Creators, producers, distributors, consumers, public authorities...

Who really has overall control?
Thank you

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- Olivier MONTFORT, President, EMI Music France, France
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- Thierry PLATON, Creative Director, Bip Media, France
- Guillaume QUELET, Digital Director, Sony Music France, France
- Hervé RONY, CEO of Scam
- Kostas ROSSOGLOU, Senior Legal Officer, European Consumer Organisation (BEUC), Belgium
- Georges SANEROT, Chief Executive Officer, Bayard Group, France
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- Bernard STIEGLER, Philosopher, Doctor of l’Ecole des Hautes Etudes en Sciences Sociales, President of the Ars Industrials association, Director of the Institute for Research and Innovation at the Centre Georges Pompidou, Professor at the University of London (Goldsmiths College), associate professor at the University of Technology of Compiègne and ‘visiting professor’ at the University of Cambridge
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- Kerry WILKINSON, Writer, United Kingdom

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- The Board of Directors and the Orientation Council of the Forum d’Avignon; in particular, Axel GANZ, Vice President of Forum d’Avignon
- The Forum d’Avignon team: Laure KALTENBACH, General Manager, Olivier LE GUAY, Editor, Roman KADELKA, Project Manager.
- The partners of Forum d’Avignon
- And the consultants Kurt Salmon who were involved in research, the questionnaire, interviews and the drafting of the study: Arnaud BRETON, Blandine DUBOIS, Philippe PESTANES and Jean-Pascal VENDEVILLE.
Analysing cultural industries as a “value chain” is appropriate when doing so is not limited to making snap decisions as to who are the winners or losers from ongoing systemic changes. The merit of Kurt Salmon is to shed light on initiatives that nurture the virtues of a creative financing and distribution ecosystem in a context where illusions and manipulations are notorious.

Overcoming pessimism
The glass is not half full. It refills. With 5% average annual growth in 2012, the cultural and creative industries (CCI) are a growing sector. Moreover, this growth will continue, according to Kurt Salmon, thanks to three joint stimuli: the democratisation of connected terminals, leading to a multiplication in moments of consumption and new uses; the growing emphasis on new forms of digital monetisation, which can lead to a diversification of revenues; and the rise of emerging economies, in terms both of consumption and of production.

Remain lucid too
The combination of ease of access and the effectiveness of Big data feeds two illusions of demand culture that this study helps to moderate. If the consumers surveyed are confident in having acquired power, they are as yet doing little in contributing to financing creation (although the effects of empathy and training in crowdfunding are stimulants). Even though search-engine recommendations and insights from personal data are particularly useful (especially as they enable consumer curiosity to be aroused at lower personnel costs), suggestions are by nature conservative and unlikely to involve risk, since scoring a confirmed franchise is more profitable than creating one from scratch. Their impact, however, requires that all other players look to their laurels in the face of a real risk that pure players of digital distribution may gain a dominant position.

The boundaries between players are moving little
The real changes are to be found within each link of the chain, according to the Kurt Salmon study: between physical and digital distributors, for example. And, putting into perspective the essential dynamics of a virtuous ecosystem that protects the plurality of players - especially SMEs - and promotes diversity of content:

• Producers have seen their share of revenues increase with the disappearance of intermediaries on digital products, even at the cost of major restructuring (concentration, acquisition, diversification,...). For example, in the book sector, their share increased on average from 30% of a pre-VAT price for a physical book, to 48% for a digital book, while DVD producers went from 17% on physical media to 48% on digital media.

• The still yet decisive role of traditional producers/publishers in enabling creators to live from their art: no artist in the World Top 20 (music and books), for example, is self-released... even though 45% of consumers declare their readiness to finance or co-finance an artist or a work (but not beyond €25). This empathy is already facilitating the emergence of new relationships between creators and consumers, and allows savvy creators to easily find a following among an ever more volatile audience.

• The need for co-creative synergies - and therefore a sharing of added value - between creators and producers, in order to rebalance the power of distributors and search engines - who claim to know everything about demand and to manage it in their best interests.

1- SLF, GfK, Kurt Salmon analysis. 2- CNC, GfK, Kurt Salmon analysis. 3- Result of the survey conducted by Kurt Salmon.
The return of... collaborative borders

Even if the rise in consumer power or the mastery of Big data by distributors are recent phenomena, the indispensable impetus is the urgent need for an active transnational regulatory and fiscal regime that is responsible for animating, streamlining and protecting - if necessary. This is the essential strategic dimension of cultural exception: the plurality of players and the diversity of creation.

In the face of digital powers, which are, it’s true, by their very nature delocalised though “national” in their governance, guardianship and potential instrumentalisation (cf. the PRISM affair), a collective regulatory response equal to the challenges is paramount. There is a risk of cultural trivialisation and non-respect of privacy — in the name of satisfying a demand created from scratch and of a technology without safeguards; a risk of instrumentalising creators and individuals unaccountable in any territory; and a risk of not contributing to any funding of creation, such as public services used for the sake of tax freedom without borders.

Throughout the relationship between players in the value chain, between too much and not enough competition, between too much and not enough regulation, between too much and not enough tax, Kurt Salmon tells us that the real issue for a virtuous ecosystem lies in developing a network of small and medium enterprises related to creation (from collaborative exploitation of Big data’s cultural data... to animated films and video games, from artists to theatre groups, designers to local event companies...), so many feet in the door for young people in demand to create.

Sharing value, a matter for States

“This sharing of value is not only a sharing between industry leaders, between networks and content, between networks and services, between services and content”, warns a recent report by the Centre d’analyse stratégique published in June 20134 to general indifference. “But also a sharing between nations for strategic control of these activities, their industrial control and fiscal control”. Territorial issues are enormous; in jobs, regional development and national outreach. There is not an industrial player nor a State that doesn’t seek to establish its power by using culture for its own benefit and by actually pushing its champions to dominate all or part of the value chain.

Europe, wake up on behalf of creators! It is Europe - after regrettable procrastination around cultural exception - that must show the way in financing creation and respecting a certain idea of privacy. Beyond following needed and concrete fiscal and regulatory paths, the role of the Forum d’Avignon is also to recall that culture is the essence of human kind. Economic activity, yes, but attention to the values conveyed by culture - and to their respect.

Laure Kaltenbach, CEO and Olivier Le Guay, editorial manager, Forum d’Avignon

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4- The dynamics of the internet. 2030 Forecast, Strategic Analysis Centre, June 2013.
Are we heading towards a new balance of power in the Cultural and Creative Industries?

1995: Amazon launches its website. 1999: Napster allows for the exchange of music online. 2001: Apple introduces the iPod. 2007: the Kindle arrives on the market and Netflix enters VOD... In nearly 20 years, digital technology, along with its associated technological developments, has drastically changed the way we consume and distribute cultural content.

Today, the whole balance between all the players in the value chain has taken on an entirely new form. After a period of high volatility, during which many players appeared and disappeared, markets are only just beginning to digest these revolutions and gradually mature. So, this seemed the right moment to draw up an overview of the new forces in place and to consider how new balances can be found that benefit the whole sector.

According to Unesco, the Cultural and Creative Industries (CCI) bring together the “sectors of activity having as their principal objective the creation, development, production, reproduction, dissemination or marketing of goods, services and activities that have cultural, artistic and/or heritage-based content”. From our point of view, analysing the CCIs as a whole would have proven quite difficult, due to the extent and diversity of the field of study.

Consequently, we chose to focus our analysis only on editorial content: the Book, Music, Film and Video Games industries.

In this “narrow” cultural sector, we sought to discover who today held the reins: how is the new balance between authors, producers, distributors and consumers taking shape under the influence of which developments?

More fundamentally, are we actually witnessing a revolution within the CCI value chain, or simply minor changes?

Moreover, beyond making a prospective analysis of these four industries, this study aims to suggest lines of enquiry that will ensure lasting and virtuous development of the CCIs, one that guarantees the plurality of participants and the diversity of content.
Editorial  From the value chain... to cultural values

Introduction  Are we heading towards a new balance of power in the Cultural and Creative Industries?

Cultural and Creative Industries: an ever-growing economic force

Creative opportunities enhanced by the Internet

The new-generation producer
The distributor, a player in continual development

The consumer, master of the offer?

Public authorities, an orchestral conductor’s power

Summary and outlook

Appendices
Cultural and Creative Industries: an ever-growing economic force

It is believed culture is in crisis... Not so!

In 2008, the Cultural and Creative Industries accounted worldwide, according to sources, for between $1,700 billion (Unesco) and $2,700 billion (ERSA) - or between 3.8% and 6.1% of global GDP - and almost 40 million jobs. As for content traded, this amounted to $424 billion and contributed 3.4% of total world trade.¹

The annual growth of international trade in cultural and creative products reached 8.7%, a rate much higher than world growth, which was 3% according to the OECD.

A global market which, after a period of stagnation, returned to growth thanks to three main levers...

At a global level, the Book, Music, Film and Video Games industries alone accounted for $410 billion. Contrary to popular opinion, these industries are not in crisis. Granted, over the past five years they have experienced a phase of stagnation globally, with an average annual growth rate of zero. However, on the basis of Kurt Salmon’s growth forecasts, these four industries are heading, from 2013, towards average growth of 5% per year by 2017. This growth will be primarily driven by three key factors:
An explosion in the number of connected terminals: there will be more than 8 billion worldwide in 2017, against 2 billion today. That will be through a multiplication in the moments of consumption as well as new uses.

The growing importance of new digital forms of monetisation, linked to market maturity, which allow for income diversification: implementing business models for streaming and legal downloading now provides revenue generation from advertising, subscriptions or one-off transactions. These models partly offset the reduction in sales of physical products. They also reduce piracy: the number of music “pirates” fell worldwide by 17% between 2011 and 2012 and the volume of music content downloaded illegally declined by 26%.

The rise of emerging economies that are becoming producers as well as consumers. The size of the market increases as a result of the expansion of borders. For example, India now produces nearly two times more films than the United States for a triple consumption potential and represents almost 20% of the film market in terms of volume. India has also begun to open up to the world of cinema: the number of foreign films certified by the Central Board of Film Certification (on the big screen and in video) increased by 5% between 2010 and 2011. Similarly, China represents a strong potential consumption: nine new cinemas open every day in the country, or more than 3,000 per year.

Evolution of Indian and US film production (in number of films)

<table>
<thead>
<tr>
<th>Year</th>
<th>India</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>789</td>
<td>1,040</td>
</tr>
<tr>
<td>2008</td>
<td>773</td>
<td>1,110</td>
</tr>
<tr>
<td>2009</td>
<td>751</td>
<td>1,288</td>
</tr>
<tr>
<td>2010</td>
<td>795</td>
<td>1,274</td>
</tr>
<tr>
<td>2011</td>
<td>817</td>
<td>1,255</td>
</tr>
</tbody>
</table>

“Digital players are the solution to certain abuses: legal streaming platforms have had a very positive impact on the decline of piracy”, Xavier Troussard, European Commission

... despite contrasting sector-specific developments

Each of the four industries surveyed saw specific developments. Their growth is driven not only by the three key factors cited above but also by their own individual development:

Since 2007, the Book market has experienced a notable yearly average decrease of 4% per year, due to a fall in global readership estimated at about 10% over the past 10 years. Today, the market has stabilised at around -1% per year but prospects are showing signs of being more encouraging for the next five years: an average annual growth of about 2% is expected. This recovery is explained by the breakthrough of digital books, which are expected to represent 22% of global book sales in 2017. Their development will continue at a rate in line with that of tablets, smartphones or eReaders: it is estimated that all “digital reading devices” will multiply six-fold between 2011 and 2016.

7- Data Bowker. 8- Entertainment & Media Outlook 2012, PwC. 9- Gartner institute.
• **The Music market**, more “digitally mature”, was the first to feel the impacts of digital technology and illegal downloading. This can be explained mainly by its content, namely simple and easily-transmittable formats. Its situation is actually not as serious as one might think. Over the past five years, live performances have helped the sector grow at a global level by an average of 1% per year. This rate now stands at 3% per year and growth prospects are positive, even for recorded music, as digital sales will gradually offset the decline of physical sales. Economic model stabilisation allows, on the one hand, for the monetisation of content and, on the other, for access to new markets that do not benefit from structured distribution networks but rather pass directly to digital media.

• **Meanwhile, the Video Games industry has posted a very solid average yearly growth rate of 3% since 2007.** Technology, as an integral part of this universe, was seen at the outset as an opportunity rather than a threat. A further strong point: the widening of target players with the introduction on the market of “new-generation” consoles and accessories suitable for the whole family (Wii, Kinect...): Women, young children and the elderly are now players “just like any others”. If 2012 was an exceptional year of growth (+22%), it is as much due to the increase in the number of connected terminals as it is to the explosion in female consumption – 47% of gamers worldwide\(^{10}\) are now female compared with fewer than 35% in 2006.\(^{11}\) For the next five years, **growth prospects in the sector remain significant: some 9% annually.** The market will continue to expand, but above all it will be mobile use that will power its growth. Thus, “smartphone owners spend 49% of their time playing”, explains Nicolas Gaume, President of SNJV, “and up to half of the apps that come out each week are games”.

• **Finally, Cinema has grown by 3%**, thanks to the rise of production volume in emerging economies. Of note, India (most prolific producer in the world), China and Nigeria (3rd most prolific producer in the world): at the same time, these markets have opened up. As a result, the Chinese market for American cinema grew by 35% between 2011 and 2012 and is on track to overtake the domestic market in 2018.\(^{12}\) Globally, the sector has also benefited from the advent of legal streaming and the development of VoD (Video on Demand). Declines in DVD sales have been partially offset by VoD and EST (Electronic Sell-Through - the purchase of a film in digital format). Today, **the sector is experiencing moderate growth of 3% per year**, a figure which is projected to reach **4% a year in**

\(^{10}\) Entertainment Software Association.  \(^{11}\) Gamers 2006.  \(^{12}\) MPAA.
The coming years. It is estimated that VoD, SVoD (subscription video on demand) and EST will grow by up to 396% by 2016 in France.\footnote{GfK 2011.} This growth could increase further with the development of SVoD worldwide. Netflix (See Evolution on previous page) will be able to stimulate this movement: very North American today, it should double its number of subscribers and triple its turnover by 2017.

A similarity between the Cultural and Creative Industries: one common value chain within which “power” is distributed

The varied developments experienced by these four sectors are reflected in the diversity of their value chains: a more or less large number of people involved, relatively advanced relationships with technology,...

<table>
<thead>
<tr>
<th>Book Industry value chain</th>
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<tbody>
<tr>
<td>Author</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Ecosystem of intermediaries: Production, promotion et flows management between publisher and retailer</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Music Industry value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composer</td>
</tr>
<tr>
<td>Interpreter</td>
</tr>
<tr>
<td>Distributed</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Video Games Industry value chain</th>
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</thead>
<tbody>
<tr>
<td>Developer</td>
</tr>
<tr>
<td>Studio</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Cinema and Video Industry value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Writer</td>
</tr>
<tr>
<td>Director</td>
</tr>
</tbody>
</table>

Link(s) specific to each value chain
However, to facilitate the exercise, we chose to identify a common value chain which is structured around four key stages (1-4), supported by two transverse players (5):

The real difference between our four sectors actually lies in their nature: we wanted to distinguish between the highly capital-intensive sectors of Cinema and Video Games, and those sectors that are less capital-intensive intensive, Music and Books.

We chose to analyse each of the four main blocks of this value chain - features, development, forces - but also to devote a final part to the block of transverse players.
A wealth of tools at the disposal of the creator

Creators have never had so many tools at their disposal for maintaining a direct relationship with their audience and managing the entire value chain: from production to sale, by way of promotion and circulation.

Everyone can now use professional tools - Protools, Ableton Live or simply desktop tools - to create their own music. Self-production remains trickier in the Cinema sector, despite the rise of digital cameras for achieving quality films, as well as the ease of use of Windows Movie Maker. As for Video Games, multiple “game makers” are available for creating a customised game from a generic game type, such as Adventure Game Studio (adventure games), or MUGEN (fighting games). All these very intuitive tools are experiencing great success. A study by ADAMI, a French special-interest group for the Administration of the Rights of Artists and Musicians,

“Any author has the right to publish a book and readers should have the freedom to decide which books deserve to be read”, Mark Coker, Founder of Smashwords, self-publishing and eBooks distribution platform
indicates, for example, that 45% of artists in the association made at least one recording via self-production between 2005 and 2008. This figure approached 60% between 2008 and 2010. In France still, it is estimated that self-publishing has been increasing by 30% a year since 2004.

**Dissemination tools are also growing**, such as, for example, Soundcloud for music, Lulu.com or Smashwords for books. Social networks offer artists a new window of visibility and have become a marketing tool. Video games in particular make considerable use of these networks, allowing the public to test games. The web has therefore become a laboratory for testing and developing new products and even business models. Finally, some tools allow for “buying” fans to help in page launches and attract more people more quickly. This is particularly true of Faceboost, which offers different packs, integrating more or less fans.

**Commercial distribution tools are developing just as much.** Some platforms specialise in self-distribution, such as Beatport for music or Selfprod for music, books and audiovisual media. Others have adopted a more generalist approach like Amazon, which offers anyone the possibility to place their book on the marketplace, or Chapitre.com or Numilog for eBooks. Physical distributors are also allowing for self-production, in particular Fnac, which offers a music albums consignment model.

**Some players provide services that combine several stages.** Musicast allows for the simultaneous production of albums (CD, vinyl and DVD) and their distribution to the main downloading and streaming platforms (iTunes, Google Play, Deezer, Spotify, Shazam, Beatport...), as well as access to a network of 400 stores in France (Cultura, Fnac, Leclerc Espaces Culturels, independent record stores) and major E-commerce sites (Amazon.com, hiphopvinyl.de, fnac.com...). Similarly, Wiseband offers album manufacturing but also posters and merchandising elements, digital distribution on major platforms and support for creating and managing fan bases and ensuring effective promotions. Not to mention stock management and support for analysing and managing sales and royalties.

Here we see our dichotomy between the highly capital-intensive sectors - Film and Video Games - and the less capital-intensive sectors - Music and Books. Indeed, even if tools are developed for the four sectors, when budgets are taken into account, it remains difficult to create a film or video game with commercial potential using only these tools.

1- The artist-producer in France in 2008, ADAMI.  
An opportunity for creators to get closer to their audience

If creators, then, can count on new tools to access their public, they can also count on their public to interact with them. Thus, according to our international survey, 64% of consumers expressed a readiness to buy directly from an artist, with 78% of those who had already tried stating they would do it again.

Tools that do not jeopardise traditional players...

However, the availability of these “Do It Yourself” tools is not enough to make self-production a real alternative to traditional production and distribution processes. Granted, digital technology has enabled a few international stars to emerge, such as Justin Bieber getting discovered on Youtube and today signed with Universal Music, or E.L James, author of Fifty Shades of Grey, who signed with Penguin House after the success of her blog. But these creators or artists have quickly integrated into the classical circuit to gain visibility and security. Thus, 74.4% of self-producing artists in the world of music do so, not by conviction, but to overcome the difficulties of getting access to the major producers.3 So, self-production in the broad sense, including diffusion and distribution, remains first and foremost a tool for trying to gain access to the traditional circuit, which is still considered the “Royal Road” for building up artistic credibility.

Similarly, some established stars have attempted the “alternative” experience but then returned to the traditional circuit, either to take advantage of the skills of producers or to find time to create. Thus, Trent Reznor, leader of NIN (Nine Inch Nails) group, after leaving Universal in 2007 and being self-produced ever since, subsequently decided to sign with Sony Music for his new group How to Destroy Angels. According to him, signing with "A traditional publisher allows me to reach more readers, who will then want to read my other creations, even self-published ones", Kerry Wilkinson, English self-publishing author who ended up signing with MacMillan

3-The artist-producer in France in 2008, ADAMI.
a record label involves a certain loss of control and a priori a less favourable cut of the profits for the artist. But it is also the way for the artist to have a competent partner principally in terms of marketing, capable of ensuring efficient distribution and international exposure. “An artist spends 90% of his time creating”, says Guillaume Quelet, Digital Director at Sony Music France. “With the DIY model, the ratio is completely inverted and the artist spends most of his time managing his career. This is why artists still need a producer”.

In the end, these tools do not guarantee commercial and financial success. So, 10% of self-publishing authors would receive 75% of the royalties⁴ and average total income per book would not exceed $25.⁵ As for music, Believe would claim more than 2 million titles in its database for a market share of 5%, whereas Sony Music France has a 20% market share with “only” 500,000 titles.⁶ For Video Games, self-production involves the web and social gaming: models based on a free economy. Thus, Farmville, one of the major games in this market, brings together each month 250 million players... of whom only 1% to 3% pay to play.

… and which may hinder the emergence of young talent

Digital technology results in a shortening of the life-cycle of cultural products, even though they can now be accessible for longer, and in a dispersion of the audience in both number and quality, because of the multitude of content and screens. Thus, for example, 81% of Americans use their smartphone while watching television.⁷ This works against the emergence of young talent: digital technology is not enough to make a living. It certainly offers a wide range of opportunities but does not increase chances: there is instead a “Kleenex” phenomenon. “The monetisation of future artists is very difficult”, says Pierre Lescure, journalist and President of the Mission - Culture Act II. He adds: “Disintermediation does not serve creation: true, a structure will never make a talent, but talent needs a structure”.


The tools offered to artists by digital technology give an impression of ease regarding self-production. But they cater mainly to amateurs whose goal is not to make a living out of their art. We are therefore not seeing a questioning the role of the producer; the artist always needs to be accompanied and supported to be able to devote himself to creation. What has changed, is the producers’ modus operandi.
The new-generation producer

Continuous instability for the past five years

During these past five years, the job of producer has been strongly disrupted by digital technology. The profession has had to reinvent itself.

It has been possible for different strategies to be implemented, and even combined, to adapt to the discontinuities generated by digital technology.

- **Restructuring.** To deal with the new requirements and new forms of competition, many companies have embarked on a policy of cost reduction, especially reducing their payroll. Thus, piracy is thought to have destroyed nearly 190,000 jobs and €10 billion in the Music, Cinema and Television industry in the European Union since 2008. By 2015, it is estimated that these losses will reach 1.2 million jobs and €240 billion. The video games company Electronic Arts (EA) is planning in 2013 to get rid of 200 jobs in Montreal, 50 in India and 20 in Ireland. EMI Music Group got rid

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1-2 Study of TERA - ‘Building a digital economy: The importance of saving jobs in the EU’s creative industries’ - BASCAP 2010. 3- ‘Playfish future in doubt as EA axes more Facebook games’, Rob Crossley, April, 2013, cvg.com
of 1,500 positions, or 20% of its “Disc” workforce, during its 2004 restructuring; the same year, Warner Music announced 1,000 job cuts, also 20% of its workforce. Such restructuring may also include the outsourcing of some departments that are not at the heart of a company’s business, such as accounting and general services...

However, this concentration does not prevent a plurality of players. The Video Games sector in particular continues to attract entrepreneurs. In France, 75% of companies in the sector have fewer than 20 employees and more than 20 new companies were created in the first half of 2011 alone. In the Music sector, the “majors” are directly involved in financing the sector and independent labels: they control “only” 45% of the French market, compared with 40% for independent labels. The remaining 15% are independent producers under licensing agreements with a major. Similarly, publishing remains a market open to “small” players: in the United States, there are about 2,000 publishers. Finally, the Cinema sector is characterised by a multitude of participants that are growing around the big studios to create an ecosystem unique to each film. This persistence in the plurality of players owes much to the vitality of the local market, especially for the Music and Book sectors: on average in each country, 60% of the Music market

**The concentration** of players to reach critical mass in the face of new global distribution players. In the Book sector, the ongoing merger between Penguin and Random House should create a player controlling 25% of the market for books published in English. In the Video Games sector, the merger between Activision and Vivendi Games in 2008 gave birth to Activision-Blizzard, the world leader in video game publishing, controlling nearly 20% of market. The Music sector has traditionally been highly concentrated: the 3 “majors” – Universal Music, Warner Music and Sony Music - hold nearly 74% of the world market. This situation has resulted from large-scale concentration movements, notably the Sony-BMG merger and the acquisition of EMI by Universal Music, currently being finalised following the requirements of the European Commission. Finally, Cinema is not immune to the phenomenon: seven studios control 70% of the market.

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4- “EMI : nouveau plan de restructuration”, Grégoire Poussielgue, Les Echos, 01/04/04. 5- “Warner’s big ax - music group to cut 1,000 jobs in restructuring”, Tim Arango & Erica Copulsky, New York Post, March 1, 2004. 6- SNJV. 7- Literary Market Place.
and 75% of the Book market is domestic... meaning the need for local players that are in touch with their locality. An exception to this principle is the Video Games sector, which is traditionally over 80% international.

- Implementing income diversification strategies. Sales prices fell by between 20% and 50% with the arrival of digital technology. If we add to this decrease the effects of piracy, we can consider that, with the arrival of digital technology, the Music sector has lost 60% of its margins. Hence the search for new sources of income, in all industries, especially Music. As an example, the sale of musical themes to commercials and films already represents 20% to 30% of Universal Music Publishing’s revenues. Another way is product placement in films or clips. A dozen brands are shown in Lady Gaga’s Telephone clip. Universal has created a subsidiary, Universal Music & Brand, to develop these new types of income. This structure, thanks notably to partnerships with Ibis hotels, HP and Société Générale, now represents 15% of Universal Music’s activity in France. The American Cinema sector is thought to generate more than $1.2 billion of placement revenue each year. In the Video Games and Book markets, finding new sources of income involves developing digital players that are able to capitalise on new trends. Which brings us to the following strategy.

The acquisition, or development, of digital players to master new challenges. Buying out expert entities provides access to new markets more quickly, without jeopardising core business. This is the strategy followed by EA, which bought out Playfish in 2009 to grow on social networks and PopCap Games in 2011 for social and mobile games. While the jury is still out on the purchase of Playfish, the prospects for PopCap Games seem more encouraging: 3 million players daily use Bejeweled Blitz, their flagship creation. In the publishing sector, the Pearson Group acquired, in July 2012, Author Solutions, the world leader in self-publishing services. This acquisition will make it possible to develop synergies between Author Solutions and Penguin, a subsidiary of the Pearson group. Penguin thus acquires a leadership position in the self-publishing market and Author Solutions benefits from the traditional publisher’s expertise in commercial and international strategies. Taking a position in the digital market may also involve developing internal structures. That was Simon & Schuster’s choice when they launched Archway Publishing in November, 2012. It is a site specialising in “premium” self-publishing. It offers: services such as integrating titles in a national catalogue, video services, marketing support... and even a concierge service, which can offer authors a unique contact that will accompany them throughout the creation and promotion of their work. Activision-Blizzard has also opted for the development of an internal structure: Activate, a social-gaming platform that was announced at the end of 2012. Three elements were key to building this offer: the richness of the Activision-Blizzard catalogue with strong brands like Diablo, Guitar Hero and Call of Duty; synergy between the game and the physical toys associated with each licence; and of course a convergence with Facebook via the use of common identifiers.

The adoption of new digital business models. After a long period of reticence, this strategy has also allowed producers to diversify their income through streaming and downloads. Today, these two circulation methods represent 35% of revenue from recorded music, against 20% in 2008.
Deezer’s turnover grew by 88% between 2009 and 2011. A striking illustration of this movement are two ongoing agreements. First, between Apple and the 3 Music “majors” for the launch of iTunes Radio. Second, the agreement between Google and these same 3 majors for the launch of Play Music All Access, a service only currently available in the U.S. but which could quickly become established in the European market. Apple and Google thus occupy a very promising position in the streaming market, in anticipation of the slowing of downloads. iTunes Radio will offer a model very close to that of Pandora. This means that the ability to listen to free radio stations and to create a customised station, according to titles listened to via streaming or purchased on iTunes Play Music All Access, takes the form of Deezer and Spotify: paid listening for specific titles. Similarly, American and French publishers have signed an agreement with Google Books to agree on issues of copyright and the digitisation of their catalogues - notably on the provision of unavailable works. Such an agreement is particularly essential for smaller players. For them, providing visibility across their entire catalogue is easier on a digital platform than in stores, where, as shelf space is reduced, less “mainstream” products are becoming scarce. That is in any case the perception of Luc Babeau, Commercial Music Director at Harmonia Mundi: “Digital technology enriches our position because it allows catalogues to have a broader presence. Today, our 10,000 physical entries are available on Amazon or Fnac.com and a good proportion are available as digital downloads on iTunes or Qobuz”.

The adoption of new tools to detect talent at lower risk. Tools at the disposal of creators certainly allow them to gain visibility, but they also allow producers to limit risk using digital technology to carry out genuine market research. “A successful crowd-funding campaign is a good instrument for reassuring investors”, says Virginie Civrais, Managing Director of St’Art. “Success on a crowd-funding or self-publishing platform is now an advantageous complement to a market study”. Similarly, producers may use crowd-funding to directly test the public’s appetite for a project. This is, for example, the approach taken by Warner Bros for the film adaption of the Veronica Mars series. Rob Thomas, the screenwriter, had long been keen to get this film made. To obtain agreement for production, he decided to put the project on Kickstarter. Just 24 hours
later, he had raised $2.5 million. Above all, he had convinced Warner to fund his project, having demonstrated the public’s interest for the future film. These tools can thus detect talent, test audiences but also ensure artists are promoted at a lower cost, or even implement marketing approaches through social networks. Promotion is now done not only on the radio for the Music sector, in the press for the Book sector and in the cinema for Films, but also and especially on social networks, whether Youtube, Twitter or Facebook. “The internet has created an additional window that moves fast and that is very powerful. It has to be used as a tool: it makes it possible to switch from the mass market, via radio and TV, to one-on-one with the consumer”, says Olivier Montfort, President of EMI Music France. New tools limit risk-taking and the level of investment; above all, they have helped develop producers’ methods.

Some rather fortunate producers in the face of the digital revolution

Despite all these developments, producers remain the players in the value chain that capture the largest share of revenues. Of course, prices have fallen overall. But at the same time, the weight of intermediaries, especially in the realm of logistics (carriers, media manufacturers) has declined sharply. As this has happened, producers have been able to recover an additional share of revenues, partially offsetting the decline in prices. For their part, Book and Music distributors have not seen their share increase. In the world of Video Games and DVDs, it has even decreased by about 20 points. Producers therefore seem to do well in terms of revenue. But, because of the lower prices, they must sell twice as much to achieve the same margins.

Distribution of revenue by media type in France in 2012 (in % of the price excl. VAT)

<table>
<thead>
<tr>
<th></th>
<th>Artists</th>
<th>Producers</th>
<th>Intermediaries</th>
<th>Distributors</th>
<th>Consumers (prices excl. VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10%</td>
<td>30%</td>
<td>48%</td>
<td></td>
<td>€10.90</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>48%</td>
<td>30%</td>
<td></td>
<td><strong>5.70</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>36%</td>
<td>28%</td>
<td>21%</td>
<td>€10.30</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>40%</td>
<td>21%</td>
<td>29%</td>
<td>€8.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>15%</td>
<td>25%</td>
<td>10%</td>
<td>50%</td>
<td>€29.90</td>
</tr>
<tr>
<td>Creation team</td>
<td>20%</td>
<td>40%</td>
<td>30%</td>
<td></td>
<td>€24.10</td>
</tr>
<tr>
<td>In most cases, creation and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>production are integrated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>into the same structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>17%</td>
<td>48%</td>
<td>18%</td>
<td>€10.20</td>
</tr>
<tr>
<td></td>
<td>4%</td>
<td>18%</td>
<td>30%</td>
<td></td>
<td>€5.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Carrier, manufacturer, printer, aggregator...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>** Average based on the Kindle Top 100.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Even if producers have had to reinvent themselves with the arrival of digital technology and must today deal with new constraints, they remain indispensable and legitimate players, able to find new sources of revenue, create new business models and minimise their risks. Whoever holds on to power tomorrow will always be the one that provides visibility to the artist. This will remain the producers’ role with these new tools at their disposal. Their contacts on the distribution side have experienced significant discontinuities: while the structure of the market may not have changed - the market remains concentrated in the hands of a few powerful players in each country - it has nevertheless globalised.
The distributor, a player in continual development

Will digital media completely supersede physical products?

The distribution of cultural products is following the same trend as all e-commerce: 18% of cultural product sales are today made on the internet.¹ This is a trend that has accelerated over the past five years by the digitalisation of certain products, in particular the Music and Book sectors, the Video Games sector having adopted this form from its earliest beginnings. This trend is expected to continue: it is thought that by 2018, 80% of Video Games, 60% of Music and 20% of Books will be purchased in digital format. Cinema is likely to remain a sector apart, because of the particularity of its exploitation in public venues.

¹- FEVAD.
The development of e-commerce, through the emergence of new players, has resulted in a restructuring of physical distribution and of its traditional players. There has been a widespread increase in store closures: 700 record shops have closed over 10 years in the UK, 2,000 bookshops have disappeared in the United States since the launch of Amazon and 1,100 bookshops ceased to exist in France between 2010 and 2012. This is a trend that has also affected specialised distributors: thus HMV, the British equivalent...
of Fnac, announced the closure of 22 stores in the UK in 2013.

However, some professionals, such as Frédéric Becquart, Director of Strategy at Cultura, think that physical distribution will always continue: “Most publishers agree that e-commerce will never represent 100% of the distribution of physical cultural products. There will be a ceiling around 30% to 40%”, he maintains.

This analysis is consistent with the results of our investigation: **33% of respondents told us they want to continue to buy in-store** in 5 years’ time.

### Changes in consumption patterns between now and in five years’ time

<table>
<thead>
<tr>
<th></th>
<th>Today</th>
<th>In 5 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital purchases</td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td>Physical purchases on e-commerce website</td>
<td>32%</td>
<td>36%</td>
</tr>
<tr>
<td>Physical purchases in physical shops</td>
<td>50%</td>
<td>61%</td>
</tr>
</tbody>
</table>

Source: Questionnaire, Kurt Salmon analysis - consolidated data for our scope of inquiry (China, USA, France, India)

A concentration of the digital technology market around global players

However, the distribution of digital media is structured around dominant players in their respective markets. Each sector was initially in the hands of a single player: Apple for Music, Amazon for Books, Steam for PC Video Games. The markets then opened up with the arrival of key players from other cultural worlds.

This domination by major global players, linked to the growing advance of digital media, presents risks: these dominant monopolistic positions may result in abuse which could prejudicially affect several actors:  

- The consumer: risk of price-fixing or setting unfair transaction conditions (geographic discrimination, differing fidelity bonuses...), even a limitation of technological development.

- Other distributors: dumping, refusal to license...

- Producers: application of dissimilar conditions for equivalent transactions, restrictions on trade relations for refusal to accept unfounded trade conditions...

This semi-monopoly situation has allowed these players to establish themselves from the outset as the only available partners of producers wishing to ensure efficient distribution of their productions in digital version. It is a relationship that is all the more unbalanced because the rules have changed in 5 years’ time.

changed. “Today, we are in a systemic, international relationship based on volume and algorithms that dictate how things are arranged”, is the analysis of Nicolas Gaume, President of SNJV. The market for the distribution of digital products therefore works according to rules that are no longer human, but mathematical.

**However, the dominant position of each player has to be altered as new entrants come to challenge them:** Google, via Google Play and Google Books for example, or Deezer, or Spotify... Apple, whose dominance is due to an integrated strategy and the remarkable success of its connected terminals, experiences competition from Samsung. The latter should mechanically reduce the market share of the Apple brand for the benefit of non-integrated alternative platforms. Despite Apple remaining the tablet leader, with approximately 40% of the market share in the first quarter of 2013, Samsung has taken the lead in the smartphone market: in 2012, the South Korean company held a 32% market share, against 21% for Apple. For 2013, the consultancy Strategy Analytics suggests a 38% market share for Samsung, with 19% for Apple.

The Apple strategy was adopted by Amazon on the Book market with the Kindle. Launched in 2007 in the United States and internationally in 2009, the Kindle was Amazon’s major tool in becoming the Number 1 global eBooks distributor. It is estimated today that nearly 35 million Kindles are in circulation worldwide, representing 55% of the market. Some physical distributors have attempted to copy this strategy, with, to date, mixed success:

- The Kobo by Fnac: following the failure of the Fnacbook in early 2011 (14,000 copies sold in 6 months and a technical partner in receivership), Fnac partnered with Canadian company Kobo to launch Kobo by Fnac at the end of 2011. As many Kobos were sold in two weeks as Fnacbooks in a year; no fewer that 30,000 units. Kobo today holds a 20% global market share in eReaders.

- The Barnes & Noble Nook: Whereas Fnac eventually chose not to produce its own eReader internally, Barnes & Noble did develop its own product. Some 5 million Nooks have been sold, to achieve a market share of about 10%. In May 2013, Microsoft acquired this product in order to gain a foothold in the market from which it was totally absent. For its part, Barnes has refocused on its

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3- The IDC research firm figures. 4- Kindle Nation Daily. 5- Alexandre Bompard remarked in La Tribune, “A good start for Kobo, the eReader by Fnac”, January, 2012. 6- Digitimes.
core business: content. But, despite its technical qualities, the Nook has been unable to compete successfully against the Kindle in its domestic market.

There is, however, a particularly interesting initiative in Germany: Tolino. Launched in 2013, Tolino exactly copies the iTunes model. It is a platform that also offers a device, the Tolino Shine eReader. Several major players have signed a partnership with Tolino, including Thalia, the German equivalent of Fnac, Weltbild, a cultural e-commerce site, and even the operator Deutsche Telekom. Their goal: to create a “European Amazon”. Whether a European response to the American giants is still possible today remains to be seen.

Physical distributors: an obligation to re-invent

Even if our consumers say they want to remain faithful to the shops, the share of digital distribution continues to grow... As there are risks associated with strengthening the already dominant platforms - closed ecosystem, control over consumer relations, price increases... - physical distributors thus have some trumps to play. Provided, that is, that they can answer two major questions:

- Their ability to become credible e-commerce players. Refusing this method of distribution is to shoot yourself in the foot before even beginning. Thus, Virgin in France decided to develop a website for information and not for sales;
- Their ability to re-invent the customer experience at the point of sale. For Frédéric Becquart, Director of Strategy at Cultura, distributors must “rely on
sharing a passion, the coming together of artists and consumers to provide a unique experience”. He adds: “The internet should be a tool to offer the customer the widest and richest offer possible, but it should complement rather than replace the physical shop experience”.

“In the face of diverse consumer behaviour, offers to consumers must be inherently diverse”, Georges Sanerot, CEO of Bayard Group

Keeping a physical distribution presence not only preserves jobs. It also provides support for consumption and creation: according to Axel Dauchez, President of Deezer, “Preserving creation involves maintaining local distribution. At a European level, this distribution can be thought to have more strength against the American giants”.

One final issue, no less important, seems lost on distributors: tax harmonisation, to provide a level playing field for all players. So far, in the United States, e-commerce have not been taxed on sales. This advantage was strongly questioned in May 2013, with the voting into law of the Marketplace Fairness Act, which imposes a federal tax on pure players registering more than one million transactions per year. This law seeks not only to harmonise rules between distributors but also to limit the phenomenon of “showrooming”: using a mobile in-store to compare products and then buying them cheaper online. If all distributors are subject to the same taxes, price differences should be reduced. This last point leads us naturally to ask the question of how the position of the consumer has changed with the arrival of digital technology.
The consumer, master of the offer?

Developments for the benefit of consumers and new opportunities

The consumer seems to be the big winner with the arrival of digital technology: 24/7 product access, a richer catalogue, falling prices,... Everything is going in the direction of increased purchasing power and an ever-growing extent of choice.

Just like the artist, the consumer also has tools that enable him to become a creator, producer, or even broadcaster or critic. According to Kostas Rossoglou, Senior Legal Officer at the European Consumer Organisation, “Thanks to digital technology, the consumer has found a place in the value chain. He is no longer there just to make a purchase; he can choose how and what to purchase.”
Collaborative creation, a new way of consuming culture

So, the consumer can become a player with his own share in creation, notably thanks to all-digital platforms like HitRecord. This “collaborative production platform”, created by the actor Joseph Gordon-Levitt, offers everyone the opportunity to post their “work”. Then, all HitRecord community members are free to participate in the project (video, audio, graphic, literary) and to mix it with others to create a different work, based on their skills or desires. The platform then accompanies projects, mainly musical and literary ones, for distribution at festivals, on tours and, more recently, via an internally managed web-TV. Generated revenues are primarily used to cushion the costs of investment and participate in financing new projects. If, however, a project generates profits, revenues are divided 50-50 between the platform and the contributing artists. But so far none of these projects have taken off, giving collaborative creation an image as experimental creation. So, while the consumer can participate, he does not became a creator in the same way as a professional.

“The interest of these participatory experiences is not so much a commercial success as it is the discovery of new talents!”, Anne Barrère, Producer

Crowdfunding, a tool that does not replace conventional financing

The consumer may also participate in the emergence of tomorrow’s artists via crowdfunding. There are now more than 500 platforms specialising in this area, 90% of them having emerged since 2008. The sector is growing strongly – by +81% between 2011 and 2012 - and growth prospects over the next five years remain strong. However, certain issues, legal in particular, remain unresolved. How can users of and contributors to projects be protected when it comes to taking shares? The United States signed the JOBS (Jumpstart Our Business Startups) Act in 2012 to ease the rules for public offerings and simplify the status of platforms. In France, the regulatory framework is also due to be relaxed by the end of 2013. This legal clarification should reassure users, including individuals, who are showing a certain appetite for this system.

Confirming what Michael Goldman claims, our investigation shows that individuals are actually willing to play the game. Some 45% of respondents declare their readiness to finance or co-finance an artist or a work, and two-thirds of those who have already tried it would do it again. While the situations differ between the four countries, this intention is shared by more than one-quarter of respondents.

“The rise of crowdfunding responds not only to a funding crisis but above all to a desire by the consumer to become proactive”, Michael Goldman, Co-founder and President of MyMajorCompany

1- Crowdsourcing.org
### Different types of crowdfunding

<table>
<thead>
<tr>
<th>Definition</th>
<th>Weight en 2012</th>
<th>Evolution 2011-2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>&quot;Donation-based&quot; platforms</td>
<td><strong>34%</strong></td>
<td>+57%</td>
</tr>
<tr>
<td>• No contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Charity and sponsorship programs; artistic projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Reward-based&quot; platforms</td>
<td><strong>9%</strong></td>
<td>+323%</td>
</tr>
<tr>
<td>• Consideration in kind depending on the investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Artistic projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Equity&quot; platforms</td>
<td><strong>16%</strong></td>
<td>+317%</td>
</tr>
<tr>
<td>• Equity in exchange for financial contribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td>&quot;Lending-based&quot; platforms</td>
<td><strong>41%</strong></td>
<td>+75%</td>
</tr>
<tr>
<td>• Loan between individuals, microcredit, loan to companies...</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Interest among consumers in financing or co-financing an artist or a work

<table>
<thead>
<tr>
<th>Country</th>
<th>Yes, and I would do it again</th>
<th>No, but I would give it a Go</th>
<th>Yes, and I would not do it again</th>
<th>No, and I would not do it</th>
<th>I do not see the point</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td><strong>51%</strong></td>
<td>5%</td>
<td>2%</td>
<td>11%</td>
<td>12%</td>
</tr>
<tr>
<td>US</td>
<td><strong>30%</strong></td>
<td>5%</td>
<td>43%</td>
<td>10%</td>
<td>12%</td>
</tr>
<tr>
<td>France</td>
<td><strong>28%</strong></td>
<td>3%</td>
<td>54%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>India</td>
<td><strong>17%</strong></td>
<td>11%</td>
<td>25%</td>
<td>38%</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td><strong>45%</strong></td>
<td>55%</td>
<td>2%</td>
<td>11%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Sources: The 4 large families of crowdfunding by Ulule, Crowdsourcing.org, Kurt Salmon analysis
However, despite its growth, crowdfunding today represents only 1% of investments in our four sectors. And that figure is not expected to exceed 10% by 2017, according to our estimates. Furthermore, it mainly concerns the so-called “developed” countries: 90% of platforms are European, North American, Australian or Japanese. So, future growth in the culture market will come mainly from emerging markets. Contrary to what some argue, crowdfunding is therefore not a replacement for traditional financing of creation in our industries. Producers, States, sponsors and private investors will remain the large majority.

This is especially true in the highly capital-intensive industries such as Video Games or Cinema. With an average ticket costing around €3,500, crowdfunding can only position itself as a complementary financing tool.

Moreover, even if a few artists are able to emerge from this system, like Grégoire in France or Amanda Palmer in the United States, crowdfunding does not constitute real access to the market. Thus, no musical work produced in this way has ever entered the global Top 20, be it a single or an album. Being in the Hit Parades remains the exclusive privilege of the majors. And neither are pop stars a product of crowdfunding, even if some have been discovered on the web like Justin Bieber or Psy. Similarly, no 2011 best-seller was produced in this way.

So, it is a means of financing that does not promote innovation because “the public is by nature conservative and goes to what it knows”, according to Alain Sussfeld, Director General of UGC. In 1863, painters whose too-modern works were not understood, were excluded from the official painting and sculpture Salon. They got permission to hold a Salon des Refusés, since renamed the Salon des Artistes Indépendants. It brought together the avant-garde of the time: Manet and his Déjeuner sur l’herbe, Pissaro and Fantin-Latour. But if they eventually made their point, it was not thanks to the public. It was because a critic and art dealer, Paul Durand-Ruel, spotted their potential and allowed them to exhibit in London and New York. Would Manet, Renoir and Monet have experienced a crowdfunding success? It’s doubtful: when avant-garde artists emerge, the consumer is often not ready to welcome them. It is the role of critics, publishers and producers to offer them to the public and teach the public to appreciate them.

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2. Crowdsourcing.org
However, the consumer seems very involved in this critical role. According to our survey, 60% of them declare their readiness to give their opinion on a work or artist, especially via social networking. Fully 38% have already done this, of which 87% would do it again. There again, intentions vary according to country, with a very strong involvement in the U.S. and India - almost 50% of respondents have already given their opinion - a very strong intention in China - about 50% intend to try - and the far more cautious French, of whom only 40% plan to give their opinion, whether for the first time or not.

Despite a strong implication, we are touching here on another of the consumer’s power limits. He does not become a producer in place of the producer, but neither does he become transformed into a real critic. Does he therefore become a distributor?

### Interest among consumers in giving opinion about an artist or a work

<table>
<thead>
<tr>
<th></th>
<th>Yes, and I would do it again</th>
<th>No, but I would give it a Go</th>
<th>Yes, and I would not do it again</th>
<th>No, and I would not do it</th>
<th>I do not see the point</th>
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<tr>
<td>China</td>
<td>22%</td>
<td>42%</td>
<td>22%</td>
<td>9%</td>
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<tr>
<td>US</td>
<td>46%</td>
<td>3%</td>
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<tr>
<td>France</td>
<td>22%</td>
<td>43%</td>
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<td>India</td>
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<td>Total</td>
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</table>

Among internet users following an artist on social networks, only one-third have shared one of their songs or films. And the Top 10 of the most shared videos globally in 2012 includes only one clip of cultural content. On the other hand, the Top 10 of the most viewed videos on Youtube in the world includes only music videos, which is hardly a guarantee of income. Thus, the Gangnam Style clip, the song of Psy, earned “only” $8 million of advertising revenue from 1.2 billion views, or $0.006 per view.

Social networks and exchange platforms thus allow for an increase in the consumption of cultural content or for identifying new talent, but the consumer does not use them as a distribution tool. On the contrary, they participate in the role of internet media with unrivalled speed and coverage. As with any media, the internet performs two major functions:

- **Distribution**: it is estimated, for example, that Spotify and VEVO grew strongly between late 2011 and mid-2012 through their partnership with Facebook, which increased their customer numbers.

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3- Observatory of social networks, FIFG, November, 2012. 4- Viral Video Charts, December, 2012. 5- All Youtube category charts, June, 2013. 6- Data provided by Google in January, 2013. 7- EMarketer report
Spotify thus added to its customer base of 7 million between September 2011 and January 2012, while VEVO doubled its own between March and May, 2012. Facebook was ranked fourth in the ComScore rankings for the number of videos distributed online. Digital technology, and social networking in particular, thus act as real tools enabling the various players to broaden their customer base and distribute works, just like any traditional media (press, radio, TV).

**Prescription:** digital technology is also used by traditional media to adapt to new uses and create direct interactions with the consumer. Initially feared by these media, digital technology has become for them an additional communication tool. “Given the plethora of available sources, the consumer needs cues and will turn to media that it considers credible and legitimate”, explains Catherine Sueur, Director General Delegate of Radio France.

Thus, the emergence of digital technology will promote two types of cultural behaviour:

- That of the homo “otiosus” sapiens, with a passive attitude, who will benefit from simpler and less expensive access to sometimes “mainstream” culture. But who would perhaps not have consumed culture, or would have consumed less, if he had not had digital tools;
- That of homo “cultus” sapiens who has never had so many opportunities to search, discover, share and take part in cultural creation. Which implies that he has the time and cultural resources needed to carry out such “informed” activity.

Now that we have analysed the four major links in the value chain, we will focus on the block of transverse players involved throughout the value chain: public authorities and funders.
Public authorities, an orchestral conductor’s power

An influential power to popularise its model of society

The impact of CCIs goes beyond a number of jobs, a turnover figure or a contribution to a country’s GDP. The industries in question participate fully in the concept of “Soft Power”, developed by Joseph Nye. Indeed, beyond economic, industrial or military power, power in the 21st century lies in the ability of states to attract, seduce and even impose their cultural model on the rest of the world and thus to promote the export of all types of products.

And in a globalised economy, the United States is better known in the world for its films and TV shows than for its chemical industry. Japan expresses itself more through its video games or manga than its fisheries... Using these tools, a small-scale country such as Qatar will tomorrow be able to exert global influence.

Qatar’s “soft power” involves three main tools: cultural investment (creation of museums, collection purchases, investments in luxury...), the organisation of world sports events (Asian Cup of Nations in 2011, Arab Games in 2011, the World Handball Championship in 2015 and the Football World Cup in 2022) and finally the media group Al Jazeera. Al Jazeera has 65 offices in the world against 41 for the BBC and 38 for CNN, and is preparing to take a key step: launching a national chain, Al Jazeera America, in the United States in 2013. Specialising in news, the channel will also broadcast documentaries and sports programming, bought-in or produced internally.

China is pursuing a similar strategy. It is also organising global events (the Beijing Olympics in 2008 and the Shanghai World Expo in 2010) and broadening its media outreach: CCTV now comprises 23 channels in Chinese, but also in English, Arabic, French, Spanish and Russian. The New China Agency has 100 offices worldwide (compared with 200 for Reuters) and broadcasts in 8 languages. The Chinese Government is also planning to broaden use of the language through the increase of Confucius Institutes: the first was created in 2004 in South Korea and today there are 316 in 94 countries. Total investment in this “soft power” amounted to $9 billion in 2009-2010. Yet, these influential efforts seem not yet to be bearing fruit: the Chinese model appears to be difficult to export. “A totalitarian system where the party in power concedes nothing in terms of civil liberties and is a loyal ally of some of the worst dictatorships in the world”, as Barthélémy Courmont wrote in his essay on Chinese soft power, is unable to seduce, despite the considerable investments made.

“To achieve in full the construction of a moderately affluent society and realise a great revival of the Chinese nation, it is necessary to promote the widespread prosperous development of socialist culture, to create a new boom in socialist cultural construction, to enhance the State’s cultural “soft power”, and to highlight the role of culture in the evolution of habits, popular education, service of society and economic development (...) in the pursuit of a “ceaseless strengthening of the prestige of Chinese culture on the international stage”.” Hu Jintao at the 18th National Congress of the CPC

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The question of cultural exception, and its defence by France in particular during the definition of the mandate on European-American free-trade, is also an illustration of this “soft power”. The principle of cultural exception is supposed to protect diversity and rebalance power relations. Yet, despite this “barrier to entry”, the United States was able to export its model around the world. American cinema, for example, represents approximately 60% of the revenue of the cinema industry in Europe. Effectively developing “soft power” therefore means not only trying to protect oneself from the outside world but above all also fostering local creation and ensuring effective distribution. It is this last point that makes the US world champions of “soft power”, according to Vincent Grimond, co-founder and president of Wild Bunch: “The strength of American cinema lies in its content but especially in its ability to broadcast and distribute it”. The distribution of American cinema is handled by the MPAA (Motion Picture Association of America). This association has made the fight against national quotas its primary objective, although this has now been joined by a second objective: the fight against piracy. Its tools are multiple: political lobbying, international offices to locally manage the distribution of American films by adapting to the markets, partnerships with some 30 national organisations (ALPA in France, JIMCA in Japan or APCM in Brazil).

The importance of these industries is such that the majority of states have integrated it into their strategic priorities. Thus, the United States places the cultural and creative industries on the same level as energy or biotechnology. Hence their willingness to integrate them into trade agreements. Europe is less well equipped on this question; indeed, it has a non-regulatory competence on this subject and can have only an indirect impact on cultural policies. Nevertheless, it made the Cultural and Creative Industries into one of its policy pillars through the “Creative Europe 2014-2020” programme, even though this may now seem inadequate in light of market and globalisation issues. The European Treaty requires that cultural diversity be taken into account in all its actions and that issues in other policy areas should be debated having regard to such diversity. As for China, it plans to increase the weight of CCIs in its GDP from 2.5% to 6% by 2015.

4- European Observatory of plurilingualism.
Incentive policies exist but are used in different ways to develop CCIs

To increase their “soft power” and their economic power, public authorities have several tools to foster the development of CCIs within their territory and counterbalance the distortions created by digital technology:

Taxation

Digital technology has introduced the concept of “borderless”, whereas taxation remains predominantly national. At the same time, large, international, primarily digital groups are seeking to optimise their tax status by locating their HQ, for example, in Luxembourg or Ireland to take advantage of such countries’ lower tax rates.

Thus, according to the French study “Surfiscalité des Télécoms en France et optimisation fiscale des ‘Géants Du Net’” (“Overtaxation of French telecoms companies and tax optimisation by the Giants of the Internet”), conducted for the French Telecoms Federation, it is estimated that the giants of the Internet - Amazon, Apple, Facebook, Google, Microsoft - deprived the French tax authorities of €1.3 billion in tax payments in 2011. The United Kingdom indicates that Google paid only 0.1% in taxes between 2006 and 2011 on turnover of £18 billion. A study conducted in the United States by the Senate indicated that Apple paid only 2% in tax over the past three years and Amazon acknowledges that the IRS is demanding $1.5 billion. The shortfall for the American tax authorities is in the region of $92 billion. States have decided to act: US senators have questioned Tim Cook, CEO of Apple, British MEPs have questioned Matt Brittin, Vice President of Google. But these groups are acting perfectly within the law. It is therefore necessary to rethink taxation on a global level in order to further harmonise the different approaches: “All players must follow the same rules”, says Pierre Forest, co-founder of Metaboli. In May 2013, the European Council decided to extend the principle of compulsory transparency, currently applicable only to financial institutions, to include all multinationals: Apple, Google and others would be forced to disclose their taxes payable by place of taxation, which would be a first step. Once the authorities have a clear understanding of established tax-optimisation measures, it will become possible to modify taxation to render such measures less efficient. At the global level, the OECD has begun to consider this subject and expecting to propose an action plan to reconnect taxation with real territorial business activities. This “tax evasion” not only generates a shortfall for states and a distortion of competition, it also threatens funding for creation, as we will see later.

“We know that, with globalisation, no country is able, by itself, to effectively address tax evasion or the most aggressive avoidance techniques. But since we are a group of eight major economies, we have an opportunity to galvanise collective interventions at the international level. Each of us has an interest in telling our respective taxpayers, who work hard and pay the share of taxes they are required to pay, that we will ensure that all others do the same”, Declaration by David Cameron in the run-up to the G8 in June 2013


“It’s all a matter of implantation: Netflix implanted in France will be no more dangerous than another chain. Netflix implanted in Luxembourg will pose a genuine competitive problem”, Vincent Grimond, Co-founder and President of Wild Bunch

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Development of territorial attractiveness through the establishment of favourable measures

Here, we find the economic potential of the sector, provider of jobs that cannot easily be offshored and of growth for national territories.

Each country has its own approach for attracting capital: thus, Belgium implemented the Tax Shelter in 2003 to promote the film industry. This measure allows investors to lend money for a film project and acquire rights in the film. Once the film is finished, the producer repays the loan with interest and the investor is free to keep the rights or resell them at a minimum price decided at the signing of the contract. Unlike tax credit, it does not allow for lower taxation for films or reimbursement of certain expenses related to filming. Its target: private investors with no connection to the sector, and who are seeking different and profitable investments. Financial returns reach a minimum of 4.5%, which positions films as economically profitable investments. More flexible than other systems - funds need only be spent on Belgian territory - it still remains very limited: each project is subject to a kind of tax control at the end of the partnership.

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This measure has meant that €170 million was raised in 2012 and has “helped develop technical industries over the past decade” adds Cédric Iland, Commercial Director of the Pôle Image, Liège. Meanwhile, Canada has implemented a measure which greatly benefits the Video Games sector: a tax credit applied to 40% of the payroll, and an R&D tax credit of up to 75% of the payroll. These benefits, which led Ubisoft to settle in the country in 1997, cost Canada €350 million over 10 years. Today, it is the 3rd largest market in the world for Video Games, with a turnover of €1.3 billion and 16,000 employees. Yet other countries combine tax credit and cheap labour. This is the case particularly in countries of Eastern Europe - Romania, Bulgaria, the Czech Republic - which offer a refund of incurred costs of up to 20%. This is a benefit that is combined with a low labour cost: filming in Bulgaria costs up to 6 times less than in the United States. As with taxation, these measures contribute directly to funding local creation.

Financing creation

The best-known measure, that of financing French cinema based essentially on public subsidies and investment bonds, is being challenged with the arrival of digital technology. The French system is based on a “give-and-take” principle: in exchange for a contribution to the financing of a film, TV channels can broadcast the film within a relatively short time-frame.

The system, based on production requirements and an absence of rights on co-produced films, could operate as long as there were only a few television channels. Today, the arrival of new players - new channels and new digital players - has led to a “splitting up” of audiences and an increase in non-linear consumption (catch-up TV, VOD, streaming...). This phenomenon will accelerate with the rise of smart TVs and a second screen. All this unbalances the relationship between investment and the potential benefits in terms of audiences, the sale of advertising space and the “freshness” of information.

6- 2010 Report by the Canadian Senate. 7- Entertainment Software Association of Canada. 8- David Varod, representative of Nu Image/Millenium Films - November 2, 2007 AFP.
“While retaining its effects in content richness and diversity, the French model of financing creation must evolve to help new players” explains Emmanuel Gabla, Member of the CSA. “The question, which will also need to be addressed at the European level, is how”. The system itself must not be questioned: it has become a reference in the sector and has established itself in European co-productions. Germany and Italy, once two great film nations, fail to reach the level of French production, as shown in the graph below.

The funding model for American creation is decentralised and managed by multiple stakeholders: next to the National Endowment for the Arts (NEA) or the Institute for Museum and Library Services (IMLS), there are cultural agencies managed by the states but also departments that subsidise cultural programmes directly related to their activity. The Department of States, for example, finances artists to help them have a foreign presence. The NEA, leading provider of funds for creation in the United States, is administered through federal funds, but derives its income from private donations. Its mode of operation is thus based on philanthropy. Other cultural agencies managed by the States work on the same principle. The American model, being more detached from public authorities, is not therefore based on the performance of a sector or a player. It is not considered as redistribution, but rather as a “gift”. This is visible by the share of public subsidies in the financing of creation: they represent only 7%, or 17% if we consider that funds from Foundations, which have a “semi-public” status, can equally be considered as public subsidies.

Meanwhile, Brazil has set up an original system: public funds are allocated to projects after a response to an invitation to tender; they also finance co-productions with other countries or regions: with Portugal, two projects per year, and with Galicia, one project per year.
The search for a balance between players via regulation

In France, as early as 1981, the Government wanted to protect the most fragile players in the Book sector by introducing the Lang act, a law on the unique price. Under the terms of this law, the price set by the publisher is printed on the book. The seller may not offer a discount in excess of 5%, in order to limit competition on price. The figures today: there are about 10,000\(^9\) publishing houses in France, against 6,000\(^10\) in the United Kingdom, where the market has never been regulated. We can see the same thing if we look at the figures for independent booksellers: there are 1,878\(^11\) in Britain, half as many as 7 years ago, against 2,500\(^12\) in France (3,000 in 2007).\(^13\)

But all these regulatory measures do not prove their effectiveness. Thus, in June 2013, the French Culture Minister announced the release of an envelope of €2 million to help independent bookstores take a more digital direction, supplemented by the establishment of a fund of €7 million by the National Union of Publishers. The independent booksellers already have grants for implementing this digital project, allocated by the Centre National du Livre. However, concrete results have yet to be seen. The heterogeneity of the sector is such that this mode of regulation is inadequate.

The fight against piracy

One of the first effects of the advent of digital technology on cultural content has been piracy or the free and illegal access to copyright-protected content. The US Justice Department considers that MegaUpload has deprived rights owners of $500 million. While all countries and companies affirm their will to fight this phenomenon, the ways in which this fight is fought differ. France is a precursor with the launch of HADOPI, an independent public authority, in 2009. It applies a graduated response principle in three stages: 2 prior warnings before possible prosecution. The result: of 1,150,000 emails and 100,000 recommended letters sent, only 14 files were sent to the prosecutor’s office and only a single internet user was sentenced... an outcome far removed from the 50,000 referrals outlined in the HADOPI 2 act. Nevertheless, it was decided HADOPI should continue to exist, this time under the authority of the CSA, and it has inspired other states. In particular, the United States, which launched the Center for Copyright Information (CCI) in 2013. This is an association between the ISPs (AT&T, Cablevision, Comcast, Time Warner Cable and Verizon) and content providers represented by the MPAA, the RIAA, the IFTA and the A2IM. There again, the principle adopted is that of the graduated response, in six stages, decided by each ISP. The only difference from the HADOPI measure: one of the steps can be to invite the user to follow an educational programme on copyright law. The creation of the CCI is still too recent for the results

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\(^9\)- National Union of Publishing. \(^10\)- The Booksellers Association of UK and Ireland and Etude Nielsen Books on publishing in the United Kingdom and Ireland in 2012. \(^11\)- Study conducted by Experian for The Telegraph newspaper in 2012. \(^12\)- Syndicat de la Librairie Française. \(^13\)- Viepublique.fr, on the basis of data from Documentation Française.
to be analysed. Elsewhere, the Spanish are considered “bad European students”: 45% of internet users in the country regularly pirate, against an average of 23% in Europe. The Government has therefore been enforcing the Sinde law since March 2012. This law differs from the two previous measures in that it does not allow control of internet users, but rather gives copyright holders the opportunity to request closure of a site hosting protected content. After its first month of operation, the Intellectual Property Commission received 213 complaints and 79 block applications. But the law remains too flexible a priori to have a real observable effect on piracy. A second, more severe version is in preparation, expected particularly to target link sites.

Harmonisation of the laws on copyright and royalties

Two systems of rights protection coexist. Copyright, mainly in English-speaking countries, is based on the principle of property rather than moral law: it applies to the exploitation of a work and reflects a market vision, where the economy takes precedence over the creation. The one who receives the rights in the work is the one who takes the economic risk. He may therefore be the author or producer. Copyright, covering only exploitation, leaves the possibility for everyone to edit a work, which is now made easier with digital technology. The second protection system: royalties, more present in Latin countries. It differs from copyright because it favours the moral right over property rights: creation takes precedence over economic logic. Thus, only the creator has economic rights on the work, even if he has the possibility to transfer them to a corporation. On the other hand, the moral right of respect for the integrity of the work, of distribution and of paternity, remain the author’s and cannot be separated. The cohabitation of these two principles in a global context poses many questions: should the integrity of a French work be respected in the United Kingdom or not? Who should get the economic rights related to the broadcasting of an American song in Italy? These issues are subject to a debate between producers and authors to define which system favours which side. But with the arrival of digital technology, both parties are tending to join together to defend their rights against users who sometimes tend to disregard both property rights, dear to copyright, and moral rights, the spearhead of royalties. One illustration of this alliance is without doubt the agreements between Google, representing in some way users, and French or Anglo-Saxon publishing groups: by digitising unavailable works, Google was going against both the moral right, through its failure to comply with the right of the author to no longer provide access to the public of his work, and copyright, via the non-payment of revenue despite an exploitation of these works. To remedy this situation, several agreements have been signed. In June 2012, one was signed with French publishers, establishing an equal sharing of revenue between Google, the publisher and the author of each eBook sold. At the end of 2012, another agreement was signed with the Association of American Publishers, enabling the rights-holders to refuse the upload of a book, and to remove protected works.

"Legal streaming offerings have allowed for the recreation of value in one way by decreasing piracy, and in another by responding to new uses of music consumption", Marine Elgrichi, Communication and Public Relations Manager for Spotify France

While most states have put in place policies dedicated to CCIs, they are most often national policies, even though digital technology has broken down borders. There is currently no genuine European coordination that would enable such policies to have an impact.
Summary and outlook

New digital players have today taken a prominent place in the CCI sectors, requiring all other players to revise their mode of operation significantly.

After five years of stagnation, the Book, Music, Video Games and Film industries returned to growth in 2012 and are heading towards average annual growth of 5%.

For all these sectors, this future growth will be based on three pillars:

- The democratisation of connected terminals, implying a multiplication of moments of consumption and new uses;
- The growing emphasis on new forms of digital monetisation, which allows for the diversification of revenues;
- The rise in power of emerging economies, both in terms of consumption and production.
Individually, the four industries studied have not experienced the same dynamics over the period 2007-2012. Video Games and DVDs have experienced an average annual growth of about 3% against 1% for Music, driven by live performances. Indeed, if the sale of recorded music has indeed suffered, then live performances have allowed the market to maintain an overall growth. Only the publishing market has experienced a genuine decrease, of 4% per year on average, due notably to a decline in readership estimated at about 10% over the period.

For the 2012-2017 period, we anticipate average annual growth of 5% for the four industries. Music will be primarily driven by the stabilisation of new models coming from digital technology; Books will rely on digital formats; Films, thanks to an explosion in SVoD, and Video Games will continue to benefit from a rise in consumers connected by terminals and mobile activity.

Contrary to popular opinion, these four industries, which represent $410 billion globally, are not suffering from a crisis and constitute a significant economic power: cultural and creative industries as a whole account for between 4% and 6% of global GDP and almost 40 million jobs.

But these industries not only constitute shares of GDP: they also allow for the development of other parts of the economy, particularly exports. They are the way to promote models of society and ways of life, and as such they play the role of a whole country’s Trojan horse in the rest of the world.

Public authorities, as national orchestral conductors of the Creative and Cultural Industries sector

Indeed, beyond their economic, industrial or military power, the power of states in the 21st century involves their ability to attract, seduce, or even to impose their cultural model on the rest of the world. And that is to the benefit, among other things, of their economic development: this is the concept of “soft power”. Today, Qatar and China are thus deploying a culturally-based empowerment strategy based on three pillars: global sports events, development of international media and cultural investments. The United States remains the world champion of “soft power”, particularly through their films, whose distribution is managed by the MPAA. Similar organisations exist in Europe, such as UniFrance for French cinema, but with considerably less power. The result: American cinema still represents 60% of cinema revenue in Europe. While our continent offers rich creations, representative of its diversity, exporting remains problematic. This is due to the language barrier, of course, but also because there is no common European policy that is able to promote cultural and creative industries and to export models that work.

Most states have integrated the Creative and Cultural Industries into their strategic priorities, and put into place support policies: taxation, the development of territorial attractiveness, the financing of creation, regulation, the fight against piracy, texts on copyright and royalties, have all been the subject of laws in most major countries. But more often than not at national level, without European coordination.

These policies remain inadequate because they are too localised:

- They are unable to establish a common regulatory framework. For this to be the case, the European Commission should
The illusion of “power” thanks to digital technology

Creators and consumers have never had so many tools for creating, exchanging and establishing a direct relationship among themselves, whilst partly eliminating intermediaries. Anyone can now set themselves up as producer, broadcaster or distributor thanks to self-publishing, self-distribution, co-authoring, crowdfunding, sharing and review platforms...

Our survey showed a real passion for this “seizure of power” by the consumer: 45% of respondents said they were ready to finance or co-finance the production of a work. Some 15% have already done it and two-thirds declare their readiness to do it again. Similarly, 60% of consumers have already given an opinion on an artist or a cultural work, or are considering doing so.

However, these tools do not suggest the end of traditional players. The internet offers an illusion of ease and visibility, although examples of artists who have emerged in this way remain rare, even if significant (Justin Bieber, Grégoire,...). Similarly, established artists who have tried to venture into independence have returned to the traditional circuit. For the creator, these tools do not guarantee commercial and financial success. Most importantly, the creator cannot do without professional guidance if he wants to live off his production, particularly in the case of an emerging artist. Digital tools do not nourish young creators, in the original sense of the term, and the restructuring imposed on producers has reduced their opportunity to invest upstream in young talent. They tend rather to rely on digital technology to limit risk and select artists already acclaimed by the public.

Nor has there been a remarkable “seizure of power” for the consumer, despite new tools like crowdfunding. Thus, crowdfunding today represents less than 1% of the investments in the four studied industries. Its growth is expected to continue in the next five years, but it is estimated that it will not exceed 10% of investments by 2017. In the end, it is more a complementary tool available to producers and publishers to better manage their investments and limit upstream project risks.

As for social networks, they have not superseded traditional media either. Only one-third of internet users following an artist on social networks have already shared one of their songs or films with friends. These tools, even if they allow for greater consumption, are ultimately more used by producers who see it as a new distribution window.

These digital tools are therefore addressed above all to amateurs or niche markets where community plays a major role. Thus, if the involvement of the consumer and the creator has increased conclusively, whence their impression of “having seized power”, this does not call into question the role and legitimacy of traditional players.
The producer, even having had to reinvent himself, remains a key player

Even if the producer has had to reinvent himself with the arrival of digital technology and must deal today with new constraints, he remains a key and legitimate player, able to better manage risks. Once the phases of restructuring and concentration have been digested, the producer can implement strategies for diversifying income - product placements, partnerships with brands, use in commercials - and gradually adopt new digital business models - streaming (monetisation by subscription or advertising), or even downloading.

It also appears that, in the transition from physical to digital media, it is the producer who has seen his share of revenues increase - between 15 and 30 points - at the expense of distributors and intermediaries. While this trend is less noticeable in the Music sector (rising from 36% to 40%), it is very clear in the Video Games sector (rising from 25% to 48%), the Book sector (rising from 30% to 48%) and the Film sector (rising from 17% to 48%, based on the sale of a DVD). It is necessary, however, to qualify this point by stating that the savings related to the manufacture and transportation of physical products only partially offset the fall in prices.

Another constraint for the producer is that he must now negotiate with distributors of a new type. And confront a new balance of power.

The emergence of distribution players in a dominant position

The rise of e-commerce and digital media continues. Digital distribution is expected to involve almost 60% of the Music market and 80% of the Video Games market by 2017. And that introduces new modes of operation for the entire market.

The emergence of digital distribution has improved trackability and distribution of some independent publishers: it is far easier today to get a listing on iTunes than with a traditional distributor. But being trackabledoes not by itself ensure visibility.

Even if consumers say they want to continue to buy in-store, physical distribution is likely to be marginalised in the future. Digital players will continue to grow, structuring a somewhat uncompetitive market. Apple dominates in large measure the universe of the Music sector, Amazon the Book sector, and Steam reigns supreme the PC Video Games sector. And this may promote abuse of a dominant position: closed ecosystem, control of the consumer relationship, increase in prices, cessation of trade relations for the refusal of unfounded trade conditions...
A rebalancing action therefore seems necessary to maintain the plurality of players and the diversity of content

Objective 1: to ensure the plurality of players through a rebalancing of powers

This plurality is called into question by virtue of the dominant position of digital players, particularly content platforms. These overpowerful players have financial power, in terms of negotiations or strong influence, over all players in the chain. Most importantly, heavy consequences for traditional physical distributors, but also for the other players in the value chain.

It is down to public authorities to carry out a series of regulatory actions to return all players “to the same starting point”... but also to other players to develop each their own strategy for matching the success of digital players. We have thus identified four recommendations:

Recommendation 1: Harmonise tax and regulatory frameworks at a European level

This involves giving all the same tax rules.

• First, by harmonising taxation on income at a European level. Taxes paid by digital players must be calculated on the basis of the income from an associated territory. The first stage of compulsory transparency is being discussed in Europe. It is a start, but this audit must really lead to a harmonisation of the fiscal measures at a European level.

• Then, harmonising VAT rates between countries and between physical and digital distribution players, to achieve equality. If these matters cannot be harmonised at a global level, they must at least be at European level. The challenge: to facilitate the emergence of one or several pan-European player(s) which could, by relying on a market of 700 million people and 25% of world GDP, aspire to find a place amongst dominant players.

Recommendation 2: Foster the emergence of a pan-European digital distributor

“The internet revolution, which has caused the fall of publishing markets, compels us to reinvent ourselves. This is the very core of our strategic plan, which aims to seek growth relays and adapt offers and services to the new requirements of our customers, notably by developing a multi-channel strategy and proximity formats”, Frédérique Giavarini, Director of Organisation, Policy and Public Affairs, FNAC

The traditional distributor must reinforce its attractiveness to exist alongside platforms. It must take advantage of the benefits of each of its channels. This of course means enhancing the customer experience - using the emotional bond that unites the consumer to the cultural product to generate a fun in-store purchase. Advice from and exchanges with salespeople will always be more pleasant than reading a recommendation on Amazon. And another need: becoming a credible e-commerce
player. But above all, offering a real digital alternative offer. In this context, the Tolino project pursued in Germany should be watched closely and serve as an inspiration for Europe to support the emergence of a pan-European champion.

Recommendation 3:
Focus on a need for transparency of consumption for a balanced relationship between distributors and producers

The new business models require greater transparency on the consumption of works. Producers must have a realistic way to access information on their rights. The emergence of dominant digital players also involves a regrouping of players so that they no longer negotiate one-on-one with platforms, but by industry. We suggest there are a few tracks to dig:

- Impose a trusted third-party expert in the electronics field, ensuring real transparency of the data transmitted by platforms. The goal: that all parties concerned - producers, publishers, management companies, artists - have the same information on audience shares, and therefore on the resulting distribution of income.
- Form international economic interest groups (EIG) to achieve critical mass. This is a measure that is indispensable for independent producers, but also for sectors as a whole, which will carry more weight during negotiations. If an entire sector withholds its content from Apple or Amazon, these players will have to review their requirements and modes of operation.

Recommendation 4:
Promote culturally-responsible consumption, to make the consumer a player in the rebalancing of powers

The consumer must realise he no longer pays a property right, but a usage right for a still significant price, depending on the product. While this point is not related to the mode of distribution but to intellectual property issues, it is important to leave the choice to the consumer: does he wish to continue acquiring products that do not belong to him? It involves promoting responsible citizen behaviour, to complement the Lescure report’s proposal on artistic, cultural and media education, and encouraging consumers to diversify their consumption: to demonstrate that, rather than being restricted to the three main digital players, it should be in their interests to preserve distribution via a range of players, be they digital or physical. This also applies to diversity, price and services offered. This will primarily involve promoting the strengths of the physical channel compared with the digital channel: according to our survey, 57% of consumers

Criteria for choosing distribution channels

<table>
<thead>
<tr>
<th>Criteria for choosing distribution channels</th>
<th>Nowhere</th>
<th>Via social networks</th>
<th>On a download platforms</th>
<th>On an e-commerce website</th>
<th>By an artist</th>
<th>In a specialised shop</th>
<th>In a general shop</th>
<th>In an independent shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer breadth</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Price attractiveness</td>
<td>26%</td>
<td>2%</td>
<td>2%</td>
<td>5%</td>
<td>7%</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Advice quality</td>
<td>18%</td>
<td>13%</td>
<td>18%</td>
<td>22%</td>
<td>9%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Ease of access</td>
<td>58%</td>
<td>44%</td>
<td>44%</td>
<td>57%</td>
<td>47%</td>
<td>47%</td>
<td>47%</td>
<td>47%</td>
</tr>
<tr>
<td>Product availability</td>
<td>27%</td>
<td>14%</td>
<td>26%</td>
<td>19%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Sources: Questionnaire, Kurt Salmon analysis
questioned prefer shops for the quality of the advice they offer.

And there is another problem to resolve: the transfer between libraries/digital disc libraries. Today, iTunes’ general conditions of sale, for example, specify that “iTunes products are granted only in licence form”. It is therefore a usage right and not a property right. Regulatory change is thus indispensable to allow the consumer to become owner of his files.

Objective 2: Continue to foster diversity of content by bringing modes of funding creation into the digital age

A review of modes of funding creation appears necessary. Indeed, existing arrangements are no longer suited to the reality of markets and modes of consumption of today. As the potential of new tools like crowdfunding remains limited, other modes of funding are still essential for enabling new artists to emerge. This requires public funding but also, and especially so, implementing perennial financing measures adapted to new economic realities. Here too, we suggest four lines of thought:

Recommendation 1: Review financing measures at the national level...

Digital technology is characterised by the emergence of dominant, across-the-market global players. While some national systems, the French for example, have proven themselves, they must now adapt to the new realities in order to promote the emergence of local industrial champions. In the context of the audiovisual sector in particular, current funding arrangements penalise the emergence of international structures. By subsidising projects rather than companies, and by reasoning at national level, they foster a strong fragmentation of the market.

Thus, the liabilities held by French television channels today are preventing the sector from moving towards vertical integration. They must be given a more significant role in the financing system, notably by granting them rights to films that they co-produce, with the guarantee that they do not turn this measure into a way of developing exclusivities by refusing to sell, or at too high a price, the films in their catalogue.

Recommendation 2: ... whilst thinking of a European pre-funding arrangement coupled with a marketing policy

Beyond national measures designed to support creation and its allied jobs, Europe needs to develop its own “soft power”. Developing cultural products for international consumption assumes too much risk for a European country to take it on alone. A more integrated European policy for financing creation, backed by a marketing policy, therefore seems indispensable, in order to move from a defensive attitude to a policy of conquest in export.

How, then, are we to find new sources of funding for Music, Books, Film and Video Games? This is the intent of recommendations 3 and 4.

Recommendation 3: Involve new players in financing creation

The current principle of funding is based either on public subsidies or private funds, or on the participation of those players.

“We should implement subsidies based on the business and not on a project, in order to promote the whole of the productive fabric”, Manuel Alduy, Director of Cinema at CANAL+ Group
that benefit from content. Since digital players make use of content as products of appeal for their devices, it makes sense to ask them to contribute financially to the creation of this content. This participation, based on the Film model, is applicable to all sectors. It can be implemented using three levers:

- **Better tax harmonisation**, as suggested above, allowing each state to collect revenue from activity by digital players on its territory. A portion of this income can finance the sector;

- **Limiting the exceptional arrangements for digital players who make content freely available**. Hosts’ status should be challenged to the benefit of the publisher. Today, digital players enjoy a limited liability regime: they are not liable for ensuring whether the content they host is legal, or not. They do not guarantee that a portion of the proceeds from their content is paid to the rights holders. A change of status would ensure respect for intellectual property and the rights deriving from it;

- **Introducing a tax** on connected equipment whose commercial success relies on content, as proposed in the Lescure report.

- **Introducing for these new players obligations consistent with their influence**: requirements for pre-financing, for more detailed editorial content to give time for rising talent to break through, and for promoting local production...

**Recommendation 4:**

**Develop and implement additional financial tools**

- **Create innovative savings arrangements for funding cultural projects, for example, a cultural savings account.** It would work on the same principle as the Livret de Développement Durable (Sustainable Development Account). Savers would have the guarantee that their savings are only used for financing cultural companies: Books, Music, Films or Video Games;

- **Equip crowdfunding with a clear regulatory framework**, as proposed by the Lescure report. This would reassure investors, individuals or companies, and would make this tool a truly complementary instrument for funding a budget;

- **Develop investment funds dedicated to culture**, based around the model of St’Art in Belgium or Neuflize OBC Cinema in France, to enable innovative companies to develop. Especially if their products do not fit into conventional investment schemes.

**As a conclusion**

Rebalancing power and taking advantage of the benefits brought about by digital technology is crucial. This is the condition for the CCI sector to be able to continue its economic and creative development and remain a provider of wealth and growth for developed countries as much as for emerging economies.
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Methodological notes

This year, the study has taken a two-step approach:

• A quantitative approach, through a consumer survey
• A qualitative approach, through discussion sessions of the working group and some thirty interviews

Kurt Salmon consumer survey 2013

The study was conducted on a representative sample - chosen on criteria of age, sex and socio-professional category - of 4,000 individuals over 15 years of age in the following manner: 1,000 people in urban China, 1,000 people in the United States, 1,000 people in France and 1,000 people in urban India.

The objectives of the survey were threefold:

• Have a vision of changes in consumption patterns (past, present, future)
• Evaluate consumers' interest in their new “powers” (sharing and review, crowdfunding, co-creation, online purchase directly from the artist)
• Get consumers' perception of their own power and that of the various players

Profile of interviews

We conducted some thirty interviews at an international level with public and private leaders, artists and creators who are key players in the value chain and who are making, or were faced with, changes in their power following the entry of newcomers, technological developments, or new uses...

These interviews helped to give us food for thought and to obtain the point of view of each of the players in the chain, in the four sectors: Music, Books, Film and Video Games, with a view to maintaining player plurality and the diversity of creation.

The chosen approach is not intended to determine who the winners or the losers of current developments are, but rather to determine how to maintain a virtuous ecosystem in light of constraints and the realities faced by each of the players.

Distribution of the interviews by player

- Creators
- Producer
- Distributor
- Consumer
- Public Authorities
- Broadcaster
- Financiers
- Others (Unions, federations...)

Distribution of the interviews by sector

- Book
- Music
- Cinema
- Video Games
- All sectors

17% 30%
11% 14%
28% 14%
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Forum d’Avignon

Le Forum d’Avignon est un laboratoire d’idées au service de la culture, créé en 2008 après la ratification de la Convention de l’UNESCO. Dès son origine, il a pour objectif d’approfondir et de valoriser les liens entre la culture et l’économie mais aussi leur rôle pour la cohésion sociale et l’attractivité des territoires. Sa vocation est de produire et diffuser des propositions innovantes et pragmatiques, tant au niveau national qu’international, autour des thèmes proposés par son conseil d’orientation :
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- culture et attractivité des territoires ;
- culture et numérique ;
- culture et innovation.

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- à Essen (avec le Forum d’Avignon-Ruhr les 27-28 juin 2013),
- à Avignon (du 21 au 23 novembre 2013),
- et à Bilbao (avec le Forum d’Avignon Bilbao les 6 et 7 mars 2014 dans le cadre du projet Catalyse).


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