Getting out of the recession: a new innovation model for the cultural economy?

A Bain & Company study for the Avignon Forum
Summary

In the cultural industries, content creation is at the heart of value generation. In fact, the difficulty of continually replicating or industrialising the creative process is what distinguishes them as a “unique traditional craft”. Some even take the view that creative work and business innovation do not belong to the same universe.

This distinction is becoming less and less valid: the “perfect storm” of digital innovations that arose at the beginning of the nineties has profoundly destabilised the whole creative, media and cultural ecosystem. New technologies are calling long-established balances into question, and triggering unprecedented shifts in value.

While they may seem external to the creative universe, such innovations reveal the latent needs of society where culture and content creation are concerned. These innovations affect not only the channels through which creative products reach their markets, but also the relationship between creators and their audiences, the very process of creation itself.

A process of “open innovation” appears to be essential to establish new balances for the creative, media and cultural ecosystem. This process must 1) embrace current shifts in value, 2) adopt a more “open”, networked innovation model, and 3) put creative work at the heart of the renewed cultural economy. It remains unique because it must give precedence to the “right brain”, and meet a number of challenges: promote the emergence of multi-talented individuals, facilitate the transition of today’s creators, adapt to a demand-driven media economy by promoting the connection between creative work and its audiences.
Content creation and innovation, the return of the quarrel between the “right brain” and the “left brain”?

Culture and the media have a key role to play in achieving a “real” way out of an unprecedented crisis, which is financial and economic, as well as moral: this means taking a new approach to innovation in the cultural industries.

Of course, this does not mean putting a barrier between the “right brain” and the “left brain”. Content creation and innovation are certainly two, if not contrary, concepts, at least ones that do not belong historically to the same universe: content creation is the idea behind any culture, while innovation is a process typically described in management manuals. The impossibility of standardising the first is what makes the cultural industries unique as a “traditional craft”. The strong technological connotation of innovation, on the contrary, tends to overly restrict it to the industrial world.

The “perfect storm” of innovations, new technologies, new usages and new economic models calls into question the long-established balances. Today, it is impossible to deny that the two universes are in outright collision; there is now no option but to think of cultural creation as at the heart of a wider, open and multi-layered process of innovation, which not only affects the channels of distribution of culture, but also the relationship between creators and their audiences, including the process of creation itself.
Since WWII, the cultural industries have been sustained by an ecosystem that, if not perfect, has at least been balanced: backed by private or public funding, creators supply the media with cultural content; the media distribute and monetise such creations among their audiences, sharing the proceeds with the creators; finally, public policies direct and determine the rules governing this trade.

Within this ecosystem, the cultural industries such as the music industry, the press, television or cinema have for a long time been protected by strong entry barriers, with both creators and media profiting from Malthusian economics:

- Major technological constraints (due to the scarcity of radio frequencies, the restricted number of analogue TV channels);
- A well-defined framework (laws relating to competition and ownership stakes in the media);
- A considerable need for capital investment (manufacturing and distribution infrastructures in the press).

Until a recent past, these barriers favoured the growth and profitability of the cultural industries, as is illustrated below in the value creation and profit margins of the European media sector compared to the market as a whole and to other industries in the period 1991-1999.
In the face of such relative stability, one of the main characteristics of the cultural industries is their ability to evolve through “shocks” perceived as external because they come from innovations with a major technological component. The modern novel arose after the invention of the printing press, the mechanisation of printing presses gave rise to daily papers and the first serialised novels, and 24h news arose from the development of cable and satellite broadcasting.

Between two revolutions, the absence of major innovations has been offset by the vast proliferation of content, which has created the risk of substantial instability. For example, in 2009, there are more than 16,000 periodicals in the United States and more than 300 television channels in the United Kingdom competing for audiences – compared to 11,000 titles and 12 channels, respectively, in 1990.

« The absence of major innovations has been offset by the vast proliferation of content »
The digital “perfect storm”

The sudden emergence of digital at the end of the twentieth century appeared as a real “perfect storm” of innovations, in which new technologies and new economic models were combined.

At first glance, Internet, digital, mp3 and “peer-to-peer” file-sharing illustrate a real confrontation between content creation and digital innovation. Such a confrontation was certainly a feature of the major legal actions at the beginning of the decade (Metallica against Napster, the Motion Picture Association of America against BitTorrent, Le Monde against Google or NBC against YouTube). Today, many business models resulting from the emergence of digital, while legitimate, still often remain experimental or unproven (YouTube, Deezer, Hulu, Twitter).

Beyond this apparent confrontation, these sudden changes most often reveal society’s latent needs where culture and creation are concerned. We see this in individualisation and differentiation of tastes (specialty TV channels, “long tail” content, etc.), personalisation (video on demand, purchase of personalised “music mixes”, etc.), or participation in creation (blogs, User Generated Content, social networks).

This phenomenon has been particularly notable in the music industry. The chronology set out below clearly illustrates the role of digital and peer-to-peer in the decline of sales of physical music media. But that should not mask the more profound trends: audiences have never consumed as much music as today, but they are ever more demanding in terms of the ease of access and added value of the cultural products they buy. These developments are a good illustration of the difficulty of anticipating and following the changes in society that can suddenly be brought to light by new technologies.
Of course, not all the arts suffer the impact of digital to the same extent, and not all segments of the cultural ecosystem are affected in the same way. But few disciplines have been spared, in their distribution or their modes of production, by a combination of developments that overturn the balance that used to govern culture, content creation and the media as a whole.

Consequently, a large majority of the cultural industries are now affected by substantial shifts in value. While it was marginal 10 years ago, the Internet now represents one fifth of the profits in the cultural industries worldwide. At the same time, the press has been reduced to less than 15% of the total. While the share of content production in global profits has remained practically stable during this period, the aggregation of such content, hit by the advertising recession, has seen its share reduced to less than 50%. At the same time, that of distribution, including pay-TV, cable and broadband, has doubled, and now represents nearly 40% of the total, becoming a major pillar of the cultural and media ecosystem.
As for the growth of the ecosystem as a whole, it remains limited by the time available to audiences, which has been practically stable in Western countries since the emergence of the leisure society. The growth of new media therefore occurs not only at the expense of traditional media, but also through increasing “multi-browsing” of various media, which thus receive less individual dedicated attention. Consequently, competition between the various media and cultural content options to win the attention of audiences continues to intensify. The result is a clear over-supply which exerts a deflationary pressure on prices, especially on the Internet.
In the aftermath of the 2009 crisis, it has become ever more obvious that incremental growth will not be enough to offset imbalances and shifts in value that have become structural. At the very most, one might hope for a worldwide return to the situation of 2007 by 2013, with major disparities between sectors and geographical areas. With growth being transferred towards distribution on the one hand and towards emerging countries on the other, a return to the status quo ante appears to be especially out of reach for the mature economies of North America and Western Europe.

The cultural industries can therefore no longer ignore a process of innovation that affects not only the way in which creative works are delivered to their audiences, but more widely, the whole of the creative ecosystem. Creating a new balance of equilibrium requires to carefully integrate creation into a new multi-layered innovation model.

« The result is a clear over-supply which exerts a deflationary pressure on prices »
Establishing a new equilibrium: towards a new model of innovation?

A new process of innovation appears to be indispensable if a new equilibrium is to be established in the creative, cultural and media ecosystem. Above all, this process must recognise and embrace shifts in value that have now become structural. It must also adopt a more open model that puts content creation at the heart of a network of heterogeneous, private, public and academic participants. Finally, it must keep creators at the heart of a renewed cultural economy.

A number of initiatives currently illustrate this new model. For example, the music industry, which has frequently been challenged for the difficulty with which it has handled the digital era, is itself evolving towards a “networked innovation” model: the role of the labels is evolving to become an integral part of a dense network of participants, including musical social networking sites (My Major Company, SellaBand, etc.), new distribution channels (Deezer, last.fm), or those involved in live events production (Live Nation). This development is changing the relationship between the various participants, including the role of the labels themselves, which are becoming integrators of talent, suppliers of marketing services, and investors in artists.

Similarly, the television industry often appears to be challenged by the arrival of new technological entrants such as YouTube. Initiatives such as the development of “over-the-top” video platforms (BBC iPlayer, Hulu) are signs of an industry undergoing rapid change, capable of responding to new practices and of experimenting with new economic models. Thus, by using telecoms operators (which de facto have become cultural vectors) to distribute their content, these services are dovetailing the shift in value to distribution.
Relying on collaboration between many interdependent participants, the model of open innovation proposed here is in part comparable with recent developments observed in other industries – for example in the life sciences. But it remains unique in that, in order to function, it must retain “soft issues” at its core, giving precedence to the “right brain” over the “left brain”. This is one of the particular characteristics of the cultural industries that must continue.

In this respect, there are two main challenges that both private and public participants in the creative ecosystem must meet. First, they must promote the emergence and development of multi-talented individuals, secondly, they must adapt to a media industry that becomes largely demand-driven.

Promoting the emergence of tomorrow’s talent and ensuring that today’s talent makes the necessary transition requires a recognition that both creative work and the creators themselves are affected by innovation. Of course, content takes precedence over the means of its distribution, but content format evolves with such means. Thus, tomorrow’s creators must be multi-disciplinary, both individually and collectively – working with teams and with creative profiles that are ever more diversified and multi-skilled.

The teams and skills involved in the creative process must evolve with the tools and resources available to them. They must adapt to the new modes of cultural production. Promoting the emergence of new talent and ensuring that today’s talent makes the necessary transition will, among other things, require the adaptation of training and talent discovery programmes, for example to the emergence of creative workshops and the formation of multimedia teams.

Adapting to a media industry that becomes demand-driven, while keeping the main focus on creators, will involve promoting the connection between creators and their audiences. In the era of instantaneity created by the global network, even the avant-garde can supposedly find its audience at the speed of light. But, on the other hand, its ability to be heard and understood requires more and more efforts. On the one hand, a delicate understanding of consumer needs by the media and regulators. On the other hand, the prioritisation of information and content. One major challenge, of a technical, human and social nature, is to create paths to guide audiences through the universe of abundant, exponentially increasing content. And finally, in a world where barriers to entry have been lowered and in which everyone can claim to be a creator, it is essential that the audience’s aspiration to co-create should be harmoniously combined with the professional’s quality requirements.
Conclusion

Bringing together the “right brain” and the “left brain”?

Faced with a new “growth crisis”, the creative, cultural and media ecosystem has proved to be true to itself: similar to other economic sectors in the necessity to evolve, probably reluctant to embrace change, and certainly unique in its responses to such change.

While the economy of culture and content creation must clearly not adopt processes cloned from other sectors, it cannot avoid the storms affecting other economies and industries worldwide. Fortunately, two things will never stop being relevant for talent: remaining at the heart of a renewed creative ecosystem, and bringing together “right-brain” and “left-brain” activity.

« Tout passe. - L’art robuste
Seul a l’éternité.
Le buste
Survit à la cité »
Théophile Gautier

Contacts Bain & Company

Authors:
Patrick Béhar is a partner in the Paris office of Bain & Company and heads the firm’s Media and Entertainment Practice in Europe, the Middle East and Africa. He has served the industry for more than 17 years, on multiple continents and across the stakeholder spectrum of broadcasters, content producers, consumer and professional publishers, music majors, movie studios, as well as new media • patrick.behar@bain.com
Laurent Colombani is a senior manager in the firm’s Media and Entertainment Practice, managing its French activities • laurent.colombani@bain.com

Contributors:
Domenico Azzarello, Laurent-Pierre Baculard, Caroline Detaille, John Frelinghuysen, Charlie Kim, Cheryl Krauss, Jean-Marc Le Roux, Michele Luzi, Olivier Marchal, Matthieu Pillet, Darrell Rigby, Dave Sanderson, Benjamin Tancrède, Laure Verdeau

Media contacts:
Caroline Detaille, Bain & Company • Tel.: +33 1 44 55 77 79 • caroline.detaille@bain.com
Flore Larger, Image 7 • Tel.: +33 1 53 70 74 91 • flarger@image7.fr

Bain & Company is a global business consulting firm with offices in all major cities. We help management make the big decisions: on strategy, operations, mergers & acquisitions, technology and organization. Bain was founded in 1973 on the principle that consultants must measure their success in terms of their clients’ financial results. Companies that outperform the market like to work with us; we are as passionate about their results as they are. Visit our website: www.bain.com

Contacts Avignon Forum

Laure Kaltenbach, Managing Director • Tel.: +33 1 42 25 69 10 • laure.kaltenbach@forum-avignon.org
Alexandre Joux, Director • Tél.: +33 1 42 25 69 10 • alexandre.joux@forum-avignon.org