

# Creating growth

## Measuring cultural and creative markets in the EU

December 2014



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# Study supporters

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With the initiative to set up a project aimed at analyzing the cultural and creative markets in the EU, GESAC, the European Grouping of Societies of Authors and Composers, commissioned EY to conduct this study. This project is the first of its kind. GESAC collaborated with the following partners and supporters in an effort to rally a large segment of the representative organizations in the cultural and creative sectors for this unprecedented study.

## GESAC's partners for the study

### **EUROCOPYA**

European Federation of Joint Management Societies of Producers for Private Audiovisual Copying

### **EVA**

European Visual Artists

### **FIAPF**

International Federation of Film Producers Associations

### **IFPI**

International Federation of the Phonographic Industry

### **IMPALA**

Independent Music Companies Association

### **IVF**

International Video Federation

### **SAA**

Society of Audiovisual Authors

## Supportive organizations

### **ACE**

Architects' Council of Europe

### **AEC**

European Association of Conservatoires

### **AER**

Association of European Radios

### **EACA**

European Association of Communications Agencies

### **ECSA**

European Composer and Songwriter Alliance

### **EGDF**

European Games Developer Federation

### **EPC**

European Publishers Council

### **FEP**

Federation of European Publishers

### **FERA**

Federation of European Film Directors

### **FSE**

Federation of Screenwriters in Europe

### **IMPF**

Independent Music Publishers Forum

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# Forewords

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**Martin Schulz**  
*President of the European Parliament*

Europe has a shared history and a richly diverse cultural heritage. This heritage is cherished by the people as a common value that gives our Union its identity and binds us together. That is why Europe must do everything in its power to preserve that heritage in a political and economic climate that is subject to major upheavals.

To begin with, the economic crisis had a huge impact on the world of culture, particularly in the form of budget cuts.

Result: theaters, museums, cinemas, orchestras and bookshops have been forced to close down. Behind the scenes, these closures mean that European people – many of them in the younger age group – have lost their jobs. This is heartbreaking for all of us in Europe, and for myself, both as a father and as a former bookseller.

Yet, culture is one of Europe's greatest assets. To say nothing of their immense nonmaterial value, the creative and cultural industries account for 4.2% of the GDP of the Union, nearly 7 million jobs, primarily in small businesses. These figures are very encouraging.

Culture is therefore one of Europe's great hopes. The jobs that it generates cannot, as a rule, be relocated – they require a range of rare talents, and it is often our young people who display them; they are at home in the digital world, which holds out the promise of fresh potential for growth. The figures presented in this study demonstrate this perfectly.

Then there is the digital revolution. While it gives much cause for hope, it also disrupts the cultural scene. Works are no longer distributed in the same way as before. Copyright and equitable compensation for creative works no longer seem to be accepted as a matter of course by the public. Yet new digital uses are to go together with cultural development; therefore, in consideration and good comprehension of all.

In order to support the industry, European cultural undertakings need help to ensure access to funding. It is in this spirit that the Union has established a guarantee scheme to enable all the cultural and creative sectors to develop.

The industry also needs support for its access to technology; it needs protection against big groups that sell off culture at a discount, against networks which deprive creative artists of funding. The European Union's powers are limited, but it must accept the challenge and tackle it alongside the Member States.

It is only on this condition that we shall be able to preserve our cultural assets. What we need to do is preserve and promote our culture so that it impacts beyond European borders, and not blindly defend it from all foreign influences.



## Xavier Prats Monné

*Director General for Education, Culture, Youth and Citizenship*

Few people would doubt that culture and creativity are essential elements of the European identity. This study shows – brilliantly so – that they are just as essential for the European economy.

This is the relevance of this study – because not enough citizens and decision-makers know that culture and creative industries employ 7 million people, that they generate 4.2% of EU GDP, and that they are such powerful sources of jobs and growth that they provide jobs for nearly 2.5 times more Europeans than the automotive industry.

The cultural and creative sectors also contribute significantly to youth employment, employing, on average, more young people than any other sector. When it comes to sectors, visual arts, performing arts and music account for about half of all employment in the cultural and creative sectors.

Interestingly, the highest revenue is generated by a purely cultural sector: visual arts – much more than the film industry, for example, according to the study. Economists and politicians have long overlooked the importance and potential of the cultural and creative sectors. Their apparent heterogeneity – ranging from large film production companies to tiny SMEs, and from architecture to video games, as well as performing arts and publishing, has slowed their recognition as an economic sector.

Yet, they are bounded and fueled by one common factor: creativity, a free and renewable source of energy – a resource which is abundantly present in countries of the European Union. Creativity feeds on culture in its widest possible sense: the extraordinary depth and breadth of European culture is a tremendous asset, a common good which must be protected and promoted.

Since the adoption of the European Agenda for Culture in 2007, a key objective of the European Commission has been to promote a European cultural space – to foster smart, inclusive and sustainable growth, while safeguarding and promoting our European cultural diversity.

In a 2012 policy communication, the Commission invited EU countries, regions and major cities to promote their cultural and creative sectors for creating opportunities and enhancing growth.

At the time, the roles of these sectors were insufficiently highlighted, and their potential largely under-exploited.

I am happy to see that in the past few years, an increasing number of EU countries have been developing strategies to fully tap the potential of these sectors. So have a large number of European regions and cities, from Wallonia to Catalonia and from Berlin to Tallinn and Turin. I am sure that the compelling evidence in this new study will be a further inspiration to decision-makers at all levels.

The study also arrives at a useful time for the EU: in 2015, the Europe 2020 strategy for growth and jobs will be reviewed. Newly updated figures on the contribution of the cultural and creative sectors at the EU level are important and timely. So is the demonstration that the creative economy has shown resilience during the economic crisis and that it is a dynamic and fast-growing sector which contributes significantly to youth employment.

None of this would be possible without creators and creation. The competitive advantage of our cultural and creative sectors depends on maintaining a virtuous cycle of creative talent, artistic expression, entrepreneurship and investment, as well as proper reward and remuneration for creators. Enhancing this cycle by fostering the right environment for cultural diversity and creativity in a digital world will surely be a key task for the European Commission.





## Measuring cultural and creative markets for the first time



**Marc Lhermitte**

*Partner, EY*



**Bruno Perrin**

*Partner, EY*

This first economic overview of cultural and creative industries within the EU stems from our intuitive sense that culture and creativity can become a powerhouse of economic growth in Europe.

With an annual revenue of €535.9 billion and more than 7 million workers, the creative and cultural industries are today central to Europe's economy and competitiveness. Their importance and potential to create jobs and fuel economic growth are recognized by the European Commission<sup>1</sup>.

As this report shows, their development is reinforcing Europe's position as a global hub of creativity and talents. It also flags new ways in which Europe can enhance its attractiveness in a globalized economy where countries compete not only on costs but also on ideas, innovation, entrepreneurship and creativity. The creative sector will play a key role in Europe's economic recovery, especially within the framework of the Lisbon strategy.

Yet, despite the prominence of their output in our daily lives, the creative industries have long played the role of the last-minute winner in an economy where manufacturing, business services and the public sector capture the limelight.

Until now, reliable information on the scale and significance of the creative and cultural sectors as a whole has been scarce. It was only in 2009 that a working group coordinated by Luxembourg's Ministry of Culture – the European Statistical System Network on Culture – was set up to promote statistical cooperation and harmonization with a view to producing reliable cultural statistics.

This report reaffirms the methodological challenge that still lies ahead in measuring the economic importance of the creative and cultural sectors, and focuses on an urgent need for further statistical consolidation and harmonization at an EU level.

For the way we buy, distribute and “consume” cultural “products” is changing fast. So, rather than producing another white paper, EY and GESAC set out to provide an overview of the cultural and creative economy and the trends that should be taken into account when considering policy options affecting the sector.

To tell the stories of these industries and their actors, their performance and difficulties, we looked at 11 consumer markets for the creative and cultural goods and services that people and companies consume in 28 EU countries.

We cross-checked these eleven “vertical pillars” against the wide spectrum of creative activities which generate economic value and jobs in fields such as idea conception, design, production, distribution, performance, broadcasting and management, and with activities relating to education and tourism, where applicable.

1. European Commission (2010), Europe 2020, a Strategy for Smart, Sustainable and Inclusive Growth and European Commission Green Paper (2010), Unlocking the Potential of Cultural and Creative Industries.





The study summarizes and builds upon available information on the economic scale of the cultural and creative sectors at both national and European levels. Though there have been many studies on the creative economy, a common definition has only very recently been agreed.

Our report includes:

- Comparative, qualitative and quantitative analyses aimed at understanding the economic role of the creative and cultural sectors in Europe
- Key factors that will affect the global evolution of creative and cultural sectors and players
- Ways by which creative and cultural activities can help encourage growth, youth employment and innovation and strengthen Europe's position globally.

This work, carried out under the guidance of EY teams, has been a collective project, embracing the thoughts and contributions of GESAC and its partners for this study with the common aim of understanding and developing our cultural and creative industries. We would like to thank GESAC and its partners (IMPALA, IFPI, SAA, Eurocopya, IVF, FIAPF and EVA) and its prime supporters (FEP, AER, ACE, AEC, EACA, ECSA, EGDF, EPC, FERA, FSE and IMPF) for their technical and methodological insights.

We hope that this report serves as a starting point for a better and wider understanding of the central role played by creators and creation.

## Subsectors of CCIs

### Books

Authors, specialized book stores, public and academic libraries, book publishing, etc.

### Newspapers and magazines

Newspaper industry, journals and periodical publishing industry, news agencies, etc.

### Music

Sound recording and music publishing activities, music composers and lyricists, music radio stations, TV music channels, etc.

### Performing arts

Performing arts, supporting activities and venues, etc.

### TV

Television programming, production, post-production and distribution creators working in the TV industry, etc.

### Film

Motion picture production, post-production and distribution; creators working in the movie industry, etc.

### Radio

Radio broadcasting activities, etc.

### Video games

Developers, publishers, retailers and distributors, etc.

### Visual arts

Creators of visual arts, such as photography, design, art and crafts and museums, etc.

### Architecture

Architectural firms, etc.

### Advertising

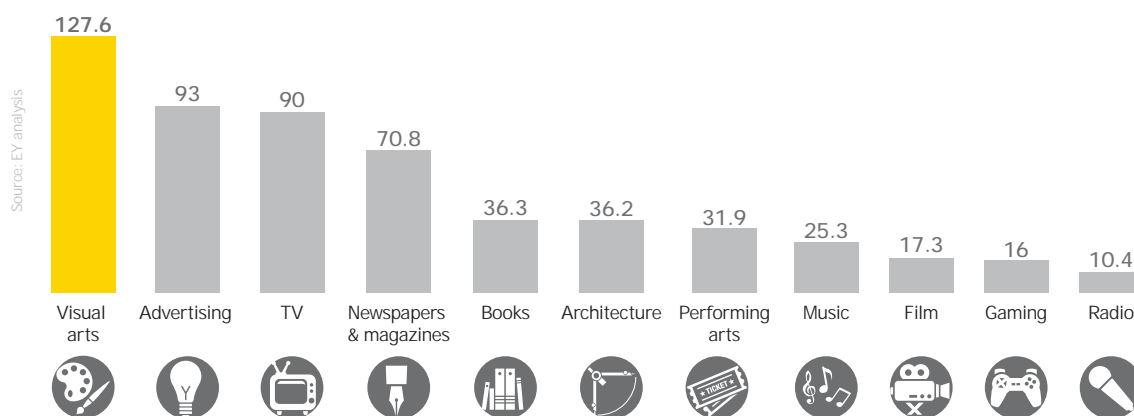
Advertising agencies, etc.

# Key facts and figures

## Turnover

With revenues of €535.9b, the creative and cultural industries (CCIs) contribute to 4.2% of Europe's GDP. The sector is its third-largest employer, after construction and food and beverage service activities, such as bars and restaurants.

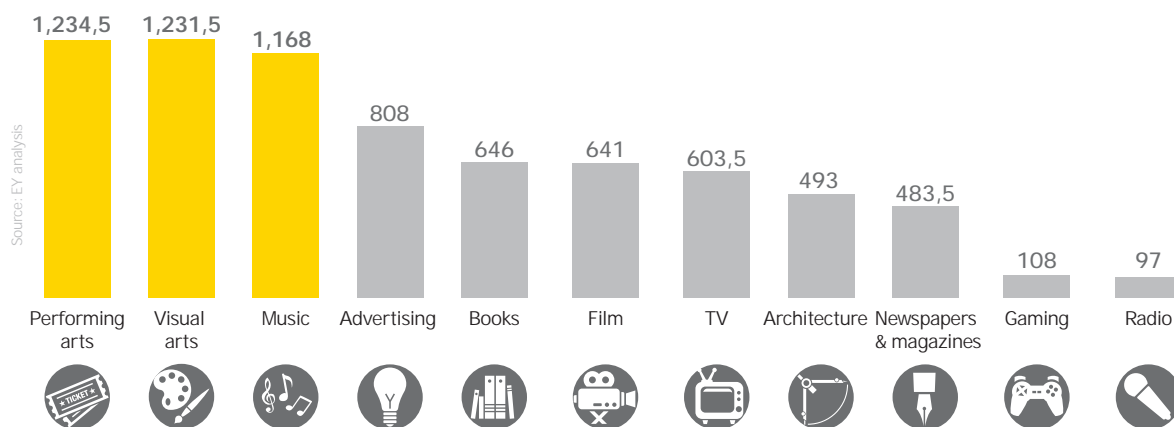
Turnover (€b) - 2012



## Employment

More than 7m Europeans are directly or indirectly employed in creative and cultural activities – 3.3% of the EU's active population. Performing arts (1,234,500), visual arts (1,231,500) and music (1,168,000) employ more than 1m people each, followed by advertising (818,000), books (646,000) and film (641,000).












Employment (in thousands) - 2012



Total for jobs and markets have been estimated after removal of double-counting. For markets, the sum of sectors figures, €554.7b, exceeds the consolidated total, €535.9b (rounded figure). For instance, live music is counted in both Performing arts and Music sectors (see Methodology).



## The 11 cultural and creative markets in the EU28

Markets	Sales (€b)	Jobs
 <b>Books</b> New user experiences are reinventing the book industry	36.3	646,000
 <b>Newspapers &amp; magazines</b> Facing and embracing the challenges of the digital age	70.8	483,500
 <b>Music</b> Innovating to lead creative diversity in Europe	25.3	1,168,000
 <b>Performing arts</b> Audiences love live concerts and festivals	31.9	1,234,500
 <b>TV</b> The most popular medium is thriving	90	603,500
 <b>Film</b> Resilience fueled by the digital transformation	17.3	641,000
 <b>Radio</b> Still the most trusted medium and available in many new ways	10.4	97,000
 <b>Video games</b> Surfing the wave of online and mobile gaming	16	108,000
 <b>Visual arts</b> Brightening Europe's appeal for tourists and art investors	127.6	1,231,500
 <b>Architecture</b> Coping with the aftermath of the construction sector slump	36.2	493,000
 <b>Advertising</b> Driven by the rapid expansion of online revenues	93	818,000
<b>Total CCIs (after removal of double-counting)</b>	<b>535.9</b>	<b>7,060,000</b>

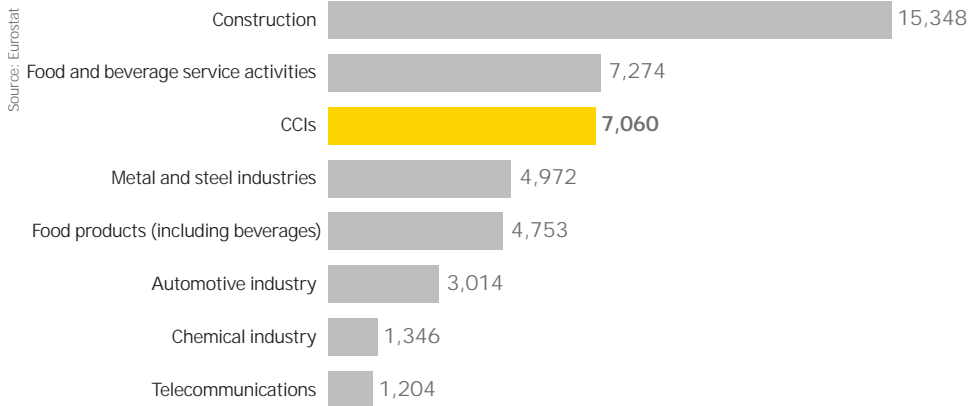




## Benchmarking the cultural and creative industries

In terms of jobs, CCIs in the EU employ as many people as the food and beverage service industry does. They provide work for nearly 2.5 times more people than automotive manufacturers and 5 times more than the chemical industry.

Employment (in thousands) - 2012



## Leaders and leadership

Europe has had many international leaders, thriving mid-sized companies and successful start-ups, for instance.



### Books

Pearson, Reed Elsevier, Wolters Kluwer, Random House, Hachette Livre, Grupo Planeta, Holtzbrinck



### Newspapers & magazines

G+J, Axel Springer, Schibsted, RCS Media group, de Persgroep publishing activities, Bonnier, Egmont, FT, Sanoma Media and news agencies Thomson-Reuters and AFP



### Music

Universal, Deezer, Spotify



### Performing arts

Donauinsselfest Music Festival, Sziget Music Festival, Avignon Festival, Edinburgh International Festival, La Scala, Opéra de Paris



### TV

Endemol, BSKyB, TF1, RTL Group, BBC, France Télévisions



### Film

Gaumont, Nordisk Film, Pathé, Wild Bunch, Zentropa, Kinopolis



### Radio

BBC, Radio France Internationale



### Video games

Ubisoft, Kingn Rovio Entertainment



### Visual arts

Christie's, Dorotheum, Van Ham



### Architecture

Aedas, Foster and Partners, Sweco



### Advertising

WPP Group, Publicis



# Creative force: markets and jobs in the cultural and creative industries in Europe

## In this section:

- 11 markets at a glance
- Untapped potential for youth employment
- Europe's leaders
- Reshoring creative activities in Europe's regional clusters

# 11 markets at a glance: more than the sum of their parts

## Revenues of the 11 creative and cultural industry sectors total €535.9b

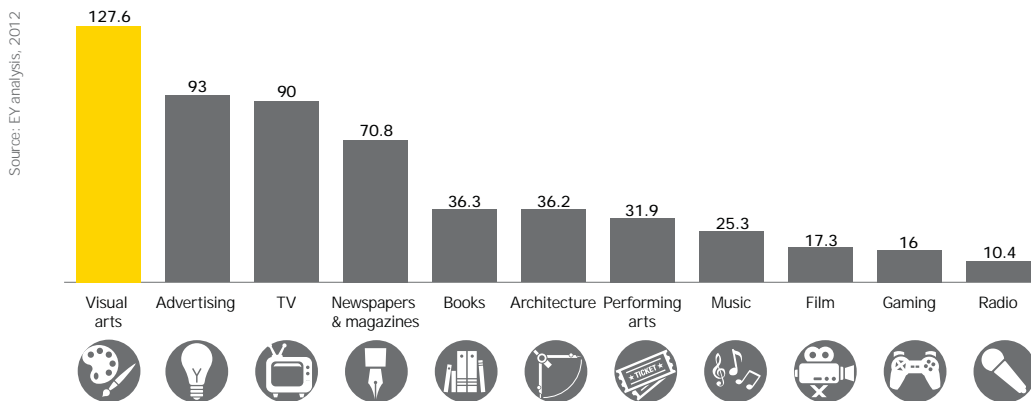
The three biggest activity areas in 2012 were the visual arts (€127b), advertising (€93b) and TV (€90b), which together accounted for more than half of the CCIs.

Publishing – of newspapers, magazines and books – in the meantime generated a combined revenue of €107b.

The 11 sectors analyzed are distinct, yet many connections exist between them at nearly all levels of the value chain. A novel written as a book may be adapted into a film or a video game, or a musical may take the form of a film, performance or recording.

Overlaps occur at the creation level among authors, composers, visual artists, designers, directors, screenwriters and writers; at the production level, between TV and films, visual arts and video games; as well as at the distribution level, with the emergence of various platforms for mixed-media distribution. And the advertising sector has close business links with most of these market segments: advertising income is an important revenue stream for the radio, TV and newspaper industries. Digital technologies have reinforced these connections and accelerated collaboration across sectors.

### Turnover (€b)

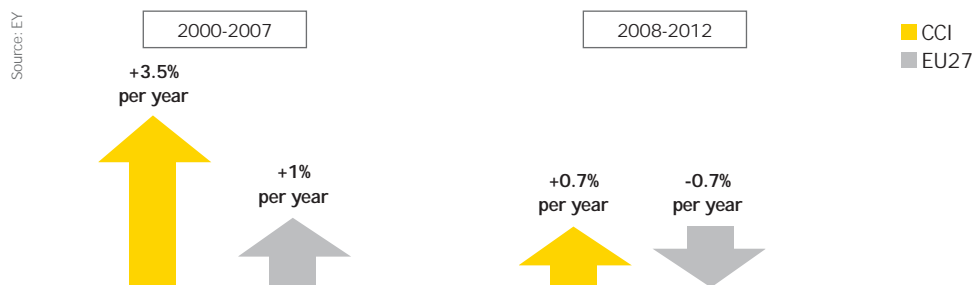


## A dynamic and fast-growing industry, even in tough economic times

The resilience of the creative economy was evident during the economic crisis: job creation in CCIs grew on average by 3.5% a year from 2000 to 2007, and continued to grow at 0.7% annually between 2008 and 2012, even as the number of jobs in the rest of the economy fell 0.7%<sup>1</sup>.

### A fast growing sector...

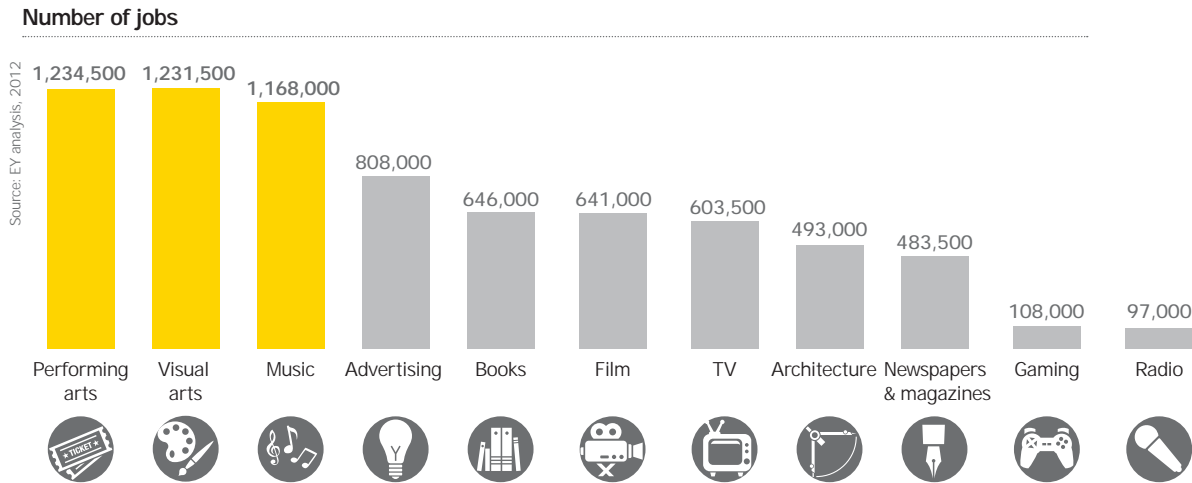
### ... that withstood the economic crisis





# Untapped potential for youth employment

The biggest employers among Europe's CCIs were visual arts, performing arts and the music industry. They accounted for about half of the 7m CCI jobs in the EU in 2012.



## Creative activities contribute significantly to youth employment

In 2013, the creative and cultural sectors employed, on average, more 15-29-year-olds than any other sector (19.1% of total employment in CCIs versus 18.6% in the rest of the economy<sup>2</sup>). In Eastern and Central Europe, the trend is even more pronounced: on average, young people account for 1.3% more jobs in the creative economy than in the rest of the economy.

National estimates in the UK and France show that the proportion of young people employed in the creative economy in these countries is significantly higher than in the Western European economy overall. In the UK, 20-29-year-olds hold 22.6% of jobs in the creative sector, above their 22.3% average in the economy as a whole.

The Paris region was Europe's second hotspot for creative jobs after Greater London in 2010, according to the European Cluster Observatory.

People under 35 accounted for 41.4% of creative employment in this world-class metropolitan region, but just 36.7% of jobs in the wider economy<sup>3</sup>.

These estimates underline two convergent trends:

- The cultural and creative sectors are highly attractive for young people
- The cultural and creative fields are open to young workers and absorb them easily.

For both these reasons, the cultural and creative industries have a strategic role to play in the economic recovery and growth of Europe, especially in providing jobs and career opportunities to young Europeans, who are hard-hit by unemployment in the EU.

# Europe's leaders

Thanks to a dense population, a strong market for culture, its world-class cultural heritage and a highly talented creative class, Europe has long been a source of corporate leaders in the creative industries. Be it renowned international corporations, mid-sized companies or successful start-ups, many European businesses are in the global vanguard.

In the music industry, Universal leads, as does Endemol in TV. Hachette Book Group claims the top position in book publishing, Ubisoft and Supercell in video games, and Publicis and WPP in advertising. Europe is also an innovation hotspot, creating, developing and testing new business models like those of Sweden's Spotify and France's Deezer in online music streaming services. These are typical success stories born in the minds of European entrepreneurs.

Some of Europe's leaders have grown by expanding their activities across several market segments. Vivendi Group is at the forefront of music production and publishing, as is Bertelsmann in media and books. The European cinema industry ranks third, by number of films produced, behind those of India and the US – and second by exports, after that of the US. Europe also has a significant population of mid-sized companies – in TV, music, video games and architecture for example – that may emerge as future world leaders. With aggressive commercial strategies and thriving creativity, they draw high-quality employees, discover creative talent and seek new opportunities in global markets.

But there is no room for complacency. Many governments around the world have awoken to the high economic and employment potential of creative firms and seek to develop their cultural industries through targeted policies. Though a hotspot today, Europe faces increasingly fierce competition from both developed and developing countries. Policy tools ranging from tax breaks to public investment are deployed by governments everywhere to attract these high-value-adding activities. In one notable example, the Government of Quebec, in Canada, offered a 37.5% tax break for video game developers. Video game employment there rose by 33% during 2008–10. Meantime, many jobs were lost in the UK video games industry: the largest transnational companies relocated a share of their activities to Quebec<sup>1</sup>.

Policymakers within the EU must, therefore, respond to global competition and adopt strategies to ensure Europe remains a world leader in the creative economy.

## Reshoring creative activities in Europe's regional clusters

Though a handful of sectors, including video games, are at risk of offshoring, most jobs in the cultural and creative sectors depend on workers and creators who are located within European borders and are working in professions closely related to the local economy, such as museum staff, visual artists, script writers, DJs, show hosts, journalists or architects.

In a 2010 study, the European Cluster Observatory demonstrated a very close relationship between the development of creative and cultural economic activities and regional prosperity<sup>2</sup>.

The regions that showed the highest concentrations of creative activities were those that proved to be most resilient during the post-2008 economic turmoil: London and Paris enjoying the highest concentrations of creative employment<sup>3</sup> held up well, as did Rome, Stockholm, Madrid, Munich and Budapest, while mid-sized cities and rural areas suffered more.

Partially thanks to this resilience, CCIs are increasingly viewed as a key component of local economic development. At the crossroads of art, business and technology, they act as a catalyst and an innovation engine, with benefits that strengthen the broader economy.



1. [www.gamesindustry.biz/articles/2012-01-19-40-percent-of-lost-uk-game-jobs-relocate-overseas](http://www.gamesindustry.biz/articles/2012-01-19-40-percent-of-lost-uk-game-jobs-relocate-overseas)
2. Priority Sector Report: Creative and Cultural Industries, The European Cluster Observatory, 2011.
3. The European Cluster Observatory only uses databases from Eurostat and national offices of statistics as its main sources of data on creative and cultural employment. Its methodology slightly differs from the methodology adopted in this report insofar as it covers more NACE codes.



# Creating Growth: future drivers of the creative economy in Europe

## In this section:

- Everything digital: a revolution in the creative ecosystem
- Disruptive business models: paving the way for new forms of consumption
- Valuing and protecting creativity: more than paying lip service to creators
- Supporting businesses: the vital yet diminishing role of government
- Helping small business: weaving a strong fabric of dynamic SMEs
- Fueling growth: the indirect power of the creative engine

# Everything digital: a revolution in the creative ecosystem

The future of Europe will be shaped by the digital transformation now underway in our economy and society. Just as creation itself is now often digitized, the creative industries have also invented new business models that integrate high-value content and communication technologies, both within their business and the services they provide. Once seen as largely a matter of technology, innovation has evolved to embrace aesthetics, functionality and content. The creative industries have become integral to the digital economy. Together, they identify and fulfill new uses for technology and adapt to changing consumer behavior and expectations.

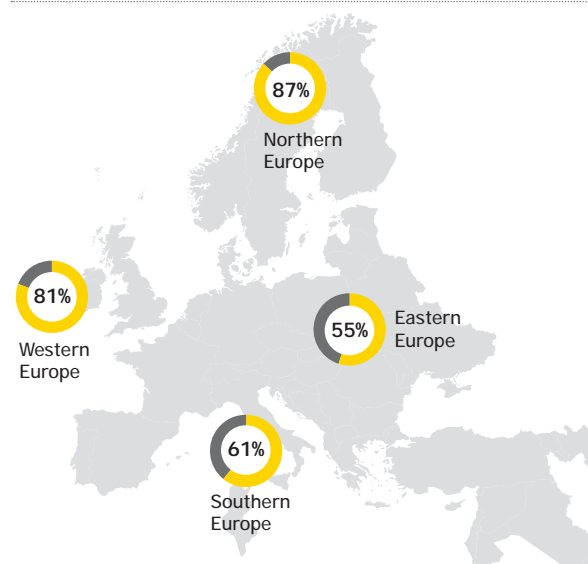
In this new ecosystem, the way in which Europeans consume media and interact with brands has changed. Thanks to a rapid upsurge in time spent online, the average European now spends more than 30 hours a week watching TV or using the internet. Cross-media engagement is growing in importance: consumers use several media, sometimes at the same time, and may for example, surf or tweet while watching TV – leading to new ways of interacting with creative works and creating new flows of value.

Over the past decade, digital revenues have driven growth of the creative sector, adding €30b to its revenues between 2001 and 2011<sup>1</sup>. This trend is set to continue, further transforming many of the sector's business models.

Large swathes of the industries are in flux, casting around for new digital sources of revenue, even as the technological revolution devours their traditional markets. Creative activities, and especially media companies, increasingly resemble tech companies that use and transform data and online content into high-value services to consumers. European consumers are some of the most “digitally savvy” in the world. Western Europe has 197m smartphone users<sup>2</sup>, the second-highest concentration in the world, and 73.1% of Europeans use the internet, leaving the Americas (61.8% in 2013)<sup>3</sup> trailing. However, prolific online shopping and high levels of data consumption in Northern and Western Europe should not overshadow much lower usage levels in Southern, Central and Eastern Europe, where some EU newcomers have much lower levels of internet uptake.

As mobile devices become more capable and easy to use, Europeans are changing the way they consume, including the way they access media and culture.

## Internet penetration rates in Europe



Source: IAB Europe - MediaScope 2012

More than 50m Europeans now go online on tablets and 68% own an internet-enabled mobile phone – up 46% since 2010. That is facilitating a change in the way people read, watch and listen to media, culture and much else. This new ecosystem is driven by cultural content: games top charts of the most profitable apps in mobile download stores<sup>4</sup>.

Two of the top seven categories of goods and services purchased online are cultural. Books are the items most-purchased online: 35% of shoppers have already bought books in this way. Concert, festival and theater tickets rank seventh, and 25% of online shoppers visit venue websites and other ticket retailers. But online technologies make several cultural works unlawfully accessible. This is a critical issue that threatens the economic viability of many cultural market players, and is forcing them to seek new ways of ensuring that they are paid for their creative efforts.

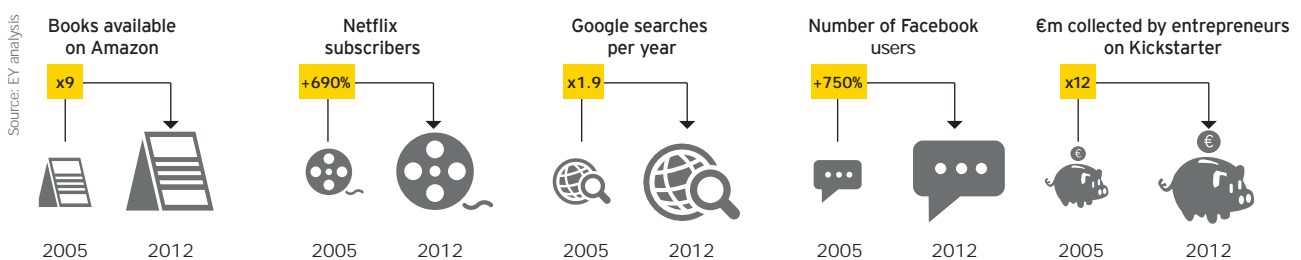
# Disruptive business models: paving the way for new forms of consumption

New services and technologies that enable people to access and enjoy creative works appear every day. On one hand, intermediaries such as search engines and platforms for user-generated content owe their success mostly to the access they provide to creative works, but do not share the value they create fairly with creators and creative industries. On the other hand, creative industries are often the early adopters of these new service models and technologies, and thus forerunners of our emerging digital society.

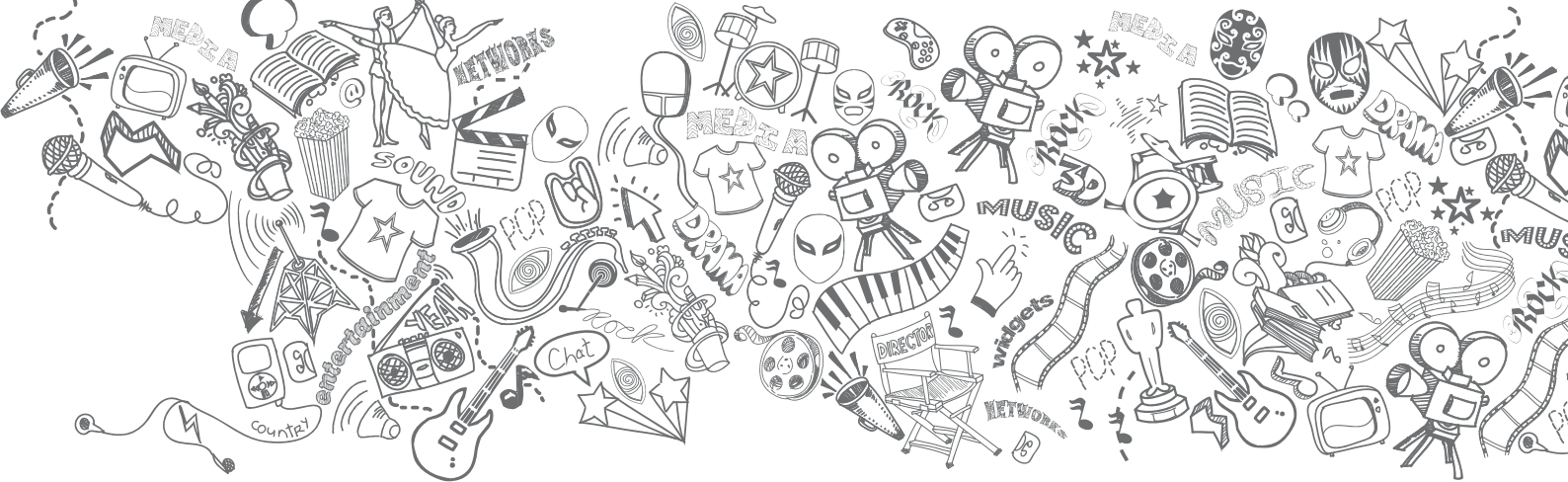
More than any other sector, the CCIs have undergone massive structural transformation to adapt to the omnipresence of the internet and its impact on business models, consumption patterns and content creation processes<sup>5</sup>. Six trends summarize these evolutions and highlight how new business models have been able to combine the vitality of creative activities and entrepreneurs with innovation in information technology:

- **Abundance:** The abundance and immense diversity of content is now taken for granted by today's consumers.
- **Personalization:** The creative industries embody our appetite for more and more personalized content and consumption.
- **Aggregation:** The emergence of "time and content consumption crossroads," such as Google and Facebook, has fueled market segmentation enabled by big data and the renewed search for relevance.
- **Community:** Social networks and the digitization of human exchanges have facilitated the emergence of a community-based economy, in which friends may be more trusted than intermediaries' complex algorithms.
- **Involvement:** The role of consumers has been extended. They contribute to the production, diffusion and marketing of cultural and creative works.
- **Illegal content:** Digital technologies and the internet have enabled the emergence of many unauthorized services and usages. Unlawful dissemination deprives creators and entrepreneurs of revenues, in some cases making it hard to recoup investment and reducing the financial incentives to create.

## Disruptive business models: key figures



1. "Media & Entertainment Knowledge Center" EY International.  
 2. eMarketer calculations, June 2014.  
 3. "Key 2005-2014 data for the world by geographic regions" International Telecommunication Union.  
 4. European Games Developer Federation.  
 5. "Sept ans: l'âge de raison ? - 2005/2012: les raisons d'espérer à l'ère du numérique", *Forum d'Avignon, 2012*.



## Valuing and protecting creativity: more than paying lip service to creators

Activities that rely heavily on intellectual property drive European growth<sup>1</sup>, and deliver 38.6% of EU GDP. Copyright-intensive activities, represented by the 11 sectors defined in this report, accounted for 4.2% of EU GDP in 2012.

The protection afforded by intellectual property law is critical to sustaining creativity and ensuring a return on investment for creators and their business partners. The EU has created a consistent legal framework to provide intellectual property protection through directives implementing international treaties and rules, such as the TRIPS Agreement and the Berne and Rome Conventions.

One result is that royalty collection from collective rights management organizations in Europe accounts for 60% of the worldwide total<sup>2</sup>, 80% of which is collected in the music industry. But, value transfers along the chain of the creative economy are reshaping long-established business relations: today, internet players and technical intermediaries are taking more and more value at the expense of content creators.

This is undermining the economic viability of many cultural and creative operators. While a tiny minority of star creators make a decent living, the majority struggle with short-term and multi-employer contracts and poor returns on their intellectual property. Often, they must combine several occupations to make ends meet. Undervalued products and increasing pressures on production costs raise significant barriers to investment and value generation. These problems are especially significant because the CCIs include vast numbers of small businesses that are only marginally-profitable. In its 2013 study of access to finance for cultural and creative services<sup>3</sup>, the European Commission showed that half of all enterprises in the CCI sectors employ just 1-3 people.

1. "Intellectual property rights intensive industries: contribution to economic performance and employment in the European Union," *The Office for Harmonization in the Internal Market 2013*.

2. CISAC.

3. "Survey on access to finance for cultural and creative services - Evaluate the financial gap of different cultural and creative sectors to support the impact assessment of the Creative Europe Program," *European Commission, 2013*.





## Supporting businesses: the vital yet diminishing role of government

Parts of the creative economy and its sectors are underpinned by public support through purchases, financial and fiscal incentives, subsidies, license fees or public employment. In 2012, according to Eurostat, governments in the EU28 devoted €62b of spending to cultural services.

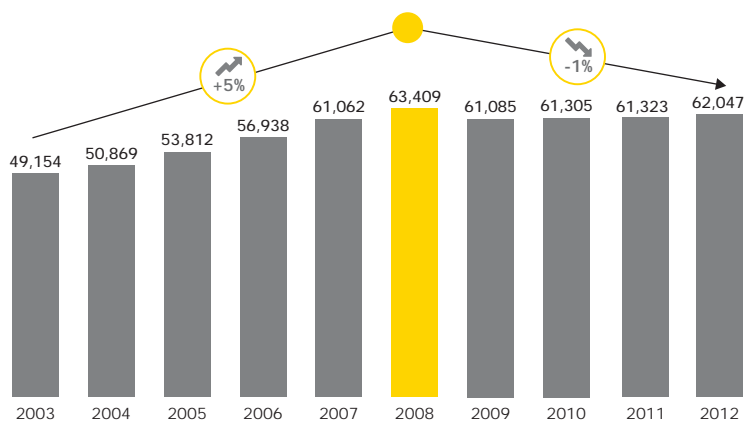
However, many governments have been under severe pressure in recent years to cut public spending and reduce support for cultural services, especially in Southern, Central and Eastern Europe.

Before the 2008 crisis, public spending on cultural services was growing by 5% a year: since then it has fallen on average by 1% annually.

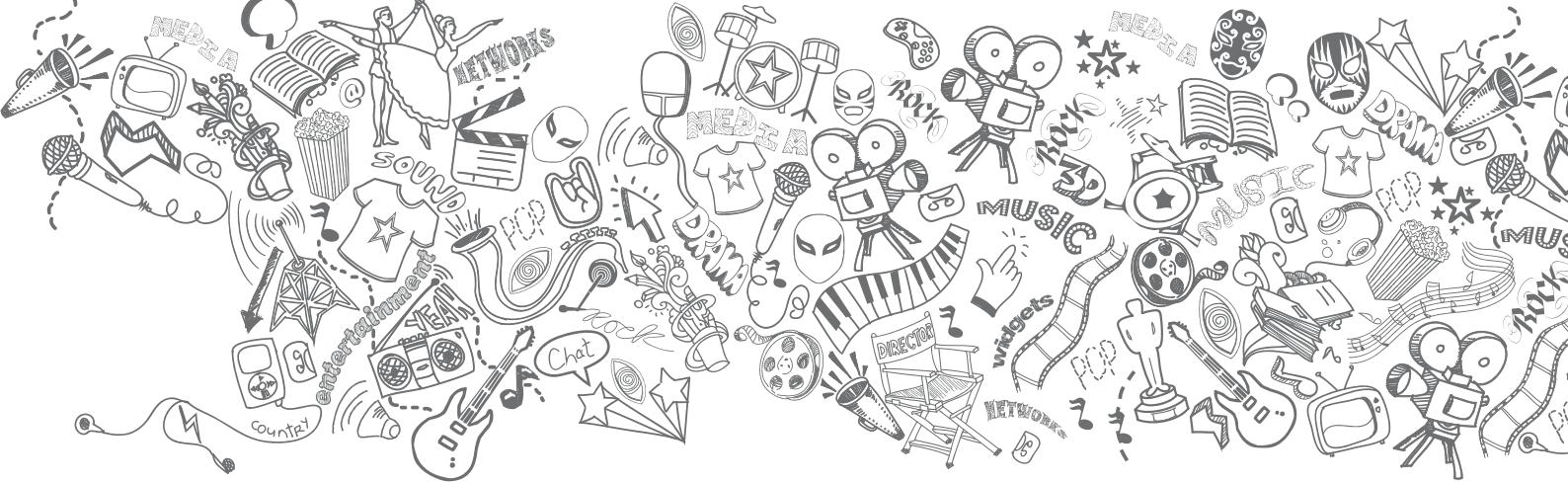
Cultural spending by governments gets a high profile, yet accounts for only 1% of government outgoings in the EU28 – a share unchanged during the decade to 2012 and far behind defense (2.9%) and education (10.7%).

Though modest, government support has a vital pump-priming effect, leveraging private investment or support and anchoring the economic vitality that the creative economy has shown throughout six years of economic turmoil. Moreover, culture brings many positive, nonfinancial returns to people's lives, which are largely unmeasured.

Total government expenditures on cultural services (€m)



Source: Eurostat - General government expenditure by function (COFOG)



## Helping small business: weaving a strong fabric of dynamic SMEs

The diversity of business models within the CCIs, ranging from self-employed creators to giant global companies and public interest organizations, contributes to their resilience. But small or very small enterprises and organizations are the norm.

Digital distribution can significantly lower barriers to entering global markets, as developments in the games industry show. Rural European SMEs are successfully competing against companies in the world's megacities.

The profound economic crisis which has plagued Europe since 2008 has deeply affected SMEs. Now, amid hesitant recovery, they struggle to access finance to fuel their development.

As the European Commission showed in its 2013 study, creative and cultural SMEs and organizations suffer all the difficulties of peers in other sectors, and find it even harder to raise capital and funds. In particular, the report said, they depend heavily on intangible assets and IP, serve uncertain markets (leading to higher risks) and suffer from a wide perception that cultural organizations and entrepreneurs lack business skills and depend upon public investment schemes (though in reality these amount to only 1% of EU28 government spending).

The Commission also noted that lack of good market intelligence, pressure on existing business models and higher dependence on expensive digital solutions deter capital owners from responding to capital seekers.

Moreover, Europe suffers from a lack of mid-sized companies in its creative sectors. The smallest companies have difficulty expanding, held back by financing difficulties. The European Commission estimated the financing gap for European CCI businesses at €8b–€13.3b, and called for new financial instruments to support the industry's growth and leverage the development of its small businesses.

The emergence of new technologies and their use in CCIs (through cutting-edge customer platforms, data-crunching capabilities and internet-based services) as well as rising marketing costs of the new digital platforms have made many of these businesses more capital-intensive, so that shortages of capital can severely hold back their development more than ever.



## Fueling growth: the indirect power of the creative engine

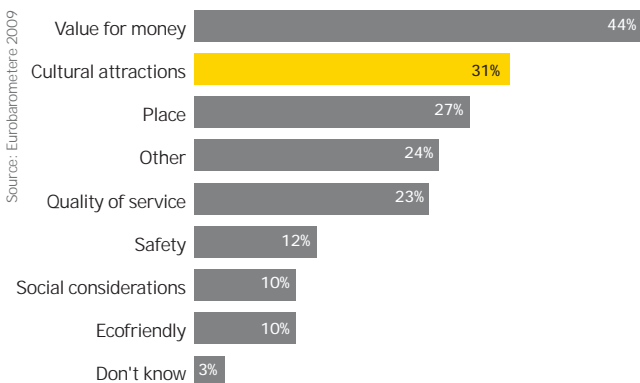
Creative and cultural sectors are also powerful catalysts for other vital industries. Across the EU, the holiday plans of one out of every three tourists is heavily shaped by available cultural attractions.

In France alone, culture-oriented tourism generated €18b of revenues in 2011, and accounted for 35% of tourists' consumption decisions. Culture is also a cornerstone of digital innovation: many digital companies and apps are created around cultural works and their distribution, recognition and curation. This in turn fuels innovation in the creative and cultural sectors.

The availability of digitized cultural and creative works has accelerated the diffusion of electronic devices among consumers. EU consumers have become accustomed to listening to music, catching up with a TV or radio program and playing games on mobile devices.

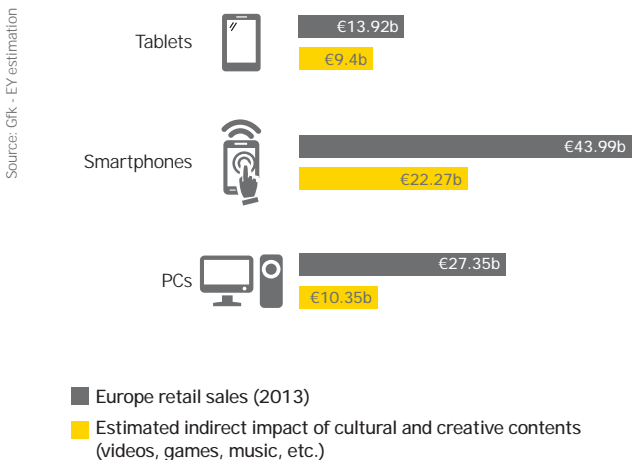
On tablets, they spend, on an average, 70% of their time "consuming" creative works. And, they spend 50% of their smartphone-time not making calls, but playing games, watching videos, listening to music or browsing the internet. Accelerated innovation in the creative sectors has fostered faster innovation in electronic devices: creative works have encouraged the take-up of smartphones and tablets. The creative sectors are frontrunners in introducing consumers to the new business models of the digital era, paving the way for other sectors that are shifting services online.

### What are the most important considerations when deciding on holiday destination or accomodation?



*Several answers possible*

### What are the economic impacts of cultural and creative content on sales of smart connected devices?





# Creative diversity: understanding the 11 market segments that make up the cultural and creative economy

## In this section:

- Books
- Newspapers and magazines
- Music
- Performing arts
- TV
- Film
- Radio
- Video games
- Visual arts
- Architecture
- Advertising

# Books



## New user experiences are reinventing the book industry



646,000

Employment (2012)	
Book publishing activities	135,000
Book specialized stores	32,000
Public and academic libraries	266,292
Authors <sup>1</sup>	150,000
Employment in non-specialized stores	51,598
Book selling induced employment	11,235
<b>Total employment</b>	<b>646,125</b>



€36.3b

Turnover (2012) <sup>2</sup>		€m
Book sales in Europe <sup>3</sup>		33,621
Extra EU28 export		2,637
<b>Total turnover<sup>4</sup></b>		<b>36,258</b>

1. The estimate does not take into account indirect employment (printers, graphic designers, etc.).

2. Main sources used for this section are: A report on market trends and developments, 2013 / IDATE News on E-book, IDATE, 2011 / European book Publishing Statistics, Federation of European Publishers, 2013 / Cultural Access and Participation, 2013, European Commission / Statistical, Ecosystems and Competitiveness Analysis of the Media and Content Industries: the Book Publishing Industries, 2012, European Commission.

3. The book market includes fiction and non-fiction works, such as academic, children's and comic books, as well as specialty books - medical or legal.

4. Sources: The Global eBook Market, 2013. Rüdiger Wischenbart / Market Access Database, 2014, DG Trade.

## Today

### Books remain a pillar of the creative and cultural economy...

With sales of more than €36.3b, the book market is a big contributor to the European creative economy, ranking as the fifth-largest market, ahead of the film industry and performing arts. It employs almost 650,000 people across Europe, ranking fifth in the CCIs' jobs league table.

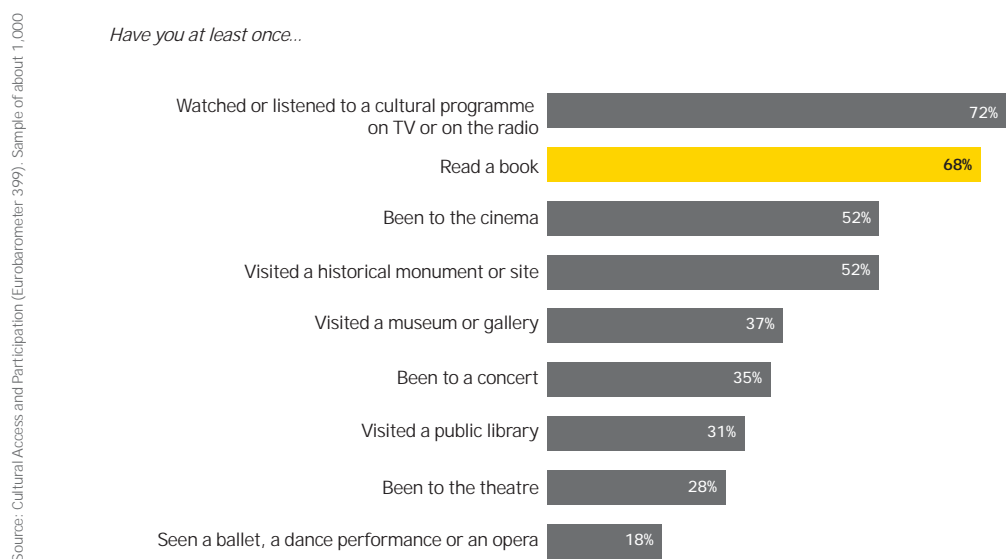
There are an estimated 150,000 authors in Europe, although the true figure may be higher since there is no single database of book writers – and for many writing is a sideline.

### ... but total sales have declined over the past five years

According to the Federation of European Publishers (FEP), book sales revenue fell 5% between 2008 and 2012. The economic crisis has had an effect, but the drop may be partly explained by digital sales substituting for print sales at lower prices, eroding publishers' turnover. Though digital platforms may increase sales overall, often aided by aggressive pricing, they may also affect cultural diversity, contributing to a focus on best-sellers while simultaneously improving availability of the little-read titles. Reading books remain popular – it is the second most common cultural activity among EU citizens. One-click purchases on online platforms may be the norm, but the autumn publishing season remains a key moment in the cultural calendar.

Language barriers tend to make books a "domestic" product, mainly sold within homogeneous linguistic areas. An estimated 20% of sales are exports, of which 12% are exported within the EU and 8% beyond the Union. Book distribution remains focused on bookstores and general stores. In France there are still 25,000 bricks-and-mortar booksellers, including 15,000 with significant and regular sales activity<sup>5</sup>. The "resilience" of physical stores relies on the expertise of retailers who advise readers and act as trusted critics.

### Reading a book is the second most common cultural activity declared by the EU citizens - 2013



5. France Cultural and Creative Industries Panorama, EY, 2013.

# Books



## Tomorrow

### EU consumers are slow adopters of e-books

Distribution channels for books, as for other cultural works, are increasingly digitized, as shown by the growing popularity of reading on tablets and e-readers. Yet, the e-book market is still emerging in Europe, where it only accounts for 3% of sales. Meantime, says the *Global eBook Market 2013* report, US consumers have proved to be early-adopters: e-books accounted for almost 20% of total US book sales by late 2012. One in four Americans now reads e-books and the switchover from print to digital is continuing, albeit at a much slower pace.

The UK e-book market has also been developing apace. Sales almost doubled in 2012, and one estimate puts sales at €310m–€380m – a share of 12.9%<sup>1</sup>. The global spread of English, both as a first language and *lingua franca* has combined with electronic distribution to offer UK publishers huge export markets, though it simultaneously gives foreign publishers access to UK readers. In the digital era, language barriers are the main obstacle to cross-border circulation of books; yet, also make it easier for linguistic minority communities to access books from overseas.

New e-book distribution services and devices have recently been launched in national markets across the EU, such as Libreka in Germany and Elib in Scandinavia. With its many linguistic zones, cultural diversity and growing familiarity with English, Europe is likely to prove a complex market in which e-books have considerable potential. That would fit with the trend of solid global growth: e-book sales worldwide are forecast to grow 30% a year during 2010–15.

Digitization has had a significant impact on the book industry, triggering reorganization of production and distribution. Digital publishing and retailing have the potential to reduce costs in the mid-to-long term if scale economies are realized. Yet the opportunity should not be exaggerated. Today, printing, storage and distribution account for only 15%–20% of the cost of a book, according to the FEP. Other costs, including editorial expenses and marketing, are equally high in digital and print, so cost savings will emerge only as markets develop. And digital publishing can require large initial investments.

1. Global eBook - A report on market trends and developments, Rüdiger Wischenbart, 2013.





## European national markets continue to adapt to an increasingly global book market, with risks for the creators

European national book markets are being disrupted by global distribution companies that now dominate digital distribution and benefit from tax optimization opportunities.

In their contest with global companies, national European operators (except for the UK players) are handicapped by linguistic fragmentation that limits market size, and by ending of retail price maintenance or its undermining by online vendors. Long-standing business models underpinned by legal frameworks peculiar to the industry are being challenged by technology and new business models that test both law and competition rules. But, European businesses remain at the forefront of efforts to satisfy the demands of national consumers for choice of books and editorial diversity.

The emergence of national distributors suggests that by adapting, national players can coexist with globalized distribution companies.

Digitization and the ongoing transformation of the value chain also challenge the financing of creation. For instance, Amazon offers a publishing service targeting writers and authors that would allow them to bypass traditional publishers. It also offers unlimited access to its e-book catalog for a monthly subscription. Though most authors prefer to be backed by a legacy publisher, financing and redistribution-to-author models are changing.

## Leaders and leadership

### European groups dominate the global book industry

With 24 official spoken languages in the EU and more than 60 indigenous regional languages<sup>2</sup>, Europe's book market has historically been fragmented. Nevertheless, the European publishing sector is the world's biggest<sup>3</sup>, and seven of the top ten book publishers in the world are European<sup>4</sup>.

The past few years have seen the emergence of new players in the book sector: after taking

on retailers and, in some cases, capturing large parts of the retail market, internet and tech companies, such as Amazon and Apple, are now broadening the scope of their activities, and competing with book publishers. Publishing houses are adapting to this new technological and competitive environment by experimenting with new business models, consolidating and offering ever-more digital content.

1. Europeans and their languages, EC, Eurobarometer 386 (2012).
2. FEP analysis.
3. Pearson, Reed Elsevier, Wolters Kluwer, Random House, Hachette Livre, Grupo Planeta and Holtzbrinck - Publishers weekly, 2013.

# Books



## Inside track



### **Henrique Mota** (left)

*CEO of Principia Editora and newly elected Vice President of the Federation of European Publishers*

### **Pierre Dutilleul** (right)

*President of FEP*

#### **How do you see the publishing industry in Portugal and across Europe?**

After several years of crisis, publishing is stable and seems to be slowly improving though Portugal has relatively few book readers. In Europe, the situation is mixed: countries where readership is more developed tend to be more resilient.

One shared feature, though, is our faith in innovation to improve book publishing and distribution, whether online or offline. Technology is central to many processes. We also believe that books are absolutely essential for the cohesion of our societies, since they enable citizens to better understand society and themselves.

#### **What trends do you see and how are publishers responding?**

Publishing is diverse and each book genre is unique. We need to work on encouraging everybody in the population to read. Studies have shown that citizens who read books are better equipped socially and professionally.

On the retail front, we need a competitive and fair environment, where all retailers obey the laws of each country and fulfill their fiscal obligations, equally. As publishers, we need a varied network of booksellers to encourage cultural diversity. Booksellers ensure proximity to readers, which is vital. They also play the essential role of stockholding and marketing books, so we need to ensure their survival.

Of course, we love it when the cinema takes one of our books and decides to make it into a movie. It attracts new readers and puts the author in the spotlight.

With new ways to interact with readers, especially through the internet, we are increasing and developing new services and new values for readers and for our authors.

#### **What is the future of employment in the book industry?**

Our President Pierre Dutilleul, Director of External and Interprofessional Relations at Editis, the second-largest French publishing group, said, "We shouldn't forget that publishing is a service industry and hence a creation industry, and as the people in charge, we have to locate, ease, attract and develop the loyalty of those talents which makes the book, even in times of crisis, a priority good." He is right.

Publishing is both local and international. Seven out of the ten largest publishing groups are European and many of us have international ties. Publishers and all of the staff of publishing houses need to know the local market, and in some cases, international ones. Our publishing houses have moved into the digital world (even if people still very much enjoy printed books) so we hire more and more young, technically-savvy people.



# Newspapers and magazines



Facing and embracing the challenges of the digital age



483,500

Employment (2012) <sup>1</sup>	
Newspaper industry	190,969
Journals and periodical publishing industry	289,850
Others	2,860
<b>Total employment</b>	<b>483,679</b>



€70.8b

Turnover (2013)	€m
Newspaper	39,307
Advertisement revenues	19,260
Direct sales and online revenues	20,047
Consumer magazines (B2C)	24,358
Advertisement revenues	8,642
Direct sales and online revenues	15,715
B2B magazines (direct sales, ad spend and direct revenues)	6,600
Others	525
<b>Total turnover</b>	<b>70,790</b>

1. Sources: Annual report, European Newspaper Publishers' Association (2012) ; European Commission: Statistical, Ecosystems and Competitiveness Analysis of the Media and Content Industries: The Newspaper Publishing Industry ; World Magazine Trends, FIPP (2014).

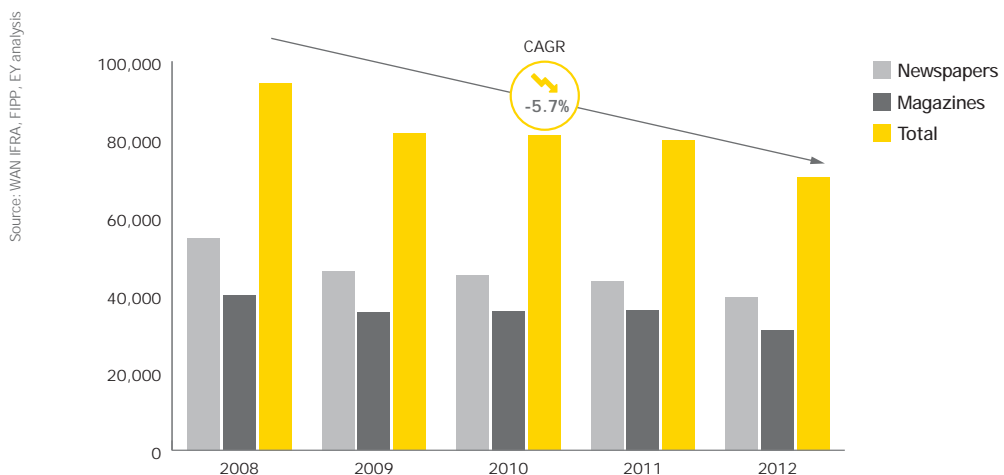
## Today

### A huge business that is part of our everyday lives

Though employing fewer than 500,000 people, the newspapers and magazines industry has a total revenue of more than €70b, making it the fourth-largest creative business. Newspapers bought at the kiosk or corner shop or delivered on subscription account for 60% of total sales. Half of publishers' revenues come from advertising, and advertising has been a critical element of their historic business model.

Magazines, including consumer and B2B titles, account for about 40% of total sales. But magazine publishing is less dependent on advertising revenues. Magazines sell for higher prices, and advertising provides only around a third of revenues.

#### Revenues of newspapers and magazines (sales and advertising) in Europe (€b) - 2012



### A growing consumer appetite, thanks to the combination of print and digital

Newspaper and magazine markets in Europe have been experiencing major economic difficulties for years and total sales have fallen, on an average, by 5.7% a year since 2008. This downtrend has been accelerated by the emergence of digital platforms and content, including websites offering free news, blogs and user-generated content.

The circulation decline threatens the publishers' two main sources of revenue: sales receipts and advertising. Newspapers' share of the advertising market has fallen from 35% in 1997 to less than 20% in 2012. Meantime, the shift to advertising online offers only limited recompense, since the largest share is taken by search engines.

Despite this, newspaper and magazine publishing remains a key sector, employing almost half a million people and producing – according to WAN IFRA – an estimated 100m national, regional and local newspapers, sold and distributed in Europe every day. Digital publication is growing in Europe. Digital technologies have enabled information and quality news flow through many more channels, including print and digital platforms, with interactive websites, dedicated newspaper apps and social media. But as in the US and other developed countries, digital publication is yet to compensate for the fall in revenues from physical sales and the ongoing migration of advertising away from the printed page.

# Newspapers and magazines



## Tomorrow

### New consumer preferences stemming from the proliferation of devices and low-cost communication channels

The spread of smartphones and tablets has driven change in the way news is consumed. People want to access media and news “with any device, anytime, anywhere.” In response, the industry has shifted from a paper-only business model to a mix of print and digital. The development of user-generated content, especially social networks and blogs, reinforces this trend. Consumers have become news providers and makers, creating their own channels of information, stories, pictures and analysis, though variable quality still gives trusted sources an edge.

Digital publishing enables publishers who succeed in involving readers to enrich their value proposition and learn from their behavior, who, in some cases, are also becoming viewers and listeners. Those who can combine data analytics on both print subscribers and their online audience may uncover a valuable asset.

Newcomers in this market using different (typically digital-only) business models have changed the traditional purchasing behavior and made readers less inclined to pay for content. Newspaper publishers need to continue to develop new products, business models and organizational structures, following the lead of innovative digital platforms already available for consumers, such as apps and digital kiosks.

Publishers are therefore developing “freemium” strategies under which core content is free online but users are encouraged to subscribe to their digital services to access additional, premium material.

Newspapers and magazines can leverage their brands and experiment with new products and services that have strong connections with readers. Some major European press groups, such as Norway’s Schibsted Media Group or Axel Springer in Germany, have succeeded in reinventing their business models, anticipating the online shift of classified advertising and adding business to business (B2B) and business to consumer (B2C) services to monetize their online audience – thus building foundations for international expansion.

The consumer magazine market is also in transition as publishing houses build strong magazine brands and offer quality content on digital platforms and devices. Though markets remain challenging, the multimedia approach, combined with a strong focus on content, has strengthened their appeal: EU magazine readers now spend 3% longer each week with their magazines than in 2010. Magazine audiences still attract advertisers. The development of lifestyle magazine supplements, heavily supported by advertising, underpins this appeal.



## Leaders and leadership

### Europe is the world's leading newspapers and magazine market

The EU28 long afforded the largest world market: in 2012, almost a third of the world's magazines were sold there, ahead of the US (24%) and Japan (11%).

But Asia now accounts for a third of global circulation after a 16% surge over 5 years, while circulations in Western Europe and North America declined 17% during the same period.

Nevertheless, two of the largest global press agencies, AFP and Reuters, are of European origin.

Some of the most successful new business models are also European: weekly newsmagazine *Der Spiegel* has effectively managed the transition toward new platforms and digital content. The web edition, employing 60 journalists, is read by 5.6m unique visitors every month and, unlike the print edition, *Der Spiegel's* website has been profitable since 2005. Meantime, digital offerings from *The Guardian*, a London-based newspaper, and its cross-town rival *MailOnline* have become global hits.

# Music



## Innovating to lead creative diversity in Europe



1,168,000

Employment (2012)	
Sound recording and music publishing activities	44,660
Musicians, song writers	650,000
Entertainment workers (profit sector)	375,239
Entertainment workers (nonprofit sector)	81,466
Employment in non-specialized stores	9,133
Employment in music radios	5,714
Employment in music TV channels	1,884
<b>Total employment</b>	<b>1,168,096</b>



€25.3b

Turnover (2012)		€m
Physical sales		3,693
Digital sales		1,686
Exports of recorded music		439
Live music performance revenue (profit sector)		7,793
Live music performance (Publicly funded/nonprofit sector) <sup>1</sup>		4,860
Synchronization		93
Music radio stations		3,175
Music TV channels		1,722
Copyright/author's right (background music, other radio and TV)		1,880
<b>Total turnover</b>		<b>25,341</b>

1. The live music sector has both a private, for profit, component and a publicly founded component, which is also referred to as non-profit. We use both terms in this study.



## Today

### The third biggest employer in the European creative economy

Activities accompanying the music industry's recorded and live value chains are numerous and diverse. Employees include composers, songwriters, lyricists, performers, backing musicians, producers, publishers, sound engineers, recording studio staff, technical workers, managers and workers at music radio stations and TV music channels. In its broadest definition – recorded plus live performance revenues – the music industry generates revenues of more than €25b.

Composing and performing musical works occupies most of almost 1.2m people working in the music industry. Based on data from national rights management organizations and entertainment workers, we

calculated that there are 650,000 registered musicians, composers and songwriters.

Collective rights organizations are key players in the musical economy. They redistribute more than €4.3b every year to their members, the creators and publishers who constitute the first link of the music sector value chain.

Thousands of European music companies, both majors and SMEs, invest heavily in new artists, and produce thousands of new releases every year. The contribution of SMEs in particular, in terms of releases and jobs, helps make the sector a key employer and is a source of great diversity in new music. Europe is home to four of the ten biggest music markets worldwide (Germany, UK, France and Italy) and some of the most important music companies.

### A market made of recorded and live music

The live and recorded music markets function in symbiosis. Performance of live music (venues, festivals and concerts) has been growing in the past few years. The slight (0.6%)<sup>20</sup> increase in overall recorded music trade revenues in 2013 suggests that European direct sales retain the ability to grow in the future.

Both the recorded music and live music sectors are important providers of jobs that cannot be relocated. Live music in Europe also has a significant publicly supported component, which produces great economic value and employment.

It also generates cultural capital and a strong territorial anchoring, through national and regional opera houses, such as the Paris Opera, La Scala of Milan, and the Royal Opera House in London, as well as national and regional orchestras which play a major role for contemporary creation and the life of musical repertoires (see Performing Arts section).

2. IFPI.

# Music



## The European recorded music market is driven by growing digital markets<sup>1</sup>

Digital recorded music sales grew by 109% in Europe between 2009 and 2013. Overall, physical and digital sales were broadly flat in 2013 (a net decline of just 0.3%) compared to 2012, helped by solid digital growth (+12%) in 2013.

Europeans remain among the world's largest consumers of recorded music, with 4 EU countries among the 10 biggest markets worldwide in 2013.

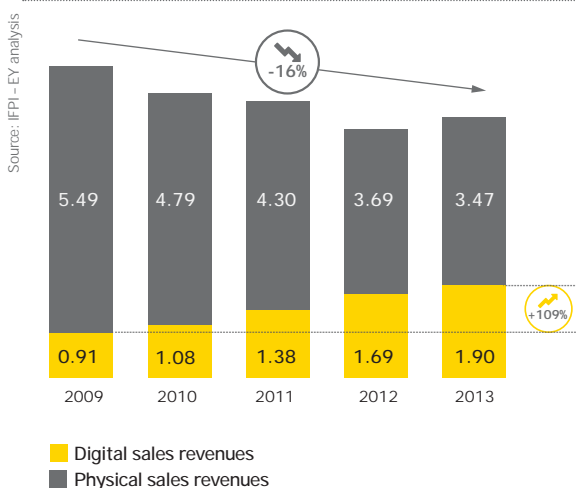
According to IFPI, an industry body, digital sales accounted for 39% of global recorded music trade revenues in 2013 and 32% of those in Europe.

Globally, downloads are a crucial source of income. In 2013, they accounted for 67% of digital revenues, while streaming, whether financed by subscriptions or advertisements, provided 27% of digital revenues.

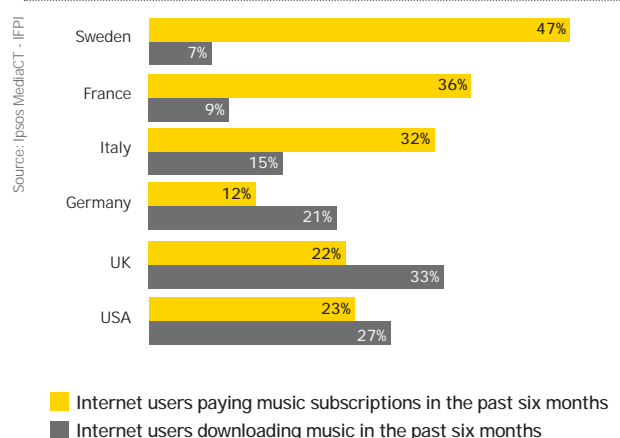
In Europe, streaming has grown robustly to deliver 38% of digital revenues in 2013.

Ad-supported and subscription streaming revenues are growing strongly and are expected to expand their share of the European digital market over the coming years<sup>2</sup>.

**Total music sales (retail prices) in the EU 28 (€b)**



**Music subscription vs music downloads in Europe, 2012**



1. Calculations based on IFPI data and recalculated to estimate retail prices.

2. Source : SACEM.



## The music sector leads creative industries in testing and inventing new business models

The music industry continues its transformation into a global digital business. Recording companies are successfully delivering music through digital channels, broadening the world of licensed music, and innovating to bring artists to a global audience. In terms of monetizing its core product for the digital world, the music sector still leads the way for other creative industries, including books and films. Embracing and creating digital business models have been crucial to the success of the European music industry.

The shift to online music sales is taking place across Europe, but consumer preferences vary. Music streaming services, for which consumers either pay a fixed-amount for unlimited access to an extremely extensive catalog of music (most streaming services offer more than 20m tracks, and some have about 40m tracks available) or which they can use for free

through ad-funded parts of the service (when such a choice is offered), are a growing part of the revenue stream. Revenue from music subscription streaming services surged 51.3% in 2013, exceeding US\$1b globally (approximately €750m) for the first time. It is growing steadily across all major markets. Within Europe, consumer behavior varies. Sweden, France and Italy are “streaming subscription-friendly,” while Germans prefer downloads. In Sweden, home of Spotify, half of all internet users pay a subscription to access millions of music tracks through streaming services. German music lovers prefer to download tracks from platforms such as iTunes. In the US, a country often seen as a bellwether, consumers are also moving to the “access” model offered by streaming subscriptions, although Europe is leading the way.

According to Nielsen, an information and measurement company, interactive music and video streaming was up by 35% in 2013, with 34.28b streams. This music and video streaming boom raises the fundamental question of how to better redistribute advertising revenues captured by video platforms to content creators and their partners. Video platforms facilitate the largest scale consumption of music, with YouTube, a video platform, being the world’s biggest music streaming platform.

# Music



## Tomorrow

### Supporting employment

Musicians, songwriters, lyricists and composers are at the heart of the music industry. Though statistics are limited due to the complexity of assessment, studies in France and the UK highlight a lack of job security for music professionals.

Many hold second jobs, combining multiple roles into a portfolio career. This needs to be understood and enabled by laws and social security rules that grant protection similar to that enjoyed by employees in other sectors of the economy.

### A sector founded on cultural diversity

The European music market is made up of a diverse group of dynamic national markets dominated by their national repertoire. Classical and contemporary music crosses national boundaries seamlessly, and classical artists and recordings follow suit. Popular music, on the other hand, is generally more successful in countries where the language spoken is the one in which the song is performed. Many markets show a clear preference for their “national” music.

In Denmark, France and the Netherlands, 80% of the top ten albums in 2013 were by locally-signed artists. The proportion in Spain was 80%, and almost 90% in Italy and Sweden.

In terms of overall album sales, national repertoire accounts for 70% of the Finnish market and 65% of the French market<sup>1</sup>. The coexistence of original and diverse musical cultures contributes to the cultural richness of Europe.

### Music services are key innovators in monetizing creative content

Users have taken up listening to music “on-the-go” via wireless electronic devices in addition to listening at home and on their computers. Music services have led this rapidly changing market. Consumers have grown accustomed to the unparalleled breadth of catalog available across digital services. Competition among service providers also occurs on the basis of curation and personalization, offering tailored recommendations and helping with music discovery.

This shift toward targeted recommendations and a more personalized music offer is based on rapid innovation by streaming platforms, which are diversifying their subscription offers to meet consumer demand.

There is still much to do to tackle piracy, which has damaged the industry and artists and hampered the take-up of legitimate services for years. Music companies support new distribution and marketing channels for music through individual or collective deals with online music providers, but it remains

1. The evolution of music in Europe, IFPI, 2014.



difficult to compete with free unlicensed services that do not remunerate artists.

Major and independent labels have proved to be innovative at finding new ways to grow, developing business models exemplified by global rights agencies, including Merlin for the independents. The emergence of a wide range of legal music streaming and downloading services,

including several digital and European-born international leaders like Deezer (France) and Spotify (Sweden), underpinned by copyright, has helped transform the industry. The availability of music at different price points and in diverse packages appeals to consumers, contributing to an increasing willingness to pay for music online.

## Leaders and leadership

### A leader in sales and innovation

Europe is home to the world's leading record company – Universal Music Group – and two leading music streaming service providers – Swedish-based Spotify and Deezer from France – which are global leaders, competing with leading US players

such as YouTube, GooglePlay and Rdio. Europe is also home to thousands of independent music companies, which are also key employers and investors in new creative works, something crucial to musical diversity.

### European creators and artists succeeding at unprecedented levels

Two European bands were among the 2013 top ten global recording artists, winning success with a global audience. UK-based One Direction topped the first-ever global release chart, while France's Daft Punk also succeeded globally, alongside a host of other artists such as Adele, Stromae and Xavier Naidoo.

European national repertoire is an extremely important export asset. The UK and Sweden are net exporters of music while France is the third-biggest music exporter in the world, after the US and the UK. European repertoire is supported and nurtured through the redistribution of

authors' rights via collective societies to their members: authors, composers and publishers.

Even in a globalized music market, local repertoire remains the cornerstone of almost every national market in the EU and around the world. Yet, Europe has always exported music and has been a global leader in music and culture since the earliest days of sound recordings.

Finally, Europe is also home to several of the world's most prominent music festivals and opera houses (see Performing arts).

# Music



## Inside track



### Michel Lambot

*Co-founder and Co-president of [PIAS]*

#### What has been happening in your industry?

The music sector was one of the first to be confronted with the advent of the internet as a new distribution platform, back in the late '90s. At first, this disruptive technology had a dramatic impact on the music market in terms of jobs, growth and retailing. Seeing it as an opportunity rather than a threat, however, independent record labels decided to take a very forward-looking approach to this new tool, seeing it as a real asset for music creators and authorizing new entrants to develop systems and test the market. This year, the European-recorded music market returned to growth for the first time in over a decade, indicating that we are now at a tipping point where the growth in digital is helping drive the market back up.

#### What future trends are emerging?

Today, music lovers have unlimited and immediate access to most of the music ever recorded, across all genres and regions of the world, at a reasonable price and often even for free. They also have access to devices delivering better audio quality than ever before. This could be a dream-come-true for musicians, composers, music producers and fans if – and only if – online services treat every piece of music with equal respect and return equal value to creators. If not, online services will be the new gatekeepers, deciding what music can be published, how much an artist can earn and what music genres the public can access. This places a heavy responsibility on those who will decide the outcome.

#### How important is digital technology in your sector?

Online music services have developed enormously in Europe in the last few years. By 2013, more than 230 music services were available in Europe, offering more than 37m tracks in every EU country. Digital made 32% of European recorded music sales, while physical sales accounted for 56% in 2013. In certain countries, the share of digital is even higher, for example, Sweden (70%, with subscription services accounting for 94% of digital revenues) and the Netherlands (35%,

with subscription services accounting for 54% of digital revenues).

Digital is a wonderful opportunity for the creative sectors, and, of course, the creative sectors are a great opportunity for the digital economy. Digital allows new and more sophisticated ways of communicating, reduces the distance between creators and their public, and enables the greatest diversity of works to be published and distributed, as long as the “pipes” are not choked by a handful of powerful global gatekeepers.

#### What is happening to employment in your sector?

The process of making music involves a chain of skilled individuals: composers, lyricists, music publishers, performers, backing musicians, sound engineers, record producers, recording studio staff, artist managers, and graphic artists, as well as lawyers, accountants, IT and new media specialists.

There are very few specialized schools that offer training for a career in the music business. That is why our industry tends to educate its new workers itself. Workers are, on average, younger than in most other industries. My company is being approached more by artists wanting to sign with us and by young people wanting to work with us than ever before.



## Inside track



**Jonathan Forster**

*Managing Director, Spotify Nordics*

### **What is Spotify?**

Spotify is the leading music streaming service in the world. The company was founded in 2006 in Sweden and the service was launched in 2008. Today, Spotify gives access to more than 20m tracks on every device with two versions: a free one paid by ads and a premium one financed by subscriptions. Spotify is now available in 57 markets globally, up from 15 two years ago, when we were limited largely to Europe and the US. Europe was where we expanded initially, as it was natural and easier for us as a European company. Now, we are in almost all countries of the European Union and we have also launched in South America and Asia. Our goal is to be everywhere within the next two years.

### **How has your industry changed in the last few years? How has it adapted to digital technologies?**

At Spotify, we are at the heart of the digital revolution in the music industry. When Martin Lorentzon and Daniel Ek decided to create Spotify, their analysis was that in the 2000's people were consuming more and more music, thanks to the internet, but at the same time the music industry was falling apart.

When we started, online music was essentially piracy and download. But the advent of streaming has been one of the biggest music industry shifts in the past five years. The way we share and discover music have completely changed and we have really tried to integrate these changes into Spotify by not only being a music player but also a social network and a place where you discover the music you will like.

We are still at the beginning of the streaming era. Today, we are really proud to count 40m users with more than 10m paying subscribers, but there is still plenty of room for us to grow and to become the primary way of consuming music. We really believe that Spotify and streaming in general are the future, and we are working really hard to realize that vision!

### **What future trends are emerging?**

We at Spotify are convinced that streaming, rather than possessing, is the future of music, creating a new model of listening, based on instant and unlimited access to music. We believe it is more adapted to our current digital habits and connected environments.

Streaming's market share has been growing fast for the last few years, and we expect it to continue gaining ground in the near future, becoming one of the industry's leading sources of revenue. In Sweden, Spotify now generates nearly 70% of the industry's total revenues.

### **What does the future hold for employment in your sector?**

What we are seeing in Sweden is amazing. Labels and majors are now hiring more engineers, often from tech companies rather than people with traditional music industry profiles. I think that the music industry is turning into a world of digital natives!

# Performing arts



## Audiences love concerts and music festivals



1,234,500

Employment (2011)	
<b>Non-profit sector</b>	271,554
Performing arts activities – production and creation	213,122
Supporting activities to performing arts	40,247
Venue activities	18,185
<b>Profit sector</b>	962,783
Performing arts activities – production and creation	755,613
Supporting activities to performing arts	142,694
Venue activities	64,476
<b>Total employment (estimate)</b>	<b>1,234,338</b>



€31.9b

Turnover (2011)		€m
<b>Non-profit sector</b>		14.726
Performing arts activities		10.014
Venue revenues		4.712
<b>Profit sector</b>		17.153
Performing arts activities		11.664
Venue revenues		5.489
<b>Total turnover</b>		<b>31.879</b>



## Today

The performing arts span four main activities: modern and classical dance, theatre, live music and circus arts. The field is distinguished by a polarization between the public and private sectors.

Providing an estimated 1,234,338 jobs in Europe, the performing arts sector<sup>1</sup> is the largest employer among the continent's cultural and creative industries, providing more than one job in six.

A strong tradition and local presence of theaters and concert halls underpins this high level of employment. By its nature, the activity is labor-intensive and a striking 78% of employees are creators and performers and another 15% technicians, while just 7% are involved in venue management and organization of ballet, music and stage performances.

### Decreasing audience figures explained by constrained household budgets

Attendance in theaters and concert halls fell between 2007 and 2013, according to the Eurobarometer, for cultural participation in Europe. The number of Europeans saying they had been to the theatre at least once during 2013 fell to 28%, down from 32% in 2007. The proportion reporting they had been to a concert, meantime, slipped to 35%, from 37% 6 years

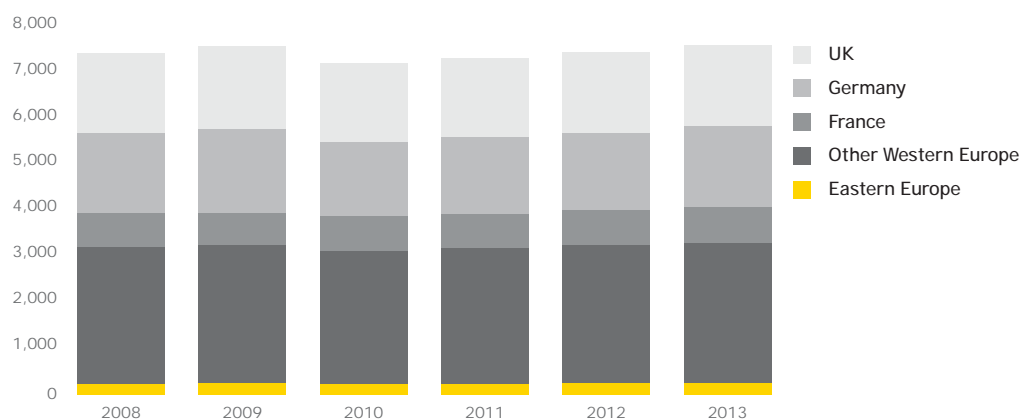
earlier. The most likely explanation for the fall is the pressure on household budgets arising from a prolonged period of slow economic growth and austerity. Attending live performances can be expensive, and is becoming relatively more so at a time when the internet offers free or cheap access to many recorded performances. Live performances have become a luxury for many.

### A dynamic sector driven by live music and outdoor festivals

Concerts and music festivals generated more than a third (37%) of global performing arts revenue in 2011. With revenues growing regularly since 2010, festival and concert activities have now recovered to pre-crisis levels. This recovery reflects a dynamic growth trend, and further progress is expected in 2014. Executives of companies operating in

the performing arts arena are becoming more confident about its prospects, according to two business surveys. One study found that more than 45% of respondents described the European festival market as "healthy," and 40% said the economic crisis had not affected their investment and development plans very much.

Concert and music festivals revenues in Europe (€m)



1. Performing arts include all forms of artistic expression in front of an audience. In this sector we look at dancing, opera, theatre (classical, contemporary and street art), opera and live music (classical and contemporary), including festivals.

Source: EY International Multimedia and Entertainment Knowledge Center

# Performing arts



## Tomorrow

### Declining public support threatens local activities

The wave of state-spending cuts that swept Europe in the wake of the financial crisis has hit the creative industries hard. Amid rising unemployment and upward pressure on social security budgets, many governments have taken an axe instead to discretionary spending on support for the arts, resulting in a squeeze on public subsidies to theaters, opera houses and orchestras. Funding of performing arts is often built around a mix of sponsorships (e.g., private donations and fundraising), ticket sales and public subsidies.

With public subsidies shrinking and production costs rising, promoters have tended to hike ticket prices to minimize losses or maintain profitability.

The “belt-tightening” especially affected local and micro-theaters, which depend most heavily on public subsidies. Theaters and concert halls with national and international visibility appear resilient to economic difficulties. Indeed, during 2011 theatre audiences in Barcelona, a favorite European leisure destination, reached a record 2.8m<sup>1</sup>.

### Greater competition for festival goers encourages diversification and higher quality

Competition for the budgets of festival goers is increasing. On being questioned about the outlook, 21% of festival organizers said competition would be a major issue for the next few years. This will put downward pressure on entrance prices and push up production costs as organizers hire big-name acts and strive to improve facilities for those attending. This could lead to more imaginative funding mechanisms: some festivals have sought to bolster income in recent years by developing branding, naming and other advertising-based revenues.

Intensifying competition could also encourage organizers to innovate in the way they organize, market and run festivals. Use of digital technologies, including cashless payments, and provision of high-speed wireless internet is likely to increase, and we should expect more quality-oriented offers, such as “premium” hosting facilities. The strategy of segmenting customers and offering a higher-quality product to those willing to pay more – a practice known as “premiumization” – can be seen in film industry and elsewhere.

1. Theatre audiences in Europe flock to play despite the economic squeeze, The Guardian, 2012.



## A growth engine for cultural tourism

Culture is a powerful driver of tourism, motivating national and cross-border visitors within Europe and drawing many overseas visitors to the continent. A rich built and cultural heritage in many European countries and capitals is reinforced by the dynamism of contemporary culture, expressed in modern art, ballets, theater and music. The performing arts play an important role in attracting people: for instance, 9.2% of tourists visiting the UK went

to the theatre, a musical, opera or ballet<sup>2</sup>. Local performances, in parks, pubs, restaurants and even camp sites are an essential element of Europe's tourist appeal. Even when cultural activities are not the primary reason for travel, performing arts may be an important part of the holiday and travel experience, and there is ample scope for further development of these activities in cultural tourism strategies.

## Leaders and leadership

### Europe – home of major music festivals...

According to an MTV ranking, 5 of the 10 most-attended international festivals take place in Europe:

- Donauinselfest, Austria (attendance: 3.2m in 2013)
- Przystanek Woodstock, Poland (attendance: 550,000 in 2012)
- Sziget, Hungary (attendance: 385,000 in 2012)
- Paléo, Switzerland (attendance: 230,000 in 2013)
- Exit, Serbia (attendance: 385,000 in 2012)

### ... and a prime opera, theatre and ballet destination

With world-renowned venues, such as La Scala in Milan, the Royal Opera House in London, and Staatsoper in Vienna, Europe has many of the best-known opera and ballet houses and companies in the world. Ancient venues in Italy or Greece have become highly sought-after tourist attractions.

And Europe's long history of performing arts and leading role in artistic creations is shared through institutions, such as the Comédie Française and Shakespearian theatres in London and Stratford-upon-Avon<sup>3</sup>.

2. The contribution of the arts and culture to the national economy, CEBR (2013).

3. Asia, for example, also has a long tradition of artistic performance in Japanese Kabuki which started in the 17th century; and China created an imperial opera house during the 8th Century Tang dynasty.

# Performing arts



## Inside track



### **Károly Gerendai**

*Managing Director of Sziget Cultural Management and Founder of Sziget Festival*

#### **What is the European dimension of the Sziget Festival?**

This massive eight-day music festival brings together more than 65,000 attendees per day, and has been taking place annually since 1993 in Budapest. The event features international acts in genres ranging from rock, pop and electronic music to blues and jazz to world music. Being one of the world's largest and most extraordinary festivals, with about half of the total visitors coming from outside Hungary, the Sziget Festival won the very best "European Major Festival" award in 2011 and was ranked one of the best festivals by British newspaper, *The Independent*, in the same year.

Famous for its quirkiness and multicultural atmosphere, you'll meet almost every nationality, from Irish and Dutch to Turkish and French, bringing their own music, theatre groups, food and culture.

#### **What changes have your sector undergone in recent years?**

In the last, say, 10 years, the number of both local and international open-air music events has quintupled, and this has led to unprecedented competition among festivals. The good news is that the number of attendees has also risen, though not as fast as the supply side – I would say that attendance has doubled.

#### **How has your sector integrated digital technologies?**

Digital solutions has infiltrated the world of open-air festivals on all fronts. Social media channels have raised audience communication to a more direct and efficient level. Digital payment solutions have enhanced safety for customers and facilitated accounting for organizers. Live streaming helps in bringing the shows to an unprecedentedly-wide audience around the world. Digital development has made both, reaching out to the audience and providing services to them, easier, which is great for everyone involved.

#### **What future trends are discernible?**

It is not easy for a big festival to survive in the intensified competitive situation. The key lies in specialization. Until now, we have seen a huge quantitative development in this sector. Now we're shifting more to a qualitative development era. The big open-air music events attract audiences from a wider, cross-border territory, so organizers must highlight what is unique very clearly. In a smaller country, such as Hungary, there is an 80%-90% overlap in the performer lineup of music festivals. To attract more festival goers, events must offer unique attractions and features that complement their musical offerings.

#### **What is the future of employment in your sector?**

At Sziget, some 50-plus employees work all year long on our extensive event portfolio. However, this tiny team grows incredibly in the festival season. At our flagship event, Sziget Festival, about 9,000 workers provide an unforgettable experience to our audience.

These open-air festivals are significant employers, hiring mainly local, well-trained and educated manpower from the younger generation. These jobs can never be outsourced to distant countries: this makes our role even more important at local level.



## Inside track



**Yorgos Loukos**

*President of the Athens & Epidaurus Festival*

### **What is the European dimension of the Athens & Epidaurus Festival?**

The Festival was born right after the Greek civil war, with a triple economic, artistic and touristic objective: opening up to Western Europe, drawing back our great artists (like Marias Callas, who was at La Scala in Milan and Dimitris Mitropoulos, who was conductor of the New York Philharmonic Orchestra) and promoting our great archeological sites in Athens and Epidaurus.

The festival aims at promoting contemporary young Greek creators alongside European creators to build international bridges. We want to bring the new generation to the foreground and provide a platform for the emerging forces in arts. For example, through the Kadmos project associating

the Avignon, Barcelona, Athens and Istanbul festivals, we work together and collaborate to share the costs of having European and international companies perform in our festivals.

### **What is your economic situation and how has your festival changed?**

We've suffered some budget cuts in recent years but we have found new resources, thanks to the Niarchos foundation and other sources of funding that help to balance the budget. But it is important to underline that ticket revenues are important. Our ticket pricing policy reflects the local economy, with a range of tariffs (cheaper tickets for young and unemployed people and introduction of fidelity cards) and is a real success, with an increasing number of tickets sold every year. We went from 40,000 to 180,000 spectators within 5 years and 70% of them are under 30. We have also moved many of our venues from archeological sites to more diverse and modern sites, such as abandoned factories. And casting theater productions with big names such as Kevin Spacey playing Richard III or Isabelle Huppert in a Marivaux play attracts a wider audience.

Art is a great antidote to crisis, and enables creators to think differently while it gives people a real appetite and enthusiasm for culture.

### **How has your festival integrated digital technologies?**

We mainly developed a digital strategy toward communication with our audience to promote the festival program. We are also working with schools and using digital technologies to make our festival and its venues on archeological sites known to kids.

### **What are the main challenges for the future?**

First, the festival season is a great opportunity for local people: we go from 12 to 350 people working for us, hiring many ticket vendors, ushers, and so on. And then, there are local economic spinoffs which are huge in terms of tourism – even boosting sales of local honey, olive oil and orange marmalade. That is why it is important for us to encourage closer European collaboration in terms of tourism and culture, which are interrelated, to deepen the benefits for both sectors.

# TV



The most popular medium is thriving



603,500

Employment (2013) <sup>1</sup>	
Employment in television programming activities	288,288
Employment in television production, post-production and distribution	243,340
Creators working in the TV industry	72,000
<b>Total employment</b>	<b>603,628</b>



€90b

Turnover (2012)	€m
Pay TV <sup>2</sup> and public license fees	60,479
Advertising revenue	27,934
Video on demand (VOD)	484
EU28 exports	1,058
<b>Total turnover</b>	<b>89,955</b>

1. Main sources used for this section are: World Television Market, IDATE, 2011 / European video: the industry overview, European Video Yearbook 2013, International Video Federation 2013 / Statistical, Ecosystems and Competitiveness Analysis of the Media and Content Industries: European Television in the New Media Landscape, Joint Research Centre European Union, 2013.

2. Pay-TV is an umbrella term including subscription based services and , pay-per-view, which may be described separately.

## Today

### New growth factors energize TV broadcasting activities

With the total reaching €90b and the total employee count reaching 600,000, the European TV market – the world's second-largest after that of the US and ahead of Japan's – grew on average by 1.83% a year for the past five years. A decline in advertising revenues (down by €3b from 2008 to 2012) has been compensated by increased income from TV license fees and subscriptions

(for pay-TV, see graph) and general license fees. Advertising revenues accounted for more than 31% of total revenues of TV broadcasters. No details of online revenues from broadcasters' websites are available at the European level, but recent estimates in the UK suggest that they are still very marginal.

### EU markets have effectively embraced new technologies

The distribution channels of broadcast TV are increasingly diversified. By 2009, satellite broadcasting accounted for 31% of the EU TV market, cable for 30%, digital terrestrial TV for 25% and Internet Protocol Television (IPTV) for 5%. Western Europe is the largest IPTV market in the world, accounting for 40% of global subscribers in 2010. France is the leading country in the world for IPTV (23% of the global total), followed by China (16%) and the US (16%)<sup>3</sup>.

This conversion is fueled by the emergence of a new audience landscape: even though TV remains a mass medium enabling advertisers to reach a massive range of audiences, growing audience fragmentation allows television channels to target their audience more precisely and helps broadcasters secure revenues from advertising designed for a particular audience.

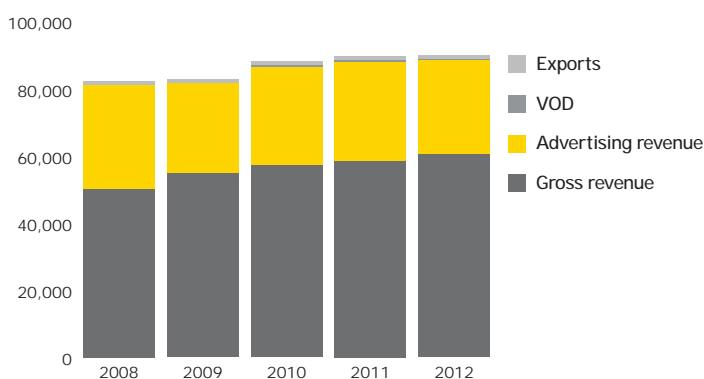
### Paying viewers have become the leading source of revenues

The growth of overall TV revenues is primarily driven by increasing flows from pay-TV. Until 2008, advertising was the biggest source of funding for the industry, generating about 47% of the sector's revenues, while 44% came from pay-TV and 9.4% from public funding. The situation began to reverse in 2009, and in 2010 pay-TV accounted for 48% compared with 43% for advertising.

In the coming years, this trend is expected to increase as digital advertising spend goes up and TV broadcasters secure more revenue through subscription plans<sup>4</sup>.

There is increasing pressure on national budgets; and although public financing rose 6.9% in 2010, it still accounted for less than 10% of total television revenues. Public service broadcasters in several European countries have recently experienced difficulties arising from the economic crisis. Public financing is an essential source of funding for public service broadcasters, and in turn for their suppliers – the small and medium enterprises from which programs are commissioned.

TV market revenue, Europe (€m)



Source: European Audiovisual Observatory

3. Green paper on the online distribution of audiovisual works in the European Union: opportunities and challenges towards a digital single market, European Commission, 2011.

4. As estimated by IDATE.



## Tomorrow

Many in the TV industry believe consumers will be increasingly willing to pay for “premium” content featuring enriched programs and live events, or for service make it easier to catch up on the broadcasts they missed. So services that provide access to TV programs as well as films are being reshaped so that viewers are charged for what they are willing to pay for, while other content remains free. Some traditional broadcasters have enhanced traditional offerings with so-called nonlinear services such as catch-up TV and video-on-demand available on an ever-expanding array of channels, platforms and devices. People are

increasingly watching programs on devices other than TV sets. In an era where multitasking diverts TV audiences away from the main TV set, “second screen” strategies – delivering program-related content on dedicated apps – are being developed in an effort to keep the viewer involved.

New technologies have helped this change. With the development of over-the-top (OTT) video and connected TVs, new kinds of companies, such as independent content aggregators, are increasingly competing with television channels, cable networks and broadband operators to deliver programs and films via the internet.

### Pay-TV platforms have resisted the swift emergence of streaming platforms

Many expected the arrival of legal online streaming platforms, enabling internet users to access a very large catalog of TV programs and films, to undermine existing pay-TV services – where present – and attract their customers.

But that has not happened. The arrival of online subscription-based operators such as Netflix in Northern Europe and the UK did not lead to a massive shift away from other subscription services. Most viewers seem to regard the new subscription services not as an alternative, but as a complementary offer to other pay-TV and subscription services. The new services mostly attract consumers without pay-TV subscriptions or consumers taking more subscription-based services.

For example, Netflix was launched in the UK in 2012 into a market where online TV was already available. But existing pay-TV services, such as BSkyB, which maintained constant 10.6m subscribers between 2012 and 2013, were unscathed<sup>1</sup>. The launch of Netflix services in France this year will provide a new opportunity to observe the impact of a legal streaming platform in a country that already has pay-TV services as well as subscription-based services such as FilmoTV and CanalPlay.

1. BSkyB Facts and Figures, BSkyB activity reports.





### Maintaining the popularity of TV in the digital era

European consumers still love TV, watching on average 3 hours and 48 minutes a day in 2010<sup>2</sup>, despite tough competition from the internet. But the amount of time spent watching TV is declining in some European countries: the French watched 8 minutes less TV a day during 2014 compared with 2013 and Britons 18 minutes less.

With almost 10,000 TV channels established in Europe, and increasingly segmented programming thanks to the emergence of specialized channels, many consumers have

a wide range of programs to watch on TV. Increased viewer choice has helped grow demand and revenues, but is no longer sufficient to maintain the trend. As in the music industry, TV companies may choose to develop online tools to help viewers find programs they want to watch among the growing number of options. These might include recommendation tools that learn from viewing behavior and highlight relevant content, replacing printed and electronic program guides, and providing strong and easy-to-identify editorial lines.

### Some TV programs cross borders but TV activities remain mainly national

Though TV markets remain essentially national, a growing number of European TV programs and formats are finding audiences in other European countries. Series such as *Downton Abbey* or *Borgen* are sold around the world. Big European production companies are also able to replicate programs that have done well in one country and adapt them to address local audiences and tastes in others. For example, hit shows such as *Big Brother* (produced by Endemol), *Pop Idol* (FremantleMedia) or *Strictly Come Dancing* (BBC) are better known in France as *Loft Story*, *Nouvelle Star* and *Danse avec les Stars* respectively.

Exports are also facilitated by the development of series designed for audiences in more than one country, as well as documentary and TV show co-productions, underpinned by financial and technical partnerships to share costs and know-how between European TV producers and public or private broadcasters, including ARD and ZDF in Germany, the BBC and BSkyB in the UK, and France Televisions. Partnerships and strategic alliances are also set up at a global level as the deal finalized in October by Century Fox and Apollo Global Management to merge Endemol, Core and Shine demonstrates.

2. TV Worldwide, Eurodata.



## Leaders and leadership

### The second-largest regional television market

Europe was estimated to account for 29.2% of global TV revenues in 2010<sup>1</sup>. That makes it the world's second-largest TV market after North America (37%). Only three countries, the UK, Germany and France, generate more than half of this turnover (53%).

The European television industry is a successful exporter, despite the global strength of US exports. But 90% of Europe's international revenues come from the thriving British TV industry. British TV content exports rose to £1.2b in 2012, having almost quadrupled since 2004<sup>2</sup>. The sophistication and quality of leading UK television productions gives them international appeal, however rivals are emerging and Scandinavian countries have recently made a big impact on the global stage, with successful TV series such as Borgen, Real Humans, The Bridge and The Killing.

1. IDATE World Television Market (2011), A profile of current and future audiovisual audience, European Commission 2012; Green paper on the online distribution of audiovisual works in the European Union: opportunities and challenges towards a digital single market, European Commission 2011; European Television in the New Media Landscape, European Commission 2012; Television, cinema, video and on-demand audiovisual services in 39 European States, European Audiovisual Observatory 2013.

2. <http://www.pact.co.uk/about-us/news/uk-television-exportsexceed-12bn/>



## Inside track



### Laurens Drillich

Managing Director, Endemol  
Nederland Mediagroep

#### What changes has your sector undergone in the last few years?

More people watch TV at other moments than the original time slot at which it was originally broadcast and on other devices, more advertising money goes to digital, and many broadcast and production companies have teamed up, while at the same time there is a constant stream of new, smaller players in the production market. The cable/digital broadcast market has grown extensively. Budgets for TV shows have decreased very strongly.

Our digital strategy is to be where the (future) all-in-one “viewer-user-consumer” will be, which naturally means that we diversify from regular broadcasting toward all other (plat) forms, including but not limited to mobile, online and “over-the-top” delivery via internet TV protocols.

Social TV and second screens have created real opportunities (mostly interactivity and sponsor possibilities), and social media have created a powerful way to market shows and channels. But the real change is still in the future, because – in the Netherlands at least – funds are scarce. Also, we need to be aware that although the second screen may help the primary screen by offering meaningful and successful content (participation TV through your mobile or tablet) quite often the second (or third) screen in the house is used for other platforms than TV (shows).

Television has become a global market. And where this may not be true for some very distinctive markets like Japan or India, the rest of the world, and especially Europe and Australia, watches the same type of content probably 75% of the time. As an example, the 25 biggest TV shows around the world (of which Endemol owns at least 7) have been broadcast in 95% of the countries. At Endemol, we have a library of more than 5,000 formats and commission at least 50 new formats around the world each year, across all entertainment genres. In addition, we have a growing slate of drama and comedy hits in the US and the UK as well as India, Germany, France, the Netherlands, Italy, Spain and Argentina.

#### What are the challenges for the future?

The challenges are multiple. First, we must deal with new digital ways of TV program consumption, working with lower budgets (which means being more flexible) and keeping hold of our rights, at a time when broadcasters seem to be more powerful than ever. Another challenge is that the same broadcasters sometimes prefer in-house productions. And we see new competition from people who create their own content at home and distribute it online (and via mobile phones).

#### What are the employment trends and what is the future of employment in your sector?

The sector favors young people and the market demands super talents to run productions, so we have to identify, attract and retain these employees. We also try to be flexible, where possible. But Dutch law will change next year and the maximum number of short-term contracts in a given period will be reduced. This will probably mean that we offer more permanent contracts, somewhat against the trend, to keep exceptional talents on board.

At Endemol Netherlands, we employ approximately 425 employees in permanent jobs or regular collaboration, with an average of 40 to 70 people working on a typical show.



## Inside track



**Véronique Cayla**

*President of Arte*

### **What is Arte and what are its special features?**

Arte is a singular project: the unique Franco-German cultural channel with a European mission. Financed 95% by the French and German license fees, it has two production centers, one in Paris (Arte France), and one in Germany in Baden-Baden (Arte Deutschland), and an official headquarters called Le Central: its broadcasting center in Strasbourg (Arte GEIE).

Arte France employs about 250 people, 70% of them women, at all levels of the organization. Arte is a very female-supportive channel, and has added many women in top positions in the past couple of years.

Arte is a double utopia. First, it is an audiovisual utopia because it broadcasts simultaneously the same programs in two languages in France and Germany (40% of the programs are produced by Arte France, 40% by Arte Deutschland and 20% via the GEIE). It is also a political utopia that aims at bringing together the people of Europe through their culture. Opening to other cultures, to their diversity, to the most varied creation and the renewal of its forms and genres are

at the heart of the new editorial policy that we launched in 2012: innovating without abandoning our convictions. This strategy is bearing fruit in France and also in Germany where Arte is achieving record ratings.

### **What are the implications of digital technology and what future trends are emerging?**

Technological innovation is changing the way people watch and use TV, especially the way they used to watch programs sequentially, as they were broadcast. Digital technology offers great opportunities for diversity and creativity, for spreading and sharing the arts and culture. It is also an opportunity for the entire broadcast industry with Arte in the vanguard, for ours is a dual-country channel that was quick to adopt digital technologies and that can rely on strong and distinctive programs.

Yet, we have to be wary of the strategies of the major internet players, particularly Google, Apple, Facebook and Amazon, which are unregulated, less concerned about cultural diversity than economic performance, and inclined to act as “digital predators.” Europe must be



careful and has to adapt its regulatory system so as to protect not only its heritage and cultural wealth, but also its advertising revenues and personal data. When our continent is going through a bruising identity crisis, culture must now more than ever be protected, supported and strengthened and creativity be promoted. That is the idea behind the Tandem project developed by Arte: stimulating production of Franco-German scripted programs and enhancing and tightening the bonds between our two countries – favoring European coproduction as we look to the future together.

In such a prolific and globalized sector, Arte needs to be supported so that it can achieve its cultural promise in this new digital era. It also needs to develop its European dimension, accentuating the quality and attractiveness of its programs. We have developed a powerful digital strategy, articulated through the creation of a “galaxy” of five digital channels. Our ambition is to establish a new model for public television that is, more open, more participative and which enables real-time and delayed viewing to evolve in an interwoven and enriching way.

To reshape Arte for a digital world, we have drawn upon our values and historic strengths to establish five digital services. Arte Concert was launched at the beginning of the year and has since achieved record audiences that reflect Arte’s coverage of Europe’s summer festivals. Arte Creative is our cultural leader. Arte Future carries science content and programs. And this year we launched two new services. One is Arte Info, which brings together all our news content, showcasing Arte’s special international character. And Arte Cinema, the latest in our galaxy, highlights and enhances our enthusiasm and support for art-house cinema from around the world. Arte’s goal is to become a beacon of European culture on the internet, diffusing the cultural identities of our continent to strengthen their influence and contribute strongly to the “European forum” that we need now more than ever. We are now seeking support from the European Commission to subtitle our programs in other EU languages, which we believe would turbo-charge our drive to become a flagship of European culture.

# Film



## Resilience fueled by the digital transformation



641,000

Employment (2012)	
Total employment in film production, postproduction and distribution	573,555
Employment in nonspecialized retail stores	31,205
Authors working in the film industry	36,000 <sup>1</sup>
<b>Total employment</b>	<b>640,760</b>



€17.3b

Turnover (2012)		€m
Box office gross revenue		6,298
Physical home entertainment (DVD and Blu-ray rental and sales)		6,747
Advertising revenue		671
VOD revenue		1,380
EU28 exports		2,176
<b>Total turnover</b>		<b>17,272</b>

1. Estimate of the number of authors receiving royalty payments irrespective of the year the works were completed. Method of calculation: the SAA represents 120,000 authors working in the audiovisual industry. CISAC estimates that 10% of these authors are deceased, leaving a total of 108,000 living authors. Taking figures for France compiled by SACEM as a guide, we can estimate that authors working in the film industry amount to a third of this total. There is a lack of data at both national and European levels on the exact number of entertainment workers.

## Today

A €17b market employing almost 650,000 people, the film industry is the ninth-largest covered by this report. Its biggest single source of revenues is the sale of cinema tickets – referred to as “gross box office revenues” – which in 2012 was 36.5% of the total. These have grown modestly since 2008, but not enough to compensate for a substantial and continuing

decline in receipts from the sale of DVDs, which have fallen from 50% to 32% of the total in the same period. Though many employees are highly skilled, and the industry’s stars are household names, many employees are in distribution, including manning cinemas and retail operations. Even so, there are thought to be 36,000 authors creating film material across Europe.

### Cinema admissions remain high

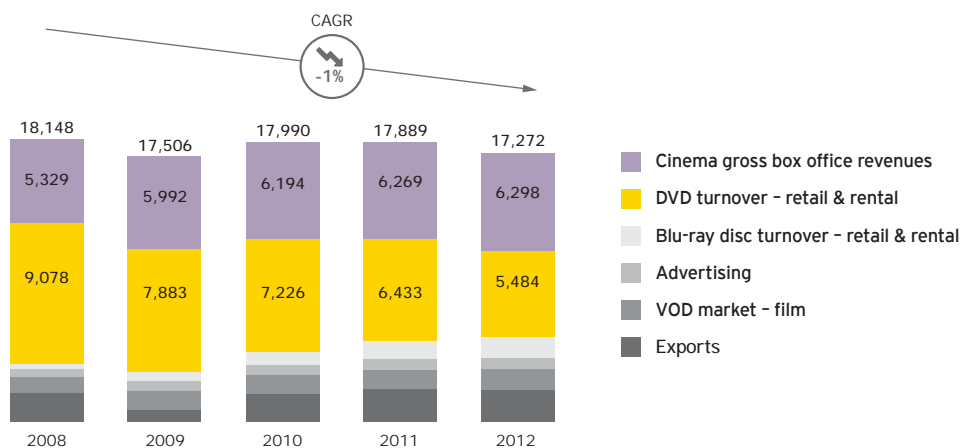
Since 2008, box office revenues have increased by an average of 2.4% a year in the EMEA region. In 2012, European cinemas earned almost €6.3b of receipts, unchanged from 2011, from 930m admissions. While Finland (+19.7%) and Romania (+15.4%) saw outstanding growth, the mature markets, and most notably France – the largest market in Europe, with 203m admissions – saw total admissions stagnate or fall slightly. Going to the cinema remains very popular among EU consumers, though ticket sales only amount to 3% of total sales of creative and cultural goods and services. Innovations such as 3D and digital screens have provided an enhanced experience

for cinema goers and underpinned ticket price increases almost everywhere, helping box office revenue reach new records: on average, EU consumers paid €6.90 for a seat in front of the big screen during 2012.

New consumer experiences are being developed by cinemas, including 4D (in which audiences experience simulated effects such as rain or vibration), operas, plays and live broadcasting of concerts. Faced with intensifying competition from home entertainment and the internet, cinemas are upgrading their interiors and experimenting with differentiated consumer experiences, including first and second class services and tickets.

**Distribution of revenues in the European film industry (€m)**

Source: European Audiovisual Observatory/EY analysis





## The economic sustainability of an investment-hungry industry

In contrast, digitization and new consumption trends (including piracy) have severely affected physical sales. Since 2008, physical sales of DVDs and revenues from their rental have declined steeply by 12% a year. Sales of discs in the Blu-ray format have been rising on average by 50% a year, but starting from a low base remain too modest to compensate for this fall. The slide in DVD sales has undermined the economic viability of much of the European film industry.

Though its scale is difficult to quantify, piracy is reckoned to be among reasons for the big fall in DVD sales. The UK Federation Against Copyright Theft (FACT) estimates pirate DVDs and illegal downloading cause an industry revenue shortfall equal to 15% of the value of legitimate sales.

With most European films being prototypes, attracting private funding for European filmmaking is difficult since returns are uncertain and

sometimes inadequate. European producers very often use co-production to share costs and draw upon pre-distribution sales in addition to external support by public authorities. The production sector is volatile and largely reliant upon small production companies. These companies are rarely able to invest as much (per film and in total) in film production as the US studios, which form an alternative production model.

The financial risks of film production and distribution are usually shared or outsourced by selling distribution rights in advance (before the film is made) to entities specialized in marketing and distributing audiovisual works in different languages, and via the various distribution channels. Investment partners have to be attracted by the creative strength and commercial potential of a project. Further development of this funding model may help to reduce the fragility of the European film industry.

## Digital distribution models are growing fast, but remain marginal

Though it is still a small part of the total, digital revenues from VOD platforms (TV, cable and satellite based) have increased sharply in recent years. VOD has grown from almost nothing five years ago to account for around a quarter of total box offices revenue (€1.4b of €6.3b) in 2013.

Revenue is expected to increase significantly in the coming years as distribution platforms develop and catalog expand.





## Tomorrow

### Tailor-made funding schemes

The European film industry is essentially a producer of prototypes, and each must pass or fail the critical test of cinema audiences. Because the production of film and audiovisual works requires substantial up-front investment, it involves significant financial risk - more so than other forms of cultural content. A film's prospects for success are very difficult to assess: though a film can sometimes deliver a bonanza to investors, others can lose money or it can take many years to recoup the development, production, marketing and distribution costs. This has led to state intervention, including

loans, subsidies, tax breaks and national content quotas, designed to promote national culture and underpin national film industries.

With a revenue generation of €2b a year from EU member states (in soft loans, grants and tax incentives), public funding remains vital to the European film sector<sup>1</sup>. Public funding has helped reduce risks and attract investments from third parties, in particular through co-productions between several countries and private equity investors. Yet the EU film production sector is seen as risky and insufficiently profitable by many private investors.

### The EU film industry can still benefit from financial opportunities

The challenge for EU film production will be to attract and secure financial commitments from new online distribution operators at the pre-financing stage.

Article 13 of the EU's AVMS directive (Chapter IV "Provisions applicable only to on-demand audiovisual media services") requires member states to ensure that on-demand media service providers under their jurisdiction promote, where practicable and

by appropriate means, the production of and access to European works. To check that the current regulatory framework remains up-to-date, a REFIT exercise is foreseen for 2015 to review the effectiveness of the Directive.

The European industry is increasingly developing film and audiovisual programs with international appeal. This is seen as a way to reach new markets and to create new financial opportunities by seeking financing partners beyond Europe.

### Consolidation of cinema ownership, fueled by the switch to digital cinemas

Ownership of European cinemas has consolidated in the past few years. Significant investments have been made in large multiplex cinemas to enable digital projection, and some smaller, independent cinemas have struggled to find the necessary funds. However, funding vehicles were used in many European countries,

including virtual print fees that allowed those in the value chain to share the investments, backed by direct public funding. Consumers continue to value the collective experience of watching films in the cinema, despite easy access to movies on digital devices at home.

1. Source: we calculated public financing in the four main countries (UK, France, Germany, Spain). Public financing in these countries provides the vast majority of public support to the film industry in Europe. We believe public funds in these four countries provide 80% by volume of public support.



## Leaders and leadership

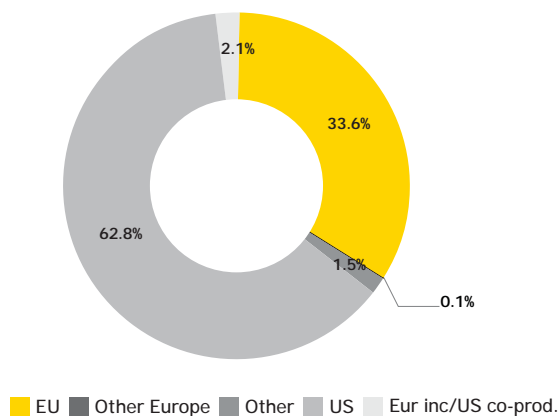
### European film production is a global force...

With almost 1,300 films produced in 2012, the EU is a leading film-producing region.

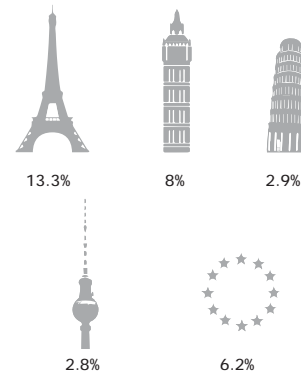
Europe's growing visibility on the worldwide cinematographic stage stems from a combination of factors. Talented European filmmakers and producers, including EuropaCorp and StudioCanal, have increased their global presence.

International sales agents, such as Fortissimo, Nordisk Film and Wild Bunch, as well as EU and worldwide festival networks, highlight both European blockbusters and art-house films. And some European films have won both critical and commercial success internationally, such as the French comedy-drama *Intouchables* or British-made drama *The King's Speech*.

### Breakdown of total EU admissions per country of origin (% of admissions)



### Where do the European movies watched in Europe come from?



European Audiovisual Observatory - Lumière database analysis

### ... but US films remain popular in Europe cinemas

In 2012, 17 of the 20 most popular films in Europe were produced by the US.

Though US films still dominate ticket sales in European cinemas, European films are gaining market share. In 2009, European films attracted 26% of total admissions in Europe: by 2012, it had risen to 33.6%.

Meantime, the share of US movies declined from 67.1% of total admissions to 62.8%<sup>1</sup>.

By country of origin, French movies captured 13.6% of European cinema seats and UK movies 8%, while Italy came third with 2.9%.

1. These figures should be treated with caution as they depend strongly on blockbusters' market performance, for example, the huge success of *Skyfall* helped EU market share to grow sharply in 2012.



## Inside track



### Beryl Richards

TV and film director, Vice-Chair of Directors UK

#### What place do British films and TV series have in their national market and across the European market?

##### What explains their successes?

The UK has the third-largest filmed entertainment market in the world. In 2013, UK-qualifying films earned £4.1b, taking 11.4% of the global market. Independent UK films accounted for 1.6% of the global market at a value of over £649 m. In Europe, the market share for UK films ranged from 10% to 16%<sup>2</sup>. Film, TV, video, etc. contributed £9.8b of gross value added to the UK economy in 2012<sup>3</sup>. Film and television productions also make a significant contribution to the cultural identity of the UK. The success of the UK's broadcast and film industry owes its position not only to the success of many great companies

involved in production, broadcast and distribution of content, but crucially to the intellectual property and invention of creative individuals, such as writers, directors and producers. The entire media industry rests on the talents, ideas and achievements of creative individuals, the vast majority of whom are freelancers.

#### What are the challenges currently facing audiovisual production?

Audiovisual production has been transformed by the transition to digital production and distribution. While new technologies, distribution methods and models create new and exciting opportunities for creative works to be produced and seen by wider audiences, the risk is that the proliferation of new platforms might generate less money for future production and innovation.

To continue to thrive, audiovisual production needs both creative and financial investment. If the rewards are not forthcoming – in terms of reinvestment in production and the remuneration of right-holders – then future production is threatened. The increased consumption of content must translate into additional revenues. From the creators' perspective, the challenge is for our work to be available on all platforms, as consumers want, in a way that fairly rewards creators. We need to be open-minded about the most effective way to achieve this.

#### What's happening to employment?

The UK employs 259,000 people in its film and TV sectors. The creative industries as a whole accounted for 1 job in every 18 in the UK in 2013<sup>3</sup>. Investment in skills and career development is key to ensuring that British creatives are supported and able to continue to deliver world-class productions.

One of the big challenges for employment is diversity. In 2013, only 35% of all film/TV jobs in the UK were filled by women, and only 9% by Black, Asian and Minority Ethnic (BAME) employees<sup>2</sup>. This is something we are looking at closely in Directors UK. Our recent research focusing on TV directors found that only 14% of all TV drama programs were directed by women<sup>4</sup>, while only 15% of UK films were directed by women in 2013. Increasing representation in the industry is essential<sup>5</sup>.

Improving the monitoring of diversity issues, pay and employment status, as well as access to training and development are of vital importance for a healthy, diverse and thriving creative industry.

2. BFI Statistical yearbook, 2014.

3. Creative industries: focus on employment June 2014, DCMS.

4. <http://www.directors.uk.com/about-us/news/whos-calling-the-shots>

5. BFI Statistical yearbook, 2014.

# Radio



Still the most trusted medium and available in many new ways



97,000

Employment (2012) <sup>1</sup>	
Employment in radio broadcasting activities	96,897
<b>Total employment<sup>2</sup></b>	<b>96,897</b>



€10.4b

Turnover (2012) <sup>3</sup>		€m
Advertisement revenues		4,810
Other revenues (public radio license fees)		5,597
<b>Total turnover<sup>4</sup></b>		<b>10,407</b>

1. These figures do not include freelance radiobroadcasters.

2. This estimate includes both commercial and public radio stations.

3. Main sources used for this section are: Media Use in the European Union, 2012, European Commission / The Future of Radio Broadcasting in Europe, Radio spectrum Policy Group, 2010 / Public radio and New media Platforms, European Broadcasting Union, 2011 / The Future of Digital Radio, European Broadcasting Union (2011) / The Future of Radio is Multi-Platform, Association of European / Radios (2014).

4. Excluded from this analysis are 'associative radios'. They certainly are strongly anchored at the local level, but have a small share of the European audience.

## Today

### Popular, inclusive and resilient

In 2012, radio was the second most widely used medium by European consumers, after television<sup>5</sup>. Four out of five Europeans listen to radio for two hours or more every day, a habit unchanged between 2010 and 2012<sup>6</sup>. But with revenues of €10b and “only” 97,000 jobs, it is a relatively small force in the EU economy. Omnipresent, but with only modest direct economic impact, radio broadcasting targets national and regional audiences, and is anchored by language and culture. It delivers local information (and advertising) to local audiences. The richness of the radio industry resides in its diversity: myriad programs explore and address almost every aspect of daily life, from politics and sport to culture and health.

Despite greater competition for leisure time, radiobroadcasters have succeeded in retaining their audiences, while attracting new

listeners through an enriched offer including complementary access to programs and additional content available via podcasts, mobile devices and social media – becoming a “multi-platform” medium. Radiobroadcasters have been canny in embracing the digital revolution and developing a multimedia offer, drawing upon advertising revenues to ensure their services are web-friendly and provide enriched online content. This large and loyal audience underpins the sector’s remarkable resilience throughout the economic crisis. Although revenue slipped 4.4% between 2008 and 2012, employment rose 2.2%. Advertising revenue, which made up to 46% of radiobroadcasters’ turnover in 2012, has shrunk by 7.3% since 2008. Market analysts say that the growth of rival media raises the risk that advertising spending might be diverted from radio to other distribution channels that offer a more targeted audience.

### Public service and commercial models coexist

Everywhere in Europe, public and private broadcasting services coexist. Public radiobroadcasters, typically part-funded by license fees, had a 37.1% audience share in 2010. Commercial broadcasters funded their operations from advertising revenues totaling €4.8b in 2012. Advertising was the leading source of revenue for both private and public radiobroadcasters.

5. When the internet is seen not as a medium in itself, but as a conduit for media such as TV, radio and newspapers.

6. Source : Association of European Radios.

# Radio



## Tomorrow

### A more integrated, creative and connected radio

New complementary technologies such as social media and mobile devices offer opportunities to share additional information and content, and provide both offline and online services. Social networks enable radiobroadcasters to get even closer to their audiences, with online exchanges complementing long-standing audience interaction via phone-in shows and listener competitions.

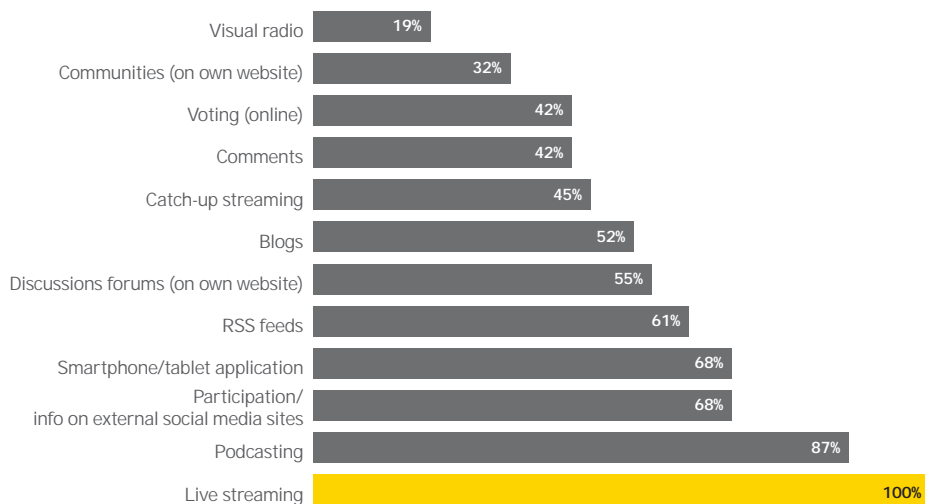
Integrating new technologies enriches listeners' experience of radio. Initiatives such as RadioDNS, which enables additional services and applications to exist alongside broadcast streams, combine the best features of analog and digital broadcast (high quality, robustness, reliability) and the internet (tagging, visuals).

In the UK, a technology alliance comprising the BBC, Global Radio and Bauer Media is behind Radioplayer, which offers listeners a single online portal to every radio station in the country, and is available as an app on a plethora of devices.

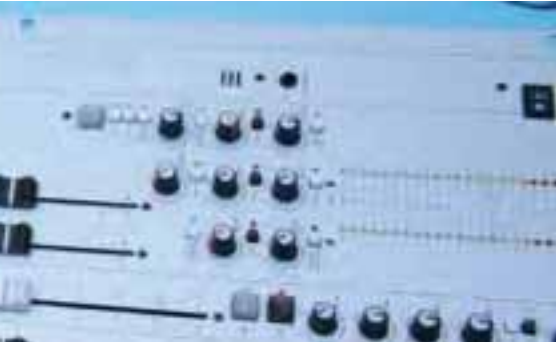
Developing digital services is essential to enabling European radio groups to retain or grow audiences and offer cross-media packages to their advertisers.

The internet has also enabled would-be broadcasters to overcome constraints imposed by limited frequency availability through the launch of web-only radio stations, which make it possible to reach more segmented audiences more cheaply.

#### Online services offered by public radio broadcasters - 2013



Source: European Broadcasting Union survey



## Leaders and leadership

Export of radio broadcasting and content is limited, though microstates such as Monaco and Luxembourg have long exploited their radio spectrum allocations to reach wider audiences. On a more ambitious scale, the BBC World Service is one of the few examples of globalized radio broadcasting activities. A legacy of empire and the cold war, it retains 188m weekly listeners and in 2009 broadcast in 32 languages<sup>1</sup>. Some of its programs have gained a global reputation, and its Radio 1 Essential Mix is downloaded

in many countries worldwide. Radio France Internationale (RFI), with similar roots, is another example of a successful exporter. With 40.5m weekly listeners worldwide, including 33.1m in French-speaking Africa, it plays a valuable role in sharing information and culture<sup>2</sup>. But the political power of radio and its ability to get close to its audiences has proved inimical to the development of global radio groups. Audiences prefer stations they can identify and relate with, and proximity is critical to radio's success.

1. BBC Press Office, 2009.

2. TNS Sofres, 2011.

# Radio



## Inside track



### Hans-Dieter Hillmoth

*CEO and Programme Director, HIT RADIO FFH, Planet Radio, harmony.fm and FFH Digital*

#### What does your work consist of?

I am the program director and CEO of three FM radio stations in Germany, all commercial and financed only by advertising. We create radio programs and strategies for FM and web radio, and work with music artists, music and concert agencies and other radio groups in Europe.

#### How important is radio in Germany and Europe? How do you explain radio's success?

Across Europe, most commercial radio stations are small- and medium-sized players. In Germany, we have 16 Länder (states), each with its own media law, regulations and media commission. There is no real nationwide radio. Our business model is based almost entirely on advertising revenues funding free-to-air broadcast services. The success of radio is based on music, good entertainment and local infotainment (radio is near to the listener), with very efficient teams at local and regional level.

Success stories are built at country level and cannot be cross-border.

However, there are general trends:

- Radio is extremely popular. On average, 80% of the EU population listens to the radio for 2 to 3 hours per day. Radio is one of the last mass-media.
- Radio is robust. When there is a catastrophe, radio broadcasting is often the first and possibly the only media channel to provide information.
- Radio is usually much more cost-effective to deliver a message than other media.

#### What are the big challenges and questions for your sector?

Radio follows its listeners. Radio has always been and will continue to be mobile, ubiquitous, free-to-air, and fun. You can listen while doing something else and it is very interactive. As the world becomes more and more digital, radio is confronted, as any other medium, by this new era. In the radio world, digital means digital online and digital broadcasting (DAB/DAB+). So besides FM, which will stay with us at least 10 years more, digital covers two realities:

- Digital online: Radio is already digital and has been present online since the internet spread in the mid-'90s. Today it is grasping the full potential of the internet: The sector's technological creativity is bubbling with Radioplayer-type portals being developed in the UK, France, Germany and other markets, the hybrid use of analogue and digital broadcasting and online offerings.

- Digital broadcasting: This really depends on the national market. It is crucial for us and our listeners that analogue and/or digital broadcasting is maintained, as it is the most efficient, robust and cheap means to reach everyone, everywhere.

Radio has seen its audience erode a little with the development of music services online. However, radio has maintained its unique tie with its listeners, thanks to its simplicity: people want to listen to the radio because of how it is done and because of its diverse content.

The biggest challenge for radio currently is to remind lawmakers of its particular characteristics: for example, a radio advertisement is image free, and on-air content must be short and adapted to the local situation. Regulators must think about the implications of their rules for radio because it is not an audiovisual medium.

#### What about employment in your sector?

Radio is considered as a locally based "university" for media careers. Many famous show hosts started their career at a local radio station. It is really difficult to say how many people are working in commercial radio across Europe, because markets vary enormously. To my knowledge, there are around 6,000 people working in the commercial radio sector in Germany, including editors, composers, DJs, technicians, producers, web developers, advertising people, graphic experts, sound engineers and others.





## Inside track



**Cornel Ion**

*Director of RFI Romania*

### **What is RFI Romania and what trends can you see in your sector?**

RFI Romania is the local radio service of RFI. It employs about 25 people, including 15 journalists and several presenters and technicians. All have graduated from university in journalism, political sciences, history and other fields, and have perfected their skills through many internships. The average age is 35. RFI Romania broadcasts 13 hours a day in Romanian and 11 hours in French. Compared to other local and national radio stations that are mostly music radio stations, RFI Romania is a news station, broadcasting both national and international news.

The internet and digital media have a lot of influence on how we work. All our journalists are digital professionals: they are working for the radio and also post on the station's website. Every article we broadcast will be posted online as RSS feeds and podcasts have become an integral way to communicate our contents to the audience. Our technicians also have video skills: RFI Romania is a filmed radio service. We no longer provide just sound. We enrich that content with online pictures, videos and documentaries.

### **What challenges do you foresee in the future?**

The biggest challenge comes from the way the news world is changing. How should we develop when news is available everywhere, and expected to be virtually free? Increasingly we have to put events in perspective, we have to analyze and order the news

on our different media: radio and the website. The enormous amount of news that we receive is also a challenge: too much news may just kill the news.

### **What role does digital play for RFI Romania?**

We told the Romanian authorities we are keen to be among the first radio stations to join in the development of digital terrestrial television that will be available in 2015. We are already active in the digital world, with a mobile phone app that allows anyone in the world to listen to RFI Romania 24/7. And our website is available in both desktop and mobile versions. We are also present on various social networks with their ever-growing communities. The RFI Romania website gets more and more visits: traffic doubled in a year to reach 200,000 visits a month. We have more than 5,000 followers on Twitter and the contents on our YouTube channel have been watched more than 168,000 times.

We have also created several blogs supporting the main website with specialized themes such as music, gastronomy, agriculture or web documentaries.

# Video games



## Surfing the wave of online and mobile gaming



108,000

Employment (2012) <sup>1</sup>	
Developers and publishers	67,916
Retailers and distributors	25,000
Employment in nonspecialized stores	15,100
<b>Total employment</b>	<b>108,016</b>



€16b

Turnover (2012)		€m
Home console video games		3,965
Handheld video games		1,594
Offline computer software market		601
Online computer software market		5,087
Mobile games		2,016
Extra EU 28 exports		2,727
<b>Total turnover</b>		<b>15,990</b>

1. Main sources used for this section are:

Born Digital/Grown Digital: assessing the future competitiveness of the EU Video Games Software Industry, JRC Scientific and Technical Reports, 2010 / Game Development and Digital Growth, European Games Developer Federation, 2011 / Game Summit by Digiworld Infographics, IDATE, 2013.

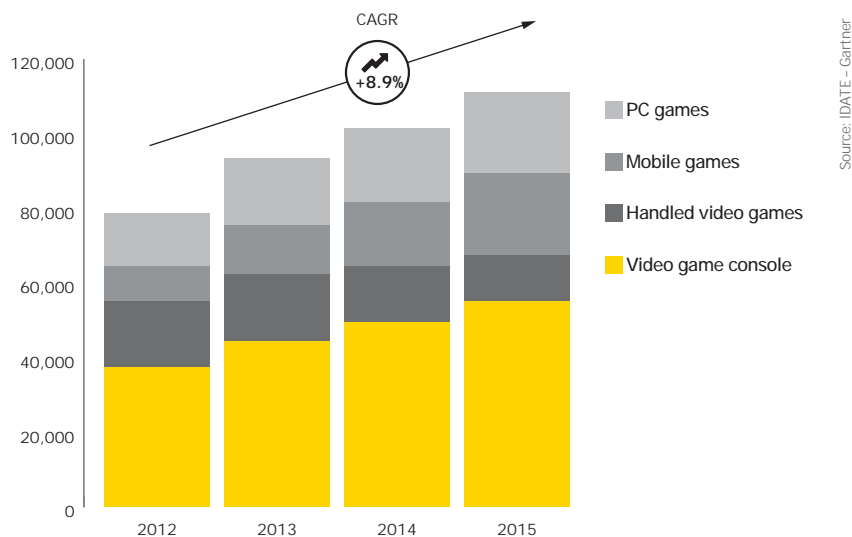
## Today

### A small business playing in a global arena

With just more than 100,000 employees and €16b of annual sales, the video game industry is an adolescent with a global punch. Today, online computer software provides the industry's premier revenue stream. In 2012, it accounted a third of sales, but its role is growing as the industry adapts rapidly to evolving technologies and gaming habits. Gaming has become a global market, and Europeans are able players. Annual exports beyond Europe of almost €3b make video games the most traded of Europe's cultural goods. The biggest game developers are reckoned to achieve more than half their sales on international markets.

Though small, the gaming industry is one of the most innovative labs in the digital economy. It is in the vanguard of developing and experimenting with new digital services, online, offline and especially mobile, that are reaching a growing share of the population. According to surveys by IPSOS MediaCT, 25% of EU consumers play video games at least once a week. Swedes, Finns and the French are Europe's most devoted gamers, with 6 out of 10 citizens playing regularly. Innovation combined with high participation helps and a vibrant start-up scene all over Europe keep the industry among the global leaders.

Video game market revenue, worldwide (2012-15) US\$m



### Growth driven by online and mobile gaming

The growth of the video games sector is rapid. The video gaming industry is one of the most dynamic in the cultural sector, with growth of 9% expected between 2012 and 2015.

But the overall expansion conceals powerful trends. Mobile games (+137%) are booming, console games (+47%) and PC games (+49%) growing strongly, and handheld video games (-30%) in rapid decline as mobile phones

supplant dedicated devices. The rapid spread and evolution of mobile multifunction devices, notably smartphones and tablets, is driving growth by enabling gamers to play anywhere.

In 2013, the turnover of the two biggest European mobile game developers was bigger than the combined turnover of all mobile game developers in 2012<sup>1</sup>.

1. Source: European Games Developer Federation

# Video games



## Tomorrow

### Developing and retaining highly skilled talent is vital

Unlike most cultural industries, the video game sector faces fierce international competition, especially with heavyweight US and Japanese developers and publishers. Improving the quality of education and training of developers and reinforcing the highly fragmented European industry through knowledge-sharing cooperation between the hundreds of independent studios should be top industry priorities. European cooperation seems the best response to

government policies in Canada and Australia designed to attract the most talented game developers from countries with less advantageous tax regimes. Europe needs to retain the most creative companies and talent and stem further relocations of studios outside Europe like that of Ubisoft, which relocated some operations from France to Canada to take advantage of fiscal incentives for game developers.

### Growing diversity in users' experience through gaming

Born digital, the industry is growing by offering user-friendly, intuitive services to consumers. Because global competition is extremely fierce, game developers are world leaders in creating new tools, methods and business models for human-computer interactions that often subsequently become mainstream. So digital games are driving innovation in consumer markets.

Powered by innovation in software, ways of doing business and content in its entertainment products, the industry is widening its scope, progressing via casual and more serious games, into "advergames" containing product advertisements and into deliberately teaching through gaming – so-called "edutainment."

This combination of technological and market innovation enables the industry to reach new clients far removed from the stereotype home player using a TV set or home computer. Gaming and game techniques can speed the adoption of e-government, e-health, e-culture and e-education, and make each more effective. The so-called gamification of services offers new experiences to consumers and citizens.

Improved human-machine interfaces, such as the use of sensors in the Wii, can revitalize devices and offer new gaming experiences to consumers. But disruptive technology change is sporadic, pushing EU game developers to constantly reinvent themselves and diversify their activity portfolios – and keeping the industry at the cutting edge of technological, content and business innovation.



### A potential reshuffling of the value chain

The development of gaming on diverse everyday mobile devices opens doors to new types of games and new competitors for industry champions. That could lead to changes in the gaming industry value chain and create new intermediaries. Web portals, internet service providers and telecom operators, handset manufacturers and social networks have all

invested in gaming to enrich the experience of their customers. The shift to online gaming lowers entry costs and intensifies competition. New market dynamics encourage game developers to develop new games in partnership with movie makers, sports federations and others as games extend their reach into more aspects of our lives.

## Leaders and leadership

### Europe is third in the world...

Thanks partly to public support for video game development, Europe ranks number three in the world for video game production after the US and Japan. The European Games Developer Federation says digital distribution and the adoption of so-called free-to-play business models, especially in mobile games, have enabled European game developers to break value chains previously dominated by strong US- and Asia-based publishers. Europe's success is based upon creating game content.

Historically, Europe's absence from the development of hardware, including consoles and handsets (produced in Asia) has been a handicap, but this could matter less as gaming spreads online, and onto mobile devices. Also these platforms are setting limitations on the content they allow to be published through their platforms based on non-European values, seriously hindering the freedom of artistic creation for European content creators.

### ... thanks mostly to its creativity

The recent successes of European games such as Candy Crush Saga (developed by King Digital Entertainment, a British company) or Angry Birds (developed by Rovio Entertainment of Finland) demonstrate the remarkable position that Europe enjoys. Games and video games have become one of Europe's most exported cultural goods and the largest developers have half their business overseas.

The European industry is also a leading supplier of the game engines, or "middleware" software, on which games are created and developed. And it is home to many developers' studios, often small and highly creative companies found mainly in the UK, France, Germany, the Nordic countries and, to a lesser extent, Spain.

# Video games



## Inside track



**Peter Vesterbacka**

*Rovio Entertainment*

### **What is Rovio and how important is the game industry in Finland?**

Rovio, founded in 2003, is an entertainment media company and creator of the worldwide number one downloaded app of all time – Angry Birds. Following its success in mobile gaming, Angry Birds has expanded rapidly in entertainment, publishing and licensing to become an international brand. While Finland hosts about 200 game companies employing more than 2,000 people, at Rovio we employ 800 people worldwide. Of these, 750 are based in Finland, drawn from more than 40 countries around the world and especially Europe (France, Spain, etc.). We are a significant local employer in Finland's world-class entertainment industry. Our employees are a mix of young people and more experienced ones. They bring together many different skills reflecting all the jobs (designers, coders, audio specialists and composers, etc.) and activities at Rovio, including animation, consumer products and licensing. Finding talent in Europe is pretty easy as the company attracts many applicants, and Europe is full of talented professionals, often with specialist skills, such as the strength of animation in France and Spain.

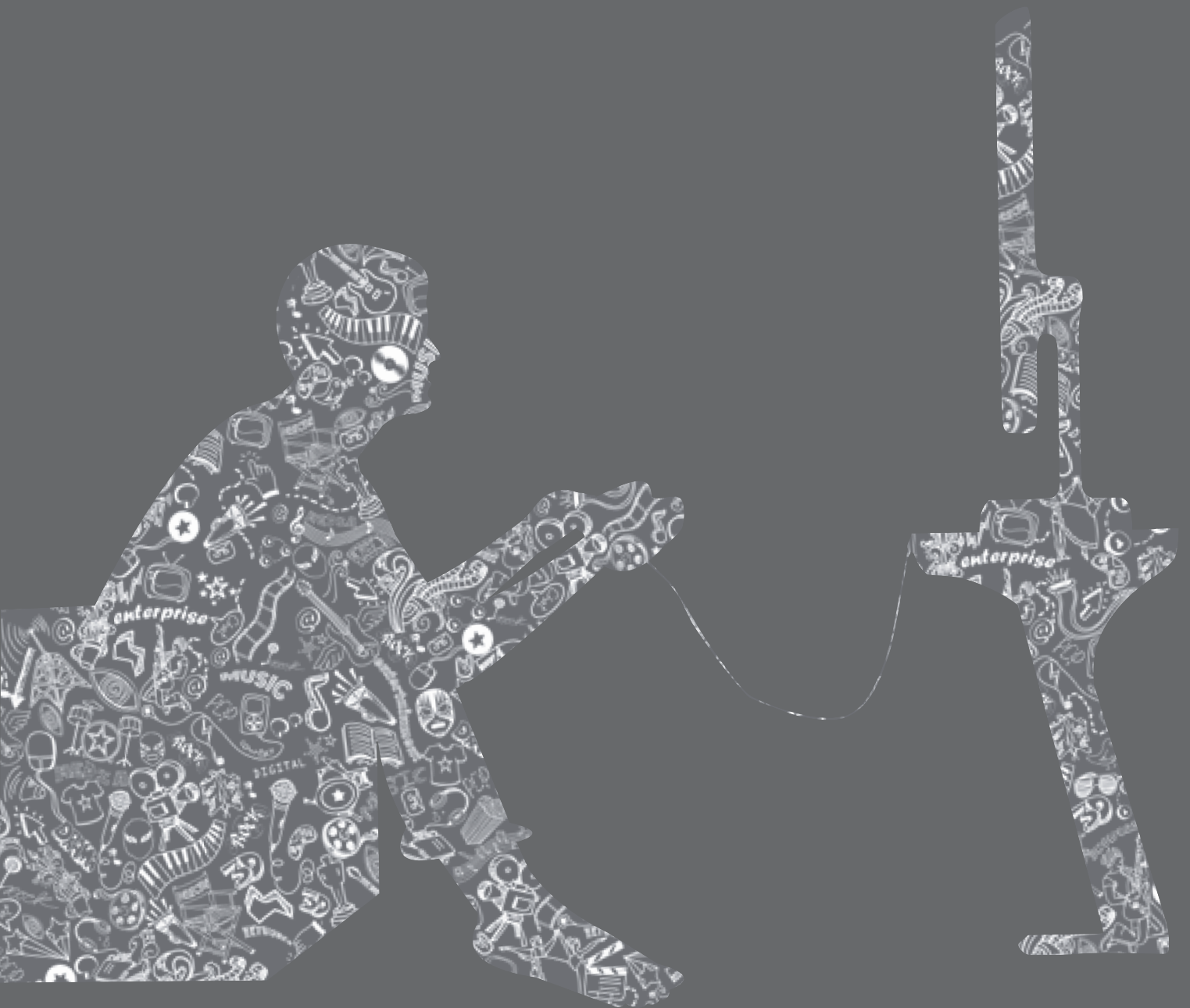
### **How has Rovio changed in recent years?**

We're doing a pretty good job in Europe and I think it's difficult for Silicon Valley to compete with us. Some Europeans think that you need to go to Silicon Valley or the US to succeed. Maybe that's because there are more success stories there but we have good ones here in Europe, and Rovio is one of them. We went from a pure games company to an entertainment company, and we have developed worldwide with offices in Finland, Sweden, the UK, China, Japan and Korea as well as the US. That is why we now have the biggest animation studio in northern Europe.

More people play games than ever, the market is worldwide and getting bigger and bigger, and more than 2b copies of our flagship game Angry Birds have been downloaded.

### **What are your challenges for the future?**

We want to make sure that we keep doing things fast enough, that we keep our pace and agility as we grow. Our biggest challenge is ourselves. We do not worry about competition as long as we stay active in games and all our activities. We'll produce many more Angry Birds-branded experiences and we need to create great new games to keep the brand relevant and fresh. Europe is a good place to do that.



# Visual arts



## Brightening Europe's appeal for tourists and art investors



1,231,500

Employment (2011) <sup>1</sup>	
Art sales and galleries activities	329,940
Visual arts creation, including photographic activities, design activities and art craftsmanship	793,288
Museums and heritage	108,176
<b>Total employment</b>	<b>1,231,404</b>



€127.6b

Turnover (2011) <sup>2</sup>		€m
Photography		8,689
Design		19,294
Museum revenues		7,717
Art sales and gallery activities		15,600
Arts and crafts		46,337
Visual arts creation		29,907
Copyright/author's right		10
<b>Total turnover</b>		<b>127,554</b>

1. For the purpose of this study, "visual arts" includes all artistic activities related to graphic creation (painting, sculpture, art crafts, photographic activities and special design), arts sales, gallery activities, museums and what is generally referred to as "heritage", such as ancient sites and monuments. Despite the heterogeneity of this sector, several common features and market trends can be identified that justify the composition of this category.

2. Main sources used for this section are: The International Art Market in 2011 - Observations on the art trade over 25 years, The European Fine Art Foundation, 2012 / Exhibition & Museum attendance survey, visitors figures 2012, The Art Newspaper, 2013 / Voices from the Museum: Survey Research in Europe's National Museums, EuNaMus report, 2012 / National statistics offices.



## Today

### A potpourri of activities that together form the nub of the European creative economy

Employing more than 1.2m people across the EU and generating revenues of more than €127b, visual arts account for almost a quarter of the creative economy. Though data is scarce, visual arts, craftsmanship and related activities embracing painting, pottery, sculpture, furniture design and jewelry together generate about €75b of annual sales in Europe.

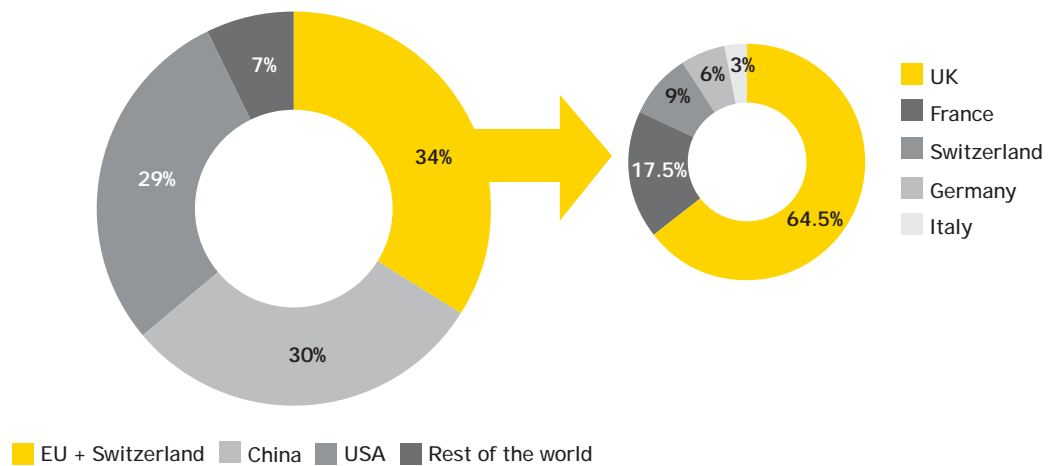
Art sales, galleries and auctions alone employ 330,000 people and form a market worth more than €15b. Though world-renowned auction houses such as Christie's and Drouot capture the limelight, this economic sector is made up of myriad small art galleries, many serving local communities.

### 25 years of dynamic growth

With an estimated €15.6b of sales by dealers and auctions, Europe commands 34% of the global art market. Taking off in the mid-'90s, it multiplied almost sixfold from its nadir in 1991 to its peak in 2007. Though sales historically tended to reflect wider economic trends, the sector recovered quickly after the economic

crisis and with 5% growth in transaction volume during 2011, the art market was recovering to pre-crisis levels. The resurgence has been aided by an upsurge in Chinese buyers and the growing importance of fine art sales where each masterpiece commands a spectacular price.

Global market share (by value, 2013)



# Visual arts



## Museums are key in making visual arts available to all citizens

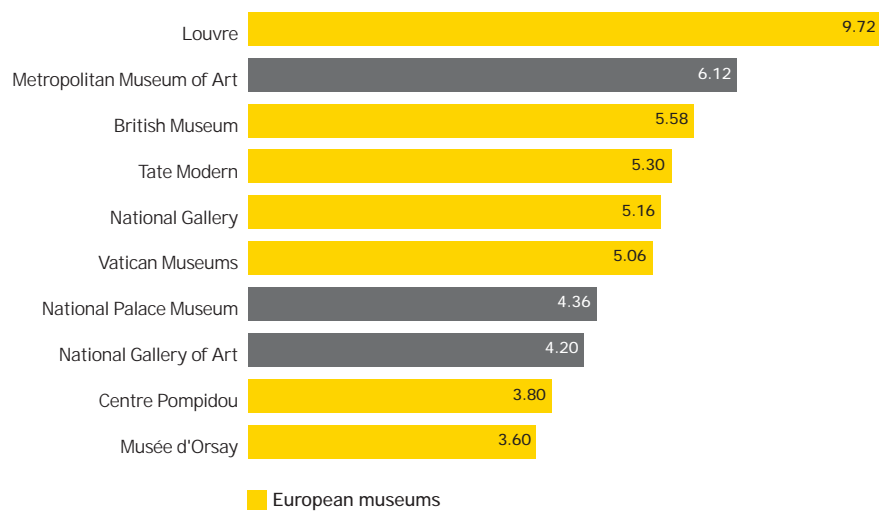
Museums account for only a small part of overall visual arts turnover (6.1%) and employment (8.8%), but play a particularly important role in making art accessible to all.

Seven of the world's most visited art museums are in Europe, with Paris and London sporting three apiece.

The Louvre in Paris pulled nearly 10m visitors in 2012, and all contenders drew more than 3m people, confirming museums' mass appeal for both national and international visitors.

When questioned, visitors to several European museums told one study they seek entertainment and pleasure (28%), education and training (26%) and a gateway to history (17%).

### Top 10 international museums (millions of visits, 2012)



Source: Visitor Figures 2012, Exhibition & museum attendance survey in 2012, 2013, The Art Newspaper "Visitor figures 2012", Ministère de la Culture et de la Communication "Culture Etudes N°2" 2013



## Tomorrow

### Emerging nations join the art market

The growing number of wealthy buyers of big-name art in the developing world has led to significant changes in the geographic distribution of sales. Once confined largely to the US and Europe, the art market now looks increasingly to also serve customers in Asia and Latin America. The globalization of the art market has concentrated sales in fewer,

bigger marketplaces, while international “labels” have gained prominence. Art Basel, one of the top contemporary art shows, is now also held in Miami and Hong Kong. This “gravity effect” could lead to further concentration of major international events in art market hot spots – at the expense of smaller ones such as the FIAC in Paris<sup>1</sup>.

### Museums are embracing new technologies, informing visitors more, and collaborating

Museums are experimenting with technology to enhance access to their collections, enrich the visitor experience and develop their educational role. Social media and electronic devices have enabled museums to provide complementary and real-time information while the visitor is strolling around the venue. Digital devices offer visitors the chance to discover far more about

objects on display and experience art objects in new ways: on the website of the Louvre in Paris, visitors can zoom in on masterpieces and tour virtual galleries<sup>2</sup>. European museums are also experimenting with new types of collaboration, including branding, and sharing collections, witness the opening of the Louvre Abu Dhabi, the Guggenheim Bilbao, and similar ventures.

### Digitization also raises questions of intellectual property

Digital technologies facilitate wider access to visual art objects, but for some industry actors also raise concerns about how best to protect intellectual property. Digital technologies make it easy to copy many works of art. That is a virtue

when museums want to share public collections, but threatens revenues of contemporary artists, especially those using photographic techniques that are easily pirated and counterfeited<sup>3</sup>.

1. Mondialisation et Uniformisation du Marché de l'Art, Philippe Dagen, Le Monde, 2014

2. Time to Lose Control, Andras Szanto, The Art Newspaper, 2010

3. Images available on the internet often fail to identify their author or copyright ownership

# Visual arts



## Leaders and leadership

### A global destination for the visual arts, Europe is the world's leading art market

With 34% of the global art market by value, Europe (including Switzerland) is the world leader in art sales, ahead of China (30%) and the US (29%). The European art trade is dominated by the UK (with 65% of the EU market), followed by France (17%) and Germany (5%). London confirms its position as an art hot spot with a global audience; Christie's, based in the UK, is the world's leading auction house and including its private sales its turnover exceeded US\$7b in 2013.

Within this highly international market, the EU is a net exporter. In 2010, €6.2b of art

and antiques were exported from the EU, and €5b imported. This reflects Europe's strategic role as a global hub for art sales.

Despite intensifying global competition, Europe continues to lead market trends: Luxembourg's airport will open one of the first free ports dedicated to art in 2014.

Europe is not only leader in trading art, a unique artistic and cultural heritage and world-class museums give Europeans access to exceptional artistic resources and attract millions of international visitors<sup>1</sup>.

1. French order of Architects



## Inside track



### Laurence Jenkell

Visual artist and sculptor

#### What exactly does your work entail?

I am a sculptor, and happy and proud to be a female French artist, and to be able to practice my profession within my own country and share it with an international audience.

My "sweet" sculpture captured attention worldwide. It is not my only piece – I also create paintings, ADN works, buildart and robots – but it has become renowned on the international stage. My works are currently displayed in 25 countries (galleries, institutions, private collections, etc.).

All of my works are produced with the help of my assistants in my workshop in Vallauris, near Antibes. I work with smelters for my aluminum and bronze sculptures in Europe.

All of the Plexiglas works are unique pieces – a single twist, a single drape. Much like a company, I enable others to make a living. An artist who creates is much like a company with employees, expenses, taxes and turnover.

Artists who wish to improve their visibility also have to take on the responsibility of distributing their works, which is what I do in Cannes during the G20 summit, in Azerbaijan, in Slovakia, etc. This should fall under the remit of galleries, but the task often falls to the artist, with all the personal and material investments that it entails. Cultural administrations should also provide artists with support for displaying their works. One could imagine a scenario in which, when a foreign artist displays their works in a museum in France, the artist's country of origin might offer to display a French artist's works in an exhibition. It is also regrettable that artists' works are often only put on display in museums after their deaths.

#### Tell us about your place in Europe and the world.

My sculptures have become rather valuable: I am in the Artprice report's Top 500 artists in the world, and am listed on the secondary market. My works, much like other artists' works, must be visible on the international stage in order to be known by the general public and collectors alike. As

for the resale right, it goes without saying: it should be recognized in all countries! It is not only a right, but a duty and a mark of recognition that we owe to all artists.

#### What are the challenges and issues with which you are faced?

We are currently living in the era of digital and 3D. A large part of my work is created from sketches, but I sometimes transpose the more complex ones into 3D in order to better understand the technical difficulties they might entail.

It must be recalled that artists are economic players and need to surround themselves with partners. Their work is not simply that of creating, of dreaming: economic reality exists, it cannot be ignored.

The visual arts are an industry in their own right and which should not be underestimated: this industry provides many jobs and contributes to economic activity and the economic future, not only of the artist's country of origin, but also internationally.

# Architecture



## Coping with the aftermath of the construction sector slump



493,000

Employment (2013)	
Registered architects <sup>1</sup>	492,930
<b>Total employment in architectural agencies</b>	<b>492,930</b>



€36.2b

Turnover (2012 <sup>2</sup> )		€m
Revenues of architectural agencies - building design, spatial program design, construction monitoring, etc.		36,212
<b>Total turnover of architectural agencies</b>		<b>36,212</b>

1. This figure only covers architects registered in national associations of architects. It includes both self-employed and employed architects. It does not cover related employment in architectural companies

2. Market size and employment data were mainly based on the Architects' Council of Europe's own estimates. Data has been cross-checked with national statistics and other local sources.

## Today

With almost half a million registered architects in Europe and revenues reaching €36b, architectural activities are a significant business in the European creative economy.

Architecture is the sixth-largest industry in our study and matches the book industry in scale, generating twice the revenues of films or video games. Architects also play a pivotal role in the construction industry, Europe's biggest, though they account for only 1% of its revenues.

Our estimate of total employment is undoubtedly too low, since it counts only registered architects,

and architectural agencies employ many more people in support activities, including town planning, building engineering and information technology. Numbers of architects show surprising variations between countries: Italy has a smaller construction industry than Germany or France, yet almost 135,000 registered architects, compared with 26,000 in France. Extrapolating from data gathered in France and the UK, between 700,000 and 1,000,000 people may work in European architectural agencies.

### High dependence on the construction sector

Global construction output is forecast to grow more than 70% to €11.5t by 2025<sup>2</sup>. This sustained expansion, outpacing global GDP growth, will be concentrated in China, India and the US.

The industry is at a tipping point, with more than 50% of construction activity now in emerging markets.

But European construction is expected to fall 5% by 2025 from 2007 levels. That is partly because two-thirds of construction in the EU happens in five countries – Germany, the UK, France, Italy and Spain – where building was dramatically scaled back in the wake of the financial crisis. Architecture is highly cyclical. During the economic turmoil, demand for architectural services

contracted faster than the fall in construction output – which in turn fell faster than GDP.

According to the Architects' Council of Europe, demand for architectural services hinges upon new building. In 2011, some 73% of French architectural firms' revenue was generated by new construction, whereas refurbishment and retrofitting accounted only for 27% of revenue<sup>3</sup>.

Half of European architects' activities hinge upon private residential development. Its share is growing again, reaching 51% in 2012, up from 44% in 2010. Designing shops and offices provides 29%. The share of commissions from the public sector, mainly for social housing, is declining. They provided 26% of architects' revenues in 2010 but just 20% in 2012.

## Tomorrow

### Consolidation looms

Though a handful of international companies achieve sales of more than €50m, most architects work in small firms or are self-employed, and are confined to national markets. Many of these were previously employed by larger firms, but were made redundant during the financial crisis.

Fragmented national markets contribute to the survival of many small firms that lack the scale to develop across borders. In France, for example, the biggest independent practice generated less than 1% of total industry turnover in 2012<sup>4</sup>.

1. Global Construction 2025, Global Construction Perspectives, Oxford Economics & Arcadis

2. French order of Architects

3. Architecture services in France in 2012, Xerfi

# Architecture



## Clients demand more creativity and technicality expertise

Buildings are a leading source of greenhouse gas emissions, so pressure for greener buildings has spurred demand for architectural services and added energy efficiency to design criteria previously dominated by functionality and cost. The introduction in 2002 of tighter EU regulations concerning the energy performance of buildings added constraints but inspired creativity. Clients of all stripes, from both public

and private sectors, now expect high levels of expertise in green building techniques and want energy-saving technologies to be deployed in industrial, commercial, retail, distribution and residential projects. Amid intensifying global competition between architectural firms, creativity and expertise are competitive strengths that EU architects could and should rely upon.

## European firms head for fast-growing markets

Faced with soft demand in Europe, larger architectural firms have stepped up their search for growth in Africa, the Middle East, Asia and Latin America. For example, Atkins, the UK architectural and civil engineering company, now has more than 2,000 employees in Hong Kong and mainland China, and is looking for business

and acquisition opportunities in Southeast Asia, including Indonesia and Malaysia – to reduce its exposure to more mature markets. Likewise, French companies are expanding in Africa and the Middle East and Spanish firms in Latin America. Even mid-sized firms, like France's François Leclercq, are now working in Africa and China.

## Leaders and leadership

### European firms seek expansion beyond national markets

Long-standing success in nurturing professional services firms has helped the UK and Sweden spawn some global leaders in architecture, including Aedas, Foster and Partners, Rogers Stirk Harbour + Partners, Skanska and Sweco. The economic crisis hit demand almost everywhere. By 2013, only 3% of architectural firms in Europe worked in other countries, down from 7% in 2008. British and Irish firms are the most international providers of architectural services, with 14.7% and 12.7% working abroad, respectively.

However, according to a survey by the Architects' Council of Europe, firms are becoming more optimistic about winning work overseas. The desire to seek work abroad was especially strong in southern Europe, where practices

were suffering from a deep-rooted construction crisis. In Spain, 70% of firms were weighing expansion abroad, in Slovenia 62%, Portugal 59% and Greece 57%. However, strict and varying national construction and professional regulations raise significant barriers to outsiders in many markets. Nevertheless, European firms have some advantages. Exacting regulatory standards and demanding clients in Europe oblige European architects to achieve the highest creative and technical skills, ensuring they are well-equipped to win work in both emerging and mature markets worldwide.

European firms have won the Pritzker Architecture Prize eight times since 2000.





## Inside track



**Arch. Ing. Giovanni Zallocco**

*President ERREGI S.r.l.r*

### **How important is architecture in Italy and in Europe?**

Building, and the design activity it depends upon, is a fundamental driving force of the economy in Italy, as elsewhere. With 135,000 registered architects, we have about a quarter of Europe's architects. Construction generates 6% of Italy's GDP. After flat lining or falling for the last three years, construction still shows no real sign of recovery. Our office, which with our affiliated groups employs roughly 100 persons, is unusually large for Italy, where the vast majority of offices have fewer than three engineers and architects. At least half are one-person firms.

### **What changes has the industry undergone in the last few years?**

From 2006 to 2012 investment in new building decreased by 43.7%, and although renewal and refurbishment has fared better, overall construction investment is down 28.4% during that period. Ever since the abolition of mandatory fee scales for architects in 2012, firms' income has tumbled, with most offices seeing turnover fall 30%–50% over the last 2–3 years.

Within this rather bleak picture, however, some positive signs can be found.

Urban regeneration, as a program and as a necessity, has become part of mainstream professional and political thinking; but because of the recession, public investment, in many instances, is still on hold.

Guidelines or recommended fee scales have been recognized as necessary, primarily for public budgeting but also to facilitate legal rulings in case of dispute. Hopefully, this will help to re-establish an equilibrium that has been sorely missed, notably in public procurement bids.

Public procurement criteria are also aligning themselves with current EU thinking that does not just focus on cost, but recognizes the value of the most economically advantageous tender and tries to be more inclusive of SMEs.

The overseas market remains a lifeline for Italian firms. Our office works in Venezuela, Bulgaria and Saudi Arabia.

### **What future trends do you anticipate?**

We believe that innovation and the full use of new 3D/virtual reality technologies, which our firm uses widely, together with the creativity for which Italy is renowned, are not only useful but necessary to arrive at a product that fulfils all the requirements of cost, ease of construction and maintenance but more importantly, contains the esthetic and functional qualities that in the broadest possible sense, provide sustainable well-being, safety and quality.

It is hard for architects to fully express their creativity in Italy today. The market, institutions and we architects as a profession have to focus on what we do best – overcome seemingly – impossible obstacles through inventiveness, and refusing to surrender to a conservative, shortsighted and consolidated system.

We also need better synergies between architects and engineers, so as to stimulate investors and institutions and above all, progress in a global market.

# Advertising



Driven by the rapid expansion of online revenues



818,000



€93b

Employment (2012) <sup>1</sup>	
Commercial communications agencies	818,182
<b>Total employment</b>	<b>818,182</b>

Turnover (2012) <sup>2</sup> €m	
Revenues of advertising agencies	93,000
<b>Total revenues</b>	<b>93,000</b>

1. Main sources used for this section are:

European online advertising expenditure, Adex Benchmar, 2012 / Magna Global Advertising Forecasts, 2014 / European Audiovisual Observatory, 2013.

2. This figure only covers the revenue of advertising agencies. It does not include revenue from advertising spent in other industries.

## Today

### A huge market working across all creative and cultural industries

With revenues estimated at €93b in 2012 and 820,000 employees, the advertising business is a powerful force in the European cultural and creative industries. Generating about 17% of total CCI revenues, it is the second-largest business after visual arts. Advertising was hard hit by the economic turmoil. In 2008, the European advertising market was

estimated at €100b, but because spending on advertising is easy for companies to cut in a crisis, industry revenues have since fallen 7%.

Total spending on advertising across various media, including TV, radio and online, reached almost €87b in 2012. That makes it vital to the business models of many other CCI industries, as our graphic shows.

### A sector wrestling with weak revenues and a digital transformation

Advertising is an economic barometer. Advertising spend was one of the first budgets to be cut by businesses when the economy slowed. The economic crisis thus reduced revenues of commercial communications agencies by 7% during 2008–12, with knock-on effects upon many media businesses that rely upon advertising revenues. But as spending upon advertising recovers, much of the money is following consumers into different media. Advertiser spending on online publicity has surged by 12% a year since 2008, while spending at cinemas has grown by 4% a year.

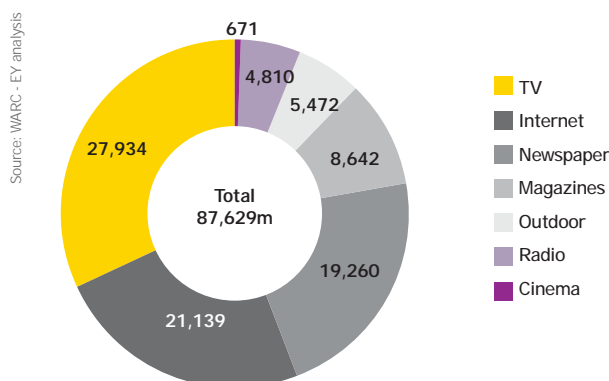
Meantime spending on TV advertising has declined by 2.5% a year, on radio advertising by 2%, and print advertising, including both newspapers and magazines, by a hefty 8.3% a year.

The substantial and ongoing switch from traditional media to online advertising in search of more targeted audiences has had far-reaching effects.

The following three factors explain the rise of internet advertising:

- Consumers are spending increasing amounts of time online, and web portals have learned to acquire and analyze huge amounts of data about them. Google – one of the biggest web portals – registered more than 1.2t searches in 146 languages in 2012<sup>2</sup>.
- Search advertising, which seeks to address the right consumer with the right ad content, has blossomed. Paid search grew by 37% in 2013.
- Social networks have gained enormous numbers of users and become important internet gateways: they attracted more than US\$9b of advertising spend in 2013 (+58%)<sup>3</sup>.

### Advertising revenues are vital to the viability of many creative industries - 2012



1. Google Zeitgest 2012.

2. Magna Global Advertising Forecasts, 2014.

# Advertising



## Online advertising encourages diversification and lower costs

The rise of online advertising on websites, social media platforms and via targeted communication is rapidly changing the nature of the advertising industry as well as the media where ads appear.

In 2008, only 14% of total advertising expenditure in Europe was online. Now, with a share estimated at 24%, it appears to be the second-most used medium to communicate and promote products or services. Television remains the medium most used by advertisers, thanks to its omnipresence in our daily life, but its lead is rapidly eroding.

The rise of the internet has affected the advertising market in two ways:

- The shift from print to digital helped advertising agencies to withstand the economic crisis and helped media owners to diversify their advertising revenue streams.

- New communication technologies have made it possible to mount massive advertising campaigns more cheaply. Consumers' growing use of the internet has encouraged advertisers to prioritize online channels when marketing products and services, reducing their costs – and media company revenues.

Advertising spending, which used to help finance the cost of writing, printing and distributing newspapers and magazines, now cross-subsidizes online services, such as news, music streaming and video sharing, which consumers value more highly.

## Tomorrow

### Micro-targeting seeks to enhance advertising effectiveness

The successful IPO of French digital advertising agency Criteo on NASDAQ in early 2014 showed that micro-targeted online advertising has come of age. Nowadays, it is easy for advertisers to display a smart, targeted ad, focusing on the known interests of an online consumer. By using GPS and other tracking techniques to work out a consumer's location, advertisers can now serve up advertisements about nearby shops and services or products that might be appropriate, a technique known as geo targeting.

Micro-targeting has been facilitated by the increasingly widespread use of mobile devices, not only on the move, but at home and at

work. The proportion of Facebook's advertising revenue from mobile advertising is estimated to have increased from 12% in 2012 to 50% in the third quarter of 2013. The advertising industry argues that micro-targeting benefits consumers because it is more relevant to them and their habits and preferences. However, there are signs of a possible backlash, as consumers become increasingly aware that every key stroke they make is being tracked, recorded and analyzed, and personal information about them shared with advertisers. Regulators and privacy concerns could spoil the party.



## Consumer experience at the center of online market developments

“Native advertising,” a new online advertising technique, embodies a change in advertisers’ methods designed to capture the consumer’s attention. Instead of pop-up windows, the consumer’s attention is gained and maintained by interactive ads, which seek to draw consumers into content, games and social sharing functions. Another emerging advertising innovation is the

use of voice recognition technology to invite consumers to respond to mobile phone or internet radio advertisements by speaking back to the device. Nuance, the company that developed Siri voice recognition for Apple, is offering this technology under its Voice Ads brand. Consumers may like it, loathe it or ignore it.

## A booming mobile advertising market

Now that many European consumers have replaced their first-generation mobile phones with smartphones, and tablets, a new playing field has opened up for advertisers. According to Berg Insight, in 2017, mobile advertising is likely to account for 4.4% of total advertising spending worldwide.

That would imply that mobile advertising revenues will soar from about US\$5b in 2011 to US\$26b in 2017, capturing 15.5% of online advertising. If the industry’s hopes come to fruition, mobile advertising will come to play a pivotal role in the interaction between brands and consumers.

## Leaders and leadership

### European multinationals dominate the worldwide advertising market

Europe is home to two of the world’s big three advertising groups: WPP Group based in London and Publicis Groupe, headquartered in Paris, which have turnovers of €16.4b and €8.5b, respectively<sup>1</sup>.

The American group Omnicom, ranked second, reports revenues of €14.2b. But beyond the champions, the European advertising landscape comprises a long list of SMEs with myriad specializations.

1. Agency Report 2013, Advertising Age.

# Advertising



## Inside track



**Cyril Zimmermann**

*CEO of HiMedia Group*

### **What is HiMedia Group?**

HiMedia Group offers services as a digital advertising agency and solutions for internet and mobile phone payments. As a service company and the owner of its own technology, its position is central in the e-commerce chain, taking part in this process before the purchase by internet users, but also afterward making sure the payment is the most ergonomic and frictionless.

### **What are the trends in terms of jobs in your sector and company?**

HiMedia Group employs 450 persons in Europe and holds participations in different companies operating in Europe but also in Asia, Latin America and North Africa. The average age of our employees is 31 years, balanced between sales and marketing (55%), support functions (15%), and technical services (30%). This balance was achieved after strong efforts to staff our technical support teams, R&D and our IT department.

### **What trends are emerging for the future?**

The dominance of global platforms (American platforms today, maybe Asian ones tomorrow) leveraged from a large domestic market is a serious concern. Being number one has such an important impact in the digital market that these companies use their leading position to establish their own standards as a reference, imposing entry barriers that thwart competition. It is time for national and European regulators to take powers to intervene instead of merely saying they are powerless to act.

### **What importance does digital holds in your sector?**

HiMedia Group has been a 100% digital company since its creation in 1996. Due to this dedication to the digital sector and because every sector and every player (companies, associations, administrations) is becoming digital, our sector keeps growing. We invested massively in our own technology and we will keep doing so. Technology does not always generate added value in itself but use by skilled professionals allows us to capitalize on these investments and take the best advantage of changes in user behavior.



# Methodology

The impact of cultural and creative industries on our economy is often poorly measured, understood and valued. This is why GESAC requested a Europe-wide study of the economic and social impact of CCIs, particularly in terms of direct revenues and jobs.

Although many surveys and studies have been undertaken in various countries and industries over the years, this report is the first comprehensive evaluation, across the 28 states of the EU, of 11 cultural and creative markets.

To describe the creative and cultural economy in the most comprehensive and clear fashion we have focused on final consumer markets that use the work of creators, but also technicians, service providers, media and retailers.

## Objectives

The main objective of this study is to produce a set of comparative and qualitative studies to give a snapshot of the economic role of CCIs in Europe and to show how, and to what extent, they may be a driving force for European economic growth. This report also aims to aid understanding of the contribution of creativity to other key industries.

Sectors
Books
Newspapers and magazines
Music
Performing arts
TV
Film
Radio
Video games
Visual arts
Architectural activities
Advertising activities

## Definition and scope

CCIs comprise those industries producing or distributing cultural and creative goods and services, defined in 2005 by UNESCO<sup>1</sup> as “activities, goods and services, which... embody or convey cultural expressions, irrespective of the commercial value they may have.”

Beyond this broad definition, we have adopted a sector-based approach in order to take into account the specifics of each industry. So our report covers 11 sectors to provide an overview of the growth drivers and key challenges for each.

This study is based solely upon revenues of the cultural industries themselves. It takes no account of indirect impacts upon related economic activities such as tourism.

The geographical scope of this study is the EU28.

## Data collection

Because reliable aggregated statistical data were unavailable, we have adopted a “bottom-up” approach in this study. Where aggregated data do not exist, the study has constructed reliable estimates based on interviews with key organizations, sector publications and ad hoc statistical materials as well as verified market assumptions.

Data collection relies primarily on reliable industry sources at national, European and global levels – see bibliography for further details. With regard to turnover data, we primarily used market research analyses and Eurostat as complementary sources of statistics.

1. UNESCO (2005), Convention on the Protection and Promotion of the Diversity of Cultural Expressions.



## Indicators

This study quantifies the CCIs' economic contribution to the European economy, both in terms of direct impact (turnover) and employment.

- **Turnover – final consumer markets:** The study adopted an approach based on final consumer markets, primarily taken at retail prices, that is an approach that takes revenue at the end of the value chain, rather than adding up revenue from all stakeholders involved in individual parts of the value chain. Consequently, the total estimates exclude, whenever possible, intermediate costs within each sector. As an illustration, to measure the economic value of the performing arts, support activities such as equipment rental and catering have been excluded, as they can be considered intermediate costs of venue management and are already included in venue revenue from ticket and other sales. Similarly, our estimates do not include revenues from book printing, as they are intermediate costs included in the final price of books. Market estimates and measurements are in €b at retail prices. Employment figures include jobs in both public and private sectors.
- **Jobs – permanent and temporary or part-time workers:** Employment information monitored by professional organizations and Eurostat is expressed in numbers of jobs, not in full-time equivalents (FTE). This is explained to a large extent by the lack of data on employment in CCI-related EU NACE codes. EU statistical frameworks fail to count artists and other creative content owners. Given the data available at EU and national levels, FTE estimates would require further investigation beyond the scope of this study.

To ensure consistency, we mainly use data recorded in 2011 and 2012.

To evaluate employment, in the absence of other data, we made extensive use of external sources such as industry bodies and national statistical offices.

Data were rarely available for all 28 countries of the EU. Consequently, we have estimated economic value through tailor-made assumptions:

- We scaled up available data from the main markets – France, UK, Germany, Spain, Italy, the Nordic countries and one or two others such as Poland and Hungary in Eastern and Central Europe.
- We used world data – e.g., the global market value – and applied a market share scaling-down factor.

Our estimates have been validated with key industry players, such as federations and associations. For this purpose, we conducted interviews with different organizations covering the 11 sectors of this report – see further for the full list.

Main databases used in this report are given below:

- Eurostat Structural Business Survey
- Eurostat Labour Force Survey
- National Statistical Offices
- DG Trade: Market Access Database
- WAN-IFRA Database
- OFCOM statistics
- Creative & Cultural Skills UK

Totals for jobs and markets have been arrived at after removal of double-counting. For markets, the sum of sectors figures, €554.7b, exceeds the consolidated total, €535.9b (rounded figure). Live music (€12.7b) is counted in both the Performing arts and Music sectors, music channels revenues in TV and Music sectors (€1.7b) and music radio revenues (€3.2b) in Radio and Music sectors. We also deducted €1.3b from double counted music copyright revenues.

For employment, we deducted from the sum of sectors figures (7.5m) live music (456,500), music radio (5,500) and music channels TV (1,500) employment following the same methodology as before.





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