music digitally (by purchasing or accessing it through platforms free of charge or by subscription), revenue generated by business models at work in the sector is still very concentrated. In fact, the model involving a one-off payment is largely predominant: it is worth over 80% of revenue if revenues from physical and digital models are combined. **But the boundaries are set to move quickly as the public seems increasingly to favour accessing music over owning it:** the digital subscription model (access to music without owning it), which represents 13% of global revenue, grew by 39% in 2014 according to IFPI, while revenue from the one-off payment model (allowing users to become the “owner” of a legal copy of a piece of music) fell by 8% over the same period. The arrival of new players in this market, particularly Apple in June 2015, should help to balance revenue from the different models.

The other sectors studied have a hybridisation index higher than their digitisation rate.

The video sector, whose digitisation rate is “only” 30%, is even described as “over-hybridised” inasmuch as it has a comparatively high hybridisation index of 56. There are two main reasons for this:

- On the one hand, the sector was already relatively hybridised before the advent of digital technology (with the possibility of buying or renting a VHS tape or subscribing to a video store, for example);
- On the other hand, these models have successfully transitioned to the digital age with the emergence of EST (one-off purchase of a digital version), VOD (one-off rental of a digital version) and SVOD (digital subscription), a model widely popularised through Netflix.

The income from these different models is distributed relatively evenly within the video market, which explains this high hybridisation rate.

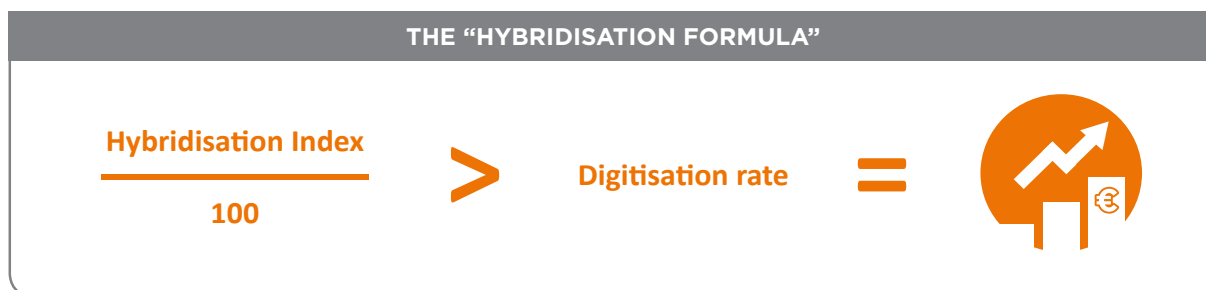
8- More precisely, here this involves comparing the rates, in other words the hybridisation index divided by 100 (for example, 80%) compared with the digitisation rate (for example, 72%).

Stakeholders in the video games sector have meanwhile seized the opportunities afforded by digital technology and the widespread use of mobile devices to develop new business models. **The hybridisation index of the video games sector is consequently the highest**

**(80)**, due to the even distribution of income generated by six distinct business models – one-off physical and digital payment, subscription and free-to-play which includes Paymium, advertising and micro-payments.

- Digital strength is a positive force, provided that models are hybridised more quickly than cultural consumption patterns go digital

**The hybridisation of business models creates value in a cultural sector as soon as its hybridisation index exceeds its digitisation rate.**



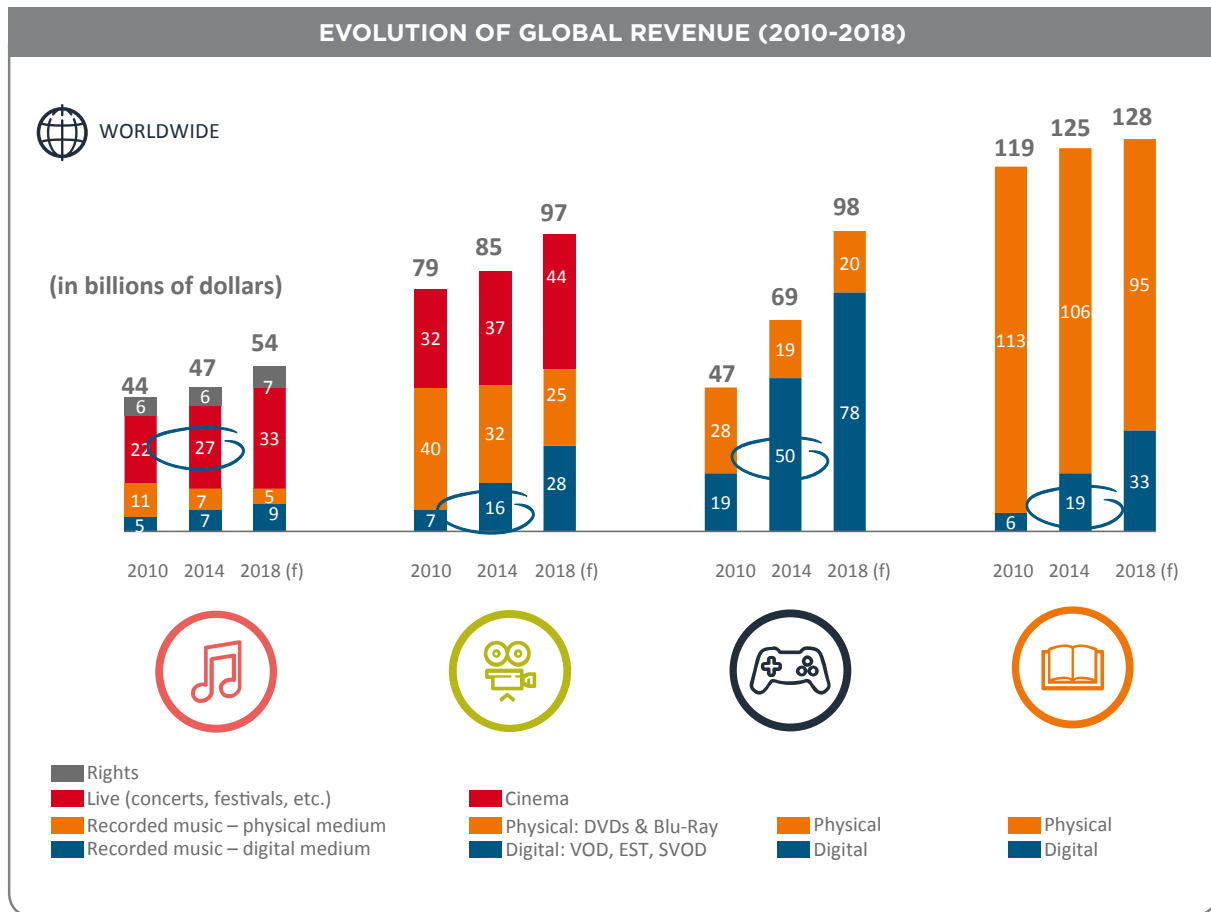
In other words, it is the ability of the cultural and creative sectors to provide – and in particular anticipate – offers that are in line with consumers’ increasingly digitised consumption patterns that creates positive growth dynamics across their market.

***“Hybridisation is not a choice but a necessity; it is essential for cultural sectors”.*** Emmanuel Durand, Vice President of Marketing, Warner Bros Entertainment

Our analyses show that for the four cultural sectors examined:

- On one hand, new business models – i.e., the digital models shown in blue below – are all growing, which logically reflects the gradual digitisation of cultural uses/consumption patterns;
- On the other hand, traditional business models – i.e., the so-called physical models shown in orange below – are all in decline;
- Finally, while all the sectors are generally growing, i.e., their overall revenue is growing each year, this should not mask the extremely different dynamics between the various sub-segments that make up the sectors.





Sources: IFPI, Strategy Inc, PWC, Marketline, DFC Intelligence, Idate, Kurt Salmon analyses.

**Indeed, in the case of the book, video and video-games sectors, new digital business models have created enough value to offset the decline in revenue from traditional physical models** – to such an extent that it is new digital models that are driving growth in these markets. They tripled in weight between 2010 and 2014 in the book sector and more than doubled in the video and video games sectors. The absolute value created by these new models more than outweighs the destruction of value for physical models.

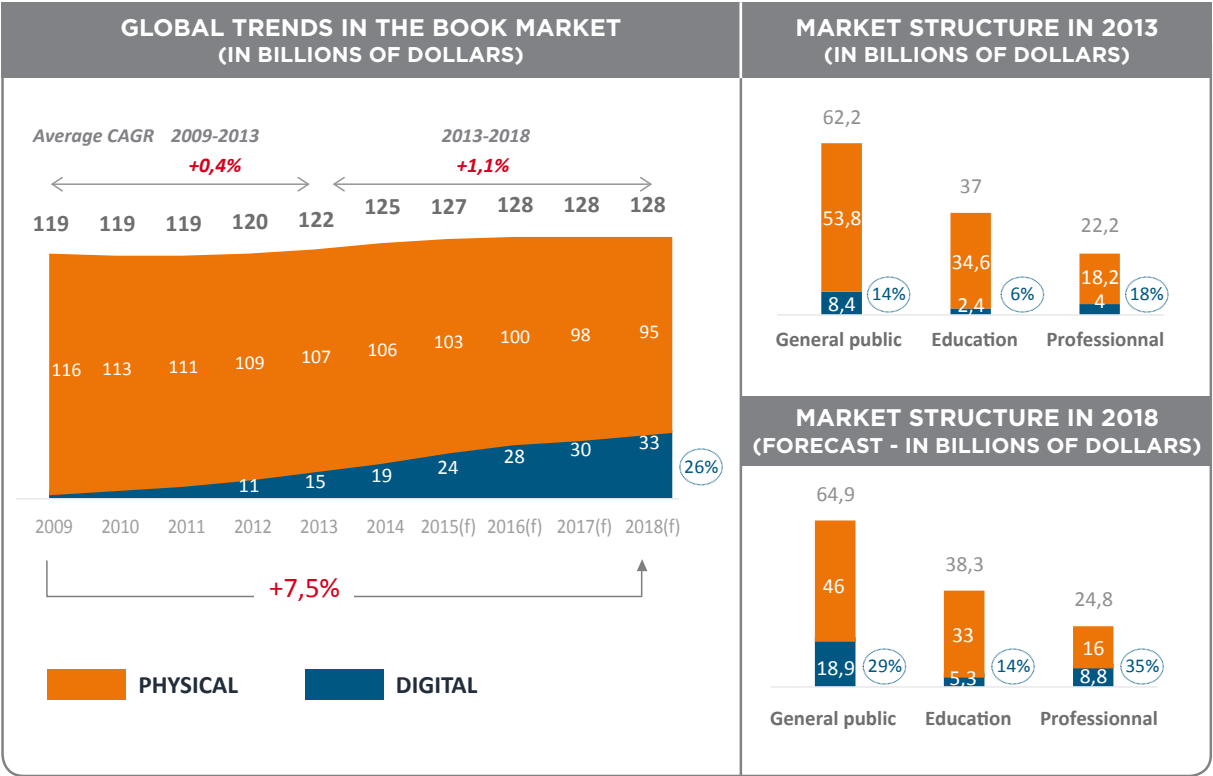
Again, the only exception is the music sector, which is also growing, but thanks to “live”

events – i.e., concerts, shown in red in the diagram – while recorded music has been in continuous decline for several years. There are two possible explanations for this:

- First, it is the music sector that has suffered the most from piracy (the market has shrunk by a factor of 2.5 since 2000);
- Second, the sector has perhaps also been slow to propose business models in line with the public's new cultural consumption patterns, which increasingly value *access* over *ownership*.

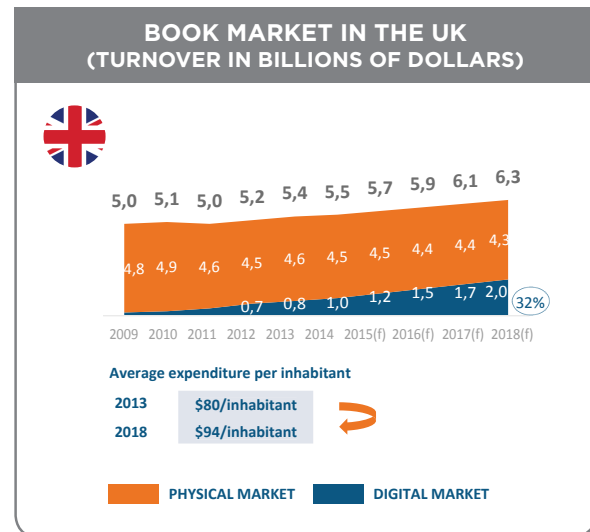
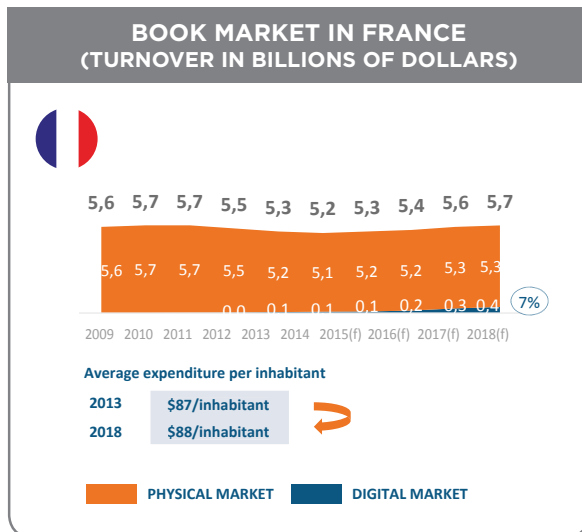
The mechanisms behind the hybridisation of business models are therefore beneficial for all of the sectors studied, whose hybridisation index is higher than their digitisation rate.

For example, the book sector is neither very digitised (a rate of just 15%) nor hybridised (with an index of 23), but creates value overall.



More specifically, three main segments make up the book market. Among them, the general public segment (literature, youth, etc.) is the largest, and nearly one-third of its revenue will come from the digital sector by 2018. While the sector's compound annual growth rate (CAGR) was 0.4% between 2009 and 2013, **this rate is forecast to be 1.1% between 2013 and 2018 with the hybridisation of models and the growing importance of digital technology, boosting income by 7.5% between 2009 and 2018.**

**This growth in markets, linked to the hybridisation of models as consumption patterns go digital, holds true in each country, but with major differences between the speed of hybridisation and adoption of new models.** Thus, the UK book market, despite generating less revenue than the French market in 2009, overtook the French market in 2013 and is set to continue growing at a steady pace. Indeed, the UK market is experiencing ongoing growth thanks to a more rapid hybridisation of models than in France: digital models will account for 32% of the market in 2018 compared with just 7% in France.



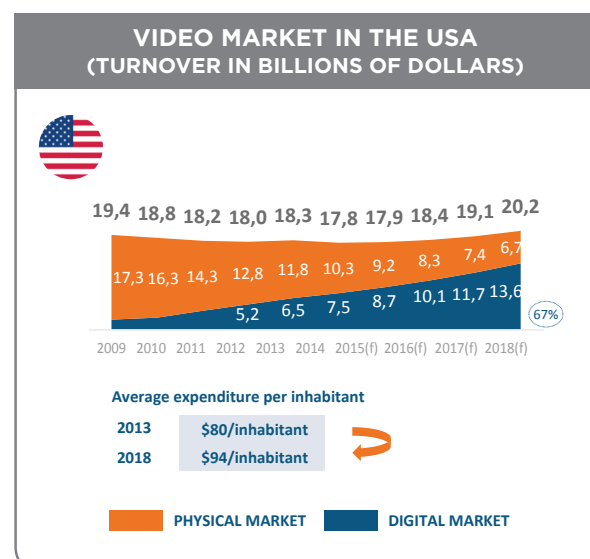
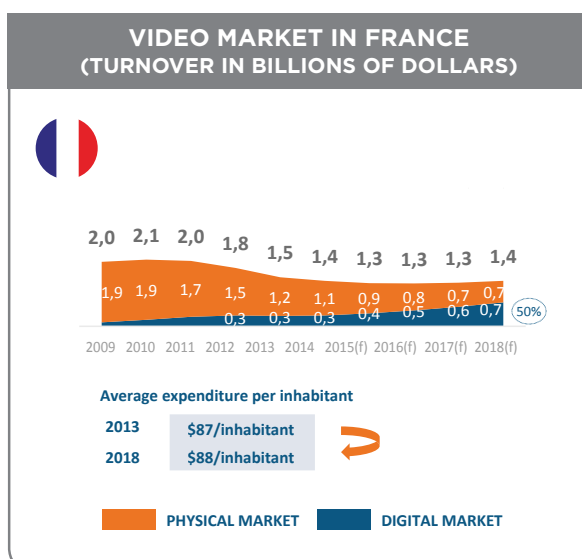
Sources: Marketline, Kurt Salmon analyses.

This is generally reflected by an increase in the budget allocated to cultural works by consumers in countries whose models are hybridising more quickly than consumption patterns are being digitised. At first glance, a comparison of the evolution of income generated by the market against the number of inhabitants reveals the following:

- First, it is interesting to note that the “budget” allocated to books by the French and the British is roughly equivalent (around \$85 a year in 2013),
- Second, while the French will spend just one extra dollar on books between 2013 and 2018, the British will spend an additional \$14 over the same period, resulting in a larger book budget than that of the French.

These dynamics can also be seen on the video market, for example. The French market, which has been in decline since 2010, began to grow again in 2015 under the influence of new models that will reach 50% of the revenue generated in 2018.

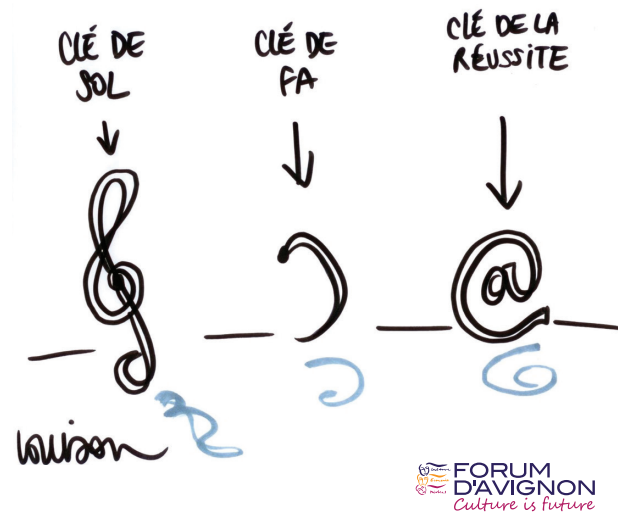
In the USA, new models even managed to stabilise the market by offsetting the decline in so-called traditional consumption patterns (the purchase and rental of DVDs and Blu-Ray, etc.) – a market which in 2018 will reach its highest level since 2009. In the USA, digital models will consequently account for over two-thirds of revenue generated in the entire market.



Sources: Marketline, BVV, CNC, Kurt Salmon analyses.

This will result in an increasing “budget” in the USA (by \$3 between 2013 and 2018) but a \$2 decline over the same period in France. It is also important to note that Americans will spend a much higher budget on videos than the French (around \$55 a year for the former and \$20 a year for the latter).

**Therefore, contrary to popular belief, the digitisation of cultural consumption patterns does not result in the collapse of markets; provided that the sectors offer services based on business models in line with the public’s constantly and rapidly changing cultural consumption patterns, it promotes growth dynamics.**



Source: “The treble clef, the bass clef, true success” by Louison for the Forum d’Avignon in collaboration with Cartooning for Peace (2015).

- Indeed, the public increasingly “values” new models as their consumption patterns go digital: they are “consuming” more cultural services and are willing to spend a higher budget on them

The international consumer survey<sup>9</sup> we conducted as part of this study confirms and better explains these key trends.

The aim of this survey was to determine the rationale, from a consumer perspective, of the mechanisms behind the creation of value that we have demonstrated. In other words, how do cultural services, increasingly based on digital models “ahead” of consumption patterns, find their target audience and thereby create value? In attempting to explain this phenomenon, it is particularly important to differentiate between **volume effect**

(Does the public consume more digital than physical cultural works?) and **value effect** (Even though digital cultural services are generally cheaper than physical services, does the public value them more?) in the public’s behaviour.

We therefore wanted to understand how consumers “valued” cultural works. In addition to the questions about consumption patterns, we asked consumers about their notion of the “optimum” price of a number of iconic cultural works, based on different business models.

9- Kurt Salmon survey conducted in May 2015 based on a representative sample of 4,005 individuals in France, the UK, Germany and the USA.



To do this, we used the Van Westendorp methodology, which asks consumers to position themselves on four price levels:

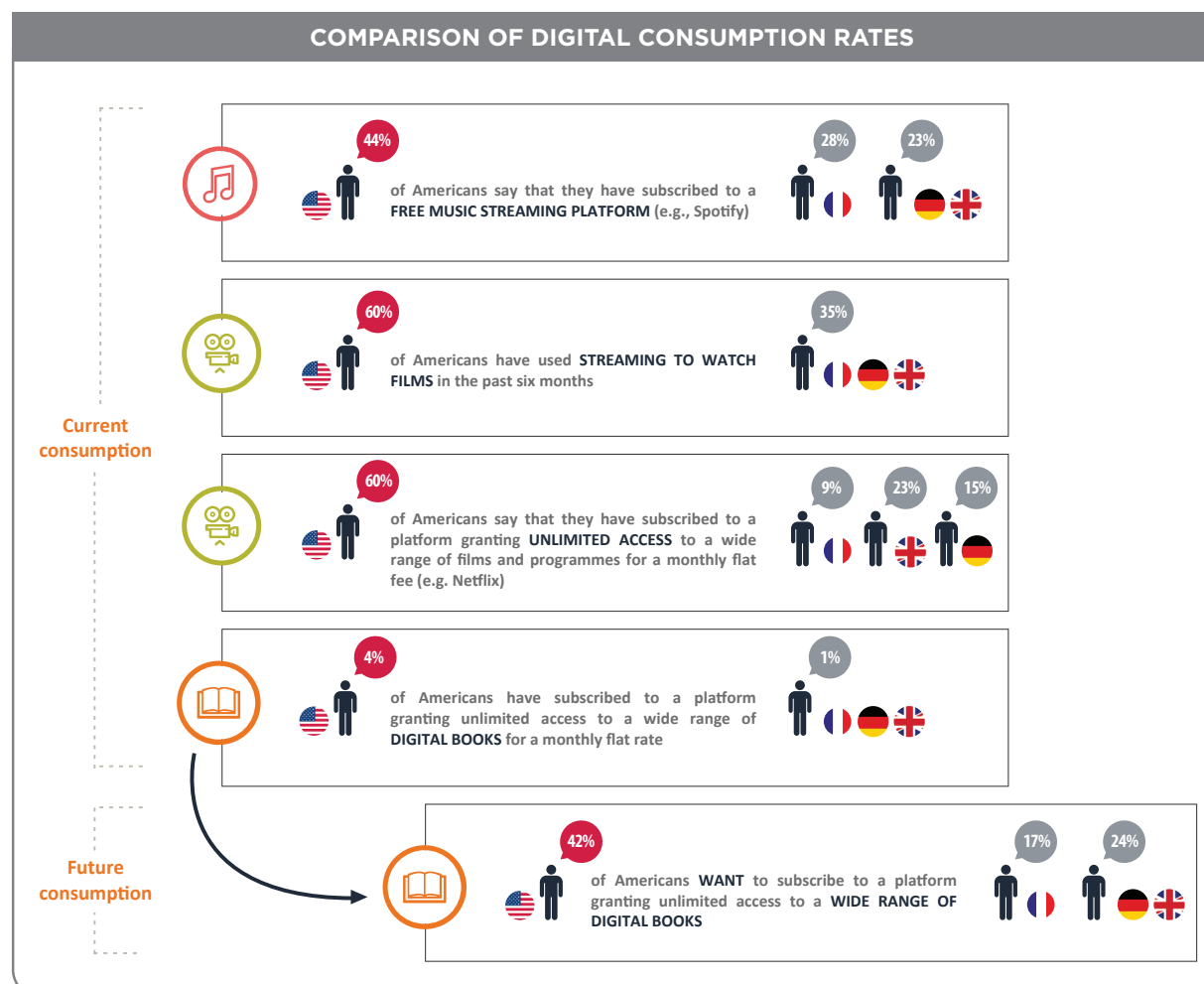
- (a) At what price would you consider the product to be a bargain – a great buy for the money?
- (b) At what price would you consider the product starting to get expensive, so that it is not out of the question, but you would have to give some thought to buying it?
- (c) At what price would you consider the product to be priced so low that you would

feel the quality couldn't be very good?

- (d) At what price would you consider the product to be so expensive that you would not consider buying it?

The optimum price is obtained through analysis, by determining when the curves denoting prices (a) and (b) intersect<sup>10</sup>.

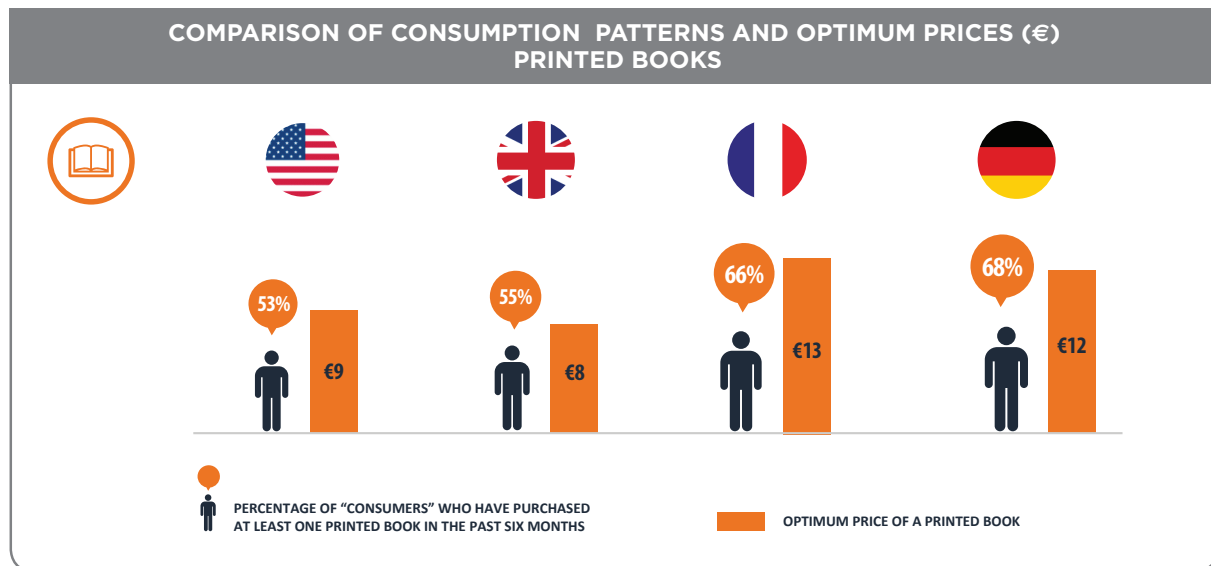
**The results of our survey highlight the fact that the more “mature” consumers’ digital behaviour, the more they value digital works and are willing to spend a larger budget on them.**



10- Cf. the Methodological Note set out in the appendices of this study for further details.

First, American consumers are, as expected, the most “advanced” in terms of the digitisation of cultural consumption patterns.

What is more surprising is the major “disjunct” between their consumption patterns and those of consumers in other countries.

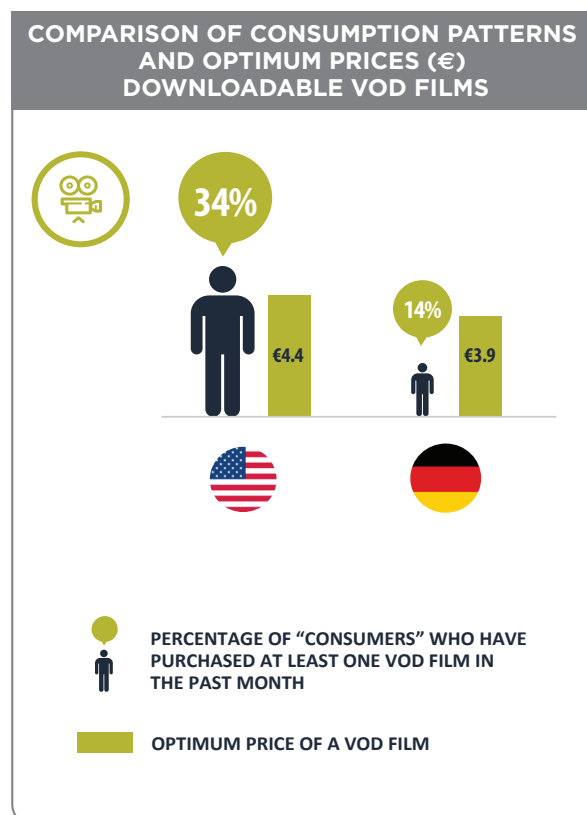


**Second, the more the public “e-consumes” digital cultural works, the less it values physical cultural works.** For example:

- 53% of Americans interviewed said they had purchased a hard-copy book in the past six months, compared with 66% of French people and 68% of Germans;
- 32% of Americans said they had bought a digital book in the past six months, compared with 9% of French people and 21% of Germans;
- **The optimum price of a hard-copy book is €13 for French people, €12 for Germans and €9 for Americans<sup>11</sup>.**

**Finally, the more the public goes digital, the more sensitive it will be to innovative and hybrid cultural models, and the more it will value them.**

For example, 34% of Americans say they have watched a VOD film in the past month, compared with 14% of Germans, and **the optimum price of a VOD for Americans is €4.4 compared with €3.9 for Germans.**



11- NB: the conversions were calculated using the constant annual exchange rate in 2013. We therefore used the following conversions: \$1 = €1.3 and \$1 = £1.6.

The mechanisms behind hybridisation therefore create value if they do not react to, but instead anticipate, trends in consumption, which are becoming increasingly digital – and are even naturally digital for younger generations. **It is on this condition that consumers sufficiently “value” cultural works, thereby creating a favourable mix between volume and value effects: the public then “consumes” more cultural offers and is willing to spend a higher budget on this.** Consumers themselves “mix” their consumption between

offer models, and, as a consequence, business models are balanced. The hybridisation of models – in particular digital ones – can therefore ultimately contribute to the economic performance of the cultural and creative sectors.

**It is not, then, hybridisation as such that creates value, but the ability of stakeholders in the cultural and creative sectors to anticipate – or even create? – their public’s demand.**

# The hybridisation of models creates a new distribution of value for stakeholders in the cultural and creative sectors, which favours produced diversity over consumed diversity

**The mechanisms behind the hybridisation of models create growth within the cultural and creative sectors when they resonate with consumer consumption patterns. The issue is to determine whether the value thus created promotes cultural diversity.** We therefore analysed trends in the distribution of value among the various stakeholders in the cultural

and creative sectors to identify which players could benefit. In particular, we analysed the extent to which the new distribution of value was beneficial for artists and authors – as the essential initial links in the cultural and creative chain and providers of the “cultural creativity” that feeds the entire value chain.

**While it can be said that the hybridisation of models encourages cultural diversity, the actual meaning of the term “diversity” still needs to be agreed on.** This question requires a distinction on the one hand between “produced” cultural diversity and “consumed” cultural diversity, and on the other hand between private and public approaches.

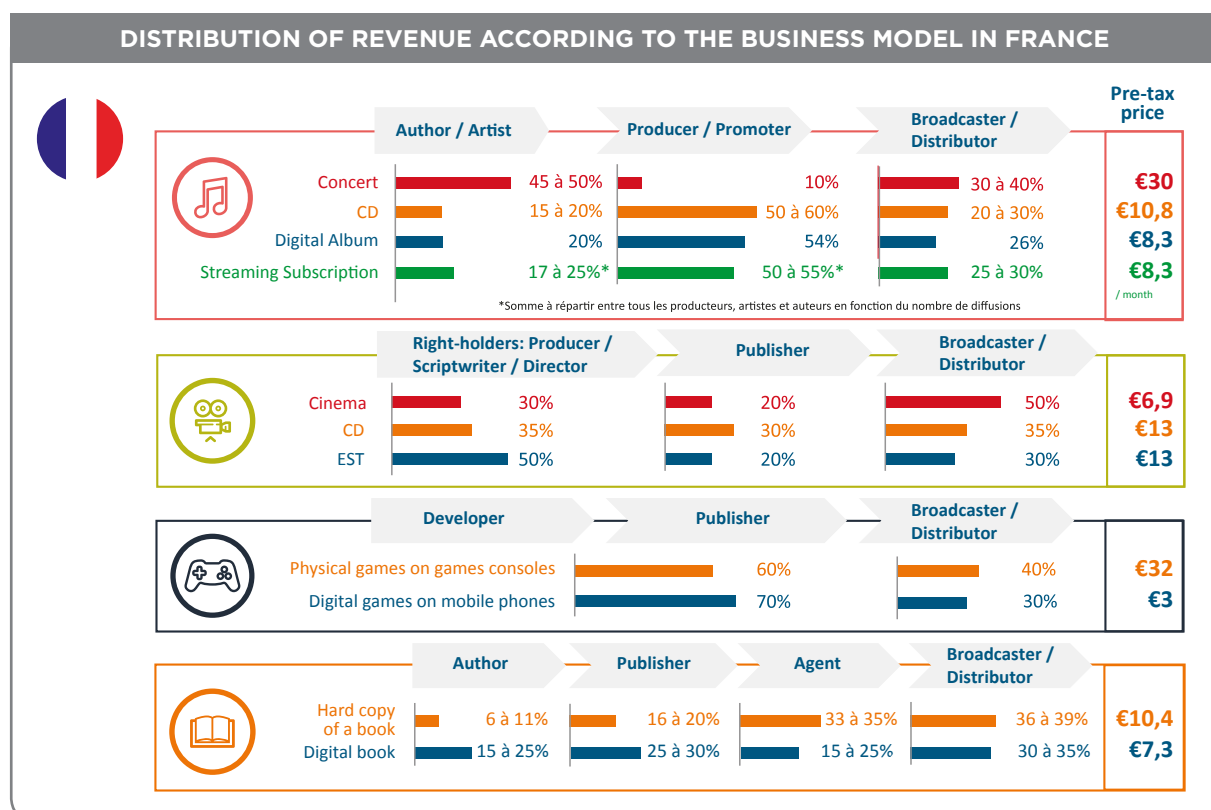


- The hybridisation of models tends to fragment the income of authors and artists even more, but it is more beneficial to them in terms of the distribution of created value

The value created by a cultural work is divided between those involved in its creation, production and distribution depending on whether the business model is digital or traditional. The hybridisation of business models has therefore shifted the boundaries between stakeholders in the cultural and creative sectors who are paid differently today.

**Generally, and contrary to popular belief, the distribution of the value stemming from new models is more beneficial for authors and artists.**

**They “capture” a higher value rate from the value-creation of digital works than from the value-creation of physical works.**



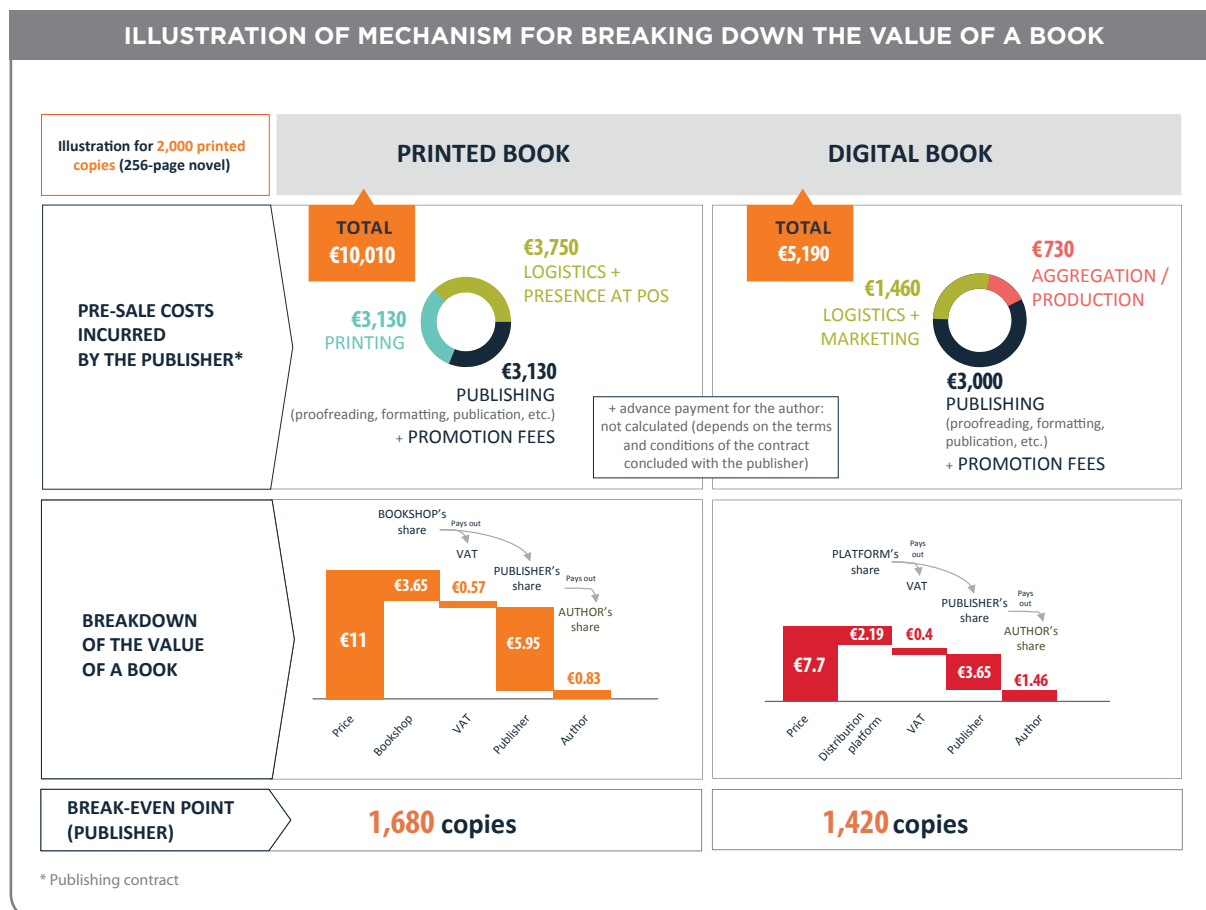
For example, artists in France receive on average 15% of CD sales revenue compared with 20% for digital album sales. Similarly, rights-holders obtain 35% of DVD sales revenue compared with 50% from digital equivalents (“EST”), while authors receive up to 11% of hard copy book sales revenue and 15% to 25% of e-book sales revenue.

This new distribution of value usually occurs at the expense of two types of stakeholders:

- First, distributors and diffusers of physical cultural works, who are “disappearing” in new models in favour of the distributors of digital works (e.g. Amazon instead of booksellers for the sale of e-books);

- Second, “intermediaries” between rights-holders and distributors.

In terms of “intermediaries”, a publisher will receive for example 20% of revenue from the sale of an EST compared with 30% of revenue from the sale of a DVD. Furthermore, even when the distribution of value may seem more beneficial, this must not mask the pre-funding and risk-taking mechanisms that usually weigh on publishers and producers. For example, a publisher receives on average 16% to 20% of book sales revenue, and 25% to 30% of e-book sales revenue. But this indicator alone hides a funding and income-redistribution mechanism that is in reality more complex:



Sources: SNE, Blog immatériel, Numeriklives, Kurt Salmon analyses.

Before a single book is sold, the publisher pays the costs of printing, publishing, promotion, advances to authors, etc. In fact, the case illustrated here shows that, even though these

costs are half the amount for e-books that they are for hard-copy books (direct expenses, excluding advances to authors), the publisher still incurs quite a few in-built costs.

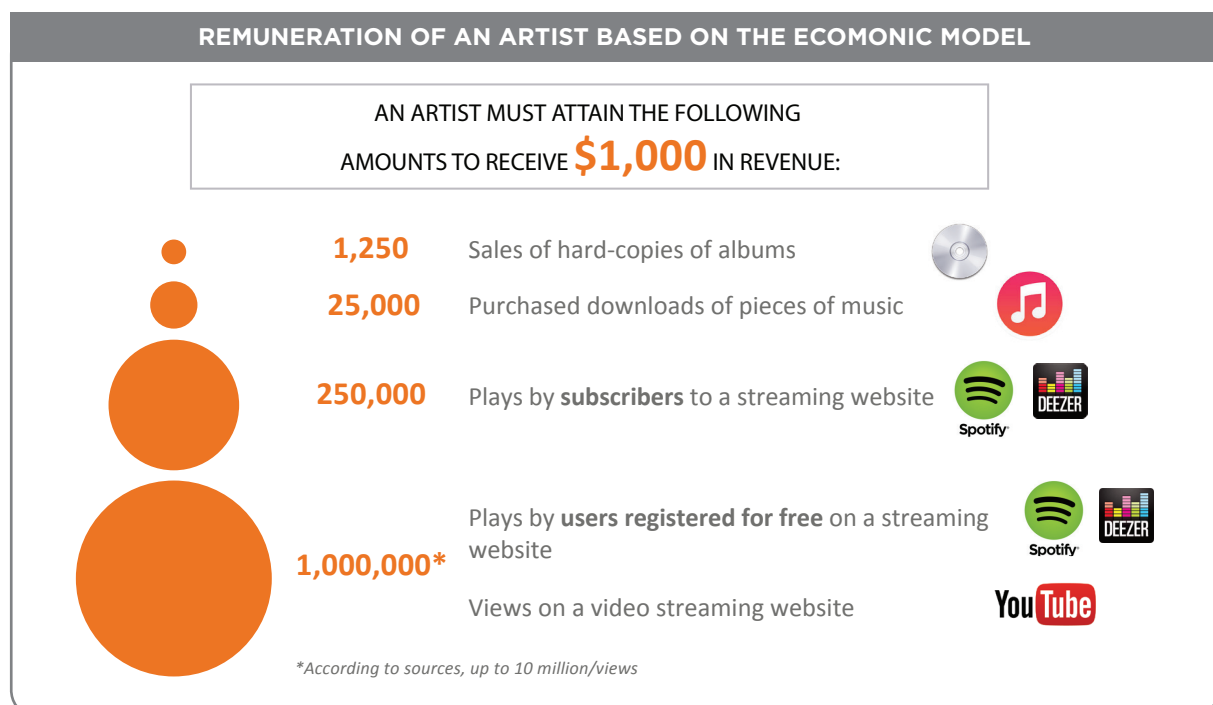
**The diagram illustrates that, when a publisher plans to print 2,000 books, their break-even point will be reached when 1,680 hard-copy books or 1,420 e-books have been sold!** The income share received by the publisher is generally double the share received by the author

for digital copies, but this has to be viewed in the context of the risk taken by the publisher: if the book sells below a specific number of copies, the publisher will inevitably make losses. The same mechanisms are observed in the case of film producers, for example.

## ● Digital models require a significant volume effect, which remains primarily accessible to popular artists

While the distribution of value is more beneficial for artists in terms of received value rates, unit prices are generally lower for digital models than for traditional models – for example, physical albums are sold at a higher price than digital albums. It is therefore a question of determining whether the volume effect on new models is enough for the distribution of value as a whole to benefit all artists.

**In fact, these new models require a more or less significant volume effect, depending on the sector, for artists to benefit.** Take, for example, the music sector: in order to earn \$1,000, an artist has to sell 1,250 albums or have 25,000 downloads of their music tracks, 250,000 plays by subscribers to paid-for platforms or over 1 million plays on a free listening platform!



Sources: SNEP, Adami, Information is beautiful, Kurt Salmon analyses.

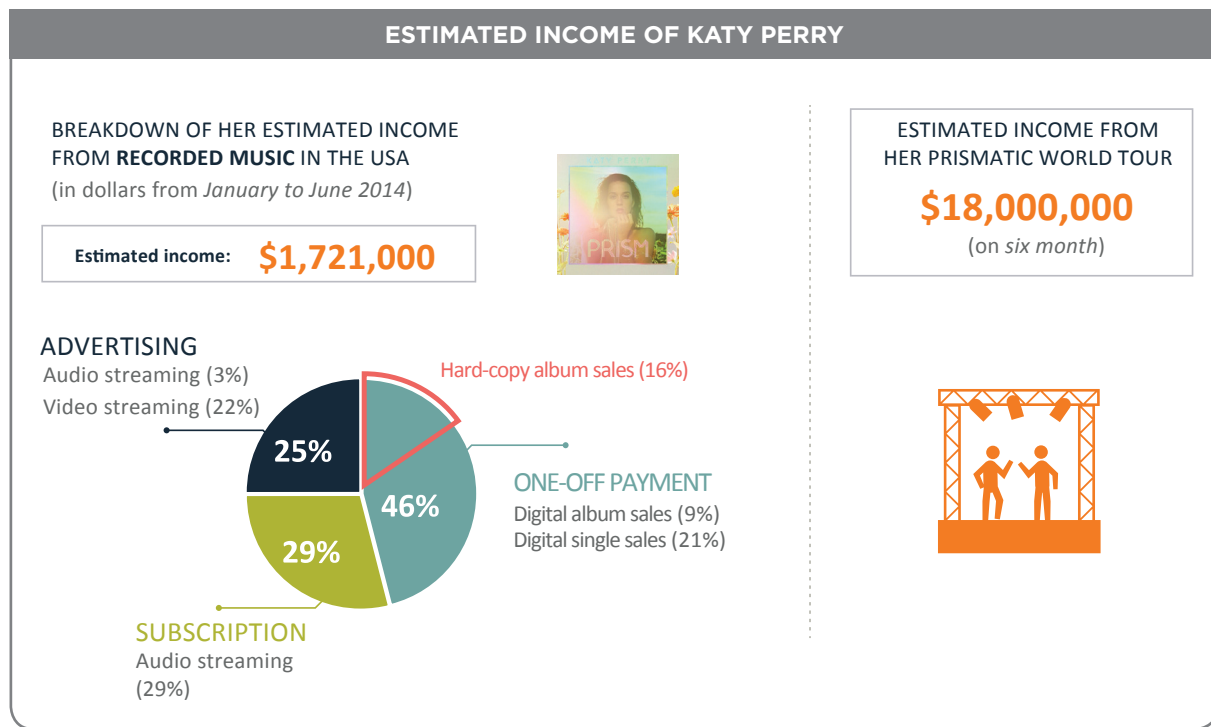
New music models – first and foremost among them free and paid-for streaming – are without doubt the most significant example. This is evidenced in the USA by Taylor Swift's stance, which ultimately forced Apple to pay artists

during the trial period of its Apple Music streaming site launched on 30 June 2015. Likewise, the French minister of culture and communication commissioned Marc Schwartz to reach an agreement on digital music revenue

in May 2015. Fleur Pellerin thereby affirmed “the need to guarantee artists remuneration which fairly reflects their contribution to the creation of value, and to preserve the diversity of artistic creation and its dissemination”.

The mechanism for the redistribution of value from streaming models is in fact relatively complex. Platforms like Spotify or Deezer pay artists according to the number of plays they generate relative to the total number of plays. The platform receives 30% of total revenue while the remaining 70% is distributed among producers (50%), artists (around 10%) and authors (around 10%). Yves

Riesel, co-founder of the online music service Qobuz, summed this up in an interview with *Le Monde*: “A subscriber who pays €9.99 a month and spends each day just listening to the saxophonist Paul Dupont imagines that his entire financial contribution [...] will go to the rights-holders and Paul Dupont. But no: our minority music lover’s contribution will find itself drowning in the cauldron of far more numerous listeners of popular genres, and the money will then be distributed proportionally<sup>12</sup>”. To earn a significant amount of money, artists need an extremely large total number of plays on streaming platforms.



Sources: Nielsen, Pollstar, Kurt Salmon analyses.

**It is clear, then, that this type of model requires a strong volume effect that is accessible to popular artists.** This is, for example, the case with Katy Perry, who earned \$1.7 million in six months last year from the sale of her recorded music in the USA. Incidentally, it is interesting to note that Katy Perry is typical of the way artists – at least, very popular ones – hybridise their models: the same album generates revenue from different

business models and this revenue is distributed relatively evenly. 80% of Perry’s income comes from new business models, with 29% from subscriptions, 25% from advertising models, 21% from the sale of digital “singles” and 9% from digital albums.

Nevertheless, it is important to view these figures in relation to revenue from concerts: Katy Perry earned \$18 million from her world tour over the same period.

12- How music streaming could yield more, Interview with Yves Riesel, *Le Monde*, 5 June 2015.

- Digital strength “produces” cultural diversity without it necessarily being “consumed,” which questions in particular stakeholders with public-service responsibilities

**Digital strength and the hybridisation of business models that it produces is a major driving force behind the creation and dissemination of culture.**

**This applies, first, in terms of access to culture:** distribution platforms offer catalogues comprising millions of works, from the greatest classics to the most individual of creations. The creative abundance enabled by digital technology is capable of meeting all of the public's expectations, offering them an almost infinite choice. Indeed, over two million titles from every musical genre are available on Spotify, while more than 8,500 titles are accessible on the US version of the Netflix website. Access to culture – now instantaneous – is boosted by consumers' rapid adoption of technologies and by the proliferation of distribution channels (mobile phones, tablets, e-readers, etc.). Some works in the public domain are even available free of charge.

**Second, in terms of creation, digital technology has provided tools for artists to create and distribute their work at a lower cost.** At least three key elements traditionally controlled by producers and publishers are now directly accessible by artists<sup>13</sup>: production, marketing and distribution. Self-produced works have therefore multiplied, thanks in particular to high-quality recording software similar to Studio One for music or self-publishing software for books, for example. In January 2015, 40% of revenue from e-books on Amazon was received by self-published authors<sup>14</sup>.

Moreover, artists increasingly manage their “marketing” and distribution themselves by interacting directly with their public through social networks and digital broadcasting platforms. Kindle Direct Publishing, Apple Store, YouTube, Wattpad, etc. are all examples



Sources: Spotify, Midia Consulting, Kurt Salmon analyses.

of platforms that have simplified access to the public, provided that artists offer it appropriate content. Anna Todd is fairly typical of this new phenomenon. The young author wrote her fanfiction novel on Wattpad, allowing her to interact with the public during the writing process. With over 500,000 followers on the platform, the saga has been downloaded over a billion times. This success has enabled her to sign a contract with the publisher Simon & Schuster, which has acquired the rights and published the book in a more conventional format – for an undisclosed amount which we only know is a “six-figure sum”<sup>15</sup>.

***“Beyond cultural diversity that is produced, which diversity is effectively consumed?”*** Pierre-Jean Benghozi, Professor at the Ecole Polytechnique and Commissioner of the ARCEP

13- See in this respect Emmanuel Durand' book, La menace Fantôme, October 2014.

14- Author earnings Report, January 2015.

15- “After” d'Anna Todd passe le test de la page 99, L'Express, 2 January 2015.



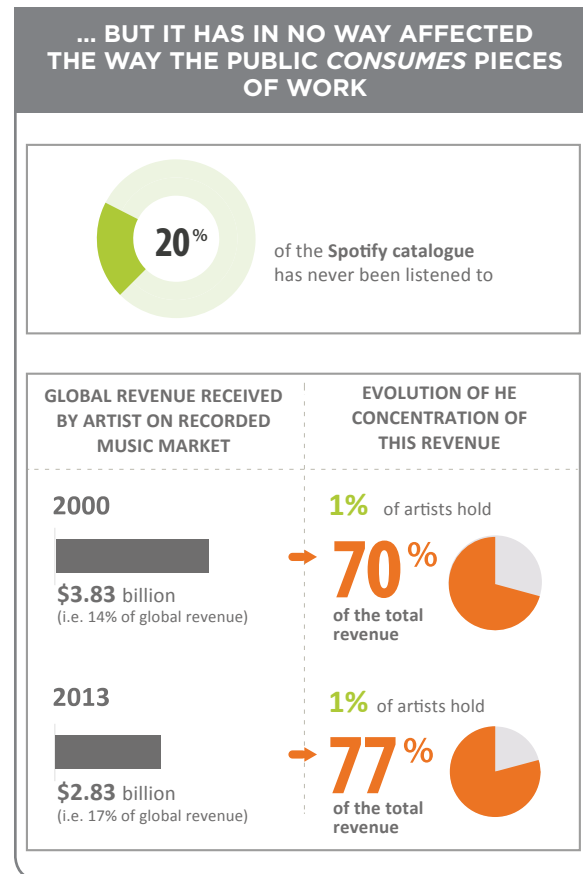
**However, while digital technology produces diversity in terms of offers and models, it still has little influence over the way this diversity is consumed.** In this respect, the hope placed in the digital “long tail” will not bear fruit: cultural consumption is still very much concentrated on a small number of artists and works. 20% of the Spotify catalogue, for example, has never been listened to<sup>16</sup>!

As a result, revenue – from the music sector in particular – is extremely concentrated. We have shown that the distribution of value created by new models was generally in favour of artists. In fact, the average global share of value received by artists rose from 14% in 2000 to 17% in 2013. However, the recorded music market contracted overall and consumption was even a little more concentrated: while 1% of artists received 70% of income from recorded music in 2000, they obtained 77% in 2013<sup>17</sup>.

**While it is therefore important to differentiate between cultural diversity that is produced and consumed, the stakes are markedly different according to the stakeholders concerned in the cultural and creative sectors.**

**If private stakeholders manage their activities based on what is consumed – i.e., their turnover – public or semi-public stakeholders have to meet certain requirements in terms of produced diversity, and are therefore finding themselves in increasingly complex funding situations.** As a result, faced with an impossible economic challenge when it comes to producing diversity that does not always reach an audience, they turn to the state.

This is not a new phenomenon. As early as 1965, American researchers William Baumol and William Bowen proposed solving the problem of public funding in the performing arts sector<sup>18</sup>. The researchers’ economic theory, now known as “Baumol’s cost disease” (and also the “Baumol Effect”), states that



Sources: Spotify, Midia Consulting, Kurt Salmon analyses.

the performing-arts sector is characterised by low labour productivity, experiencing ever increasing production costs and a scarce public. The result is that the sector is continuously increasing ticket prices to offset its weak productivity growth, at the risk of making culture the preserve of the elite. The researchers pointed out that this is specific to public stakeholders, who inevitably rely on “actual work” which has in-built and rising costs – one cannot do without dancers in an opera, and their wages are increasing – far more than to private stakeholders, who tend to replace labour with capital. Furthermore, the researchers advocate better hybridisation of funding models, even if the term was not used then<sup>19</sup>. Indeed, they concluded by referring to

16- The Spotify Story so far, Spotify, 2013.

17- The Death of the Long Tail, Midia Consulting, March 2014.

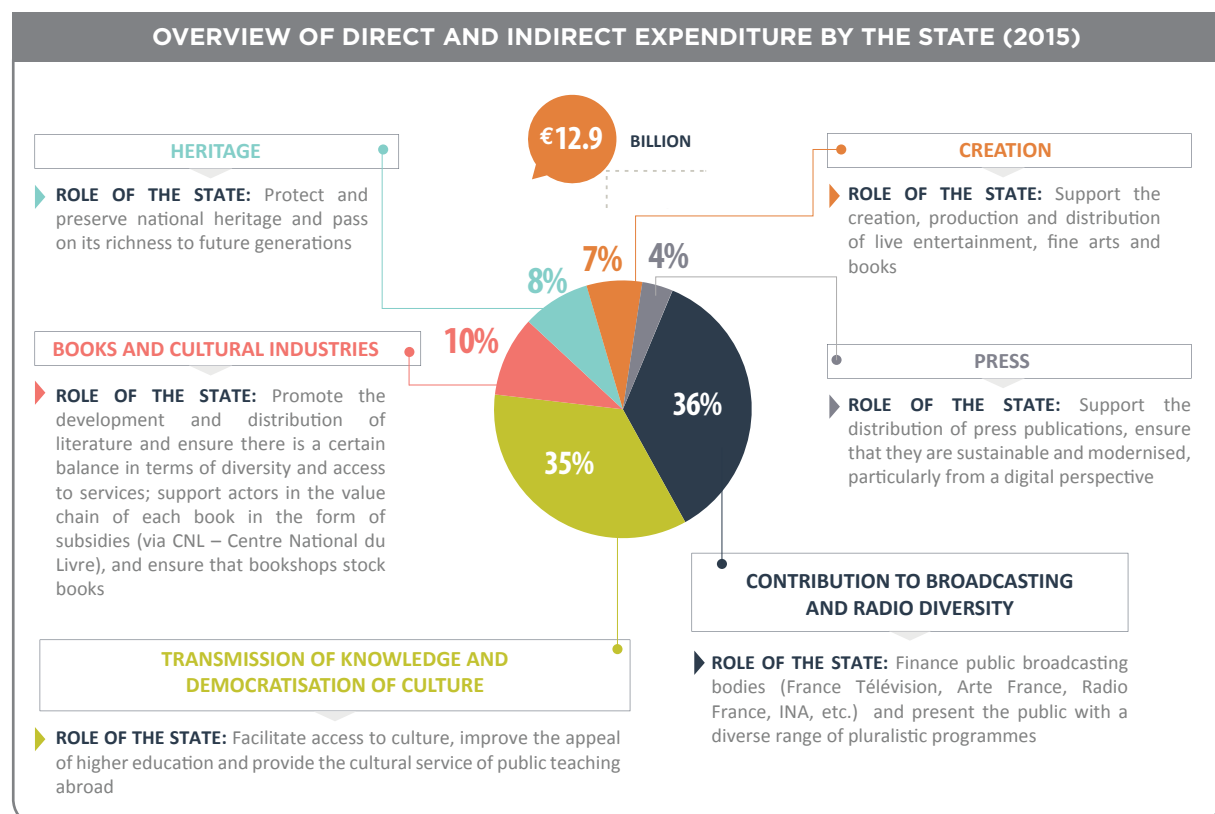
18- Performing Arts: The Economic Dilemma, William Baumol et William Bowen, 1968.

19- NB: It is interesting to note in this respect that Baumol and Bowen’s “recommendations” to “save” performing arts have been successfully implemented by certain contemporary stakeholders, much like the Théâtre du Châtelet in Paris, whose model is presented in the third section of our study.

**the inevitably proactive policy of the state on cultural diversity and the need for these sectors to combine three sources of funding: public funding, sponsorship and external funding.**

**First, the situation surrounding public funds** varies greatly from country to country, depending on whether the state is more or less involved in culture. In France for example, the state plays a central role in the financing of culture. However, its action is highly concentrated on a limited number of

stakeholders – 36% of expenditure is on the audio-visual sector, for example – and on supporting sectors in difficulty (the press, the book sector, etc.) – in order to provide sustainability and to support modernisation efforts. However, the state's action is extremely significant in some areas; incentives to facilitate investment in film production (compulsory participation in production for broadcasters and tax incentives for individuals) have largely helped France reach fifth place in the world rankings (and top the European rankings) in terms of the number of films produced.



Sources: L'apport de la culture à l'économie, Annexe au projet de loi de finances pour 2015, Kurt Salmon analyses.

**Second, and in the context of the financial crisis, cultural sponsorship is also under pressure.** Sponsorship is defined as material support – without direct payment from the recipient – for a work or an individual for the performance of activities in the public interest.

According to an Admical study<sup>20</sup>, it amounted to €340 million in France in 2014 (down 26% compared to 2012).

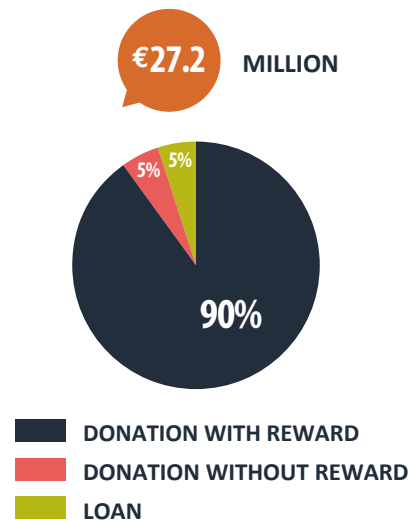
**Finally, in terms of external funding there is much hope in the development of crowdfunding in particular.**

20- Indicator of corporate sponsorship, Admical/CSA, 2014.

*“The concept of public no longer exists. Crowdfunding today enables the initiators of cultural projects to form a community, which can be seen as an alternative source of capital. By relying on this community, crowdfunding allows beneficiaries to fund themselves and to distribute and monetise their work”. Adrien Aumont, Co-founder of KissKissBankBank, HelloMerci and Lendopolis*

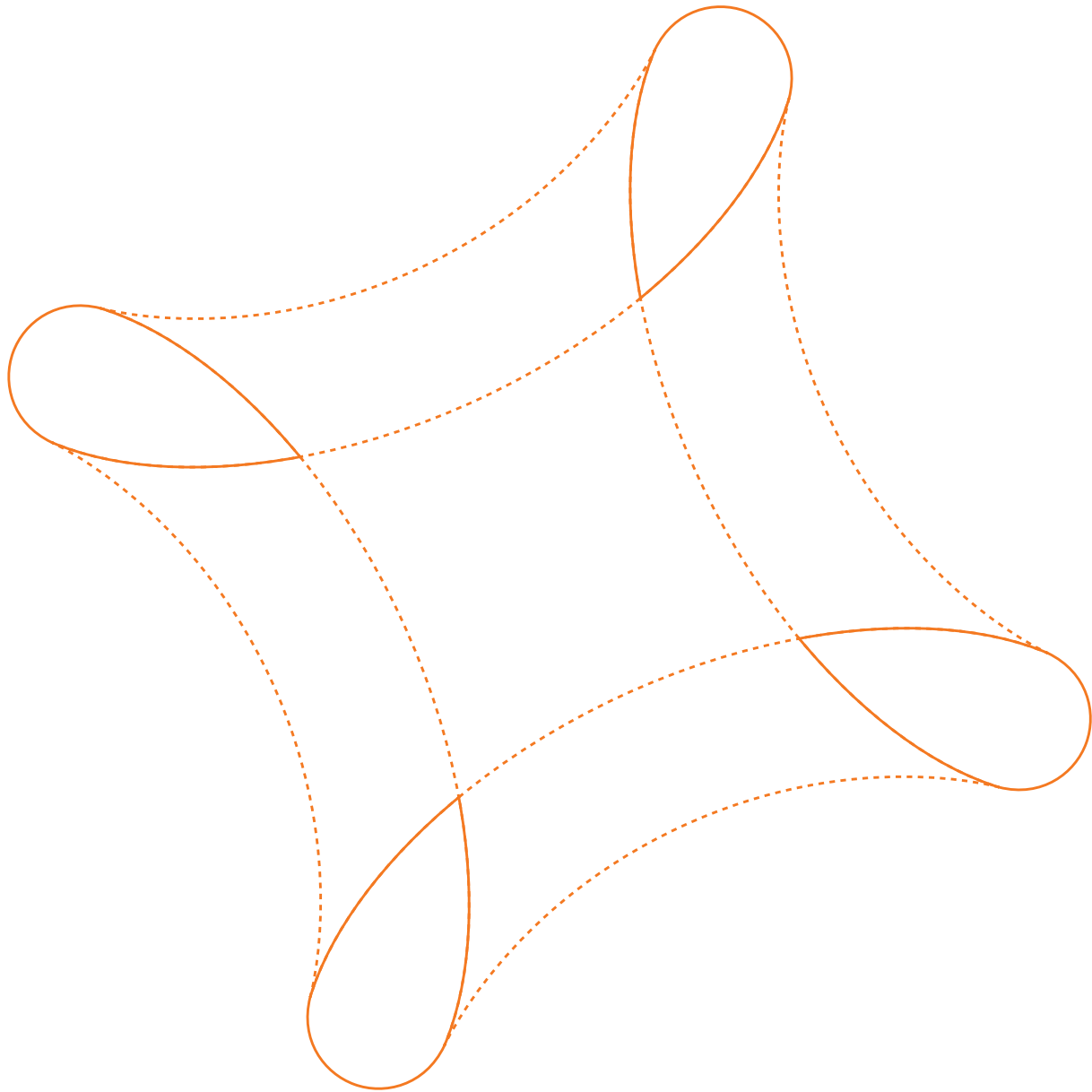
**18% of funds collected worldwide during crowdfunding campaigns were intended for cultural projects (i.e., \$2.9 billion compared with €740 million in 2012).** In France, funds collected for cultural projects are growing extremely rapidly (€27 million), even though they are still negligible in terms of the funding needs of the cultural sector.

#### CROWDFUNDING OF CULTURAL ACTIVITIES IN FRANCE (2014)



Sources: Financeparticipative.org, Kurt Salmon analyses.

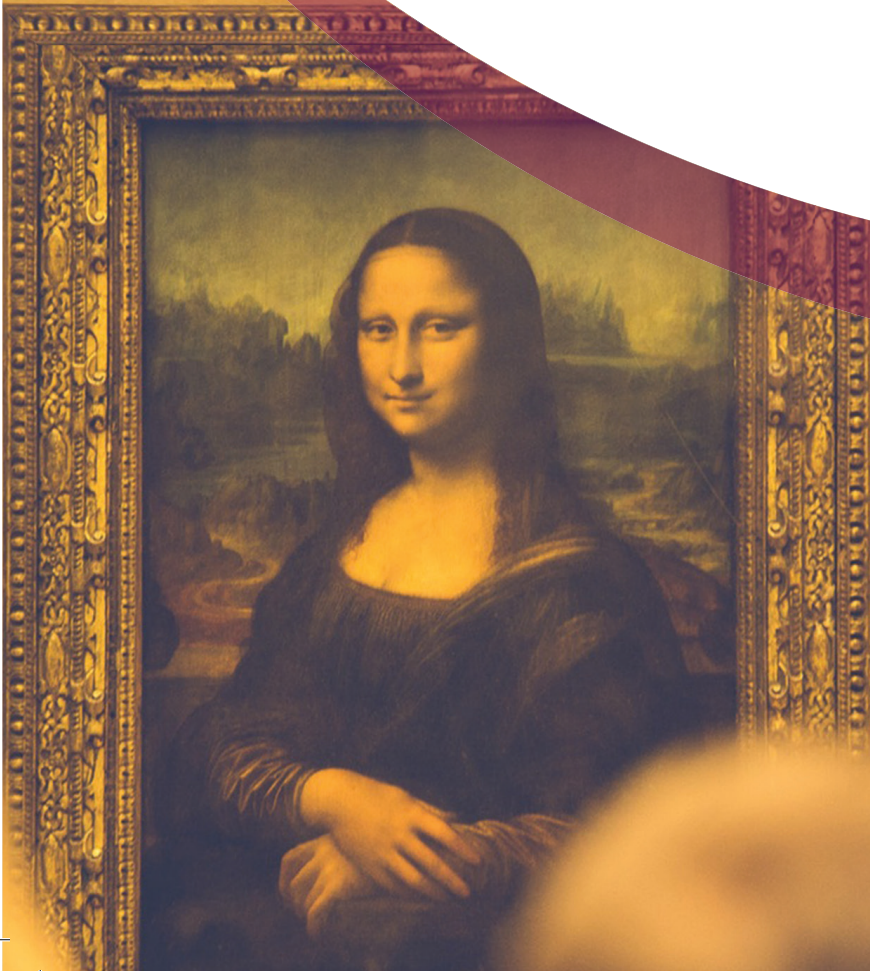
To conclude, digital strength enables – even necessitates – the hybridisation of “flexible” models in order to create value, since it has to anticipate public consumption patterns and combine revenue and funding models to support the cultural diversity that is produced.



## The “hybridisation formula” is necessary but not sufficient: measures can be considered and robust models adopted so that they contribute to the sector’s development and sustainability

**Innovate or perish?** To maintain their growth, diversity and dynamism, the cultural and creative sectors have to “exploit” created works through models that anticipate the very way in which cultural consumption patterns evolve. In other words, the sectors need to be constantly evolving to resonate with their audience in a

responsive way. Is the “hybridisation formula” the remedy for all the ills of the cultural economy? Of course not. Hybridisation, however necessary it may be, is not sufficient. It was evident from our study, for example, in the ability of digital entropy to “produce” cultural diversity that is not necessarily “consumed”: other “ingredients” need to then be added to the recipe. In this context, there are many examples of successful measures or models that could expand more generally within the cultural and creative sectors. It is first necessary to define and apply the terms of





this responsiveness imposed on cultural-sector stakeholders: a greater fairness is required in the redistribution mechanisms if the various players are to benefit from the value they have helped to create. The next step is to promote cultural engineering and its ability to hybridise financing and revenue models, and in so doing

to link public and private approaches. Finally, and in the knowledge that “the” right model is a mere fantasy, since cultural consumption patterns are evolving so much, it is a question of implementing bold models that capitalise on engaging cultural experiences between works of art and their target audience.

## ● A necessary fairness in redistribution mechanisms

One of the points of tension passed on by stakeholders in the cultural and creative sectors as regards remuneration concerns the mechanisms for redistributing created value, whether value “captured” by authors upstream of the value chain or value redistributed by distributors of cultural products downstream through tax mechanisms in particular.

### **An overhaul of copyright and related rights seems essential for the payment of rights-holders.**

The digital revolution has transformed the economic paradigm in which content industries were evolving by creating almost endless possibilities for reproducing, disseminating and sharing cultural works (photos, music, videos, press articles, etc.) on social networks. This raises a number of questions – how fair the payment of artists on new streaming-type models is, monitoring the performance of works on digital platforms to pay rights-holders, legal statutes and protections for work written by multiple artists – which have so far gone more or less unanswered. It is also in this context that MEP Julia Reda drew up and then presented a report (the “Reda Report”) to the

European Parliament in January 2015, which aimed to harmonise on a Europe-wide scale the various levels of copyright protection, and to adapt them to current public and business consumption patterns by providing legal protection for authors. A number of proposals in this report – notably on harmonising the term of protection, on losing the territoriality of rights or even on exempting from copyright works produced by the public sector – were strongly criticised by copyright holders, particularly in France. The report was therefore extensively amended before being adopted by the European Parliament on 9 July 2015. The European Commission is now handling the case for reform of the EU Copyright Directive and is set to make proposals by late 2015.

There is a notable discrepancy between the “consumption” of digital works and the level of remuneration – in “rights” – that they generate. Indeed, the rights created for example by digital works do not correlate with consumption. According to CISAC (the International Confederation of Authors and Composers Societies), the value of royalties received by 230 CISAC member societies in

120 countries in 2014 totalled €7.9 billion<sup>21</sup>. These collections were mostly for music (87% in total) among all artistic genres (audio-visual, drama, literature and visual arts). **While the value of digital royalties increased by 20% between 2013 and 2014, it represents just 7% of total fees collected – an important statistic when compared with the weight of digital technology in global music revenue (17%).**

***“Authors’ societies have to adapt to new forms of consumption and remuneration linked to the digital technology”*** Pierre-Jean Benghozi, Professor at the Ecole Polytechnique and Commissioner of the ARCEP

**Besides royalties, related rights can also be harmonised.** Indeed, related rights – which are connected to copyright – are attributed to performers, producers of “videograms and phonograms” and radio and television broadcasters. This market was worth around €2 billion in 2013 and is growing significantly, driven by rapidly developing collections in the USA (in particular through SoundExchange, a government body that collects royalties). A study by Adami in June 2015<sup>22</sup> stresses that, on the one hand, **82% of the related-rights market is concentrated in just ten countries**, leaving considerable room for improvement, and, on the other hand, that here again the main task for royalty-collection companies will



Source: “I am creating original content” by Liza Donnelly for the Forum d’Avignon in collaboration with Cartooning for Peace (2013).

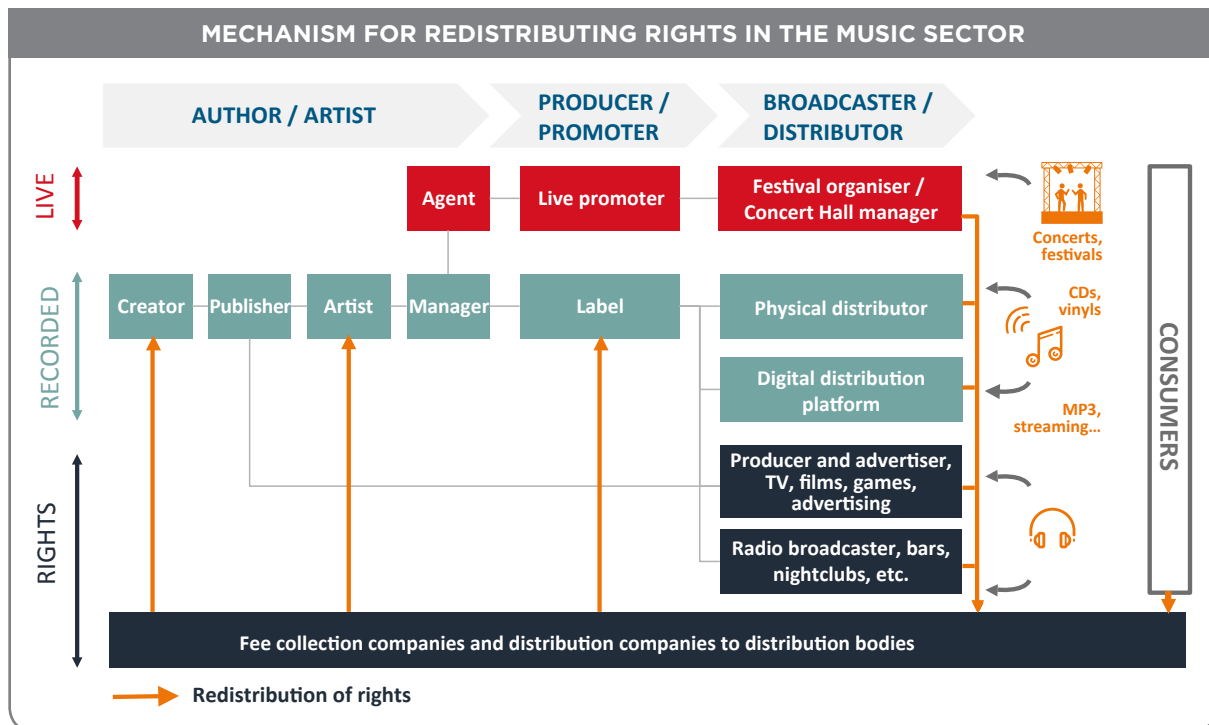
be to successfully increase collections from digital works – still very low except in the USA.

**In fact, the work of royalty-collection companies has become considerably more complex with the proliferation of distribution platforms for artists’ works and the difficulty of monitoring the performance of each work (number of views, plays, etc.) necessary to remunerate rights-holders.** In June 2007 YouTube established a content-detection system owned by copyright owners, Content ID, and says that it has paid rights-holders \$1 billion since its implementation<sup>23</sup>.

21- Rapport 2015 de la CISAC sur les droits perçus dans le monde, CISAC report, 2015.

22- Le marché mondial de la gestion collective des droits voisins, ADAMI, June 2015.

23- YouTube Pays Out \$1 Billion with Content ID, Billboard, October 2014.



Confronted with this situation, some copyright-holders have chosen to “use” digital distribution platforms to increase their visibility, even if this means they sometimes waive their rights. This is, for example, the case with the artist Psy and his producers, who deliberately chose not to pursue those who adapt the Gangnam Style song. The song, which has been covered, parodied and even remixed, has been viewed over 2 billion times on YouTube in three years and downloaded millions of times on iTunes.

Other rights-holders opt for Creative Commons, a non-profit organisation that allows less restrictive distribution than copyright. Creative Commons counted over 880 million items of content in 2014, of which 58% enabled marketing and 76% adaptations<sup>24</sup>.

**In terms of distributors of cultural goods, it is also important to ensure fairness and compliance with tax rules and other regulations.**

Many European stakeholders are calling for fairer tax rules so as to at least be on a “level playing field” with players who are also accused of crushing the competition with their financial power. Major international groups – to be precise GAFA (Google, Apple, Facebook and Amazon) – have caused controversy, being accused of skewing the competition with national distributors by developing complex tax arrangements. The national taxes paid by GAFA seem derisory in relation to their actual activities. For example, in 2013 Apple paid 3.7% tax on income generated outside the USA<sup>25</sup>. The European Commission is increasingly attentive to such schemes and new rules are gradually being established. For example, since 1 January 2015 an EU directive has stipulated that VAT on the sale of cultural content must now be paid in the country of the end-customer, whereas before it was paid in the country where the headquarters were located. In May 2015, Amazon announced that its activities would now be posted per country rather than consolidated in Luxembourg.

24- State of the commons, Creative commons, 2014.

25- EU investigates tax rulings on Apple, Starbucks, Fiat, Reuters, June 2014.

This should lead to higher taxation on the distributor in each country where it operates.

In addition, some national regulations seem inadequate in a globalised economy and outmoded in the face of new offers facilitated by digital technology. For example, French regulations require publishers of audio-visual services to contribute to the production and promotion of French and European works. In 2010, the SMAD decree extended these requirements to digital video distribution platforms, with two main objectives: maintaining the audio-visual production system and encouraging diversity of supply

in distribution platforms. However, the decree is circumvented by the recommendation systems established by the platforms where consumer video preferences are targeted (75% of films viewed on Netflix in the USA are from the recommendation tool). Furthermore, the decree requires distributors to contribute financially to independent production but it does not apply to foreign stakeholders headquartered abroad.

Harmonisation efforts should therefore be joined at national and supranational level, in particular at the level of Member States and European bodies.

## ● Improving the promotion of cultural engineering: hybridising income and financing models and more generally private and public approaches

Commonplace opposition between private culture, which is said to be profitable but too “mainstream”, and public culture, which is considered “sophisticated” but unprofitable, should be overcome. In a situation where any creation is risky by nature – there is still uncertainty about the success of a work with the public<sup>26</sup> – and against the backdrop of a crisis where investors (both public and private) are more hesitant, it is the cultural and creative ecosystem as a whole and its diversity that needs to be supported.

**To do this, cultural engineering needs to be promoted by creating bridges between public and private approaches, which are complementary and synergistic.**

The requirement for “cultural diversity” on stakeholders when they perform a public function is therefore coupled virtuously with the principle of economic profitability required of private stakeholders.

**Some stakeholders are doing so extremely successfully.** This is demonstrated, for example, by the projects implemented by Steven Hearn, author of a report on the development of cultural entrepreneurship for the Ministry of Culture<sup>27</sup> and chairman of the Scintillio group, which runs an ecosystem of some fifteen subsidiaries dedicated to culture, including the public-service delegation of La Gaîté Lyrique, Trabendo or even cultural engineering agency Le troisième Pôle. Since its creation in 2000, the latter has grown from one to twenty-two employees and its turnover has risen from 1 million francs to €3.5 million in 2014. It is all the while applying an unshakeable conviction: “cultural action can and must now rely on entrepreneurship and profitable business models, without treating public money like manna that has systematically overcome so-called structural imbalances”<sup>28</sup>. Steven Hearn believes that public influence has a major role to play in the cultural field,

26- Using a private cultural company by way of example, despite having a \$250 million production budget and a \$175-million promotion budget, Disney's production of Lone Ranger grossed “just” \$260 million in cinemas (before distribution of value), creating over \$150 million in losses for its producer.

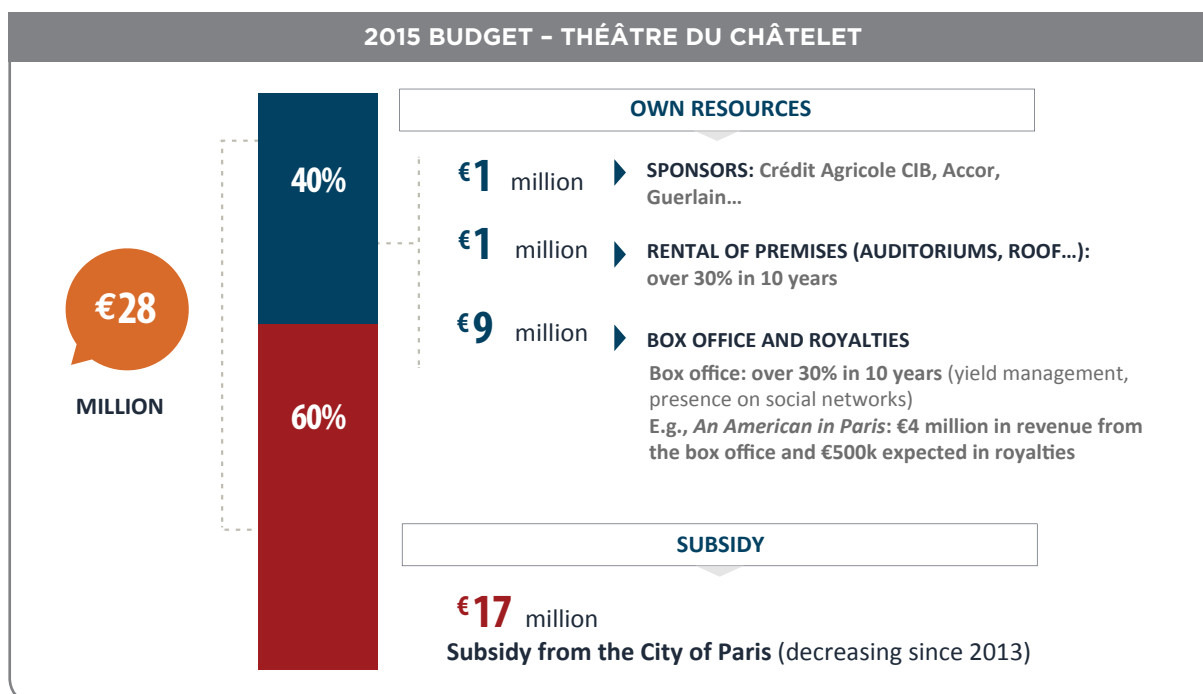
27- Report on the development of entrepreneurship in the cultural sector in France, Steven Hearn, June 2014.

28- Steven Hearn, Itinéraire d'un entrepreneur culturel, L'Ecole de Paris, 13 November 2012.

but it must involve starting and supporting emerging initiatives, rather than providing unconditional funding. Steven Hearn applies this very philosophy to the management of the La Gaîté Lyrique public-service delegation, a cultural and artistic venue dedicated to digital art and contemporary music and which hosts concerts, exhibitions, meetings and film screenings. The amenities are expensive, with its building fitted out with fibre optics and its concert hall mounted on hydraulic cylinders to provide sound insulation. In 2012, nearly €3 million of the annual €10-million budget was allocated solely to the maintenance of the building. The City of Paris provided half of the budget and the rest was self-funded to the tune of €5 million through box-office revenue, sponsorship, renting spaces, co-productions, the bar, merchandising, providing training and finally the business incubator<sup>29</sup>. In his report on

the development of cultural entrepreneurship submitted in June 2014, Steven Hearn recommends in particular creating tools in favour of starting up companies in the cultural sector and facilitating access to bank funding by incorporating cultural businesses into existing systems.

**The Théâtre du Châtelet is another inspiring example that is typical of this new cultural engineering.** For around ten years, this theatre has been reinventing an innovative artistic policy at the same time as renewing its business model as its public subsidies have decreased. By cleverly combining financing and revenue models (co-production, exploiting its tangible and intangible assets, exploiting digital tools, sponsorships, etc.), the theatre has been able to renew its public by investing in high-quality productions.



Sources: Interview with Laurence Marchand, Forum d'Avignon, Le quotidien de l'art, Challenges, Les Echos, Kurt Salmon analyses.

The development of international co-productions is also part of this new economic dynamic, as illustrated by the success of the musical *An American in Paris*. By showcasing its expertise and sharing the costs

and risks of the project with private American producers, the Théâtre du Châtelet was able to invest €4.5 million of its budget, out of a total budget of €11.5 million for the musical, thereby funding the production of costumes

29- Steven Hearn, *Itinéraire d'un entrepreneur culturel*, L'Ecole de Paris, 13 November 2012.



and scenery, as well as paying artists during rehearsals when creating the musical in Paris. Revenue from running the show, combined with royalties from the resale rights on income from performances of the show on Broadway and a US tour, allowed the theatre to balance its budget and even increase its own resources and reinvest them in new productions.

**In times of reduced public budgets, the bridges between public and private approaches are also growing increasingly under the initiative of the states, with a level of local, national or European action.**

**The aim is therefore to create a leverage effect for the benefit of cultural projects by attracting private capital through public funding.**

Here it is no longer a question of subsidising but lending, guaranteeing and targeting public investment and proposing tools for initiating cultural projects. Three mechanisms in particular have proven successful: repayable grants, equity loans and guarantee funds.

**Repayable advances**, for example, act as a financial contribution which reduce the risks taken by banks and have to be repaid at zero interest. The Catalan Institute of Cultural Enterprises (ICEC) – a body working under the Catalonia Ministry of Culture and created in 2000 with the aim of promoting artistic creativity and the production, distribution and dissemination of cultural content – has been successfully using this mechanism since 2009: of the 98 repayable advances it granted between 2009 and 2010, 89% were repaid.

ICEC has also set about developing **equity loans** for start-ups producing digital goods and services in a creative and cultural context. Businesses receive significant funding in the long term without any financial impact, since the loans are registered as quasi-equity. Today,

the Catalan Institute uses this as part of a new €2.5-million fund, with loans ranging from €40,000 to €200,000.

Finally, **guarantee funds** were created in Europe with the aim of granting cultural and creative projects access to funding from banks, highlighting in particular the links that can be created between public and private approaches. Bank guarantee funds, which provide a strong leverage effect, constitute a risk participation whose sole beneficiary is the bank. The fund acts as a guarantor for amounts borrowed from financial institutions, guaranteeing them future repayment, irrespective of the outcome of the cultural project. For example, the Institute for the Financing of Cinema and Cultural Industries (IFCIC)<sup>30</sup>, created in France in 2010, offers banks a financial guarantee – representing 50 - 70% of a loan – and an expert assessment of the cultural company's specific risk.

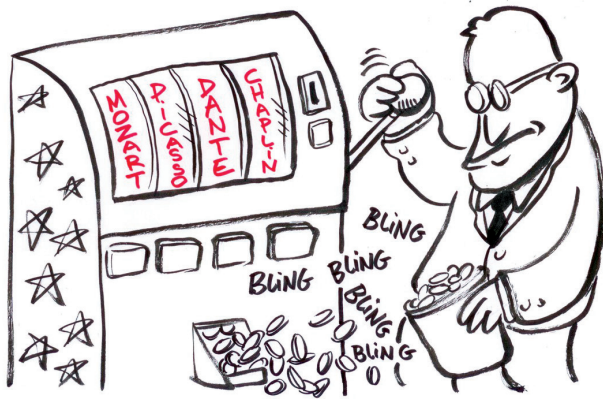
The institute also offers its expertise to cultural entrepreneurs and helps a bank to make a financial commitment to their project. This mechanism is particularly suited to the field of cinema (every film is a prototype), for which IFCIC guarantee short-term loans to fund European films.

This system extends the work of the MEDIA Production Guarantee Fund (MPGF) which benefited from a €4-billion EU grant, and whose management was entrusted to IFCIC between late 2010 and late 2013. The MPGF was very successful during these three years of activity: over €77 million worth of loans benefited from an MPGF guarantee, benefitting 47 independent production companies based in eight European countries. These secured loans helped finance 34 feature-length films including *Every Thing Will Be Fine* by Wim Wenders and *A Most Wanted Man* by Anton Corbijn.

30- 49% of IFCIC is owned by the French state and the Bpifrance group, and the rest is held by private shareholders bringing together almost all French banks.

## CULTURE: L'EFFET DE LEVIER

Source: "Effet de levier" by JUL for the Forum d'Avignon in collaboration with Cartooning for Peace (2015).



**While cultural engineering, in its ability to hybridise funding and revenue models along with private and public approaches, represents a genuine axis of development and sustainability for the cultural and creative sectors, it also naturally questions this sector in terms of the evolution of the status of cultural entrepreneurs.** Indeed, hybridisation, however necessary it may be, can also make

things extremely complex for creators. If artists and authors hybridise models downstream, they also do so upstream by adopting in the vast majority of cases a multi-skilled and multi-activity approach<sup>31</sup>. They therefore exercise other professions by capitalising on their art (teaching, lecturing, etc.) or more prosaically to make ends meet each month (i.e., having a "nine-to-five job"); they in fact find themselves having to deal with several positions (occasional worker, employee, freelancer, etc.) whose "accumulation" is in practice often a balancing act. It is then a case of implementing a mechanism for minimising that self-maintaining fragility, even precariousness that arises from the mosaic of activities and positions that "cultural entrepreneurs" have to juggle. Another line of thought therefore lies in the possibility of identifying these skills and bringing together these different positions under one status – the position of cultural entrepreneur – which could herald a new social model that goes beyond mere cultural engineering, espousing more broadly all the components of the creative and operative framework of artists and writers in the cultural and creative sectors.

## ● Moving towards bold models based around engaging cultural experiences

**As has been seen, according to the "hybridisation formula", the cultural and creative sectors have to constantly innovate to be in sync with the evolution of their target consumers' behaviour. To this end, at least two ingredients are required: constant attention to the public's experience and systematic responsiveness in the proposed models.**

The cultural and creative sectors that generate the most value are those that hybridise their models in an innovative way by anticipating the evolution of cultural consumption patterns. But how can one predict how the public

will "consume" cultural works in the future? It is of course a question of innovating and therefore taking a bet on future trends, but also understanding certain indicators, such as the behaviour of younger generations, the consumption patterns of the most digitised countries, as well as more generally the way in which the consumption "of cultural experiences" is evolving.

First, what is interesting is the behaviour of younger generations, who are both more sensitive to innovations and at the same time represent the general public of the cultural sectors of tomorrow. According

31- See, for example, "Les cumuls d'activités dans le secteur culturel," a summary of the meeting of Monday, 21 May 2012 in Rennes.

to our international customer survey<sup>32</sup>, 35% of Americans aged 15 to 24 say they have subscribed to a paid-for subscription service for unlimited music streaming (compared with 23% for the whole population of the USA) and 76% of that age group claim they have subscribed to a paid-for subscription service with an unlimited catalogue of thousands of Netflix-like films (compared with 53% for the whole population of the USA). Another interesting indicator is the evolution of public consumption patterns in general in the most digitised countries. We have seen how the USA is a pioneer in how cultural consumption could evolve. Despite the fact that their cultures are different in very many ways, it is clear that European consumers' consumption patterns tend to be closer to those of American consumers. For example, it is interesting to note that just 21% of the video market in France is digitised, while 42% of the American market was in 2014, and that the business model involving unlimited subscriptions already represents over half of the digital market in the USA (compared with 12% in France).

**However, it is important not to indulge in the fear of an extreme digitisation of cultural practices. Analysis of consumer behaviour tends to prove that the public still values "experiential" culture.**

As demonstrated in the first part of the study, the public is turning overwhelmingly and increasingly to the "live" sector, i.e., concerts, film screenings, etc.

*"Cultural patterns are going to be polarised increasingly between engaging behaviour and opportunistic behaviour".*

**Emmanuel Durand**, Vice President of Marketing at Warner Bros

#### **A notable trend is rather the polarisation of public practice between:**

- On the one hand, "significant" behaviour, i.e., tangible and engaging cultural experiences for consumers that create a link between a work and the public (e.g., a museum, cinema, or concert, etc.), which are often the preserve of traditional cultural stakeholders;
- On the other hand, "opportunistic" behaviour, i.e., cultural experiences that convey convenience, like ease of access to and "consumption" of cultural works (a platform to access film and music catalogues, etc.) and which are often embodied by new digital stakeholders.

**What these two trends still have in common is the public's experience:** in the first instance, the consumer values physical, social and shared experience; in the second instance, the consumer values comfort, ergonomics and ease of use. Both traditional and new stakeholders have to offer innovative models that fully incorporate this experience-based concept.

**Players involved in opportunistic cultural experiences are facing a downward trend in the value of content, to the benefit of curation.** As such, the rich catalogue of works available has quickly become a market standard for digital distribution platforms (Spotify, Deezer, Netflix, Amazon, etc.) which were no longer able to differentiate themselves on this argument alone. The purpose of ergonomics, recommendation engines or even the permanent addition of new services is to significantly improve each user's experience and to earn their loyalty. Here it is indeed a case of platforms putting the public at the centre of their strategies; the commercial failure of Tidal – whose launch was nevertheless highly publicised – clearly shows that applying tried and tested formulae which offer nothing extra to the consumer does not always work.

32- Kurt Salmon survey conducted in May 2015 based on a representative survey of 4,005 individuals in France, the UK, Germany and the USA.

***“The digital technology shift is involving consumers in the creation, production and distribution process”.*** **Danielle Sartori**, Director of Research at the CSA  
Department of Research and Planning

**Traditional stakeholders, who are more involved in producing engaging cultural experiences, are confronted with other issues. Faced with digital stakeholders who have generally grown up with technology and innovation, they have to demonstrate greater agility in reinventing themselves and offering their target audiences the best possible experience by capitalising on their “traditional” assets.** As a result, museums (and perhaps cinemas in the future) are capitalising increasingly on the “end of visit,” offering extra products and services (book sales at exhibitions, postcards, derivative

products, etc.). Each customer’s experience has to be taken into account not only by distributors of cultural services, but also producers and publishers looking to shift from a “B2B” approach to a “B2B2C” approach. Usually these players do not interact with the end-consumer, but they are increasingly looking – in particular by creating and running communities on digital platforms – to better understand the public, to identify ambassadors and market trends. Furthermore, producers, weakened by high structural costs inherited from more prosperous years, have to reinvent their profession by investing in sectors with the highest growth, not just in their home market segment. In March 2014, Disney announced that it had acquired Makers Studio, one of the largest content providers for YouTube channels which claims over 5 billion views a month, investing in a thriving market segment which is widely adopted by younger generations.

***“Traditional stakeholders do not merely have to be subjected to changes imposed by business models linked to digital technology, but should rather accompany and even co-create them”.*** **Jean-Bernard Willem**, Director of TV and VOD Multiscreen Marketing, Orange

The Wurth Museum shop, Spain.

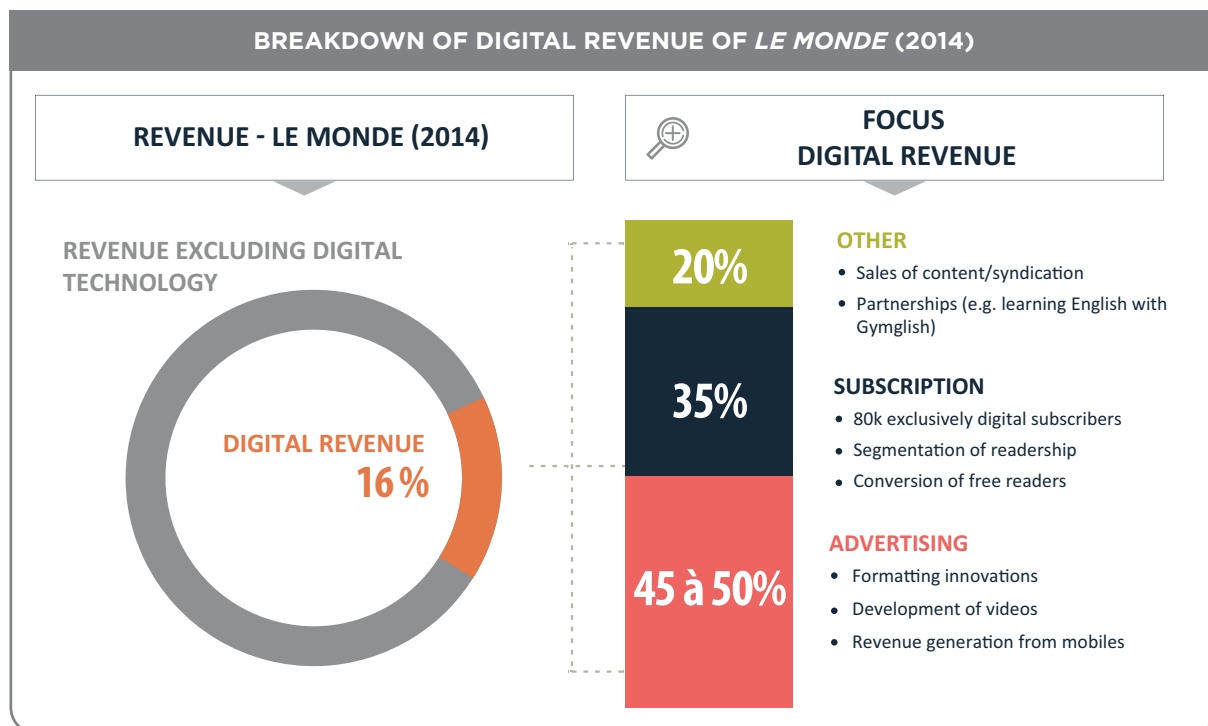


**Traditional players are reinventing themselves all the more quickly as the powerful effects of digital strength have hastened the demise of their historical models whilst also equipping them to innovate.** The press sector is a typical example. Faced with new methods of reading and a wealth of free content, the financial equilibrium of information producers remains fragile. *Le Monde* has therefore significantly



changed its business model in recent years to meet the challenges facing the traditional press: to be less dependent on a highly competitive advertising market, maintain and develop a strong brand whether on paper or in the digital domain, and finally monetise its large audience. By capitalising on its ability

to create a link with its audience through an engaging experience, *Le Monde* has hybridised its revenue models both digitally and in traditional format (through advertising, one-off payment and subscription) and developed new sources of income outside the press, thereby rediscovering the path to profitability.



Sources: Interview with Isabelle André, Speech by Louis Dreyfus at Paris Dauphine University, Le Parisien, Kurt Salmon analyses.

To this end, *Le Monde* adopted a “freemium” pricing strategy, based on free access and nearly 15 million digital readers a month, to attract a wide audience through quality content, the aim being to convert and retain a share of the readership. This strategy has been successful, with 160,000 digital subscribers today. Subscription services, which represent 35% of digital revenue, enrich a reader’s experience by providing access to exclusive content and services, improved reading comfort and the possibility of finding their favourite articles available on all their different media (tablets, mobile phones, etc.). *Le Monde* has also diversified its revenue by developing an events service (organisation of the Le Monde Festival) and even through partnerships (English teaching, education, etc.). *Le Monde* has thus offered its readers a bold, innovative

and experiential model, capitalising on the newspaper’s ability to create a bond with both readers and potential customers..

***“It is more in the agility and ability of business models to adapt in the long term to different uses than in identifying a good business model that the sustainability and robustness of stakeholders in the cultural and creative sectors are to be found”.*** **Pierre-Jean Benghozi**, Professor at the Ecole Polytechnique and Commissioner of the ARCEP



As consumption patterns and technologies change, stakeholders in the cultural and creative sectors have to constantly adapt, otherwise they may make way for new entrants who can better meet the needs of consumers.

**In this respect, the “perfect” business model – which is effective and creates wealth sustainably – does not exist.**

“Physical” one-off payments were once the dominant model in the recorded music sector, for example, before being gradually replaced by “digital” one-off payments, then by free streaming and finally by subscription. Yet it is highly likely that this model will not be the last of its kind, and that new models will emerge in response to – or in anticipation of – consumers’ new cultural consumption patterns.

# Conclusion

**There therefore is indeed a “formula” that will allow the cultural and creative sectors to develop in the digital age. This is where the multiple meanings of the term are particularly important.** This formula is both a “recipe” that requires a number of ingredients to be mixed together in a given sequence to create value in the cultural and creative sectors, but it is also rather like a “magic spell”, because one of its ingredients requires stakeholders to predict how cultural consumption patterns will evolve!

Digital strength at work in the cultural and creative sectors is entropic: it destroys value on the one hand, but recreates it on the other hand. **This digital entropy is “positive”: it ultimately creates more value than it destroys, provided that it provides the public cultural works through innovative offers. It is no longer a question of responding to changing cultural consumption patterns, but instead of predicting them.** Specifically, digital technology is greatly accelerating the hybridisation of business models and this hybridisation creates value in a cultural sector as soon as its hybridisation index is higher than its digitisation rate. For example, the book sector is neither digitised nor hybridised to a large extent (with a 15% digitisation rate and an index of 23), but creates value overall. While the sector’s compound annual growth rate (CAGR) was 0.4% between 2009 and 2013, this rate is set to be 1.1% between 2013 and 2018 as a result of the hybridisation of models and the growing share of digital output, generating a 7.5% increase in overall revenue between 2009 and 2018. In other words, what is creating growth is the ability of stakeholders in the cultural and creative sectors to offer and hybridise models more quickly than the digitisation of their target users’ consumption patterns. The international survey we conducted among French, American, English and German consumers provides an explanation of the behaviour observed: the public increasingly “values” new models as their consumption patterns go

digital. In other words, they are “e-consuming” more and are willing to budget more for this.

**Even though this “formula” is necessary, it is of course not sufficient. Other ingredients have to be added: the redistribution of value, cultural engineering, public and private hybridisation, etc. Indeed, digital entropy is releasing creative energy that can “produce” cultural diversity without it being “consumed”.** The distribution of value from new models is more beneficial for authors and artists: they “capture” a higher value rate on digital models than on so-called traditional models. Nevertheless, a significant volume effect has to offset generally lower unit prices on digital models, making popular artists the main beneficiaries of new models. This is why it is important to distinguish between cultural diversity that is produced and that is consumed. In particular, this questions stakeholders who exercise a public function obliging them to produce diversity. We are therefore convinced that certain concrete mechanisms or models – which have already proven to be beneficial in one sector and could branch out further within the cultural and creative sectors – can contribute to the development and sustainability of the cultural economy:

- **Ensure there is a fairer balance in redistribution mechanisms, so that the various stakeholders in the cultural sector can benefit from the value they have helped to create.** An overhaul of copyright and harmonisation of the regulatory and fiscal framework therefore seem necessary;
- **Develop and promote cultural engineering’s ability to hybridise funding and revenue models.** Models that have been practically implemented at La Gaité Lyrique theatre or the Théâtre du Châtelet are inspiring in this respect: they have successfully revamped their business model in the context of declining public subsidies by combining their sources of funding and income (co-production, exploitation of tangible and intangible assets, sponsorship, etc.);

- **More generally, build bridges between public and private approaches that complement and interact with each other.** In these times of reduced public budgets, states themselves are developing mechanisms to attract private capital through public funding, much like repayable grants, equity loans or even guarantee funds. Here it is a question of earmarking public investment and offering tools to initiate cultural projects. This is best seen in the examples of the Catalan Institute of Cultural Enterprises (ICEC) or the MEDIA Production Guarantee Fund (MPGF) in Europe;
- **Develop bold models based around cultural experience.** Constant attention must be paid to cultural behaviour when implementing the “formula” that involves hybridising models more quickly than public consumption patterns evolve. Such behaviour is increasingly polarised between “engaging” behaviour (going to the theatre, cinema or even an exhibition, etc.) and “opportunistic” behaviour (listening to music or watching a film on a streaming platform, etc.). As shown by the example of the newspaper *Le Monde*, traditional stakeholders, who are more involved in engaging cultural experiences, have key strengths and assets that they can exploit and “hybridise” in an innovative way in the digital age.

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## ● Methodology

A vast quantity of data had to be gathered for this study. Besides the documentary research undertaken and listed in the bibliography, the information was collected by taking:

- A quantitative approach, through an international consumer survey;
- A qualitative approach, through interviews and brainstorming workshops with the work groups created by the teams at the Forum d'Avignon.

### Kurt Salmon 2015 consumer survey

Our survey was conducted in May 2015 using a representative sample – based on age, gender, geographical area and socio-professional category – of 4,005 individuals aged over 15 and distributed as follows: 1,000 in Germany, 1,000 in the USA, 1,002 in France and 1,003 in the UK.

Our quantitative survey focused on the analysis of three cultural and creative sectors: music, videos and books. The aims of the field survey were to:

- Compare public consumption patterns,

by country, covering a number of “typical cultural products” (books, videos, etc.);

- Understand how consumers “value” cultural works supported by different business models, i.e., the price they say they are willing to pay for each of these works and models.

To this end, we employed Van Westendorp's pricing methodology which identifies an acceptable price zone (maximum price, minimum price and optimum price). This approach requires surveyed consumers to position themselves on four price levels:

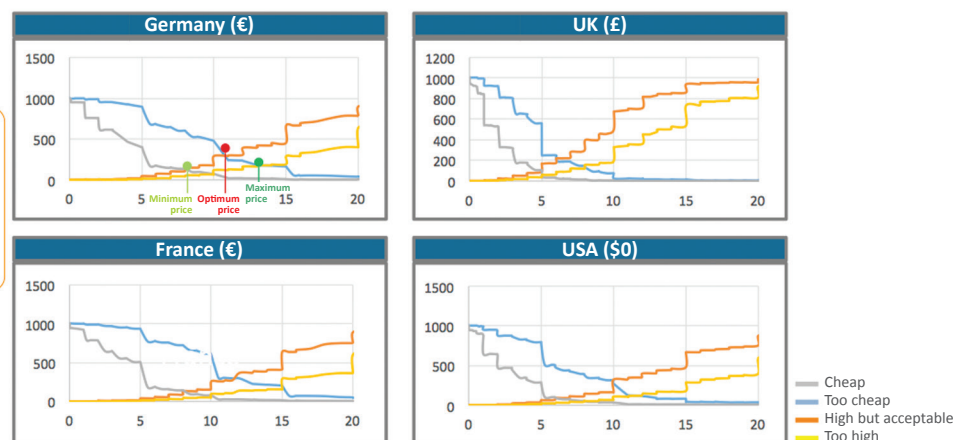
- (a) What would be a cheap price level for this product?
- (b) What price level would be high, but still acceptable?
- (c) What price level would be too cheap, making you doubt the quality of the product?
- (d) What price level would be too high, making you not consider buying it?

The optimum price is obtained where the curves denoting cheap, high but acceptable prices (a) and (b) intersect. (See illustration).

### QUESTION “HOW CAN WE ASSESS THE PRICE OF AN ALBUM THAT CAN BE PURCHASED IN A STORE (MUSIC STORE, LARGE SPECIALISED RETAILERS, MAJOR FOOD RETAILERS...)?”

	Germany (€)	France (€)	UK (£)	USA (€)
Minimum price	7.995	8.25	6.72	5.30
Maximum price	13.495	14.995	10.76	10.15
Optimum price	10.495	11.75	8.15	8.83

**Interpretation of the graph**  
The optimum price is shown at the points where the price curves intersect.  
– Cheap (blue)  
– High but acceptable (orange)



**Basis:**  
France: 1,002 respondents  
UK: 1,003 respondents

Germany: 1,000 respondents  
USA: 1,000 respondents

### Qualitative interviews

In parallel with the field survey, we conducted some twenty interviews with experts in the cultural and creative sectors, operating in different “links” in the value chain (creator, producer, publisher, broadcaster, etc.) as members of cultural institutions, innovative companies, collection agencies or regulatory bodies.

These interviews helped inform our thinking, by incorporating into our study an array of various points of view, and encouraged us to consider development paths for supporting culture.

The experts with whom we had the opportunity to work are listed in the “acknowledgements” section at the start of the study.

### Taking into account taxes and exchanges rates

For each sector analysed, we chose the value of the retail market (value including all taxes) in dollars.

The chosen exchange rate used when currency conversions were required was the constant annual exchange rate in 2013: \$1 = €1.3 and \$1 = £1.6.

## ● Publications

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Kurt Salmon is a historical partner of the Forum d'Avignon since 2009 and has worked every year on a study inspiring from the chosen theme by the Forum:



**Reform through culture** – 2014

How the culture sector can best respond to the challenges of the digital age?



**Culture & Power** – 2013

*Creators, producers, distributors, consumers, public authorities... Who really has overall control?*



**Culture: reasons for hope** – 2012

*The Fabric of innovation – Management and creation, perspectives for the economic growth*



**Investing in culture** – 2011

Cultural undertaking & investment: from intuition to decision making



**New access, new uses in the digital era: culture for all?** – 2010

*Culture and economic performance: what strategies for sustainable employment and urban development planning?*



**Cultural strategies for a new world** – 2009

*Cultural appeal of an international selection of major cities - What strategies for sustainable employment and urban development planning?*

All studies are available on Kurt Salmon's website and the Forum d'Avignon's website.





# About...

## ● Forum d'Avignon

Since its foundation in 2007 following the ratification of the UNESCO Convention, the Forum d'Avignon has established itself as an international and independent think-tank at the service of the cultural and creative sectors and their dialogue with the economic and digital worlds. Working with an international network of universities, creators, entrepreneurs, experts, global consulting firms and more than 30 public and private partnerships, the Forum conducts exclusive studies (more than 33 to date) and publishes concrete proposals in three domains: Financing and business models/Cultural industries and technology/Attractiveness of territories. Each year, the Forum organizes its International meetings: the 8th edition will take place between March 31st and April 1st, 2016 in Bordeaux.

Its contributions are intended to inform public debate about current topics or future societal issues discussed in national and international forums. The Forum d'Avignon's ideas and proposals are echoed at both national and international levels. Its sphere of influence is mainly European.

For eight years, the Forum d'Avignon has highlighted culture's threefold nature: artistic, social and economic. The cultural and creative sectors have successfully proved how culture is an individual and collective investment that yields more than it costs: €535.9 billion in revenue and 7.1 million jobs in Europe (GESAC, 2014). Which is not to say that culture should be limited to this one economic dimension; it is at one and the same time both humanist and universal and should not be seen as merely "content" or "merchandise".

Throughout the year, the Forum d'Avignon organizes a series of debates, working committees, surveys and editorials that the think-tank publishes in collaboration with international consulting firms, as well as in the Actes published by Gallimard, through daily press monitoring and ongoing activity on its website [www.forum-avignon.org](http://www.forum-avignon.org).

For the editions to follow during 2015-2018, the Forum d'Avignon will be working to encourage **culture and the cultural sectors to act collectively** beyond their respective areas, in a spirit of collegiality, with the aim of placing culture at the heart of policy-making, based on robust proposals that will influence public debate and position itself on European and international agendas, so that culture will be set at the heart of communal debates and ambitions.

[www.forum-avignon.org](http://www.forum-avignon.org) - @forumAvignon

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# Kurt Salmon



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