

Foreword by
Rt Hon Jeremy Hunt MP

Edited by
Dale Bassett

A creative recovery:

How the UK's creative industries can regain their competitive edge

The authors

Lionel Barber is the editor of the *Financial Times*, appointed in November 2005. Previously, he was the newspaper's US Managing Editor, based in New York, responsible for the US edition and all US news on FT.com. Joining the *FT* in 1985, he was the editor of the continental European edition between 2000 and 2002, and from 1998 until 2000 he was the news editor. He has also been the Brussels bureau chief.

Dale Bassett is Research Director at *Reform* where, since 2008, he has led on media policy as well as education and criminal justice. He previously worked for a start-up e-commerce company and as a City headhunter.

Peter Bazalgette is a media consultant specialising in television and digital entertainment. He is non-executive chairman of two of Sony's television divisions in the UK, a non-executive director of MyVideoRights and a member of BBH's Advisory Board. From 2004 to 2007 he was Chief Creative Officer of Endemol. He is also a non-executive director of YouGov and a former board member of Channel 4.

Ross Biggam is Director General of the Association of Commercial Television in Europe (ACT), which represents 30 media companies active in 34 European countries and encompasses several business models. He has held the position since April 2000, having previously worked as Legal Adviser to the House of Lords EU Select Committee before joining ITV, where he ended up as Head of European Affairs.

Adam Crozier joined ITV plc as Chief Executive in April 2010. He has led a company-wide review and is developing the strategy to transform the business in the next three to five years. He was Chief Executive of Royal Mail Group between 2003 and 2010. Before joining Royal Mail, he was Chief Executive of the Football Association, while between 1988 and 1999 he held a number of senior roles at Saatchi and Saatchi, including Joint Chief Executive from 1995.

Janet Daley is a political columnist at *The Sunday Telegraph*, where she also writes a daily blog. She joined *The Daily Telegraph* in 1996 as a columnist and leader writer, having previously written for *The Independent*, *The Times* and *The Spectator*. She is also a Visiting Professor at Buckingham University and a Research Fellow with the Centre for Policy Studies.

Ben Fenton is Chief Media Correspondent for the *Financial Times*, where he has worked for three years. Prior to that he spent 18 years at *The Daily Telegraph* as Chief Reporter and Washington correspondent, as well as covering the wars in Bosnia, Liberia and the Gulf, the Olympics, World Cups, and historical matters.

Sir John Hegarty is Worldwide Creative Director at Bartle Bogle Hegarty, which he founded in 1982. He has received numerous industry awards, including two D&AD Golds and six Silvers, Cannes Golds and Silvers, and British Television Gold and Silvers. He was awarded the D&AD President's Award for Outstanding Achievement in the advertising industry. In May 2005, the International Clio Awards awarded him the Lifetime Achievement Award for his outstanding achievement in the industry.

Professor Dieter Helm CBE is an economist specialising in utilities, infrastructure, regulation and the environment, and concentrates on the energy, water and transport sectors primarily in Britain and Europe. He is a Professor at the University of Oxford and a Fellow of New College, Oxford.

Rt Hon Jeremy Hunt MP is Secretary of State for Culture, Olympics, Media and Sport. He was elected as MP for South West Surrey in May 2005. Before his election as an MP, he ran his own educational publishing business, Hotcourses.

Kip Meek is Chairman of Canvas, a connected TV joint venture involving BT, Talk Talk, Arqiva, the BBC, ITV, Channel 4 and Five. He is also Chairman of Ingenious Consulting Network, developing the consulting and research businesses and supporting Ingenious' private equity and corporate finance capabilities. He was an executive board member of Ofcom from its establishment in 2003 until 2007.

Mark Oliver is founder and Chief Executive of O&O, a boutique media strategy, investment and advisory company. Prior to founding O&O, Mark was the BBC's first head of strategy from 1989 to 1995 where he advised the Director General and the board on all aspects of strategy and performance. He has been adviser to the Number 10 Policy Unit and the Department of Culture, Media and Sport.

Peter Preston was editor of *The Guardian* from 1975 to 1995. He is a former chairman of the Association of British Editors and of the International Press Institute. He writes weekly columns on media and political matters for *The Guardian* and *The Observer*.

Rich Riley is Senior Vice President and Managing Director of Yahoo! EMEA (Europe, Middle-East and Africa). In this role, he oversees all go-to-market activities and operations for consumers, advertisers and partners in the EMEA region. He joined Yahoo! in January 1999 when the company acquired Log-Me-On.com, the start-up company he co-founded, which developed and patented what is today the Yahoo! Toolbar.

Dr Richard Wilson is CEO of TIGA, the trade association representing the UK games industry. He was previously Director of Communications at the Royal Academy of Engineering (2006-2008). Prior to this, he was Head of Business Policy at the Institute of Directors (1998-2006). He has held a diverse range of non-executive positions in the food and drink industry, adult training and small business. He has also served as a member of Edexcel's Qualifications Committee (2006-2007).

Dr Alan Wurtzel is the President of Research for NBC Universal and is responsible for the planning, development and analysis of audience, programme, and marketing research for all the company's TV networks. He also leads the company's Broadcast Standards and Practices Department. Prior to joining NBC Universal in 1999, he spent 21 years at ABC in a variety of managerial positions, including the role of Senior Vice President, Media Development, Brand Management and Research. He is the author of the textbook *Television Production*, published by McGraw-Hill, which has been a standard in the field for over 20 years.

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A creative recovery: How the UK's creative industries can regain their competitive edge

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September 2010

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Foreword

Rt Hon Jeremy Hunt MP

We are at an exciting moment for the UK's creative industries. Rather than the bland mass of "culture industries" which the Frankfurt School of the 1930s predicted, the advent of digital technologies and the internet have enabled an explosion of creative energy in new and innovative directions over the last ten years. Rapid technological advances are demanding radical new business models and – quite simply – if our creative industries aren't able to keep up, they can't compete. This presents both a real challenge, and a real opportunity. Against this backdrop, the questions that this collection of essays explores are particularly timely, and the book will be an important contribution to the debate.

At 6.2 per cent GVA, the UK has the largest creative sector in Europe – with an influence out of all proportion to our size, and talent that is in demand the world over. It is a sector that has held up strongly during the recession, and has been predicted by NESTA to grow at 4 per cent – around twice the rate of the rest of the economy – in the years ahead. As the Prime Minister has made clear, the creative industries are a part of a number of growth industries that will help generate growth for the UK as part of a stronger, more balanced economy.

The success of the creative industries is down to the hard work, entrepreneurialism, innovation and creativity of those employed in the sector. As John Howkins has said, ecology warns us against attempting too much centralised control, and the "creative ecology" of this sector is no different. In this context, I believe the role of the Coalition Government is to make sure we have the right environment in the UK and the support in place to enable these businesses to do what they do best, without getting in the way through excessive regulation or heavy-handed intervention.

We are already taking action in specific areas which will benefit the sector – working, for example, to become a world leader in superfast broadband and create the platform on which a whole generation of new businesses can thrive.

We are also looking at some of the big issues facing the whole sector, such as the skills base and the regulatory burden, access to finance and investment in infrastructure.

Our ambition is clear: a strong and competitive creative sector playing its fullest possible role in the wider UK economy. I look forward to working together with businesses and entrepreneurs from across the creative industries to make this happen.

1

Setting the scene: the UK creative sector today

Mark Oliver

Although definitions of the creative industries vary, often depending on the particular point being made by a study, there can be no doubt that the UK “punches above its weight” (its “weight” being its share of all global GDP) in sectors such as music, TV, computer games and publishing. In all four of these sectors, the UK has turned a potential competitive threat – the size and scale of the culturally adjacent and linguistically matched United States – into an opportunity by creating a strong indigenous sector ranking second or third among the globe’s leading exporters.

These creative industry activities now provide a higher proportion of GDP in the UK than other developed national markets, combining a strong share of the domestic UK market with their creditable export performance. Going forward, the creative sectors are likely to form an important part of the UK’s switch into highly skilled and value added knowledge economy activities as more manufacturing, replication and support service activities migrate to the leading developing economies of the world.

The advent of the web age presents both opportunities and threats to the UK’s ability to build on its current creative sector strengths. While the main determinant of the UK’s success will be entrepreneurship and private sector investment and innovation, there are a number of things government can do to minimise the barriers to success.

Most important among the Government's priorities should be to:

- > Help ensure the UK has the broadband infrastructure to support such activities and that the terms of access to this infrastructure for content providers are fair and non-discriminatory.
- > Update the regime that protects intellectual property (IP) rights (in the UK and overseas) so that it ensures rights holders can achieve a reasonable rate of return on their investment but does not stifle innovation or raise necessary barriers to entry.
- > Allow for suitable levels of co-operation and co-ordination to help establish content and platform interoperability, and adequate bargaining leverage for content creators and investors (and to ensure competition policy does not provide an unnecessary impediment to such developments).
- > Allow for greater levels of consolidation and traditional market share as previously national and narrow traditional media market definitions give way to larger converged and global markets.

What do we mean by the creative industries?

Most activities in the wider economy involve some element of creativity (e.g. product design in manufacturing), and some of the more obvious creative industries involve fairly standardised and generic economic activities (e.g. ticketing and cleaning functions at performing arts venues). Most attempts at measuring the size and performance of the creative industries in the UK (most notably the Department of Culture, Media and Sport's (DCMS) sector mapping exercises since the late 1990s) have tended to exclude many of the creative functions in the wider economy while including generic activities in the creative industries.¹ However, these studies still provide a good approximation for the size and health of the creative industries and have allowed for some interesting international comparisons by both the OECD and the United Nations.²

1 See the latest DCMS Creative Industries mapping report: The Work Foundation (2007), *Staying ahead: the economic performance of the UK's creative industries*.

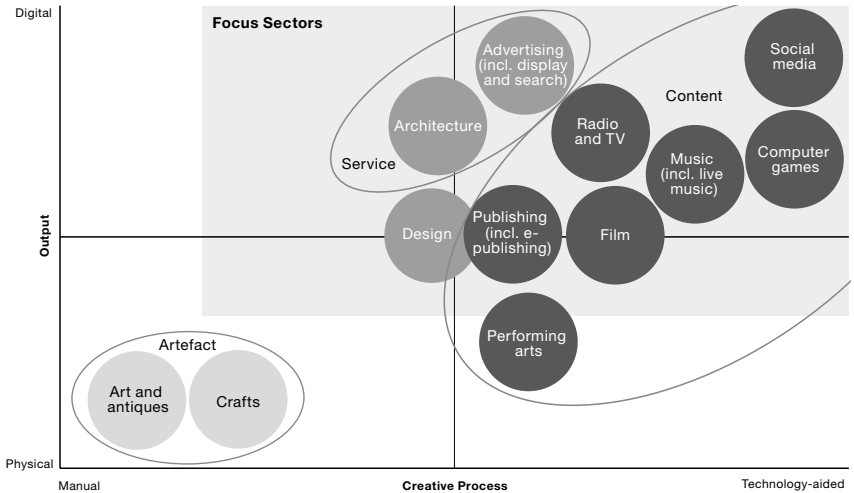
2 Gordon, J. and Beilby-Orrin, H. (2006), *International Measurement of the Economic and Social Importance of Culture*, OECD; UNESCO (2010), *International Flows of Selected Cultural Goods and Services, 1994-2003*; UNCTAD (2008), *Creative Economy Report 2008: The challenge of assessing the creative economy towards informed policy-making*.

The DCMS studies have included 11 sub-sectors in their mapping exercises – advertising, architecture, arts and antiques, crafts, design, film, music, performing arts, publishing, software, and TV and radio. The UK's Technology Strategy Board's review of the creative industries technology strategy in 2008 went a step further than the DCMS mapping exercise, and identified three distinct groups of activity across the 11 sub-sectors while also modifying one or two existing classifications.

The three groups of activity are content creation (film, TV and radio, music, performing arts, publishing, advertising production, computer games and social media applications), creative services (design, architecture and advertising) and artefacts (art and antiques and crafts). This perhaps provides a more meaningful classification for policy purposes as it is often the content creation grouping that forms the basis of the cultural as well as the trade issues raised by the creative sectors, and it is also many of the content creation sub-sectors that face the greatest challenges and opportunities in the Web 2.0 age. For many of these sub-sectors the web age is not just changing the way the activity is carried out but also the way the end product is delivered and consumed. Figure 1 shows the Technology Strategy Board's approach to groupings.

Figure 1: Creative industries segmentations

Source: Technology Strategy Board (2009), *Creative Industries: Technology Strategy 2009-2012*



The Technology Strategy Board's move away from including all the generic UK computer software sector (which was almost as large as all the other creative sub-sectors combined) towards only including the computer games and social media applications sub-sectors within the content creation grouping also reflects a desire to focus analysis on a narrower but more meaningful definition of the creative sectors for policy purposes.

An alternative distinction has been taken by the United Nations Conference on Trade and Development (UNCTAD) report into the global creative industries and trade flows. This divides each of the sub-sectors covered above into the provision of physical goods versus services and copyright licences and rights. So for instance, the export of a DVD is a physical shipment of goods, while the sale of DVD rights in a territory is a trade in services. Similarly, the provision of design advice, concepts and artwork is a trade in services, while the export of highly designed goods, such as jewellery, glasswork or pottery, is a trade in goods.

This is an important distinction when analysing the overall performance of a developed economy such as the UK's, when compared with the rest of the world. Overall, one would expect a better performance in the trade in services and licences in a country such as the UK than in physical products, which are often manufactured in developing economies. Perhaps the best example of this would be the distinction between fashion design services (where France and Italy are strong) and fashion goods trade, which is dominated by the developing economies.

How important are the creative industries to the UK?

The creative industries as mapped by DCMS accounted for 6.4 per cent of UK Gross Value Added (GVA) in 2007, just behind financial services at 7.9 per cent and well ahead of pharmaceuticals at 4 per cent, energy at 4.8 per cent and tourism at 3 per cent. Stripping out the non-games and social media elements of the computer software sector reduces the creative industries down to about 4.4 per cent of the UK economy. The largest individual creative sub-sectors are software (£20 billion GVA in 2007), publishing (£9.5 billion), and TV and radio (£7.5 billion).

The industry collectively employed 1.1 million in 2007, but with the software sector accounting for about 600,000 of these, and only a small proportion of these working in the core games and social media applications sectors.

The creative industries contribution to economic growth has been rather mixed in recent years. Overall annual creative sector growth has been about 4 to 5 per cent from 1998 to 2007, but while the software, publishing, and TV and radio sectors have grown strongly, design, and especially fashion design, have not fared as well. The sector as a whole has also proven quite cyclical, especially the software sector.

In terms of the UK's trading position, the creative industry as a whole has tended to make a small trade deficit, although the level of deficit for the creative industries is far smaller proportionally than for the UK economy as a whole, and the level of deficit narrowed from 2001 onwards with creative industry exports growing faster than total UK exports. In addition, some sub-sectors such as publishing have consistently made trade surpluses over the past ten years while others such as design have been making trade deficits.

Perhaps most importantly of all, the UK's trade position in creative services (as opposed to creative goods) compares very favourably with the rest of the world outside of the US – which still dominates world exports. In many areas of creative endeavour, especially many of the content creation sub-sectors, the UK is the world's second most important global player behind the US.

How does the UK perform in a global context?

While the US is clearly the largest global exporter of creative sector services in the world, figures suggest the UK is the second largest player, with a particularly strong performance in royalties and licence fees for its intellectual property.

While the 2008 UNCTAD World Creative Economy report put the UK third in the list of global creative service exporters (behind the US and Germany), these figures left out some important UK sectors from the UK numbers (advertising and architecture), and included engineering and technical services (not part of the UK's definition of the creative industries). Adjusting for these two differences would put the UK in second place.

At a sub-sector level there are many UK success stories. In music, the UK is only one of three nations to earn more in writers' fees globally than it pays out (the others being the US, the largest net exporter, and Sweden, the third largest net exporter).³ In TV programmes, not only is the UK the second largest exporter of programmes overseas, but its relatively strong indigenous production market has helped keep TV programme imports at comparatively low levels, allowing the UK to be the only developed nation outside the US to run a trade surplus in TV programme licence fees (i.e. the trade in programmes made for TV and so excluding TV channels' payments for feature films – a sector still dominated by Hollywood).⁴

And it's not just in the more traditional media that UK is performing strongly in global terms. An international comparison of the computer games sector in 2004 suggested that the UK had twice as many computer games development companies than any other European economy, while a Library House research report into investment in technology orientated media companies in Europe in 2008 suggested that the UK accounted for 60 out of the top 100 Mediatech companies to watch.

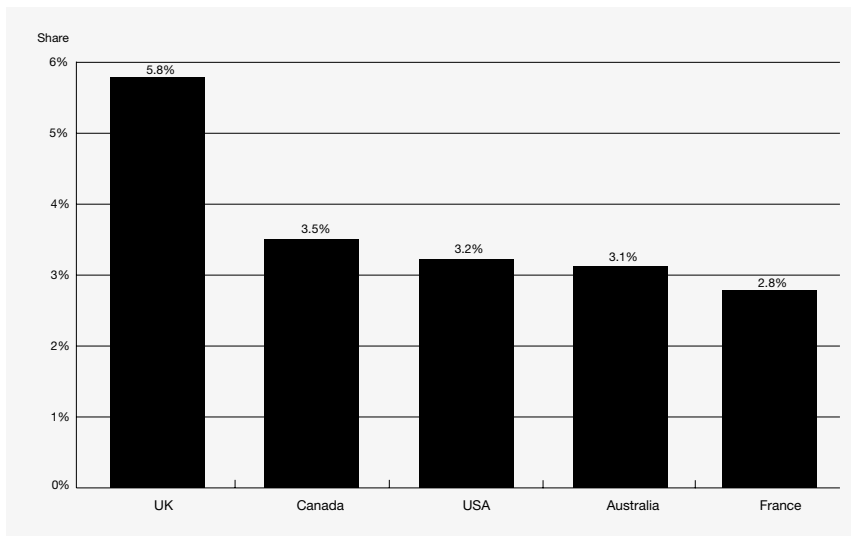
3 Page, W. and Carey, C. (2009), *Economic Insight 20 – Adding up the UK music industry for 2009*, PRS for Music.

4 See UK Trade and Investment (2009), *Rights of Passage 2009*.

The strong trading performance, which is both a result of healthy exports and strong import substitution by robust indigenous sectors, has also helped the creative sectors make a more significant contribution to national income in the UK than in other developed countries. An OECD study in 2006 (of 2005 figures) suggested that the cultural industries (more or less the content creation grouping of creative industry sub-sectors) accounted for 5.8 per cent of GDP in the UK versus 3.2 per cent in the US, and 2.8 per cent in France (see Figure 2).

Figure 2: Contribution of “cultural industries” to GDP

Source: OECD estimates



However, while the UK certainly punches above its weight in the global creative industries, especially the content creation sector, UK-owned and controlled companies rarely emerge as global leaders in each sub-sector. While the UK has many leading computer games developers it has no leading global games publishing house. While the UK is a leading exporter of TV content, the global market is still dominated by the US studio groups. While the world's largest non-US independent TV producer groups are owned by a German media group (Bertelsmann's ownership of Fremantle) and a Dutch-Italian consortium (Cyrte and Mediaset's ownership of Endemol). While the UK does have a number of leading book publishing houses (often Anglo-American controlled) a US company – Amazon – has emerged as the world's first global book retailer, as indeed Apple has emerged as the world's first global music retailer and Google as the world's first truly global advertising medium.

This lack of control of the value chain within each creative sub-sector by UK companies has left many concerned at the UK's future ability to ensure it retains much of the value added in these sectors. For many the UK is in danger of being squeezed between the low-cost replication abilities of the developing economies (hence the strength of China in the global trade in creative goods), and the publishing, distribution and retail strength of US and continental European companies.

Why has the UK performed relatively well?

Each strong creative sector in the UK has its own unique reasons for its performance. The strength of the UK music industry can be traced back to the leading role the UK played in the 1960s globalisation of pop music. The UK's strength in the performing arts has much to do with the theatrical traditions in the UK that go back to Shakespeare. The UK's emergence as a leading computer games developer has a lot to do with the high penetration of early games orientated PCs in the UK in the 1980s, when pioneers such as Sinclair, Acorn and Atari were battling it out for supremacy and many teenagers got involved in computer programming as well as playing computer games. The UK's strong position in the global TV market is linked to the strength of commitment to funding and developing the BBC, the imposition of indigenous content requirements on the commercial networks since their inception, and the opening up of TV programme supply and rights ownership to the dynamic and entrepreneurial independent producer

sector from the 1980s onwards. However, the emergence of the English language as the leading global language and, perhaps more importantly, the shared cultural narratives of the so-called Anglo-Saxon world, led first by the British Empire and then followed by the economic and political strength of the US, have clearly helped the UK establish a strong position. Indeed, while the strength of the US creative sector in a global context could have been a threat to the UK's own position, given the cultural and linguistic closeness of the markets, the UK seems to have instead turned this closeness to its advantage.

More specifically, other things being equal, one would have expected US films, TV series and music to enjoy very high import penetration in the UK compared with other international, non-US markets, which could have damaged the indigenous UK sectors. Instead, many creative sectors in the UK managed both to hold a strong share of the UK market when compared with US imports and to carve out a significant export market, both to the US, and to the rest of the world. This certainly occurred in music and book publishing, and has recently occurred in TV, especially non-fiction TV format programming. Even in an area such as film, where US feature film penetration of the UK far exceeds UK film penetration of the US, many successful films in the US are based on UK narratives (e.g. *The Lord of the Rings*, *Harry Potter*, *James Bond*), and many US films are made in the UK utilising the UK's established craft base or are made using leading UK actors.

More recently, the cultural and ethnic diversity of the UK's major urban centres may have helped it provide content that is more sensitive to the variety of tastes and attitudes that still exist across the globe than the US.

This ability of the UK creative sector to turn a threat into an opportunity will be tested in the web age, when the US not still only produces much of the globally most successful content but also provides the base for the emerging group of web-based global distributors and aggregators.

Why are the creative industries seen as so important to the future of the UK economy?

The creative industries have become more important to the UK in 2010 for four main reasons. First, the major engine of recent UK growth and value added, the financial services sector, might take a while to recover from the credit crunch, and even if it does recover, more limits might be placed on its ability to grow globally as Governments and voters set rules designed to avoid a repeat of 2008-09.

Second, the rise of the top-tier developing economies (the BRICs) is likely to see them take an increasing share not just of basic manufacturing activities but also more sophisticated manufacturing, outsourced and technical service activities (aided by the internet). This puts added pressure on the developed economies to move up the value added scale and to focus on the most creative, most innovative and most technologically demanding global activities – the so-called “knowledge economy”. Various studies have shown a long-term shift in the most developed economies to knowledge-based jobs, investment in intangible assets, and the increasing importance of experience goods and services.

Third, as the world gets wealthier, and new, empowered middle classes emerge in the BRIC economies, there will be more leisure time and a growing appetite for entertainment and content rich experiences. While this new middle class will retain many of its culturally specific tastes, it is also likely to be more open to new experiences and a broader range of cultural perspectives opening up markets to exporters.

Fourth, as digitisation brings more competition and fragmentation to traditional national media markets – from newspapers to TV and film – so the risks of investment increase. One way investors can deal with this increased level of risk is to learn faster what works and what does not, and to apply a successful approach to as many national markets as possible. So in the global TV market, for instance, each national player has stopped trying to come up with hundreds of new ideas just for its own domestic market, and instead has turned to already proven formats and producing local taste-sensitive versions of that format. While global spending on new programming is only increasing by 3 per cent a year, trade in programming – ready-made or formats – is growing by 5 to 7 per cent a year.

The global TV industry is seeing an unprecedented level of global risk syndication, and this is fuelling international trade, a trade the UK is in a strong position to benefit from.

What opportunities does the web age provide to the UK's creative industries?

The internet clearly provides content providers of all sizes and types the opportunity to access a global audience. The limitations of the main national TV network schedules, or book and music shop shelves, are replaced with an endless catalogue of content – old and new – for consumers to choose from. The so-called “long tail” effect could help provide a global market large enough to support niche and innovative approaches to creativity that previously struggled to reach a large enough audience.

To the extent that physical constraints and/or regulatory rules are denying the global market access to the full range and diversity of UK content, the internet could remove these barriers and open up a far larger market.

The internet may also help reduce the costs of certain types of content creation (e.g. CGI replacing expensive location filming and designed sets) which, in turn, could reduce the traditional dominance of the largest and often US-based players. By opening up the creative process to users as well as producers, and gaining more and faster insight into consumer reactions to new content, the internet could effectively reduce the R&D cost and risk involved in new content development, again reducing the economic advantage of the largest incumbents.

The UK's traditional strengths in advertising and retailing, and its global lead in e-commerce (the UK's e-commerce sector is proportionately almost twice the size of the US's), could help UK creative content providers embrace new ways of working with advertisers or charging consumers online more rapidly than their counterparts in other markets.

What threats are there to the UK creative industries in the web age?

But the internet also poses some threats to the UK's traditionally strong position in content creation. The "long tail" effect is fine in theory, but in practice it has so far been accompanied by the "big head" effect. Global megahits are made even bigger by the internet. While the "long tail" does exist it is very long and thin, and might not be enough to create significant global markets in more niche offerings, while the megahits use the internet to squeeze any offerings in the middle. Such a trend might be reinforced by any move away from net neutrality that puts smaller content providers at an economic disadvantage.

While the removal of physical and national regulatory barriers to UK content might open up new markets for UK providers, it also removes barriers to the UK market for overseas, especially US providers. In sectors where national content rules have played a role in creating a strong indigenous sector – such as TV – this might weaken the UK's position.

At a broader level, while the threat of widespread internet piracy undermines the business case for all intellectual property investment, the rise of the global content aggregator (Google, Amazon, iTunes), combined with the increased levels of fragmentation in traditional media markets, could reduce the ability of content providers to obtain the full reward from their value added.

For instance, newspapers face more competition from new online sources of news and TV news channels going online. At the same time, news aggregators are able to offer advertisers the best coverage of the news audience across all providers and subjects. Industry revenue moves away from content creation and towards content aggregation, which in the long term leads to a reduction in new content creation and investment.

What might be the main issues for policy makers?

The only certainty about the internet is that it will change business models and increase the pressure on all creative sectors to innovate. How one thinks the UK's creative sectors will fare in the internet age depends a lot on one's confidence in the sector to remain as innovative and open to change as it has in the past, rather than specific government policies.

But there are a number of ways in which the Government could act to increase the chances of success. First, it needs to help ensure that the UK has broadband infrastructure that both allows creative companies to fully participate in global developments and gives the UK a domestic market able to take advantage of all the latest developments. This might not mean that every household in the UK has superfast broadband, but it probably does mean all major urban areas need leading-edge speeds and functionality.

Second, the Government needs a stance on intellectual property rights protection that both allows a reasonable rate of return for content creators and a high level of innovation: a regime that is quite permissive of content re-use, but one that ensures content providers receive some appropriate economic benefit – no matter how small – every time such a re-use occurs.

Third, the Government needs to recognise that content providers might well need to co-operate in order to deal with the new aggregators and the owners of delivery systems, and that this co-operation is not collusion against the consumer interest but rather co-ordination in the consumer interest. In so far as current competition regimes prevent such co-operation, they need to be amended.

Finally, the Government needs to realise that convergence and globalisation are making traditional market definitions irrelevant. A review of ownership limitations and merger rules that prevent the UK market from responding to these trends is needed sooner rather than later.

2

Where's the money?

Maintaining investment in content

Peter Bazalgette

Show me a “heritage” media company which knows what its business model will be in ten years’ time. There isn’t one. Digital disruption is ripping through TV, film, newspapers, books, music and radio like a typhoon. I’d like to hear that national treasure and architect of the world wide web, Sir Tim Berners-Lee, devotes as much time to online commerce as he does to citizens’ rights, privacy and open government. We all know Moore’s Law but this is “Less’ Law” – any content transferred to digital distribution will earn less, whether disaggregated by iTunes, disintermediated by LoveFilm, diminished by lower value advertisements or plain peer-to-peer stolen. We have to embrace this new world, for we can hardly disinvent it. And though it might spell hard luck for the luvvies, for the shareholders of ITV, for the “best boys” and for the citizens of Soho, is it a public policy issue? Assuredly yes. Let me explain why, in relation to television content alone.

Investment in original, British television content has fallen by around 15 per cent since 2005. Despite a positive blip this year as television advertising partially recovers, the consensus is for a further fall over the next five years. As advertising revenues are more evenly shared by hundreds of TV channels, ITV and Channel 4’s spending power will diminish while the beneficiaries – the smaller channels – will not be seeking to fund news and major drama or pilot new prime-time entertainment. Novel distributors such as YouTube, Dailymotion and Blinkbox need professional content but have no model for commissioning it. It’s true that Sky, whose technology costs are declining, is now putting more money into content, but it still spends the bulk of its revenues on sports rights. Meanwhile Virgin has exited content creation altogether by selling its Flextech channels. And the proportion of its revenues that the BBC spends on programming has been steadily reducing for several years now as it stretches to cover the digital waterfront with the likes of iPlayer and Canvas.

Why does this decline matter? For three reasons: one democratic, a second cultural and the third economic.

It is perhaps the most telling expression of a sophisticated democracy to have a publicly funded but independent and reliable source of news and information. Some now argue that in an era of infinite, digital choice the BBC's services are fine but should be paid for by voluntary subscription. I disagree. It is entirely legitimate for a people collectively to decide to fund a media service, much as we do health or education. Indeed, with the wonderful but anarchic net being as much a repository of rumour and paranoia as it is of truth and beauty (Elvis lives, McCartney is dead, and so on), having a publicly funded, gold-standard news service is more important than ever.

Aided by multi-channel services, flat screens, high definition and digital recorders, television viewing (contrary to what the soothsayers told us) continues to rise. This is the box which lays on the ultimate hustings during our General Election, which gets us to contribute to the Pakistan flood relief, which brings us the comedy we laugh at as a nation, which involves us in social issues dressed up as soap operas and which unites us in jocular despair as we exit the World Cup once again. It remains supremely pervasive and influential. The premium content we are accustomed to receiving in our living rooms is that important. So how it is funded and whether there's enough money to make it good and plentiful could not be more important to our culture.

For more than a decade it has been fashionable to single out the "creative sector" in our economy. Television content sits in the middle of this symbiotic structure. It's the soap operas which train the writers who go on to create major drama and movie franchises. It's the independent producers, who, when given control of their rights, grab half the worldwide trade in entertainment formats. It's the monies paid for TV sports rights that now fund British football, tennis, cricket and rugby. It's the owners of major industrial brands who want to advertise next to professional content, it's YouTube that finally hopes to become profitable by carrying TV programmes, and it's the vast advertising and media-buying industry which still depends on *The X Factor* every bit as much as it does on Google. And even online businesses such as comparethemarket.com rely on TV's traditional mass audience to build their customer base – let's call it the

Meerkat Principle. So if the business model which has paid for all this lovely stuff is threatened and if the monies which are invested in it are diminishing, it most certainly is a matter of public policy. What should be done?

The BBC licence fee is a huge component of the creative sector. Critical questions arise over how what is in essence a tax on TV ownership can be credibly maintained after 2016. Should it be replaced by a content tax? Should the BBC be the sole recipient of it? There's one thing I hope we can avoid and that is seriously cutting the BBC licence fee in 2012. At a time of great uncertainty elsewhere, it underpins the structure of professional content more importantly than ever. By all means threaten to cut it as you exert pressure to reform the Corporation. By all means strip out the digital switch-over surplus to bolster broadband. By all means scrutinise whether the BBC needs to do all the things it currently does. But the real issue is to get the BBC to apply more of its resources to content and reverse the current decline. In his first pass at a strategic review, Mark Thompson, the BBC's Director General, recently proposed committing 90 per cent of the Corporation's revenues to "content and distribution". This was a deft phrase designed to give him and his colleagues maximum wriggle room – "distribution" could cover any number of their pet digital projects. What the BBC Trustees and the Government should be requiring is that 80 per cent of their revenues go into content creation. No ifs, no buts – this would result in an increase of more than 10 per cent on what they currently spend.

The benefits that would flow from this go far beyond the immediate increase. ITV competes with BBC1 and 2 to deliver its *raison d'être*: a mass audience. The more the BBC spends on programmes the more ITV has to. It's a virtuous circle that benefits both the viewer and the creative economy. ITV's status as a public service broadcaster is being rightly redefined. It receives less value in spectrum than it used to: Slot 3 on the Electronic Programme Guide is worth a good deal less than its previous ownership of one of the scarce analogue channels. In its relationship with its regulator, Ofcom, there should be one simple overriding requirement: a maximum investment in content. It should be down to ITV what the optimum programme mix is. Other sensible reforms, like the removal of the Contract Rights Renewal (CRR) system, should be granted in return for the same commitment. Channel 4 currently spends around £550 million on programming. Its new management should be judged on how they can increase that figure, even as its audience share gently declines. By merging

their sales house and managing their overhead more ruthlessly it should be possible to maintain or even improve that figure over the next three years. The much-derided Richard Desmond is intelligently leading the way here, ruthlessly cutting Channel Five's overheads to invest the savings in programming. (Whether he manages to add as much as £100 million a year to his content budget, as declared, is quite another matter.)

As I have indicated, the three sources of funding for television content are the licence fee, subscription and advertising. If you can control your content (for example, the exclusive, live feed of a football match or a drama before it has been broadcast), then you can charge for it. If you package up exclusive, unreleased content with attractive services (HD, Sky Plus), then you can charge more for it. Otherwise, the moment content is "out there" it can be replicated and shared. Users expect this content "free" and that means supported by advertising if we are to continue to see reliable funding flows. In the digital future we will buy our apparently free content with two commodities. Firstly, we will trade our attention span (watching a pre-roll ad) in return for programming we want. This is essentially the old ITV model now being replicated on YouTube. Secondly, we will trade our personal data in order to make the advertisements more acutely focussed on our interests and our spending power. These targeted ads will be worth more and will become important sources of content funding. But for this to materialise we need to resolve some major issues around privacy – the subject for another essay, far more contentious than this.

Getting the balance right

Rich Riley

In less than 20 years, the internet, digital technologies and the rise of personal computing have transformed life in the UK. Over 70 per cent of UK households now have internet access, over 60 per cent have broadband and nearly two-thirds of the population access the internet at least weekly.¹ The internet is now part of the mainstream of British business, culture, politics and society, a distribution network for content and services, an unparalleled tool for information dissemination and retrieval, and an interactive medium for collaboration and interaction. It has become an instinctive part of our lives.

UK citizens and consumers have benefited from the investments made by major international digital businesses and organisations such as Google, Wikipedia, Facebook, Skype, eBay and Yahoo!, as well as from the activities of UK companies, start-ups, the open source movement and the collective, collaborative efforts of the people we used to refer to as the audience.²

Many of the largest internet businesses are now international, having moved quickly to expand overseas into fast-growing internet markets in many territories, with relatively low marginal costs for each additional territory or customer.³

Take-up and usage of the products offered by these internet businesses has often been rapid. Many are free to anyone with an internet connection and a browser, without pay walls and with few barriers to adoption. Advertising has supported the large-scale investments in platforms and ecosystems, and in the infrastructure, applications, content and services used daily by millions of individuals and organisations in the UK and internationally. Many of the most successful services achieve significant scale internationally. Yahoo!, for example, now attracts more than 600 million users globally across its network, delivers 100 billion emails and 81 billion instant messages every month, and distributes more photos by email each week

1 Office for National Statistics (2009), *Omnibus Survey 2009*; UK Online Measurement (2010), ukom.uk.net.

2 Shirky, C. (2008), *Here Comes Everybody*.

3 For a more detailed version of this analysis, see Fransman, M. (2010), *The New ICT Ecosystem*.

than are posted on Facebook in a month. In a sense, aggregator platforms like Yahoo! are the building blocks or foundations of the internet economy, guiding users to content that matches their interests, generating the real-time targeting data that adds value to advertising inventory and helping media partners to reach new audiences.

Today, the web is far from a mature medium. In the future, faster broadband, distributed and mobile connectivity, and the social web will allow for even greater interactivity between people, databases, objects and activities, stimulating innovation, competition and economic growth. The deluge of services will continue, to PCs, smartphones and other connected devices, including televisions, providing consumers with far greater choice, convenience, flexibility and control. As the services that the internet supports become more pervasive and ubiquitous, it will become increasingly central to day-to-day life and to the infrastructure of the UK economy.⁴ The web of the 21st century will be real-time, intensely personalised and delivered from the Cloud, using sophisticated web platforms and content delivery networks to break down the silos between different platforms and web services.

Although exciting and transformative, these kinds of developments contribute to turbulence and change across the creative industries. Historically, the economics of many traditional media business models were supported – at least to some extent – by push-based business models, relatively high barriers to entry and long-established patterns of behaviour and consumer demand. Media markets were fundamentally asymmetrical and relatively closed and, partly as a result, supported high levels of expenditure on certain kinds of content. Major broadcasters and newspapers could routinely and reliably attract large audiences, allowing them to invest in high-cost, mass-media products, confident that they would be able to generate strong returns.

However, the rapid growth and development of the internet is challenging traditional industry structures and business models. The internet's barriers to entry are low, it is two-way and flexible, allowing interaction and communication, and is largely a pull or on-demand channel. There are few barriers to mobility between services, meaning that consumers can quickly migrate to new, superior service offerings, leading to intense competition in many segments. Moreover, the computers and servers connected to the

4 OECD (2008), *Shaping Policies for the Future of the Internet Economy*.

internet are programmable and largely open, allowing many different parties to produce code – programs, applications, tools, content – that can run on a wide range of machines, leading to rapid cycles of innovation and change. As a result, companies across the media sector and wider creative industries are having to reinvent themselves for the internet age.

There are risks of overstating the extent and significance of these changes for the creative industries – the future might be arriving, but it is still unevenly distributed. The mass media remain uniquely powerful, perhaps more so in a fragmenting digital market, and consumption of some services is increasing as new digital technologies provide users with new opportunities to consume their favourite content.

Britain's creative industries are, in many respects, well positioned to face the digital future, with their rich heritage of openness, innovation and adaptability. The UK still has the largest creative sector in the EU, the largest in the world relative to GDP, and is the largest producer of television and radio content in Europe, with only the US generating more value from television exports. The UK also has world-leading games, publishing, music and film industries. The UK leads the world's rankings for advertising excellence and has the third biggest advertising sector in the world after the US and Japan.

Many companies across the media sector and wider creative industries have responded effectively to this challenge, developing world-class online offerings and embracing the internet economy. They have used the internet to redistribute their content and services, to expand internationally, to innovate and improve their products, and to develop new revenue streams.

To succeed, media companies will need to address a number of important challenges. First, and perhaps most fundamentally, they will need to adapt their business models to accommodate a more open, complex and competitive cross-platform market environment. There might be opportunities to exploit television, film, sports and gaming content online, in new and innovative ways that add value to users and rights holders, or to develop high-value online services that consumers in the UK and other territories will pay for. However, it is more likely that they will have to develop ad-funded online offerings that can achieve scale and be distributed internationally, appealing to more diverse groups of online users, in the same way that the UK's television production sector has successfully

expanded overseas. For many services, such as general news and commodity content, the future is likely to be free, with limited barriers to access and larger audiences which can be monetised.

Whatever the business model, UK media companies will need to engage and integrate with the major digital platforms that are now responsible for driving so much traffic on the internet. Put simply, the size, popularity and influence of Google, Facebook, Twitter and YouTube make them difficult to ignore. In many respects, these businesses have become the telegraphs and railroads of the new internet economy, guiding users to relevant content and services.

Alongside this, the creative industries will need to restructure their cost bases like firms in other sectors that have been impacted by technology, deregulation and globalisation. Inevitably, increased choice and competition will put pressure on margins. Firms will have to become more competitive and efficient, expanding into new markets, reducing their costs and becoming increasingly specialised. In this sense, the internet has often appeared far kinder to smaller creative companies, individual entrepreneurs, innovators and artists than to larger media companies. Publishing in the mid to long-term is thriving, using traditional advertising and sponsorship business models, although the very openness of the internet, which makes it easy for new companies to enter the market, might also mean that the scale of the opportunity for most individual players is small.

Finally, creative companies will need to become more flexible and adaptable. One-size-fits-all per-user licensing frameworks are less likely to succeed in a market that is open, dynamic and immature. Instead, firms will need to experiment with multiple licensing models to accommodate more diverse, fragmented and immature digital markets. Similarly, like the traditional publishing industries, content providers will need to explore more sophisticated and imaginative commercial structures that embrace mutual risk-sharing rather than simply licensing their content to large digital businesses. This could mean sharing data, developing cross-selling and revenue-sharing arrangements, or trading links and cross-promotion. Like the most successful digital businesses, creative companies will need to be restless, experimental, attuned to the needs and behaviours of users, and open to partnership and collaboration.

The market is still evolving and remains in a state of transition. It is also clear that there will be winners and losers, and uncertainties about what the market will and won't provide on a commercially-sustainable basis – as Clay Shirky has suggested: “That is what real revolutions are like. The old stuff gets broken faster than the new stuff is put in its place.”¹ Inevitably, there will be conflicts, between content owners and distributors, incumbents and new entrants, public sector providers and commercial companies. New interventions might be required and existing interventions might need to be redesigned.

The promise and opportunity of a Digital Britain, integrated into a global network of networks, is exciting and transformative. The challenge now is to embrace and pursue the new opportunities for innovation, distribution and engagement afforded by the new internet economy. We need to create an environment in which world-class digital businesses can grow and compete internationally, but also to encourage openness, internationalism and investment, ensuring that the UK remains the best place in Europe for doing digital business.

1 Shirky, C. (2009), *Newspapers and Thinking the Unthinkable*.

The more the merrier: advertising in the multi-platform age

Dr Alan Wurtzel

The profound changes affecting the contemporary media landscape require content companies to continually assess how they distribute their programming and produce an effective advertising environment. Without question, we live in a cross-platform world and the consumer's expectation is that programme content will be available across multiple platforms. The consumption of long-form television programming on the internet has become rapidly mainstreamed. While the dominant platforms at this point are television and the internet, mobile is growing rapidly and the introduction of the iPad and, ultimately, other Personal Electronic Tablets (I like to call them "PETs") will dramatically increase use of the third platform.

Of course a primary objective of content provider companies like NBC Universal is to grow these digital platforms, but we also believe that an important strategic use of these new media is to drive increased viewing of television and to improve the effectiveness of television advertising. That is why our ROI evaluation metrics are focused on measuring the impact of cross-platform on both television programming and television advertising. While we certainly want to increase the value of internet and mobile properties, television remains "the mother ship" because that's where the bulk of the audience and the revenue are found.

We have learned that distributing content and placing advertising cross-platform leads to some important television advantages.

First, the more screens consumers use, the more television they watch. During the recent Winter Olympics broadcast in the US by NBC Universal, viewers who followed the Olympic games on both television and the internet watched twice as much on TV as those who followed on TV alone. Moreover, people who watched the Olympics on TV and online at the same time watched three times as much TV. They also spent 70 per cent more time on our Olympics website. Clearly, cross-platform use isn't a zero-sum game. Contrary to early concerns that the internet would cannibalise television, there is a great deal of evidence that the opposite is true. Making content available on alternative platforms increases time spent on *all* of the

platforms, including television. In effect, all ships rise. This is borne out in the US by the general trend in the increased use of all media. The fact is, people are spending more time with media than ever before.

Second, we see great potential for mobile media to enhance the viewer's TV experience and increase TV ad-effectiveness for advertisers. It may sound counter-intuitive, but peak mobile usage actually occurs at home in the evening, coinciding with television prime time. The various mobile functions around texting and WAP enable consumers to engage with their favourite programmes in a powerful way. For example, the "text to vote" model allows the viewing audience to use their mobile device to participate in many of their favourite competitive reality shows, and millions do. Other programmes have taken advantage of the texting function to encourage social networking simultaneously during viewing or immediately following the broadcast.

Interestingly, we have learned that programmes with a simultaneous cross-platform activity can result in a programme delivering more viewers during the commercials than to the programme itself. Here is how that happens. During a typical commercial break, some viewers change the channel to see what else is on. Most of these people are replaced by other viewers who tune in during the break. (They were probably watching a different programme that also went to commercial break.) But when a programme offers online and text voting, more viewers stay for the commercial break to see the results. The net effect is that the commercial audience is larger than the programme segment that led into it.

We have learned that when cross-platform offerings on the internet and on mobile are well designed and executed to complement the television content, the internet use results in increased TV viewing which in turn results in more internet (and mobile) use which increases TV ratings, in other words, the proverbial "virtuous circle."

A specific example of a virtuous circle can be found on the programme *Bad Girls Club*, a reality show on the Oxygen cable network. In an experiment, we produced an internet chat-room experience where viewers could interact with one another during and after the programme. Initially the chat room was available only on the East Coast. Ratings for the East Coast version of the show increased significantly, but they were unchanged on the West Coast, where the chat-room was not available. Several months later we

created a chat-room for the West Coast audience and saw an immediate increase in their ratings as well. And of course as the programme's ratings increase and the audience becomes more engaged, it's a direct benefit for the advertiser.

Third, we have found that advertisers who utilise multiple platforms increase the power and effectiveness of their television advertising. We measure the effectiveness of TV ads with a variety of ROI metrics: "brand awareness", "message recall", "likeability" and "product evaluation" are some examples. Our research consistently shows that advertisers who utilise both internet and television produce anywhere from a double-digit to a triple-digit percentage lift in the evaluation metrics compared with an advertiser who advertised only on television. And finally we know that consumers who use multiple platforms tend to far be more engaged, enthusiastic about the programme and likely to talk to others about the show, which in this viral world is a huge advantage. Some suggest that is because they are "fans" – well yes, that's exactly the point. We are in the business of creating fans because they are the kind of loyal, committed and engaged viewers and consumers our programmers and our advertisers want to reach.

The reason all of this is so important is that in order for advertiser-supported television to survive (and ultimately, thrive) it must – at the very least – preserve existing revenue and hopefully grow it. A recurring question is whether or not spending on new platforms is incremental or just the reallocation of existing advertising funds. While others are more qualified to address that question, what is obvious is that retaining the value and effectiveness of advertising and improving its capabilities going forward is critical. In the contemporary media environment, where audience fractionalisation, over-commercialisation and new ways of communicating (viral, social networking, etc.) have affected the way advertising works, the use of cross-platform advertising and marketing will play a significant role in keeping the effectiveness of advertising – and its revenue stream to the content providers – robust.

By now there is ample evidence from experience and research that multi-platform presence is key to the success of content providers and advertisers alike. It offers consumers the control they have grown to expect, enhances their TV experience, results in greater use of all screens, produces more effective advertising and creates new ways to stay connected to them.

A new economic model

Kip Meek

In Mark Thompson's MacTaggart Lecture at the end of August in Edinburgh, he said this: "The total pot of money to invest in original TV production is shrinking and may shrink further. [This is] happening because the broadcasters who have traditionally been the biggest investors in original British TV beyond the BBC are fishing in a stagnant or declining pool of advertising. Without new creative strategies or business models or unless other players or other solutions appear, the total amount of money for new talent and new ideas and for the UK's excellent independent sector is likely to reduce further."

In my view – and probably in Mark Thompson's also – the issues affecting the health of the UK media go even further than the UK's ability to generate original content. The fragmentation of media and the emergence of a new form of advertising threaten the long-established media players. This is not generally bad news for consumers who, after all, have benefited massively over the last twenty years from numerous changes in the media landscape and the consequent innovations, particularly from Sky and the profusion of internet-delivered content. But it does require the traditional media players to either slope off into the night or innovate in a way that does not come naturally to them.

To shed some light on the issue, it's necessary to take a look at the economics of media and how they are changing. In 2008, the traditional media in the UK (newspapers, magazines, TV and radio) earned revenues of £21.1 billion. This represented moderate growth over a decade earlier, an increase of about 13 per cent in real terms over the ten years. However, this relative stability at an aggregate level masked dramatic shifts in the underlying economics. Advertising income had fallen 13 per cent to £9.1 billion, while revenue from consumers (retail sales and the licence fee) rose 46 per cent to £12 billion, primarily because of the growth of pay TV.

In addition to the changes in where revenue was generated, a second major change was the degree of competition. TV in particular has seen massive fragmentation. ITV's share of adverts seen fell from just under 60 per cent in 1998 to 41 per cent in 2008, and by then there were over 500 TV

channels. The radio market has seen much the same; there are now 334 radio stations in the UK. This increased competition reduces audience sizes, often increases the cost of talent and reduces pricing power of media when selling to advertisers.

This rise in competition has been a shock to businesses whose historic business models were in part built on ad-space monopolies or oligopolies. It used to be that if you wanted to reach a meaningful TV audience, you simply had to deal with ITV. Equally, if you wanted to reach Mr Smith, the *Times* reader, or Ms Jones, the *Telegraph* reader, you had to advertise in those titles, since readers were each unlikely to read more than one title. Similarly, local newspaper advertisers usually had a choice of one or maybe two titles for their local job, property and car ads. These monopolies and oligopolies allowed media to charge high prices for ads, prices which have proved unsustainable in the face of fuller competition.

This matters because many media players remain highly dependent on advertising. Advertising represents almost 100 per cent of commercial TV and radio broadcasters' revenues. Equivalent percentages for local and national newspapers are 81 per cent and 48 per cent. If these media cannot deliver audiences to advertisers and charge a full price for those audiences, they suffer, particularly because media is a high-fixed-cost business. Sales might fall, but costs do not, so revenue reductions penalise the bottom line.

If a traditional product is becoming commoditised and prices are falling, the best response is to innovate. But there has been little evidence of this amongst traditional media – TV advertising as a product is essentially unchanged over the last 50 years (admittedly in part for regulatory reasons). This is in contrast to the frenzy of advertising innovation online, which has seen a proliferation of formats, targeting, pricing models, audience aggregation tools and so on.

However, thus far, the way the internet has affected traditional media is more complex than is generally believed (with one important exception). While UK internet advertising is now just under a fifth of total advertising revenues, it is not clear that much of this spend was taken directly from TV, radio and national newspapers. These media rely on display advertising, which is only 19 per cent of internet advertising, the other 81 per cent being classified and search. The exception is local newspapers. These are highly

dependent on classified advertising, and have suffered more than a third reduction in classified revenues between 2004 and 2008, thanks to the rise of sites such as Monster, Rightmove and Auto Trader.

Nor is it clear that the internet has had a material impact on traditional media audiences. TV viewing is up over the last ten years. National newspaper consumption is certainly down, but this has been a steady trend since 1984, long before online news. Any acceleration of the decline in the internet era has been marginal and might anyway be as much to do with the rise of rolling-news channels. The story is similar for local newspapers, for whom circulation has been on an almost linear downward slope since the 1960s. The internet has given local newspapers an advertiser problem, but not an audience problem (though this alone may prove fatal).

Newspapers have tried to offset these ongoing print declines by moving online, but they have struggled in an environment that is much more competitive. Given the plethora of free news sources both on and offline, it is very difficult for any one outlet to charge consumers for news. More importantly, in an online environment newspapers compete with many other sites that can deliver a given consumer to an advertiser. This leaves newspapers (and many other content providers) very little pricing power when they speak to advertisers. They might also not be the most attractive place to advertise. They can offer a quality environment (compared to, say, MySpace), but they cannot guarantee that the audience is actually interested in the product in question at the time they visit the site. By contrast, numerous technology sites, for example, can convince advertisers they have an audience currently interested in tech products.

This erosion of pricing power may be a general phenomenon, affecting all traditional media. The impact of the development of online advertising might be one of the reasons for this decline, although there is also widespread unease about the applicability of the current ways in which advertising is regulated.

So for various reasons, commercial TV, commercial radio and local and national newspapers are all suffering. Who have been the winners? The BBC has been thriving, since the licence fee has given it a much more stable source of funding than its rivals, and it has been able to increase both its TV and radio spend appreciably in real terms.

Sky, which had 1 million customers in 2000 and now has almost 10 million, has also been prospering. Sky's business model is primarily based around charging consumers, not advertisers, and if you have unique and valuable content this clearly makes sense. To an advertiser, there is no benefit to reaching a viewer while he's watching the first TV showing of a movie rather than when he is watching a *QI* repeat. But the viewer might well pay more for the former experience than the latter. (Of course to extract this value you need a mechanism to charge the customer, something most broadcasters lack today.)

What then can those who have been suffering do to improve their lot? In some cases the answer might be "not much". A natural consequence of innovation and market development is that companies, and at times industry sectors, disappear. Buggy whip manufacturers were killed off by the rise of the car. However, this does not mean that the right answer for buggy whip manufacturers was to get into the car making business. Unless they believed they had some competitive advantage in car manufacturing, this would simply have been good money after bad.

It is possible that local newspapers are a parallel case. Online classified businesses are doing them significant damage, but that doesn't mean the right response is for the newspapers to move online – the battle to capture a profitable share of online property, car and job advertising is probably already lost.

Commercial TV, though less healthy than it was, still has a bit more time, and certainly has the opportunity to build much more value into its advertising product. TV advertising is remarkably untargeted. The fact that someone watches *Coronation Street* tells you very little about what products they are interested in buying. By contrast, online businesses can combine deeper knowledge about individual audience members with the ability to deliver particular ads to each of them. Consequently, Google's revenue per viewer hour is 35 times that of ITV1.

Ironically, Sky, which amongst the major TV companies has the lowest dependency on advertising, is furthest down the track in building the ability to target. Its AdSmart service will allow different viewers of the same programme to be shown different ads (Virgin is working on something similar). In time internet-connected TV platforms being developed by other commercial broadcasters will enable their own ad-targeting capability.

Another option for commercial broadcasters is to charge for the programming they give away free, at least for some of it, some of the time. Might some customers be willing to pay to see a favourite programme a day early? Or might they pay to see it without adverts? Advertising brings in about 7p per viewer hour on ITV1, so a tariff of 10p for an ad-free hour would be profitable.

The companies that will win in these increasingly competitive markets will be those that are clear about where their competitive advantage lies, and why that advantage matters to their customers – in most cases, advertisers. Better content might attract audiences, but (extremes aside) it doesn't greatly matter to advertisers unless it leads to a lower cost per impression. In practice it often does the reverse. Broadcasters need to look elsewhere if they are to find strategies that will save their ad revenues from eventually suffering the grim decline of the local classified business.

3

Freedom or intervention? The optimal balance for creative investment

Regulation: between London and Brussels

Ross Biggam

“Italian viewers like gameshows, UK viewers prefer drama.” Fifteen years ago, the prevailing wisdom was that there could be no such thing as European television, because audience tastes were so diverse. Today, in the era of the global format, this sort of generalisation can no longer be applied – the international hits of reality TV, talent shows and popular factual (yes, there have actually been two very successful Belgian versions of *100 Great Britons*) work everywhere, in Europe and beyond.

As the television business has become more international, there have also been significant shifts in media regulation. Back in the mid-1990s, European broadcasters knew where they stood: France and Sweden would always push for more regulation; an impressively interventionist menu of programme quotas and advertising bans for commercial operators combined, unhappily, with an unshakeable belief in *laissez-faire* when applying competition law to publicly-funded broadcasters – where everything was permissible in the name of “culture”. Equally reliable were the free marketers: the UK, Germany and Luxembourg, in an EU of 15 member states, formed a dependable blocking minority against any moves to further interfere with the way broadcasters did business, whether on advertising, media ownership or programming obligations (nobody talked about “content” in those days). Indeed, for most of the 1990s this trio blocked even the proposed ban on tobacco advertising, the ultimate hard case for any advocate of the freedom to advertise.

The pivot which these coalitions turn is of course the European Commission. And the Commission's direction of travel has been, as far as possible for such a complex institution, unambiguous. While the activism of the Delors era (1985-94) might have created a default position in parts of the Commission to harmonise wherever possible, this changed over time, most notably with the arrival of José Manuel Barroso as Commission President in 2004. For advertising and media issues, the change had happened earlier. Viviane Reding, assuming responsibility for the audiovisual media sector in late 1999, was crystal clear: the Commission would propose no new advertising bans. For Reding (and, increasingly, for sensible industry advocates), tobacco advertising was a special case for which a ban was appropriate – but the logic of tobacco would not be allowed to creep into other areas such as alcohol, food or advertising to children. The Commission dropped all diplomatic niceties and was refreshingly unambiguous in telling the Swedish Presidency of 2001 to forget its plans for a pan-European ban on TV advertising to kids.

So the threat which had so preoccupied the UK media and advertising industry in the 1990s of “new advertising bans from Brussels” was now an empty one. Advertising issues are never off the agenda – it only takes one MEP to propose an amendment banning this or that product – but the only “threat” from the Commission these days is for labelling requirements, not bans. And even on issues such as compulsory environmental information for car advertisements (surely an area where consumer demand will provide this information much quicker than any EU directive), there are liberal, pro-industry voices within the Commission hierarchy.

In fact, today, many continental broadcasters are concerned about new advertising bans emanating not from Brussels but from London. Ofcom is, in a European context, a peculiarly influential regulator. Compared to its counterparts, it enjoys a level of resourcing, including access to outside expertise, which is not replicated in even the French or German regulatory systems. Ofcom's other great advantage is that its voluminous reports are published in English and consequently immediately accessible, in today's Anglophone EU, to any national or European official. The Romanian broadcasting industry was surprised a few years ago to see a translated, copy-and-paste of the Ofcom High Fat, Salt or Sugar (HFSS) rules proposed (though not ultimately adopted) by their Government. Meanwhile, French

policymakers also rejected a ban on HFSS advertising in favour of a commitment to broadcast healthy eating messages. It would, ten years ago, have been impossible to foresee that the UK would respond to a societal issue like obesity with an advertising ban, while France preferred a co-regulatory commitment from broadcasters.

Media convergence, regulatory divergence?

Discussions about banning advertising almost appear quaint in today's multi-platform, multi-channel world. And indeed, media convergence was sold to commercial broadcasters on a simple prospectus: that the death of spectrum scarcity meant the end of micromanaged sector-specific regulation. The future was one of horizontal competition law.

In practice, things have not been so simple, for three main reasons. First the move to competition law has not been unambiguously helpful, with excessively narrow market definitions increasingly hard to reconcile with the cross-platform nature of competition. Secondly, the emergence of competing platforms for content distribution which are subject to different rules, or to virtually no rules, means that deregulation for commercial broadcasters is now a business priority, regularly listed as such by incoming CEOs, rather than an interesting intellectual exercise. Finally, "light-touch regulation", unsurprisingly, means different things depending on whether one is a regulator or a regulated company. Admittedly, there has been progress, both at EU level and in many member states. But moves to deregulate the television sector have been piecemeal, and the pace glacial compared to what is happening in the business. Box-ticking and lengthy debates over the legality of minor changes in broadcasters' activity remain the default position of the European Commission and most national regulators. The EU Audiovisual Media Services directive (AVMS) is an example. This establishes rules on jurisdiction for transfrontier television but also contains some extraordinarily detailed rules on advertising and sponsorship. The AVMS text is an improvement on the EU directive it replaced. But it took seven years of consultation, drafting and negotiation, first in Brussels and then all over again at national level before this partial modernisation arrived on the statute books across Europe. This was not through bureaucratic inertia or interminable political wrangling – this is how long it takes to prepare, negotiate and implement primary legislation in today's EU.

Towards a new European consensus?

As European media regulation becomes more complex, so it is all the more tempting to look back fondly at the certainties of the 1990s. But alliances are much more transitory these days – the UK started out the AVMS process with only Slovakia as a dependable ally on the Government's priority issue of the directive's scope, yet ended up achieving most of its original objectives. Doubtless the same will happen when the EU next comes to legislate on the media sector, probably in relation to copyright some time around 2012 – the daily reality of Brussels policymaking produces a shifting round of alliances. What is missing today from European media debates is a sense of overall strategic vision; the competing visions of the mid-1990s have not ended in victory for either the UK-German or the Franco-Swedish camps, but rather in a complex, technocratic compromise in which the ideological differences between member states have dissolved. Might there now be an opportunity for a new vision? The European Commission will be preoccupied for the foreseeable future with examining national implementation of the AVMS directive (which has typically been either over-enthusiastic or late). Nor can a single member state do much on its own. But a vision for European media could be created, say, by the UK in co-operation with the next three rotating EU Presidencies: Hungary, Poland and Denmark. The difficult bit of course is communicating that vision. The debates leading up to the adoption of the 2003 Communications Act, watched from the safe distance of Brussels, had a clear narrative: that UK broadcasting needed three strong pillars: pay TV, a strong advertising-financed sector and the publicly funded BBC. Much of this clarity has now got lost in the detail of the Ofcom Pay-TV Review, CRR and endless wrangling over the BBC's financing: but it is precisely this sort of straightforward vision that is now lacking in Brussels media policy.

What then might be the elements for a new consensus? The abstract principles and the easier bits of regulation are already agreed: powers to act against hate speech, support for a pluralistic, competitive media, protection of children against unsuitable content on and offline, no misleading advertising and so on. But at a more operational level, across Europe, governments are slowly (too slowly?) coming to the conclusion that commercial television is over-regulated and over-taxed, in comparison with new entrants but also with public broadcasters, and that this burden needs to be reduced if the sector is to realise its potential.

There is now, perhaps for the first time, a common interest between the commercial broadcasting sector and European politicians. Both parties want a digital economy in which creative content plays a central role, and where broadcasting continues to be financed by a mixed economy of advertising, pay and – subject to appropriate scrutiny – public funds. The EU has understood the point about the need for scrutiny of state aid in broadcasting, and has been commendably resilient in applying the rules in this area. And there are signs that policymakers are now concerned less about complying with programming quotas than about protection of that programming against piracy and unauthorised redistribution – precisely because such piracy reduces the available revenues for reinvestment in next season’s programming. The hardest part is persuading EU officials of the need not just for another “revision” of EU rules on programming and advertising content but for a much more fundamental rethink, which produces a framework as adaptable and innovative as the industry it seeks to regulate. This is where fresh political leadership from national capitals will be indispensable.

Growing creative investment through liberalisation

Adam Crozier

“Adapt or perish, now as ever, is nature’s inexorable imperative” (H.G. Wells)

Today’s market for creative content is perhaps the most rapidly changing, exciting and competitive in the world. For an organisation to survive and thrive in such an environment, it needs both to be able to adapt to change and free to adapt to change.

For creative enterprises, two seismic changes have come about as a consequence of the development of digital technology: convergence of formats and globalisation of content.

Although the trend towards convergence has long been forecast, it is accelerating: bringing to an end the division between markets for creative content, and demanding new funding and business models. Television, newspapers, video and music are increasingly available through the same channels.

For consumers, a marriage of the enduring popularity of TV with the power of the web is an exciting and empowering prospect. Internet giants like Google and Yahoo! are moving into the converged space, with Google TV recently announced. In the UK, Project Canvas, bringing broadband and broadcast technologies together along with the world’s best free-to-air television content from the BBC, ITV, Channel 4 and others, will be a revolutionary innovation next year. These developments will remove forever the distinction between traditional TV and the internet.

Convergence also erodes geographical borders. Today the most successful content is global – *Lost*, *Desperate Housewives*, *Come Dine with Me*, *Pop Idol* – and the most successful brands are global brands – Amazon, Facebook, Google (again). Creative companies everywhere need to think globally or risk being crowded out.

In the UK, we are at a pivotal stage. Decisions taken today – by companies and by regulators – will determine whether we build on our historical competitive advantage in the creative industries, to thrive in the new world, or get left behind as international players are quicker to adapt.

We should be concerned that Britain today has no creative enterprises of scale to operate in the converged world. When pressed for an example of a British global media player, many people will cite the BBC. Yes, the BBC is a global success, but it is also a state-owned corporation funded by a compulsory licence fee, and so necessarily constrained in its capacity for growth as an investor and as an employer. If we in the UK want to be serious players in a commercial sense, then we need to grow companies of a global scale and global calibre.

This will become ever more important in the years ahead. According to the independent Office for Budget Responsibility, public sector employment in the UK economy could fall by as much as 600,000 over the next six years.¹

Britain's economy will place even greater reliance on the enterprise sector to produce growth and jobs. Over the last 12 months politicians from across the political spectrum have talked about the part the creative industries can play as an engine for growth. The sector already accounts for over 7 per cent of UK GDP² (compared to construction at 6 per cent and financial services at 8 per cent).³ The creative industries have grown ahead of the economy in recent years and are still expected to grow on average by 4 per cent overall in the next five years.⁴

Within this, the three largest sectors – design, publishing, and television and radio – account for almost 75 per cent of revenues and 50 per cent of the employment. Television alone contributes around £5 billion each year (Gross Value Added) and employs some 60,000 people.⁵

So the UK TV industry has the potential to make a significant contribution to future growth. Worryingly, however, even before the recent recession, the trends in commercial television were in the wrong direction: shrinking revenues and reduced investment in original programming – down by 15 per cent in the last five years.⁶

1 Office for Budget Responsibility (2010), *Forecast: Employment*, 30 June.

2 Europe Economics (2008), *The UK film, TV, music and software sectors: their importance to employment and output*.

3 Office for National Statistics (2009), *Blue Book*, Table 2.3.

4 NESTA (2009), *Demanding Growth: Why the UK needs a recovery plan based on growth and innovation*.

5 Europe Economics (2008), *The UK film, TV, music and software sectors: their importance to employment and output*.

6 Ofcom (2009), *Public Service Broadcasting Annual Report*.

While the digital world has brought an explosion of competition and choice, there has been no corresponding explosion in investment in content. Despite early predictions that multiple channels would generate multiple sources of content investment, today 90 per cent of the investment in original British TV production still comes from the traditional public service television channels.

However, the return on that investment for commercial broadcasters has declined in the face of deflation in the value of UK television airtime and the challenges (both regulatory and commercial) of creating new revenue streams through secondary exploitation of content online and in other formats.

The danger for the UK production sector is that it has become increasingly dependent on the BBC just at a time when the BBC is likely to have less money to spend. The commercial sector will need to grow to fill the gap.

There is much that creative businesses can do to help themselves. After last year's unprecedented economic downturn, commercial terrestrial broadcasters are leaner and fitter than ever. Investing in and creating world-class content, executing it across multiple platforms, successfully marketing and selling it around the world – all are critical to our future success.

However, there is also an important, catalytic role for government and the regulators. While this is no time to be asking for government handouts, there is much the Government can do to reduce the regulatory drag on the sector. The playing field on which Britain's creative enterprises operate needs to be levelled to help stimulate growth and jobs.

Members of the new Coalition Government have said they are “extremely keen” to deregulate the creative sector. To translate this ambition into real growth and investment, it should be an urgent goal of the new Government to deliver a fair, competitive playing field between TV and the internet; UK media companies and their global peers; broadcasters and producers; and satellite, cable and free-to-air broadcasters.⁷ This will give our media organisations the freedom to adapt to change.

Specific areas cry out for urgent action – within TV advertising regulation, for example. Today, total advertising spend online exceeds that on TV, yet TV advertising is still regulated as if competition from the internet didn't exist.

7 Vaizey, E. (2010), Speech to ISBA conference, 18 March.

UK TV airtime prices have been falling for a decade and the proliferation of digital channels has transformed the market into a highly competitive one, capable of self-regulating.

Outdated restrictions such as Contract Rights Renewal (CRR) which regulates the sale of ITV1 airtime – now serve only to tilt the playing field away from the biggest investors in UK content. CRR effectively freezes the UK TV advertising market at a point in time when Carlton Television and Granada merged in 2003. Ofcom has concluded as a result that “the CRR remedy may potentially be restricting the development of competition”. The media industry regulator has said that, “given the decline in ITV’s market position since the merger in 2003, Ofcom does not believe that retaining the [CRR] undertakings in their current form is appropriate.”⁸ There is now considerable support for this view across Britain’s political parties, which can and should translate into early action from the new Coalition Government.

The micro-regulation of commercial free-to-air broadcasters – that dictates what programmes are shown, who makes them and where they are made, is part of the past and should simply be brought to an end. And regulated terms of trade that operate between broadcasters and independent producers need to be updated too. Since the introduction of the current rules in 2003, many independent producers have grown bigger and more powerful than the broadcasters they sought protection against. Times have changed and these rules need urgent review.

The current regulatory framework was born in the pre-internet era, before digital competition ended the quasi-monopolies enjoyed by free-to-air broadcasters, and before the market power of advertisers and producers increased significantly through consolidation. Commercial television’s customers and suppliers in the UK no longer need to have their hands held by government or the regulator.

The UK competition authorities too need to update their thinking on how UK companies sit within the new, highly competitive, globalised market. Constraining companies in order to address narrow concerns about competition within segments of the UK market takes no account of how UK players today operate in a global, multi-media and multi-platform marketplace. The public interest should have a place in this discussion, which it is currently denied by our competition laws and regulators.

8 www.ofcom.org.uk/tv/ifi/tvlicensing/contract_rights_renewal.

In a world without global borders, narrow national regulation simply penalises indigenous companies and benefits overseas competitors. On the other side of the equation, consumers more than ever want high-quality, innovative and original programming, however they choose to consume it: on screen, online or on the move.

So there is a virtuous circle to be created: of freedom, investment and public satisfaction. All are needed to grow our industry; to produce global brands and global content to compete on a level playing field with the rest of the world in one market place.

Given the freedom to adapt to a changing world, the creative industries can thrive and play a full part in supporting Britain's enterprise-driven economic recovery.

The BBC: enabling the wider creative sector

Ben Fenton

It is an axiom that the British are great inventors whose lack of commercial imagination, impetus or investment permits other nations to develop and profit from their ideas. The computer, the microwave oven, the world wide web, cricket and Viagra are just some of the examples that spring to mind.

But there are two areas where this has not happened, which in our hour of economic need we have tended to ignore: television content and the English language.

I do not intend to enter the hoary argument about whether Baird actually invented television, but consistently through the development of the medium, British broadcasters have come up with unique programmes that draw in viewers and actually improve the quality of their lives. From the first sensible approach to impartial television news, in which ITN initially outplayed the BBC, to satire (*That Was The Week That Was*), comedy (*Monty Python*), natural history (*Life on Earth*), and any number of dramas in both serial and one-off form, our programme makers have been responsible for decades of productions that remain world-class.

Another axiom of the media world is that those who advocate reducing the role of public money and a public-service ethos in broadcasting need only spend a few weeks in the US, Italy or any other country of the world.

As to the language we have given the world, and which the world seems increasingly happy to use as a *lingua franca*, we still retain first-mover advantage. The ability to express oneself beautifully and naturally in English is one that British businesses could exploit around the world and none more so than creative companies working in television, radio, online or in games. Groups such as Pearson, the owner of my own newspaper, have already recognised the commercial potential of English-language teaching in China and Latin America, and where they tread, others would be wise to follow.

It is in both these areas, of course, that the BBC can make its contribution to other creative companies, but before examining those, let me just consider (and dismiss) the obvious alternative.

The last time Britain faced so severe an economic crisis, the contribution of the BBC was straightforward. In 1932 it handed over to the Treasury £50,000 from the licence fee; the following year, it gave £150,000.¹ Transfer that into 2010 numbers,² and the BBC would now be donating, or “self-top-slicing”, if we fall into media jargon, £142 million and £378 million respectively.³

As the current management and the BBC Trust have declared themselves wholly opposed to top-slicing even at half the level of that second number,⁴ we can assume they would not share the pliant attitude Lord Reith patriotically displayed when economic depression last wracked the country.

But there is no question that the creative industries of the UK, identified by numerous quangos and politicians in campaigning mode as a possible alternative to financial services as a lifebelt for the economy, need the money. Take the independent production sector: Ofcom says spending on first-run originated programmes for the five main Public Service Broadcasting channels fell in 2009 by 7.4 per cent to £2.41 billion, compared to the £3.05 billion spent in 2004.⁵ The annual decline for 2010 is likely to be greater, so in that one area of the creative sector alone, a BBC handout would be more than welcome.

But the realities of life are that the BBC, as fierce and able a defender of its resources as any public sector body, not to mention one with an unmatched marketing platform, will not meekly hand over cash. Nor has the Coalition Government as yet shown any appetite for a fight on ground where the two Parties, if not their leaders, hold hugely disparate philosophical positions.

More to the point, simply throwing hundreds of millions of pounds into an ill-defined pot for independent production would be an ineffective use of money. Nor are independent producers by any means the only or even most

1 Briggs, A. (1995), *History of Broadcasting in the United Kingdom Volume II: The Golden Age of Wireless*. Letter in the Post Office Archives from Philip Snowden, Chancellor of the Exchequer, to the Postmaster-General.

2 The total collected was £1.7 million and £2.15 million respectively of which the BBC kept only 71 per cent, the rest being split between the Post Office and the Treasury. www.radiolicensing.org.uk/licence1930s.html; www.publications.parliament.uk/pa/cm200405/cmselect/cmcumeds/82/8208.htm.

3 www.bbc.co.uk/annualreport/exec/financial/consolidated.shtml.

4 www.ft.com/cms/s/0/26ec309e-9da0-11de-9f4a-00144feabdc0.html.

5 www.ofcom.org.uk/static/cm10/UKCM-2.36.html.

worthy recipients of largesse from a BBC pot that still overflows by the standards of its UK and European rivals.

Creative sub-sectors which could benefit and as a result stimulate economic growth include the music industry, digital distribution platforms, consumer and business-to-business publishing, computer games and other software manufacture, post-production and other movie-enhancement genres, and the performing arts.

But while cash may solve some or all of the problems facing these sub-sectors, whether public companies, private businesses or not-for profit groups, the question the UK taxpayer should be asking of all of them is: how will you help increase our GDP? In each case, exports lie at the heart of the answer.

Here, the BBC can play an even more valuable role than simply opening its wallet. Ask most consumers or even professional buyers of television programmes around the world about any given UK show and they will most likely assume that it is made by the BBC. Through the internet, the BBC's brand has grown even bigger, over and above the simple fact that its television and radio output has an audience of 240 million.

If online news globally becomes more partisan with time – and who would bet against that – it seems certain that the BBC brand will become not only more widely known, but also increasingly valuable internationally among the more sophisticated and younger consumers most beloved of advertisers. Hence, anything of quality marketed under that brand will have a head start on international competition.

Similarly, the market for English and the teaching of English is already a considerable one around the world, and is likely to grow larger. Intelligent marketing ought to make the UK's position in this market dominant. The BBC is extremely well placed to help UK publishers exploit that inherent advantage, but it has never tried to do so on a commercial basis.

The BBC Trust and executive board see their role as enablers of the creative sector in terms of the ill-defined concept of “partnerships”. Two factors should make us look for more from the BBC than that. Firstly, the BBC has given the appearance to date of being institutionally incapable of efficient co-operation even if, which I do not take for granted, it is sincere in its desire to co-operate. A cuddle from the BBC, one independent producer

told journalists last year, tends to feel a bit like a bear hug. Discussions between BBC Worldwide and Channel 4 in 2009 moved with the fluidity of putty, according to senior staff on both sides, because of the demands of both the Trust and executive board to be kept informed of the process.

The second reason that partnerships are not enough is that while the BBC, in the main, is painfully good at competing with commercial rivals, it is actually incapable of thinking or behaving like a commercial enterprise. In-fighting within divisions, a Gormenghast-like internal structure designed by theorists rather than practitioners and an obsession with “compliance” spawned by the aggressive self-interested attacks of Fleet Street all militate towards an anti-commercial culture. In the one area where the BBC has allowed itself off these hooks, BBC Worldwide, it has been almost embarrassingly successful and already competes around the world to exploit not only its own intellectual property, but also that of some rivals.

Add to this a doctrinal refusal, particularly on the part of the Trust, to part with a source of licence fee money unless it is to return it to the original payer – a collective individual who has shown little sign of agitation at paying £12 a month for world-class television and radio – and it is clear that the BBC is a partner no entrepreneur would willingly seek out.

Money can and should be prised from the fingers of the Trust and put into the hands of Worldwide, which should have a constitutional duty to exploit the IP of any UK producer who wishes to contribute material of acceptable quality, in whatever sector of the creative industries they may operate.

But Worldwide cannot remain a satrapate of the BBC; it must have both freedom to operate and a commercial imperative. I would advocate a structure in which the BBC retains a 50 per cent equity share of the business and a golden share to give it veto power over ownership issues, and then the rest of the company should be floated. The resulting capital and the commercial impetuses that flow from it must then be directed at driving exports in particular, but also pump-priming entrepreneurial activities with access to the same “partnership” opportunities – sharing of studio facilities, technology and so on – as are currently mooted by the BBC.

Finally, in order to get the whole exercise off to a flying start, a sum equivalent to the proportion of the licence fee that is currently spent on lip-service schemes to force the BBC to operate in areas of the UK which make

no commercial sense, perhaps £300 million a year, should go into a pot of entrepreneurship to be distributed to applicants by a panel of leading UK media, technology and IT professionals.

Who knows, if the process of pitching into this fearsome array of moneymen was filmed, it might even spawn a hit television format. We could call it something catchy. How about: *Dragons' Den*?

Government, the market and the future of broadcasting

Professor Dieter Helm CBE

When the BBC was first created and Reith set out his vision for Public Service Broadcasting (PSB), there could have been little expectation that the framework would prove sufficiently pliable that it would survive for the best part of a century. It is hard now to imagine a world in which television was a luxury – even in black-and-white – and broadcasting a pure monopoly. The basic framework – with a dominant BBC and its licence fee – has survived and prospered through the creation of the duopoly, and the introduction of advertising-based channels.

But because it has survived so far does not mean it is fit-for-purpose now. The transformation has crept up upon it, as the full significance of the internet and modern communications technologies have cut the ground from beneath the relatively stable and highly regulated sector. Now there are not only multiple channels, but multiple ways of accessing them. The idea of a channel-dominated, producer-driven schedule of programmes is giving way to platforms for multiple programme makers and on-demand consumer services. The iPlayer is the most potent symbol of this new market.

This explosion of technologies is to be celebrated. It opens up enormous possibilities for our society. Not only is there more choice, but a much greater plurality of voices can be heard. But this is only the potential; it will not happen unless the policy framework embraces it. The old Reithian model, with its core market power for the BBC, is increasingly a straightjacket limiting this potential.

There are three main building blocks for unleashing the potential. These are: modernising public service; rethinking the infrastructure and opening up the market to competition.

Public Service Broadcasting

Public Service Broadcasting is something almost everyone is in favour of and yet virtually no one can agree on its definition. Of course, the public should be served. But who decides what they want? Who determines what will be produced which would not have been produced by the market anyway?

For the last century, the answer has been roughly that PSB is whatever the BBC produces, plus some extra requirements for BBC-like broadcasting to the commercial channels. While the BBC was a monopoly, there was some merit in this approach. But competition undermined it: the BBC could no longer be sure of its market share, and as it was eroded so too was the case for a BBC-only licence fee. If only some viewers and listeners tune in to the BBC, why should everyone pay?

None of this suggests PSB does not matter. But what it does suggest is that it is increasingly hard to justify the assumption that the BBC should decide. Though interesting ideas – such as Ofcom’s public-service commissioning concept – have been aired, there is much work to be done in creating a more transparent and independent model.

Infrastructure

Infrastructure has not been a major part of the broadcasting debate. Yet it should be: channels are, after all, platforms through which programme makers get access to markets and customers. We have become familiar with the idea that networks in utilities and other essential services should be open to all comers. Yet the power of platforms like BSkyB, ITV and the BBC to determine access and dominate markets for rights has been addressed in a piecemeal fashion at best.

This gateway power has not necessarily been all bad. It has encouraged programme making. Yet in the drive to open up broadcasting to independent producers, it has also concentrated power amongst a few of them. Programme production has become an oligopoly, behind an oligopoly of platforms. This has brought a degree of stability, but at a price. What about all the other smaller voices? What about the small producers who now struggle for access? What about the importance of plurality? What about cost competition?

Infrastructure is not, however, just about physical hardware and platforms. There are lots of other dimensions, too, which make broadcasting a core British success story – and an engine for growth. British broadcasting is supported by myriad associated creative companies and organisations. At one level are the arts – from music, to opera and the theatre. Then there are the drama and training schools, and the wider creative side of education. Software design, games and technology play their part.

Finally, there is the spin-off to the economy from media support, and to democracy and local communities.

It is this last aspect which has been given a political edge with the concept of the “Big Society”. Whatever the merits of this concept, the ability for a community to cohere and create a more decentralised and participatory contribution to rebuilding social trust and social action is significantly affected by its access to the media. Local radio, local television and local programme making are necessary paths to achieving this wider goal.

Competition

The third component of rethinking broadcasting policy is to look again at competition. Whilst the policy framework has remained largely static, the market has not. As a general principle, as competition increases, both the type and level of regulation should fall. Yet none of this has happened. In terms of the level of regulation, if anything this has been growing. Ofcom is more than the sum of the parts it was built from: it has become a major regulatory body with all the interests and costs of bureaucracy that go with it. Yet the paradox is that although it has grown in size, it still only covers part of the market. We have Ofcom and we have the BBC Trust, and we have the Government interfacing with all parts. Policy has been delegated to regulators and regulators have had lots of discretion over what are ultimately, in a democracy, political matters. A rethink of the role of Ofcom, DCMS and the BBC Trust is required.

Competition policy in the broadcasting domain is a mess. The Office of Fair Trading and the Competition Commission keep getting dragged in, and the outcomes of the myriad cases is not harmonious. There appears to be little agreement about what constitutes competitive behaviour and how far the industry can be allowed to reconfigure itself. The plates are moving because the fundamentals have changed. The existing industry structure is unlikely to be best suited to embrace the new technological possibilities. Too much attention is being paid to existing rights, and too little to new investment in programming, concepts and indeed the very nature of transmission and distribution.

It might be tempting to think that broadcasting can be left to go the way of IT. The complacent assumption might be that the existing players can be handicapped through regulation whilst the new Microsofts and Googles eat

up the equivalents of the IBMs and AT&Ts. There might indeed – and probably will – be new entrants. That is to be encouraged. But it is naïve to think that the best way to achieve this is by sticking to the comfort zone of the existing 20th century model.

The way forward

What then is needed? We have a revolution in technology and a revolution in the possibilities for broadcasting. Nobody can deny that the market has been radically changed by technology – in ways as profound as the arrival of the railways and electricity. What we do not yet have is a responsive change to broadcasting policy and regulation. There have been a number of promising signs, but now action is urgently needed. A “wait-and-see” approach risks becoming a “watch-and-decline” outcome. It is now time to create a new broadcasting policy and regulatory framework fit for the 21st rather than the 20th century.

4

News: does plurality matter?

Thinking for ourselves

Peter Preston

In these embattled, contracting times, journalists talk about The News as though it were some kind of sacred artefact. The News is crucial to a healthy democracy. The News is a public service. The News thrives on competition, not monopoly. And, of course, crude cuts threaten to turn off Britain's vital supply of News. But it's time, perhaps, to get a little more analytical.

Competition, to begin with, doesn't always produce better broadcast news coverage. Just sit in some Middle America motel room of an early evening, and watch CBS, ABC, NBC and Fox affiliates serve up their respective dishes of the day: same format, same ethnic presenter balances, same weather, same sports commentator in same unappetising blazer – and, worst of all, same choice of stories. The seeming imperative of such competition isn't to try something different: merely to stick to a rigid, interest-denying formula.

It's pretty similar on 24-hour rolling news – in a living room much closer to you, too. Sky and the BBC seem to cover exactly the same live events – Prime Ministerial press conferences, court rulings or carnage in Cumbria – as though their cameramen are bound together at the hip. They track each other constantly. Their News is his News is our News.

I'm dismally reminded of one of the first foreign reporting trips I was sent on many years ago: to Cyprus, as communal violence spread around the island. I had to change planes, with a very long wait, in Athens, so I went into the city and sat in a park. The man on the next bench was a journalist too, it turned out, only he was going back to London after a Cyprus stint. "How do you operate?" I asked rather tremulously, very young, very inexperienced. "Oh, it's easy," he said. "You're all in the Ledra Palace Hotel – and, straight after breakfast, you go to the bar. When everybody starts to leave, you just follow them."

QED – though perhaps not very inspiringly done. But that, in its most basic form, is the news business today. If we want to re-invigorate it, to make it more like the crusading force of legend, then we can't afford to be misty-eyed. Most news in Britain, growing from the bottom up, is already a monopoly product. Local papers with reporters on the ground survive by tending monopoly patches. In villages, towns and cities around the land, the men and women with open notebooks only answer to one employer. And as for the might of the old news agency, that also is much diminished. There's the Press Association – another monopoly – with only a residual scattering of smaller, local agencies struggling on.

Have no illusions then. The great god of News we affect to worship has little of the natural power we claim for it. What strength it still possesses, moreover, has diminished sharply over three years of economic blight and 20 per cent redundancies. The fewer the notebooks, the less that goes into them.

Nevertheless, analysis counsels something better than standard gloom. Indeed, if we're rigorously analytical, simple solutions might be just around the corner – and cost very little to put into practice, save for engagement of brain and imagination.

Just watch a punter pick up a paper and begin to read. It's a process you can research with total rigour through "reading and noting" tests. And time and again, the first piece that's read is also the closest to home: about Salford, if he lives in Salford; about teacher pay, if he's a schoolteacher; about Arsenal, if he follows the Gunners. News, in short, is a changing, almost living thing. It doesn't exist in a vacuum. It needs readers and viewers to give it force. Its relevance is personal: to the street where you live, to the company where you work, to you and your family, and to making a living. News is a chameleon. News is also fundamentally interactive.

Take that as a starting point and two basic changes emerge. One is to change the focus of news itself by changing the target audience.

For instance, television has competed for decades through regional news. The regions, for BBC and ITV, may not have been exactly replicated, but the assumptions – both from television controllers and from the Members of Parliament who lobby them so determinedly – are almost identical. Britain is a nation of regions. Therefore non-national television must be

regional as well. And if ITV can't bear the burden of competing on such terms, then the last Labour Government was summoning new consortia to take its place.

Is Jeremy Hunt, the new Culture Secretary, right to want something different, a network of local TV stations based on cities, not regions? The thinking (if not necessarily the financial calculations that back it) brings real logic to bear. Local TV in your city needs to be as centred on that city as the local evening paper. The news it gathers and develops won't be national; it will cover your rates, your schools, your death on the roads. Regional news, by contrast, is different again – a bit of Leicester, a bit of Nottingham, a bit of Derby (if, like me, you're from the East Midlands). Its focus is bound to be more fragmented because most regions don't truly exist as news entities. It won't tell you what's happening in local government, because that's too detailed; it will pick up gory crimes when available, because gory crime, in the imagination, shivers everyone's timbers. The BBC does regions because it has invested much effort in regional coverage. Fine – but city TV, re-defining the geographical spread of the audience and thus of what is deemed immediate and relevant, takes the same basic bundle of news and does competition by difference. Mr Hunt might not get what he wants in the end. But he's surely asking the correct questions as he pushes forward.

Whereupon, most contentiously, we reach the great stumbling block called “fairness and balance” – otherwise known as public service news, collected and selected, without ostensible slant (but with Ofcom and the BBC Trust watching like hawks).

BBC and ITN editors defend this balance devoutly. It's what they say they believe is the best news way. James Murdoch is much less pious. He thinks that news and political opinion go together, as they do in free newspapers and, over the water, on Fox News. The debate that follows is more visceral than principled. Murdoch journalists tend to back this line. Non-Murdoch journalists reach for a knife. BBC Trustees and Ofcom officiators are naturally opposed to change. They like the supposed purity of now; they don't want an argument that leaves them out.

But, of course, constant argument is what we've got already, as well as many shades of difference. Is Channel 4 News, with its investigations and international empathy, the same as Sky? How do Channel Five's fleeting headlines fit with the stretching hours of radio's Today? I'm not making a case for shock jocks and frantic Foxery here, but an ever increasing spectrum of news from all over the globe makes its own case. Who you are and what you believe shapes the news you need regularly, too. Your TV or laptop has become an electronic newsagent full of titles. And if you truly think news matters, then you have to find ways to let it breathe, to discover different ways to speak. There are different opinions on education, immigration, the economy, the European Union. They aren't peripheral. They are where debate – and therefore compelling interest – starts.

In short, if we want to make The News more interesting we have to be bold enough to set it free. No cost, no subsidy – just a realisation that, at last, we're grown up enough digitally to be able to think for ourselves.

The myth of neutrality

Janet Daley

The question I am asked to address in this article, “Does news plurality matter?”, would seem bizarre in any context other than broadcasting. Would anyone in a free society think it was appropriate (or even thinkable) to question whether there should be pluralism in the dissemination of printed news, information or comment? There is something implicitly sacred about the idea of unfettered and diverse expression in the form of the published word (books, newspapers, pamphlets and periodicals) which, for some reason, is not extended to the spoken one – at least, not when it is channelled through the public airwaves.

This must be, when you think of it, a form of snobbery: those who are literate and sufficiently in command of their own free will to choose what they read are presumed to have enough judgment not to be corrupted or manipulated by dangerous ideas. Whereas, broadcasting seems to involve the simple absorption of messages and information in a passive way: people who cannot or do not read at all might be subjected to influences which they have no capacity to criticise or reject. Both these propositions are nonsense, of course. Common sense and historical evidence demonstrate that whole populations may be drawn into complicity with wickedness by printed propaganda, and that modern societies are really quite sophisticated in their ability to evaluate the worth and validity of what they see and hear on the mass broadcasting media. And yet, we must fight to justify pluralism in the broadcasting of news when we would never expect to have to do so in newspapers or journals.

This is partly for historical reasons: the technology of mass broadcasting began in Britain (and in most European countries) as a Government-subsidised monopoly. In order to avoid any implication of state domination of news coverage, it was necessary to devise a constitution for the British Broadcasting Corporation which guaranteed its independence from political influence: the myth of “neutrality” was born. When licensed competitors to the BBC were permitted to enter the scene, they too were subsumed under regulation which required them to be neutral and impartial in their presentation of the news. (It is unclear why this should have been thought necessary for strictly commercial operations like ITN –

except that it would have seemed odd for a new national broadcasting outfit to have been out of step with what was by then the accepted norm in the presentation of television and radio news.)

Now we find ourselves in a climate where the broadcasting market has been opened to a huge range of new providers but the regulation of what may be said in terms of political news and comment is as tightly controlled as ever; and there is increasing public disquiet with the assumption that impartiality in news and current affairs is a straightforward thing to achieve. That dissatisfaction is good evidence for the fact that broadcasting audiences are not passive, impressionable simpletons who must be protected from biased or partisan coverage. In fact, it is precisely the sophistication of the broadcasting audience which is exposing the idea of perfect neutrality as a chimera. The folks at home now know that even the priorities which govern the choice of news stories and the context in which they are presented are implicitly tendentious.

They resent, as well, the patronising elevation of “explanation” over argument, as if they were gullible children who needed to have the basic outlines of every issue translated into media neutrality-speak before they could be expected to come to any sensible decision about how to exercise their democratic franchise. The BBC leads the way here, but the approach permeates pretty much all broadcast news coverage: there is an implicit presumption that the broadcasting organisations have a right to sit in judgment on contentious issues and to present them in a way that will allow audiences to “see through” the arguments of politicians. Much criticism has been aimed at the BBC for its left-liberal orthodoxy which seems so deeply embedded in the corporate consciousness as to be quite genuinely invisible to most of its operatives. That it exists is beyond question; that it is conscious or actually party-specific is more doubtful. Certainly it is at least as much cultural as it is specifically political. But the reason that it can survive so indomitably is directly linked to the monolithic regulation which prevents open political pluralism in broadcast news.

The BBC’s prejudices are concealed beneath a pose of neutrality. Their assumptions are not (in their eyes) prejudices: they are simply the views of all sane people. It is not a question of there being two sets of opinions: theirs and yours. There are their opinions and if you don’t accept them you are, by definition, mad. (The indisputable value of multi-culturalism was, until

very recently, a good example of this.) If you are invited on to express your heretical beliefs it will be as a kind of freak or comic turn and your appearance will be hedged round with health warnings to protect the credulous viewer from contamination. What “neutrality” amounts to in practice is the pre-digested received wisdom of what is supposed to be the political centre ground but is actually somewhat to the left of it. And since the “centre ground” itself is a moveable feast, shifting sometimes to the right (in the 1980s) and sometimes to the left (the late 1990s), this is a pretty near impossible role to fulfil.

Even if it was conceivable to establish a list of unimpeachable empirical facts in an antiseptically objective and disinterested order of priorities, how would you overcome the stupefying dullness of the recitation of them? Being boring might be confused with integrity but in truth it belies the whole nature of our political freedom: if democracy is about anything it is about argument. In the US, the competing cable news channels with their blatant biases and raucous debates have played a huge role in reinvigorating interest in politics. The diversity and range of opinion which they have injected into the public discourse might well be a threat to the smug political class who used to think, as the broadcasting establishment does in Britain, that democracy was too important to be left to the people. But surely in a free country, the way to deal with ugly or unpleasant opinions is to counter them with argument, not to regulate them into silence.

5

Global successes

Building a successful global brand

Lionel Barber

Think big, think pink and follow the reader. These are the maxims which have driven the successful development of the *Financial Times* as a global news brand.

Having worked at the *FT* for the past 25 years, I am proud to have been present at the creation. I joined the Pink 'Un in 1985, a few years after the bold, costly but ultimately profitable decision to expand into continental Europe in 1979. The next forays, first into the US in 1997-8 and then into Asia in 2002-3, completed the strategy of building a global, round-the-clock news organisation seamlessly working in print and online.

In truth the *FT*'s world-class niche brand owes its strength and reach to a much earlier era. Founded in 1888, the *Financial Times* grew up in the first wave of globalisation when the free movement of goods and capital took off. Thanks to its roots in the City of London, the *FT* has always been global in outlook and temperament.

David Kynaston, writing in his centenary history of the *Financial Times*, noted that even in its first week, the newspaper carried weighty leaders on topics such as "The Utilisation of Niagara Falls", "The European Outlook", and "Mr Goschen's Conversion" (a reference to the successful conversion of Britain's national debt). News coverage included the story of swashbuckling Colonel J.T. North, the so-called "Nitrate King", whose group was responsible for developing the Nitrate railway and other operations in South America.

The foundations for the modern, global *FT* were laid in the post-World War II era. Sir Gordon Newton, arguably the best and certainly the longest serving *FT* editor, turned the newspaper into a broad-based product for "the people who influence or make decisions on business, finance and public affairs".

In the 1970s, J.D.F. Jones, one of Newton's most able and far-sighted recruits, built a network of foreign correspondents to rival the best in the world.

The *FT* has never seen itself as purely a City paper or indeed a British business newspaper. The decision to print a new international edition in Frankfurt in 1978-9 reinforced this confident self-image, even though it was partly a ruse to escape the print unions, whose corrupt and inflexible working practices were steadily driving Fleet Street into the grave. Thanks to the small but influential Frankfurt desk in London which built the international edition, a stream of recruits from Australia, South Africa and the US came aboard, strengthening the newspaper's cosmopolitan world view. The expansion into the US and Asia, complemented by local printing plants and distribution, were the next logical steps.

All these moves were strategic by design, but none guaranteed the establishment of a successful brand. In this respect, the pink-coloured newsprint has been of inestimable value. The *FT* has used its salmon-pink newsprint as a trademark since 1893, chiefly to set itself apart from other daily news publications. Pink newsprint has since become inefably associated with financial news, not just in Britain but also China, Europe and the US. And it has attracted many distinguished readers, from Gordon Gekko, the villain in Oliver Stone's movie *Wall Street* to Lady Penelope, the all-pink glamour puss in *Thunderbirds*.

As US Managing Editor between 2002 and 2005, I shamelessly exploited Americans' fascination with pink newsprint. Thus, the *FT* was peach in Georgia, salmon in the Pacific North West and, well, plain pink in Washington DC (albeit without "pinko" political connotations). On the fifth anniversary of the *FT*'s launch in the US market, we produced a bestselling "Pink in America" colour magazine featuring the best editorial content and emphasising our ability to get to decision-makers our rivals could not reach.

And content really is king. Without world-class content there can be no hope of building a world-class news brand. Our good fortune was – and is – to have a group of journalists capable of reporting, analysing and interpreting the interconnected world of business, finance and politics. In this respect, the global financial crisis played to all the *FT*'s strengths. Here was a once-

in-a-generation opportunity to write about a crisis which respected no national frontiers, playing out in Beijing, Dubai, Frankfurt, London, Moscow and New York, and many other political and financial centres.

As always, luck played a part too. Back in 2006, the management team decided to abandon the *FT*'s famous (and slightly snooty) advertising slogan: "No *FT*, no comment". We discovered that it did not resonate outside the UK. Many experts warned against such a move, notably Sir Martin Sorrell, the brand guru. But our instincts and those of our advertising agency DDB told us otherwise, and so we opted for something more direct: "We live in *Financial Times*".

The collapse of Lehman Brothers and the ensuing mayhem in the financial markets vindicated our choice. With a network of 100 foreign correspondents around the world, the *FT* was better placed than most to cover the crisis. We also made sure that our front line commentators such as Martin Wolf, Gillian Tett, Philip Stephens, Gideon Rachman and John Gapper, were available on air and in public to promote our coverage and our brand.

The *FT* received many powerful endorsements. Robert Rubin, former US Treasury Secretary, revealed that he learned more from reading the *FT* than his daily dossier from the CIA. Warren Buffett, the legendary investor, said the *FT* was the best source for information on trade and currencies. And President Barack Obama disclosed in a White House interview that he had read the *FT* before other people read the newspaper: "Now it's trendy and everybody carries around a *Financial Times*." We used the President's endorsement in an advertising campaign with the tag line: "Who does the man everyone listens to, listen to?"

In the final resort, however, no brand can establish itself on a global scale without the investment and backing of the owner. In this respect, the *Financial Times* has been fortunate to have a proprietor – Pearson, the international education publisher – which has not only respected editorial independence but also maintained its support in tough times. This support applies not only to the perilous age of trade-union militancy but more recently to the dotcom crash, when the newspaper was briefly loss-making and tens of millions of pounds of investment in FT.com and the US-Asian expansion were at stake.

The past five years have been equally turbulent. Traditional newspapers have faced an existential challenge from the internet, but also a mouth-watering opportunity. The *FT* has survived – and thrived – by coming down firmly in favour of charging for content and promoting itself as a premium product with global reach capable of reaching audiences on multiple platforms, from the newspaper, to the smartphone and the iPad. By relentlessly focusing on our strengths and leveraging our brand, we have become, in our own modest way, a British success story. And, yes, we're tickled pink!

The UK video games industry: High score or game over?

Dr Richard Wilson

The UK video-games industry is a success story. It employs approximately 28,000, including 9,000 highly skilled people in game-development studios. The sector contributes £1 billion to UK Gross Domestic Product (GDP). Until 2006 the UK was consistently the third largest developer of video games in the world (after the USA and Japan) in terms of global sales rankings.¹

This strong performance was driven by a range of factors. Firstly, the UK had a “first mover advantage”. The UK games industry originated in the early 1980s when electronic pioneers Clive Sinclair (ZX81 Spectrum), Alan Sugar (Amstrad CPC series), and Hermann Hauser and Chris Curry (Acorn BBC Micro) produced affordable computers in the UK for hobbyists. They were easy to program and quickly adopted for playing games. Most owners played with the built-in BASIC programming language, and some young people found a flair and passion for making games. These became the pioneers of the UK games industry and many of those early games makers are the same people running the large, successful game studios today. Elsewhere in the world the public had the choice of the high-priced computers (Apple, Pet or early PCs) or cheaper games consoles (Atari VSC or Nintendo’s NES) which were not programmable. Only the Commodore VIC 20 and C64 created the same environment, but this had less of an impact as it was more thinly adopted.

Secondly, our industry’s first mover advantage was facilitated by access to a highly skilled workforce. 80 per cent of the workforce in game studios, such as Blitz, Climax, Exient, Jagex, Kuju Entertainment, Rebellion and Ubisoft Reflections, are qualified to degree level or above. The industry’s skilled workforce is in turn sustained by the UK’s world-leading higher education sector. The UK is second only to the US according to Shanghai Jiao Tong University league tables; it has the second largest market for overseas students; and with just one per cent of the world’s population it produces

¹ Wilson, R., Gardner, P. and Gibson, R. (2009), *Investing in the Future: a tax relief for the UK Video Games Development Sector*, TIGA.

12 per cent of the world's scientific citations. The UK's higher-education institutions have responded to the popularity of the video-games industry and the needs of businesses by developing games-related courses. The best of these universities, including Abertay in Dundee, have established strong links with industry to create relevant higher-education courses, thereby enabling them to supply the industry with talented recruits. Indeed, TIGA's research indicates that two-fifths of games developers are working with universities in respect of course development, knowledge transfer or providing work experience for students.²

Thirdly, UK developers have specialised in particular genres, including driving, action, simulation/management, role playing and mass-market entertainment titles. The industry has a track record in creating original video-games IP.

Fourthly, the sector has a strong technical base, with most major studios (for example, Blitz and Climax) having their own proprietary games engines, and many create their own bespoke tool chains (the set of computer programs employed to develop a video game). Finally, the industry's competitiveness has been strengthened by virtue of its experienced management teams and by outsourcing a range of development functions to ensure production efficiencies.³

Yet the video-games sector is under threat. The UK has fallen from third to fifth place in the global sales rankings since 2007. Between July 2008 and July 2009, 15 per cent of UK games businesses closed down. This is because the Governments of our principal competitors in Australia, Canada, China, France, South Korea, Singapore and the US all receive national or regional/state tax breaks for games production. In Quebec, games businesses can claim relief of up to 30 per cent of the salaries of their production staff, rising to 37.5 per cent if their work is published in French. No tax breaks for games production exist in the UK. The cards are stacked against our industry. Video-games development in the UK is at a competitive disadvantage. Investment and jobs are drifting away from the UK to other countries.⁴

2 Wilson, R. (2010), *Games Businesses and Higher Education*, TIGA.

3 Gibson, R. and Gibson, N. (2008), *Raise the Game*, NESTA.

4 Wilson, R. et al. (2009), *Investing in the Future: a Tax Relief for the UK Video Games Development Sector*, TIGA.

Additionally, UK game developers suffer from skill shortages. A survey of developers in 2009 revealed that 43 per cent found it difficult to fill vacancies in their organisation's workforce. The principal cause of the problem is a shortage of applicants with the required skills, experience or qualifications. Game developers often find it difficult to recruit positions in programming, design and management positions. These skill shortages cause delays in developing new products and services, and impede organisational growth in the affected firms.⁵

To make matters worse, the UK Government and its agencies are not aggressive enough in championing the UK as a good place to invest in game development. Agencies from the various Canadian states vigorously market their localities to potential investors; indeed, they consistently coax UK games businesses to either relocate or open up new studios in their particular jurisdiction. The UK is not nearly aggressive enough in selling the UK as an attractive location to potential overseas publishers.

These are formidable problems. Yet if the UK Coalition Government has the political will for and interest in tackling them, then they can be surmounted.

TIGA, the trade association representing the UK video-games industry, has argued for the introduction of a Video Games Tax Relief to enable the industry to compete on a level playing field. Games Tax Relief would operate in a similar manner to the existing film tax credit. Video games would need to pass a "cultural test" to benefit from the relief. The tax credit would enable eligible games businesses to either reduce their corporation tax liability if they made a profit or receive a cash-back credit if they made a loss. The last Labour Government was committed to introducing this tax relief in the March Budget and all three main political parties backed the policy before the General Election. Yet the Coalition Government inexplicably failed to introduce Games Tax Relief in the recent Emergency Budget.

This is a mistake. TIGA's research shows that over a five-year period Games Tax Relief would protect or create 3,550 graduate-level jobs, secure £457 million in investment and enhance innovation in the sector. Games Tax Relief would more than pay for itself, generating £415 million in tax receipts for the Treasury. If Games Tax Relief is not introduced, then jobs and investment will be lost as games businesses struggle to compete on an

5 Wilson, R. (2010), *Games Businesses, Education and Skills*, TIGA.

uneven playing field. A Games Tax Relief will power investment and growth in the sector.⁶

The skill shortage holding back the video games industry needs to be addressed on a broad front. The core issue is the relative paucity of computer-science and mathematics graduates available to work in video games. The Government must improve standards in mathematics and the sciences in schools in order to increase the potential pool of graduates in these disciplines. In the medium term, the UK should aim to increase the proportion of GDP allocated to tertiary education in order to maintain the quality of higher education, to enhance the competitive edge of our universities and to support our ambition to be a leading knowledge economy. Competitor countries such as Canada, South Korea and the USA spend between 2.5 and 2.9 per cent of GDP on tertiary education, compared to just 1 per cent in the UK. The UK cannot be a leading knowledge economy on the cheap.

The UK's nonchalant approach towards attracting inward investment must end. A fight is taking place for inward investment in games development. The Government and its agencies need to take the gloves off. The Government must devise a compelling proposition about doing business in the UK, based on a tax break for games production, a first class higher education system, a strong existing talent pool in games development and a relatively lightly regulated labour market.

The video-games development sector is an industry of the future. People spend £30 billion on video games today. By 2015 this figure could rise to £50 billion.⁷ With the right Government support the UK can be a world leader in game development. Equally, the video games industry could contribute to the growth of a more diverse and sustainable UK economy.

The UK games development sector is export oriented: on average 62 per cent of a UK developer's turnover is generated through exports. It provides high-skilled jobs. The sector also provides employment throughout the UK: 85 per cent of the video-games development workforce is employed outside London.

6 Wilson, R. et al. (2009), *Investing in the Future: a Tax Relief for the UK Video Games Development Sector*, TIGA.

7 Livingstone, I. (2009), 'The State of Play', in Cecil, C. and Wright, C. (eds.), *Playing the Game*, NESTA

The UK has a reputation for developing ideas and industries, then casually ceding leadership to more farsighted and aggressive rivals. The same trend is already happening in the world of games development: the UK was the third largest developer of video games in 2006; now we are fifth. The UK should be a world leader in game development: trailing behind in fifth place – and potentially falling further – should not be an option.

Fostering creativity and innovation

Sir John Hegarty

Before answering the question of how best to encourage the creative industries, we have to have a better understanding of how this sector operates. The danger in referring to them as an industry is that we apply conventional industrial policies.

There is no doubt that, in the new globally competitive environment in which we all find ourselves, fluidity is an important factor in company structures. For the creative industries this is not just important but fundamental. By definition these will be companies who are dynamic, constantly evolving and diversifying; individual, anarchic and irreverent; constantly challenging the status quo and permanently forward-facing.

Industrial policy and employment law is too often written for an age of permanence rather than an age of flux. Encouraging talent and ingenuity into the system is essential and fundamental to its success. Yet we constantly read about government policy heading in the opposite direction.

It must be understood that creative industries are organisations which can very easily exit the UK and re-establish their skills elsewhere. They are companies populated by enquiring, restless and versatile minds, who are more than happy to unplug their MacBook and travel.

And just as creative people can travel, so can their clients. Moving assignments from one company to another, or one continent to another, takes a simple phone call. Business moves at the click of a button. Remember, no factories, no bricks and mortar, no heavy machinery – only the brilliance of your ideas. A mind is the most mobile asset we possess.

Creating an environment that helps grow talent and encourages it to flourish, whilst at the same time allowing maximum flexibility in employment practices, is going to be essential. If we want to encourage these industries, we have to approach them with creative solutions.

It seems that the UK has a number of advantages, but only if exploited properly and appreciated. Firstly, we have the natural advantage of our language. As English is the language of business, we have an immediate

attraction to global talent that wants to further its language skills. But for how long? Technology will soon master instant translation; then what?

The diversity of our population is another advantage. The UK music industry has gained immeasurably from our ethnic minorities. Continually harnessing such advantage across the creative economy is vital if we wish to enhance the UK's creative reputation. The most vibrant and stimulating creative cultures are those that have embraced diversity both ethnically and socially, and have opened their borders to influence and opportunity. In the creative world there is no such thing as an Ethnic Minority, only an Ethnic Necessity.

Harnessing this talent, encouraging these diverse cultures into creative education will be essential. How do we do this?

One simple way is to open up art-school education at an early age to those who might not consider such a career path. I personally benefited from a Saturday morning art-school education from the age of 14. Hornsey School of Art, as did many other art schools, opened its doors to a structured art education on the weekends. These vital assets were put to greater use in preparing students for a creative career.

Why has this policy stopped? It should be reinstated across the UK, targeting deprived areas and ethnic diversity. This would not only open up the possibility of a creative education, it would also be take young children off the streets. Education is at the foundation of our future. Educating students from an early age across the cultural divide will pay dividends.

Alongside all these initiatives there is also the need to sell "Creative Britain". Why don't we have a Creative Fair – the world's definitive creative exhibition, featuring all the different strands of creativity in the country? We're happy to spend millions of pounds promoting the Olympics, but what about creativity? The car industry has motor shows. The fashion industry gathers in various capitals to show their collections. We have Art Basel, Frieze London, Miami and Los Angeles that gather the best in the world of art.

Why doesn't the UK put on a definitive creative exhibition every two years? The biggest and the best. Encourage cultural institutions like the BBC, our major art museums and our creative industries to come together and showcase British creativity. We could in one swoop promote a vital segment of our economy, with all its diversity and energy. Encourage students to

consider a creative future and bolster our tourist industry with an event that has global appeal. If we want to be a creative leader globally, then why not showcase our creative credentials?

This Government could do much to encourage creative leadership. But unless it institutes a number of initiatives, it will miss an opportunity to bolster a vital segment of our economy and promote the UK as a vibrant, forward-thinking nation that is the envy of the world. Remember, we can't outspend other economies; we can outthink them.

6

A new direction for policy

Dale Bassett

The UK is in a unique and strong position as the world of media and the creative industries continue to flourish, develop and morph into forms we can barely imagine today. The pace of change is dizzying: Facebook was established only seven years ago and Google a decade ago; indeed, the world wide web itself has been in existence barely 20 years. The creative industries in the UK will become even more important as Government seeks to rebalance the economy away from financial services, globalisation provides the threat of competition but the opportunity of new markets, and technology and its “long tail” reduce costs for existing companies but also barriers to entry for competitors.

There are a number of threats that could jeopardise the UK’s position as the world moves on. The “long tail” also comes with a “big head” that could entrench existing competitive advantages at the expense of innovation. Consumers might have to decide whether they value net neutrality above all, or are willing to compromise it to pave the way for new, bandwidth-heavy services more. Piracy continues to threaten investment in content. The movement of revenues away from the creation of content to its aggregation could endanger the supply of content, as could the fragmentation of revenue and the market as a whole.

And yet the UK has got this far, punching above its weight, and leading the world in quality of output and innovation in technology, content and revenue generation. How can the sector enshrine this competitive advantage in this brave new world, in the face of challenges domestic and foreign?

The economics have changed

Undoubtedly, the economics of the new media world require a big adjustment on the part of “old” media companies. As Peter Bazalgette suggests in his essay, the creative industries must adapt to “Less’ Law” that content distributed digitally will earn less than on traditional analogue platforms. Advertising revenues are split among more TV stations and

indeed more platforms, fragmenting the money available for the creation of new content. Pay TV has rapidly increased in popularity but users are not inclined to pay for “commodity content” such as general news. The licence fee may be under threat from the Coalition Government and, in any case, the BBC might not currently be investing enough of it in content.

At the same time, the world of content creation has been thrown open. Just a few short years ago this was the monopoly of an elite of companies in the media world; no more. Open sourcing, YouTube and the blogosphere mean that anyone can now create content and distribute it to a mass audience. In his essay Rich Riley references Clay Shirky’s *Here Comes Everybody* – a reminder that the “audience” of old is no longer just the passive recipient of content but its creator too.

As ever, change also offers opportunity. Aggregator platforms – search engines, video sharing sites, news services – might appear to threaten the revenues of the content creator. But the IP owner will have to adapt to this new world – and must realise that the aggregator can be an asset and a friend, not just a threat. At the same time, media companies must develop new business models to accommodate the new, open, competitive, cross-platform market, realising that this can in fact increase audience participation – and therefore, potentially, revenues.

Time for government to step back

So the sector knows what it has to do to adapt to the new economic reality. The question then is: will government let it? Dieter Helm observes in his essay that “as competition increases both the type and level of regulation should fall”. The danger if this does not happen is that the commercial sector’s revenues shrink and its investment in content creation falls. Combined with increased pressure on the licence fee, this could create a downward spiral that endangers the future of the creative sector in the UK. As Adam Crozier notes in his essay, the commercial sector needs to be free to adapt to trends such as convergence and globalisation in order to fill this gap.

The new Secretary of State has set another ambitious goal: for a new generation of local TV stations to spring up across the country. This could serve as a catalyst to reinvigorate local newspapers, radio and potentially wider local communities – the “Big Society” in action.

But the current environment of clumsy regulation and heavy intervention seems unlikely to leave the commercial sector much room to develop and expand in these ways. The pace of EU regulation is glacial; the old Public Service Broadcasting model is breaking down; regulatory drag such as the outdated Contract Rights Renewal is inhibiting innovation.

There is, however, a degree of consensus across the sector about the direction that regulation needs to take. The sector wants clarity over dividing lines between its three sources of funding: subscription, advertising and public funding. There is agreement that a sensible regulatory environment is needed to tackle hate speech, encourage pluralism and competition, protect children and maintain honesty in advertising. In general, over-regulation and over-taxation of the sector needs to be reduced to allow the creative industries to realise their potential.

The news cannot – and should not – be controlled

In no area is this more pronounced than news. The contrast between the vibrant, intellectually combative printed and online news industries and their sometimes lacklustre broadcast counterpart is notable. Competition might not always mean “better” coverage, but it does allow and encourage providers of news to reflect its intensely personal and fundamentally interactive nature in a way that the specious “neutrality” criticised in Janet Daley’s essay does not.

Above all, we must decide as a society what we want the news to be for. Is it to be a method of regurgitating a simplified form of received wisdom for strictly informational purposes – the “fairness and balance” that, as Peter Preston points out in his essay, is the supposed objective of public service news? Or is it to be a forum for debate, the exchange and development of ideas, and a platform for reinvigorating democracy? If the latter, the Government should lift the anachronistic restriction obliging broadcasters to try and deliver “unbiased” news, and accept that in this web-savvy world, people already have access to the variety of news, analysis and opinion they want.

The UK can learn from its successes

In trying to shape a world in which the UK creative sector can continue to thrive and grow, policymakers would do well to consider some of its success stories. Lionel Barber explains in his essay how the *FT* established an extremely successful brand, targeting a broad but specialist audience, which it monetised effectively. It is clear that when building a brand, content is (unsurprisingly) king – reinforcing the importance of creating an environment that encourages investment in high-quality content, and allows the right balance between distribution and protection of the owner’s rights.

The video-games industry is another case study of UK strength, a significant force in the country’s economy. The sector made the most of its first mover advantage, capitalising on a unique history of personal computing (not something public policy can influence) and a highly skilled workforce (something it can). International competition, a potential skills shortage and what Richard Wilson refers to in his essay as the “nonchalance” of the UK in championing itself as a good place to invest might all threaten the future of the UK video games industry. A targeted tax break hardly seems the appropriate remedy – funds are tight, and of course every sector will plead its special case – but the government can help to reinforce the skills base in the workforce, and it can certainly help to create a business environment that encourages investment in the UK.

Sir John Hegarty’s essay discusses the need for the UK to “outthink” competitor economies. An old-style industrial policy is not a long-term solution. The UK can, however, take increasing advantage of its cultural diversity, particularly as its English-language advantage diminishes over time. And while there is a role for government in improving the business environment, the industry must do more to sell itself as the natural centre for investment of intellectual, creative and financial capital.

A new role for policymakers

What then should be government's next step? While the threats to the future health of the creative industries are profound, the right policy decisions can help to create an environment in which the sector can realise its potential, capitalising on its already impressive strength. There are five main areas for policymakers to address.

Infrastructure

The case for investment in infrastructure is clear: without it, it will be impossible for the creative industries to realise their full potential. This does not mean that a fiscally-straitened government necessarily needs to spend cash itself – but it needs to achieve a balance that encourages private investment while protecting consumers' interests.

The question of net neutrality is a difficult one. In his essay Mark Oliver warns that any move away from net neutrality might reinforce the “big head” effect, entrenching the position of dominant players at the expense of smaller new competitors. But as consumers demand ever more responsive, interactive and bandwidth-sapping applications, they might have to acknowledge a potential trade-off between an internet free-for-all and the guarantees of service they require. As policymakers consider these important questions, clarity and transparency are essential to allow the industry to plan and to help create a public consensus for whatever decision is finally reached.

Intellectual property

Piracy is perhaps the single biggest threat to investment in content creation. Yet as long as the market fails to provide what consumers want, it will continue to thrive. Government – whether at national or EU level – must create a level playing field and better enforce existing copyright law. Even more importantly it must find the right balance of IP protection for the new digital world, allowing rights holders to secure a decent return on their investment but not stifling innovation in distribution and use of content or the entry of new players into the market.

Competition and regulation

As the shape of the world changes, so must the shape of the industry if it is to survive. Companies must compete – but they will also need to co-operate, collaborate and consolidate to develop new solutions to the challenges of a sector in constant flux. Policymakers must strike a balance between ensuring healthy competition in the interest of the consumer and allowing companies to develop new strategies (including acquisition) to respond to this ever-evolving world. True convergence of platforms is almost upon us; the market definitions used by government and its regulators in striking this balance should be updated to reflect this reality. Outdated ownership rules, whether for local or national media, are not appropriate for the 21st century and should be scrapped.

Similarly, the anachronistic regulatory environment must be updated. Analogue-era regulations that distort competition between broadcasters are not appropriate for the digital world. Advertising regulation such as Contract Rights Renewal is no longer necessary. And regulations that distinguish between broadcast and other media, such as news “neutrality”, may not apply to the cross-platform commercial world. Abolishing these restrictions could allow companies to compete within and across platforms on an even footing, and to tailor their products to consumers’ needs.

Public Service Broadcasting

The existing Public Service Broadcasting model, well suited to the analogue age, is hopelessly inappropriate in a world of hundreds of channels, iPlayer and YouTube. The BBC will find it increasingly difficult to justify its £3.5 billion licence fee that, irrespective of its potential impact on the commercial sector, seems simply unfair in a time when an increasing number of people just do not watch the BBC’s output. PSB obligations on the other old analogue broadcasters seem unwarranted in the new environment.

The business environment

If the Government wants to attract investment to the UK creative industries, it should focus on creating a competitive business environment in which the sector can thrive. The right regulation, infrastructure, IP protection and competition policy are of course all key parts of this. So is the more general business environment, including tax policy. And crucially, the Government must ensure the UK continues to build a highly skilled workforce, adaptable and ready to tackle the as yet unknown challenges the sector will face in the coming years and decades.

Reform
45 Great Peter Street
London
SW1P 3LT

T 020 7799 6699
info@reform.co.uk
www.reform.co.uk