The impact of the downturn on the creative industries

SEEDA
July 2009

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Contents

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Executive summary

The creative industries have experienced unprecedented growth over the last decade. The sector is considered to be an important and developing sector, fundamental to economic development and growth in the post globalised age. However, the lack of liquidity and continuing redundancies caused by the global downturn will have a profound effect on this, and all sectors. It is essential, for the continuation of the sector's prosperity that the effects of the downturn on the creative sector are understood, in order to mitigate the worst effects of recession and so that appropriate measures can be taken to prepare for the upturn.

It is for this reason that the South East England Development Agency (SEEDA), who are responsible for the economic and social development of the South East of England, commissioned Experian to examine the impact of the downturn on the sector – although an inherently difficult task in the rapidly changing economic climate – this study aims to contribute to the body of knowledge on the sector particularly focussing on the short term implications of the downturn and also setting these in a more medium to long term context.

The South East creative sector has much to build upon…

The creative sector in the South East makes a vital contribution to the regional economy and is second only to London in terms of financial output and jobs supported. The sector is growing rapidly and, uniquely situated between London and the continent, is ideally placed to continue this growth in the years to come. This growth is supported by sizable software, computer games & electronic publishing and publishing sub-sectors which help drive the region's significant GVA output.

…but the recession shall have profound effects in the short-term creating a number of challenges

The current year will be challenging for all regions and the South East economy, whilst predicted to experience the shallowest recession of all the regions, will contract during this period. Alongside this dip in financial output, the sector will witness a number of job-losses across all sub-sectors with some, such as publishing, seeing significant numbers of redundancies. The creative sector in the South East is likely to be hit harder than other sectors of the South East economy, largely due to the high number of SMEs that constitute the sector and its supply-chain linkages with some of the most severely hit sectors of the economy. Challenges such as a lack of liquidity stifling innovation; pressures on existing business models (e.g. purely advertising funded models); and competition from other creative clusters may prove difficult in the months ahead.

That said, the South East is well placed to take advantage of the medium to longer term opportunities…

The creative sector in the South East is not likely to experience the depth and decline of the creative sector across Great Britain as a whole. Innovative sectors such as software, computer games & electronic publishing are bucking the recessionary trend. The innovative capacity of the sector can be harnessed as a catalyst for growth and improved communication and collaboration between the regions' highly skilled creative workforces will create an environment in which the sector can flourish. This shall ensure that the sector is well placed to prosper during the upturn and beyond.

Introduction

Sound policy making in a tough economic climate

Speculation regarding the depth and duration of the current economic downturn is widespread and varied. Experian forecasts suggest that the downturn will be severe and relatively long-lived, impacting all regions and the majority of sectors. The UK economy is expected to contract by 3.7 per cent in 2009 and it is certain that 2009 will be a year of falling employment, falling consumer spending, and hard-pressed business.

The 'first wave' of the downturn affected the financial and business services sectors – however with the rapid decline in intra and inter bank lending the recession has spread much further, with most sectors, and particularly smaller businesses, being impacted by the lack of finance.

A 'second wave' of the downturn, driven largely by the slump in global demand, is now severely impacting businesses in the manufacturing and construction sectors, which are more reliant on export markets and business investment. Moreover, a combination of the credit squeeze and slowing housing markets is having an effect upon both consumer confidence and disposable income and has also led to a marked reduction in spending across all sectors. The true extent of a tightening of consumer spending has yet to be fully played out and will undoubtedly have the greatest impact on those sectors which are consumer facing.

The creative industries will be impacted both directly by falling consumer spending and the shortage of credit, but also indirectly as a consequence of their connection with the most severely hit sectors of the economy through sales and purchasing behaviour or 'supply-chain linkages'. Ultimately, the fortune of the creative industries is closely intertwined with that of other sectors of both the South East and London economy. It is essential that policy makers in the South East fully understand the impact of the downturn on this important sector and the key challenges and opportunities these businesses will face, in order to shape both the short-term and long-term policy response.

Assessing the impact of the downturn on the creative industries

As a consequence, in February 2009 SEEDA commissioned Experian to undertake research to provide up-to-date and forward-looking intelligence on the current state of play in the creative industries, the impact that the economic climate is having on the sector at this time, and how this will change over the short-term (1-2 years). The core objectives of the study were to:

- Analyse the performance of the creative industries in the South East, to assess the relative health of the sector at the current time and to identify specific sub-sectors and sub-regions which appear to be most severely affected;
- Consider the links between the creative industries and other sectors of the economy, to identify the most pertinent supply chain links and to assess the implications of these for sector performance;
- Forecast performance of the sector over the short-term and identify the key challenges and opportunities facing the sector over the next 12 to 24 months; and
- Discuss the implications of these findings for policy makers, highlighting scope for policy response to support businesses through these difficult times.

Outputs from the study

This final report brings together multiple strands of our research, including literature review; secondary data analysis; economic modelling and forecasting; supply-chain analysis; scenario planning; and stakeholder consultation.

The report is structured around the following sections:

1. **South East creative industries** – providing an overview of the sector and sub sectors in the South East; their size, scale and geographical clusters;
2. **The impact of the downturn** – assessing how the creative industries in the South East are faring in this difficult economic climate;
3. **Opportunities and challenges** – highlighting the trends and issues that will shape the performance of the creative industries during the downturn, upturn and beyond.
4. **Key messages** – drawing together the findings from the previous chapters, to highlight the priorities for public sector support.

The authors would like to extend their thanks to those organisations that have contributed to this research, which include (but are not limited to):

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- Roger Figg - UKTI
- Maxine Horne - BDI
- Gus Desbarats - BDI
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1 South East creative industries

1.1 Introduction

The creative sectors have experienced unprecedented growth over the last decade

It is widely considered that the creative industries are an important, developing sector; fundamental to economic development and growth in the post globalised age. The core principles of the sector have been described as the key to economic competitiveness in advanced economies.[1] As such, creativity and innovation are no longer useful add-ons, they are what drive the economy and the ability to produce and attract creative people and industries will be a vital component of economic competitiveness in the next decades.[2]

In January 2008, a press release from the United Nations Conference on Trade and Development highlighted that the '…*creative industries have emerged as one of the world's most dynamic economic sectors*'.[3] It was noted that increased global connectivity had facilitated the development of the creative sector worldwide, allowing unprecedented growth. This is true of the UK sector, with NESTA, the National Endowment for Science, Technology and the Arts suggesting that '…between 2009 and 2013, the UK's creative industries will grow (in terms of GVA), on average, by 4 per cent, more than double the rate of the rest of the economy'[4].By 2013, the sector is expected to employ over one million people, most likely to be more than the financial sector.[5] The sector currently accounts for 6.4 per cent of the UK economy.[6]

However the lack of liquidity brought about by the recession has clearly impacted the sector

However the climate in which the UNCTD statement was written has shifted dramatically since the start of 2008 and the economic downturn has taken an effect worldwide. In the UK, recession is set to have a dramatic, negative influence on a range of sectors across all regions, brought about through slowing housing markets, credit squeeze, growing unemployment and low consumer confidence. It is difficult to gauge the extent to which recession will affect the creative industries.

1.2 Defining the creative industries

Defining the creative industries is an inherently difficult task as it encompasses such a wide variety of disciplines and both those who work exclusively within creative industries e.g. advertising agencies such as Saatchi and Saatchi as well as those who have creative roles within non creative sectors e.g. public relations officer within a construction firm.

One consultee alluded to the difficulty of defining the sector, stating *"the definition is so broad ranging from a potter to a company like Disney. It is a very fluid concept and defined in different ways by different groups. The Technology Strategy Board recently described the creative industries as content based."*

[1] 'Our Competitive Future: Building the Knowledge Driven Economy', *DTI*, December 1999
[2] 'Greater Cambridge Creative Industries – Research Report & Action Plan', *NMP*, March 2008
[3] 'Press Release', *United Nations Conference on Trade and Development*, 14th January 2008
[4] *Creative Industries Could Outstrip Financial Sector, Creative* Process, 26th Feb 2009 *http://www.creativeprocess.org.uk/news/design_week/*
[5] ibid
[6] ibid

This report uses the Department of Culture, Media and Sport (DCMS) definition of the sector[7] with a few minor additions (a full breakdown is included in Appendix A of this document). The DCMS definition breaks the sector into ten more detailed sub-sectors which are: advertising, architecture, art and antiques, film and video, computer games, software, electronic publishing, music and the visual and performing arts, publishing, radio and television, crafts, video, film & photography, design & designer fashion. Data is gathered from the Standard Industrial Classification (SIC 2003/1992)[8] and Standard Occupational Classifications (SOC 2000) at the four digit level – the latter to account for those that work within the industry and those who are in creative roles in non industry sectors.

In addition to the existing DCMS definition, this study includes SOC 2132, software professionals in software, computer games & electronic publishing.[9] The DCMS proportions for four of the sub-sectors – fashion, architecture, art and antiques, film and video have also been amended based on further analysis of the Inter-Departmental Business Register (IDBR) for the South East. This data source provides a more granular level of detail for each of the subsectors (five digit level) enabling us to identify which particular sub-sectors are wholly relevant for the creative industries group. For some sub-sectors e.g. software, computer games & electronic publishing further analysis of the IDBR did not enable us to identify a further creative and non-creative split – we have therefore retained the existing DCMS definition for these sub-sectors[10].

It is important to acknowledge that the definition is not exhaustive, but it does provide a strong and standardised base from which to examine this far reaching sector. For example it is not possible to capture all freelance and home workers as these businesses may be too small to be captured by official statistical sources / or business directories such as Yellow pages. This explains why it is particularly difficult to capture the craft and design sectors adequately – both include very small businesses and high levels of home-working – they also lack a specific SIC code making GVA output impossible to track.

It must also be noted that in acknowledgement of ANCER SPA's creative sector analysis, which has reported the figures relating to computer services and software separately,[11] we have clearly drawn out the software, computer games & electronic publishing sector within our analysis throughout the report and particularly in section 2.4 on sub-sectoral trends – this is to ensure that its contribution to the total creative sector is clearly understood.

1.3 The creative industries in the SE

The creative sector in the South East is the second largest in the UK

In the South East, creative industries make a vital contribution to the regional economy. According to the DCMS, the South East is second only to London in terms of both the financial turnover and the number of jobs the creative industries support. The Regional Economic Strategy highlights that the South East leads UK regions in fast growing creative industry sectors.[12]

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[7] DCMS, *Creative Industries Mapping Document*, 2001 (DCMS will be reviewing and updating the definition during 2009 in line with recent changes to the Standard Industrial Classification Structure (SIC,2007))

[8] Where possible we use SIC 2003. However, not all secondary data sources (most notably the Annual Population Survey) use SIC 2003, but rather continue to use SIC1992.

[9] 'Software, Computer Games & Electronic Publishing' is a term taken from the DCMS sector definitions. For clarity we have adhered to the standard definition.

[10] Please refer to the Data Dictionary for a full breakdown for each sub-sector

[11] See Appendix A – Data Dictionary for further information on the ANCER SPA methodology. 'Strategic Framework and Action Plan for Development of the Creative Industries in South East England', *ANCER SPA (London and South East) Ltd*, 25th September 2006.

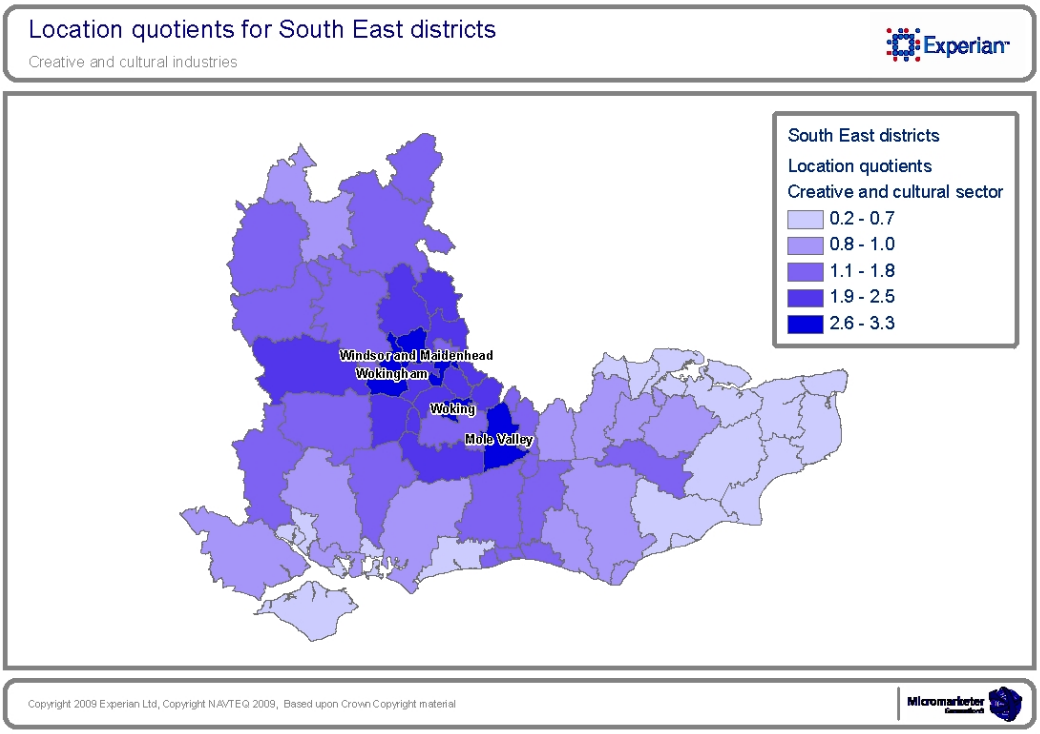
[12] The Regional Economic Strategy, A Framework for Sustainable Prosperity 2006-2016, SEEDA

Experian estimates that the GVA output for the creative sector in the South East will be £9.1 billion in 2009, 80 per cent of this output will be derived from the two key sub-sectors – software, computer games & electronic publishing (£6.3 billion) and publishing (which accounts for £855 million). 355,000 people are forecast to work within the sector in 2009, and of this figure 183,000 will be within software, computer games & electronic publishing, the second largest is advertising at 43,000 and the third largest is publishing at 27,000.

The geographical location of the creative industries is fairly wide ranging within the South East. A Henderson Aplin audit found 1,729 creative enterprises in Buckinghamshire alone[13] and Creative Brighton suggests that the creative industries sector employs 16,000 people in Brighton & Hove - 10.7 per cent of the workforce.[14]

There are however particular hotspots as demonstrated by the map below[15]. In particular there is a core zone around Windsor and Maidenhead, Woking and Mole Valley, which has a much higher concentration than is average across the UK.

Figure 1.1 – Location quotients[16] for creative industries in South East 2009



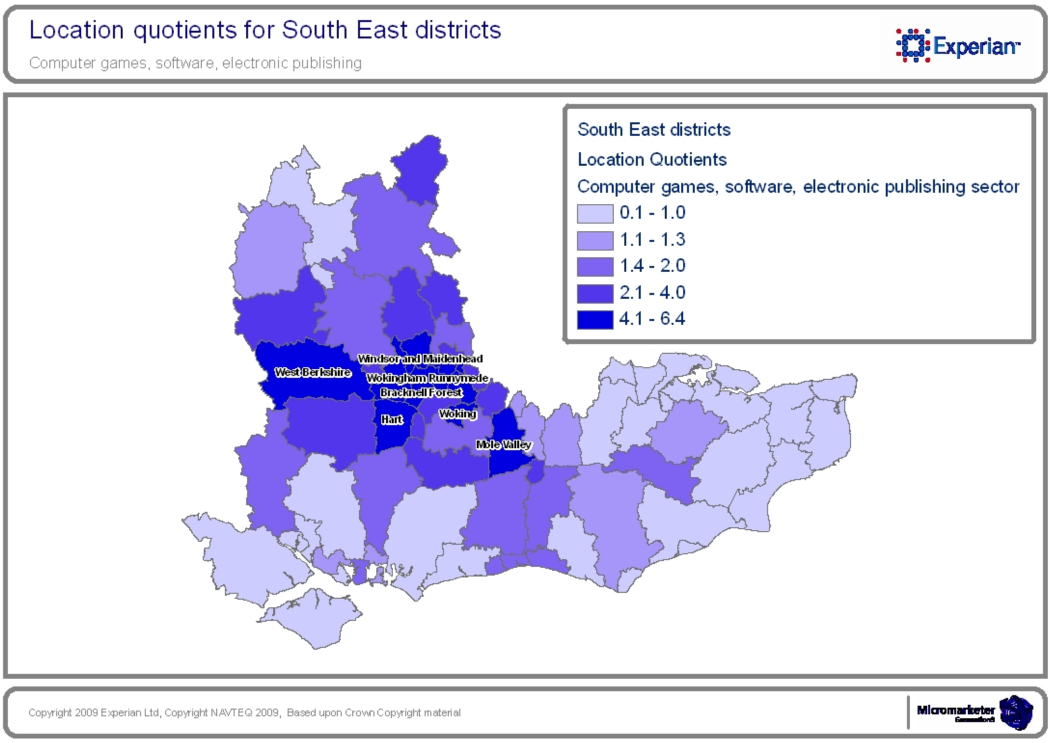
Source: Experian, April 2009

Indeed the Region certainly benefits from a number of centres of international or national significance including Brighton & Hove (media, new media and web design), Guildford (computer games design), Oxford (publishing) and Southampton (broadcasting).[17] Each of the sub-sectors clearly has their own geographical focus. Software, computer games & electronic publishing, publishing and advertising as key sectors are used as examples (see Appendix B for maps for the remaining sub sectors).

[13] Buckinghamshire Arts Partnership Creative Industries' Audit, *Henderson & Aplin*, June 2007
[14] About Creative Brighton, http://www.creativebrighton.co.uk/index.cfm?request=b1145884
[15] All location quotient maps – have used SIC data only , they cannot capture SOC data which includes those who work within the sector but not in a purely creative businesses
[16] For an explanation of Location Quotients, please refer to Appendix B
[17] Arts and Creative Industries, *DCMS*, http://www.go-se.gov.uk/gose/cultureAndLeisure/artsCreativeIndustries/

Software, computer games & electronic publishing industries are most highly clustered in a wide belt from the Vale of White Horse in the north west to Crawley in the south east, and particularly along the M4 corridor/Thames Valley around Berkshire, Wokingham, Windsor and Maidenhead and Bracknell Forest.

Figure 1.2 – Location quotients for the software, computer games & electronic publishing sector in South East 2009



Source: Experian, April 2009

The software, computer games & electronic publishing sub-sector includes digital media which is a growing sector. Phil Jones at Wired Sussex states that there has been strong and rapid organic growth from digital media companies, particularly in the South East, e.g. Climax Racing, which was originally a small set up with three people and now employs 120 people, having been taken over by Disney.

"There are a high proportion of micro-businesses in digital media"

Profile of digital media businesses in South East

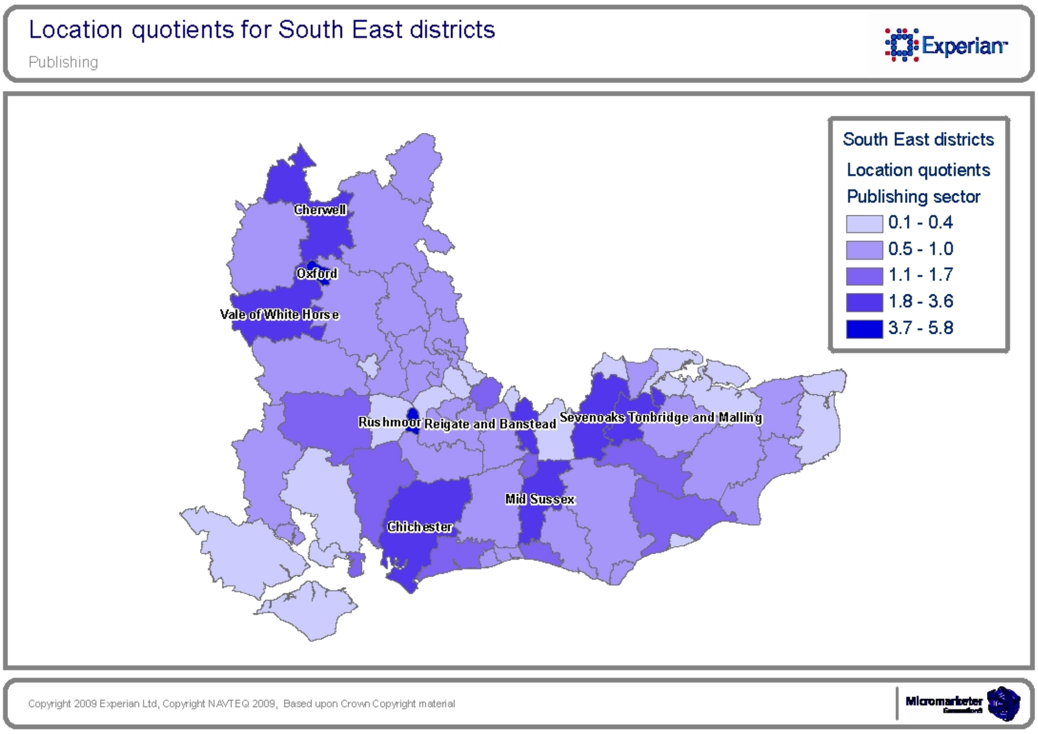
Wired Sussex is an independent, not-for-profit organisation for digital media businesses in Sussex. There are 1300 members currently and they are based in Brighton. They provide a wide range of support including: recruitment support / training / workplace provision / trade and inward investment support and lobbying.

Their clientele includes: 16 per cent sole traders / freelancers (many of the freelancers are home-based / or use a co-working space in an office), 60 per cent are micro businesses with 2-5 employees and the vast majority formed over the last 8-9 years

This is fairly representative of the digital media sector as a whole as there has been a growth of small companies with for example people being made redundant and looking to make it on their own, or graduates interested in digital media as a career.

The publishing sub-sector is comprised of pockets of activity scattered across the South East. There is a band of activity around Oxford and Cherwell. There is also another key area in Chichester, Sevenoaks and Tonbridge and Malling.

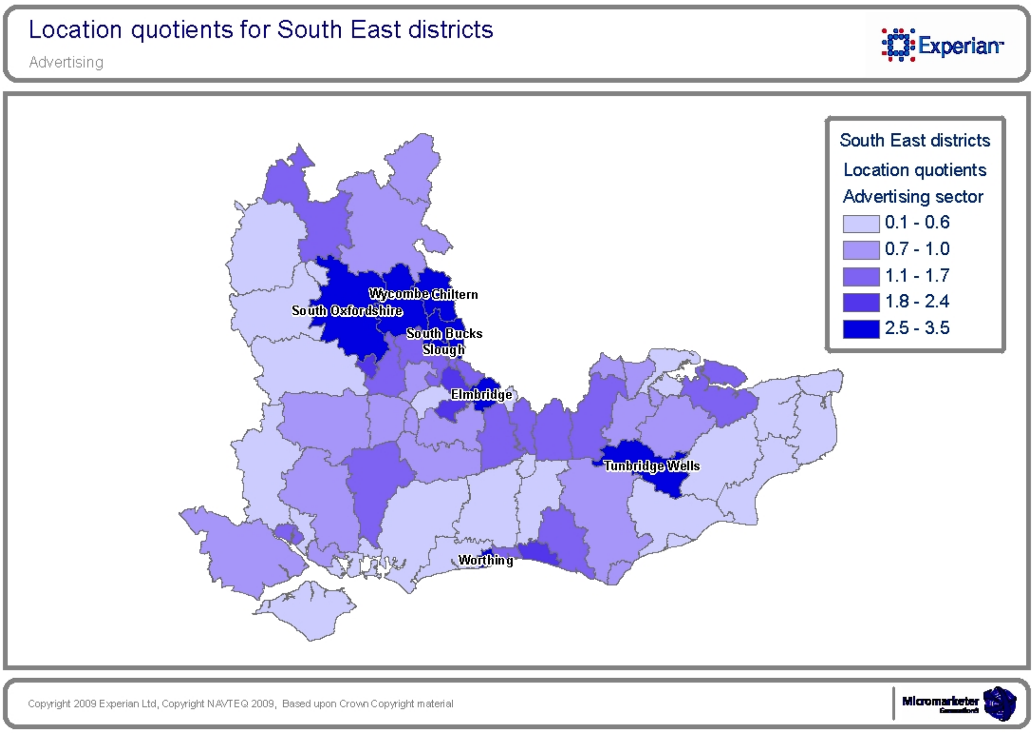
Figure 1.3 – Location quotients for publishing sector in South East 2009



Source: Experian, April 2009

The advertising sector is focused around South Oxfordshire Wycombe and Chiltern, with smaller pockets in Elmbridge and to a lesser extent Brighton and Hove, Worthing and Tunbridge Wells.

Figure 1.4 – Location Quotients for advertising sector in South East 2008



Source: Experian, April 2009

The South East is also a key region for the design industries, although these are hard to map as they are cross-cutting and included in a range of creative sub-sectors (advertising / graphics / fashion design and architecture). British Design Innovation (BDI) outlines their importance below.

"The design sector cannot be treated as a homogenous block"

Profile of design sector in South East

BDI is the representative voice to the industry of established strategic designers whose membership comprises the top 15 per cent of strategic design firms adding the most value to the industry. The organisation represents many of the most qualified product, service, innovative 3D packaging, digital and brand designers in the world.

The design sector in the UK represents over £4.5 billion sector turnover and an average £1 billion of export income. It includes the following groups: commercial designers of which there are just under 1,000 in the South East, second only to London; individual designer makers in for example lighting / ceramics and freelance designers, predominantly in graphics and multimedia.

The design category includes the following groups: architect, design agency, design and manufacture, design consultancy, design engineering firm, innovation consultancy, and interior product manufacturer. They work in around 25 design and innovation disciplines including broadcast, TV, film and video, prototyping and interior design.

www.britishdesigninnovation.org

2 The impact of the downturn on the creative industries

2.1 Introduction

The economic downturn has now become a truly global recession, with no country emerging unscathed. There are tentative signs that the pace of decline may however be slowing, as markets have reacted to fiscal stimulus measures and bank bailout plans. However, the recovery is predicted to be slow and a number of false starts are likely. Indeed despite a fall in the Libor rate for borrowing to 1.30 per cent (sterling) for three months the rate is still considered relatively expensive and credit remains a major issue for businesses.

2009 will be a challenging year for all businesses across the UK

The UK is experiencing a deep and protracted recession with GDP declining by 1.9 per cent during the first quarter of 2009, compared to 1.6 per cent decline for the last quarter of 2008. Experian estimates that overall output will contract by almost 4 per cent during 2009 – this is almost four times as severe as was predicted only last Autumn, highlighting the sheer impact of the financial crisis which has affected confidence, credit, wealth and the global economy as a whole, despite the government's rescue package. Unemployment has also increased to beyond 2 million, which is a 12 year high and is predicted to rise to 3 million by 2010.[18]

The full effects have yet to be played out in the creative sector

Before the downturn, the creative industries sector had been highlighted as a key sector for future economic growth and regeneration in a local as well as a sub-regional context.[19] In light of the current economic climate, it remains to be seen whether these predictions will hold true. Certainly given the creative industries' strong growth prior to the downturn, and their diversity in terms of type and revenue stream, opinion is divided as to whether the sector is well placed to weather the storm or if it shall fall victim of recession like the majority of sectors.

2.2 South East Performance

The South East is predicted to experience the shallowest recession of all regions

The South East has traditionally been characterised by a very buoyant economy in comparison to the rest of the UK. It accounts for 14.5 per cent of the UK's GVA and 13.6 per cent of its population – resulting in high levels of prosperity for the region – with GVA per head above the UK average. The economic activity rate in the South East (82.5 per cent) exceeds the UK rate (77.2 per cent) and is the highest in the UK regions. The region also has the lowest unemployment rate (4.8 per cent) in the UK and a highly skilled workforce with qualifications far better than the national average.

Over the past decade the South East has been the fastest expanding region of the UK with growth averaging 3.5 per cent per year due to its relatively high exposure to fast growing sectors such as financial and business services and distributive trades. This sector mix also meant that it was one of the most vulnerable to the 'first wave' of the downturn and caused the region to enter recession early,

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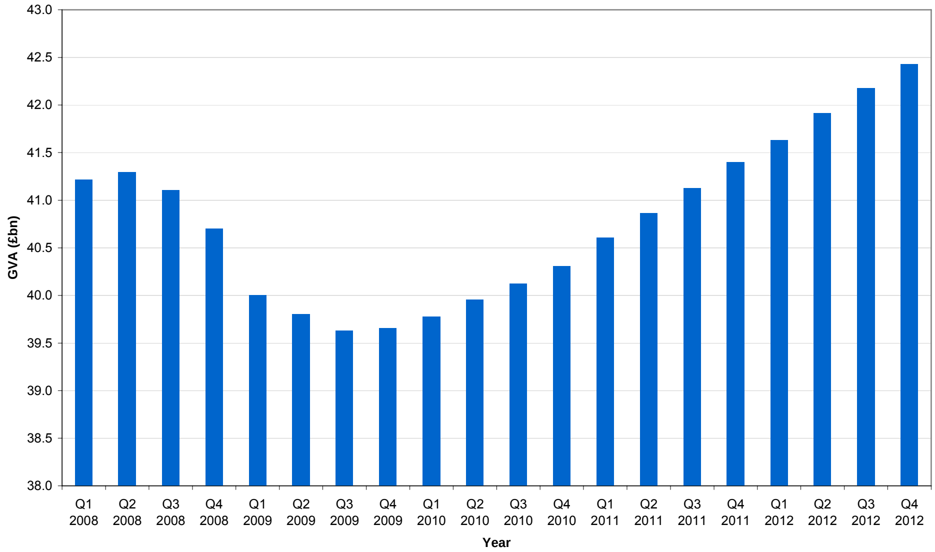
[18] Experian 2009
[19] 'Strategic Framework and Action Plan for Development of the Creative Industries in South East England', *ANCER SPA (London and South East) Ltd*, 25th September 2006

over the second half of 2008 – this reduced GVA growth for the year to 1.2 per cent. However, overall growth for the year remained above the UK average.

It must be noted that forecasting in the current climate is inherently difficult – Experian's revised forecasts between October 2008 and May 2009 suggesting a much more severe contraction in UK total output certainly attest to the ever changing climate. Nevertheless it is evident that 2009 will be a challenging year for all regions – the South East is estimated to contract by 3.2 per cent in 2009, with the lowest point likely to be reached in 2009 Q3 where GVA is forecast to fall to £39.6 billion. This is still the shallowest recession predicted for any UK region, as although the global financial crisis triggered the economy's descent into full blown recession, financial and business services have suffered less than other industries. It is now manufacturing and construction –that are bearing the brunt of the second wave of the downturn due to sharp destocking and weak export markets.

Our most recent forecasts suggest a relatively strong recovery is expected in the South East in 2010/11 – more so than any other region of the UK – reflecting the region's favourable location with its close proximity to London and major international transport routes as well as its ability to attract a growing and skilled population as a result of the focus on high value-added industries.

Figure 2.1 – SE GVA quarterly output 2008 - 2012



Source: Experian, April 2009

2.3 The impact of the downturn[20] on the creative industries

The SE creative industries have been hit harder than other sectors of the SE economy

Current predictions suggest that the recession may be shallower in the South East than any other region – however when we take a closer look at how individual sectors within the region are set to perform there are stark differences. The creative sector plays a key role in South East economy – comprising around 6 per cent of all businesses (49,900 businesses)[21] – yet it has been hit harder by the downturn than the other industry sectors. Indeed 1,492 creative businesses have been dissolved within the region in the last 12 months[22].

GVA in the creative sector is forecast to decline by 4.4 per cent in 2009 compared to 3.2 per cent across all sectors of the economy, and particularly banking and finance which, while hit hard during the early stages of the downturn, is forecast to decline 1.6 per cent during the same period. The creative sector is forecast to continue to decline, albeit very modestly, in 2010 at just 0.1 per cent – but this is in contrast to other sectors e.g. business services in the South East which are forecast a 1.1 per cent growth. After this period of stabilisation, the sector is forecast to return to a healthy rate of growth in the long-term – with GVA expected to exceed 2008 figures by 2012 and by 2015 growth is estimated to be 4.6 per cent, outstripping other sectors of the economy and suggesting a bright future for the creative industries.

The reasons for these trends could be in part due to the size and number of small businesses – the creative sector is characterised by a large number of micro-businesses – including high numbers of freelancers who find it relatively easy to set up, but equally when conditions are difficult these are often the first casualties resulting in a higher number of closures. We have also witnessed restructuring in larger well established creative businesses e.g. ITV, as they trim down the number of employees and this has certainly contributed to the decline.

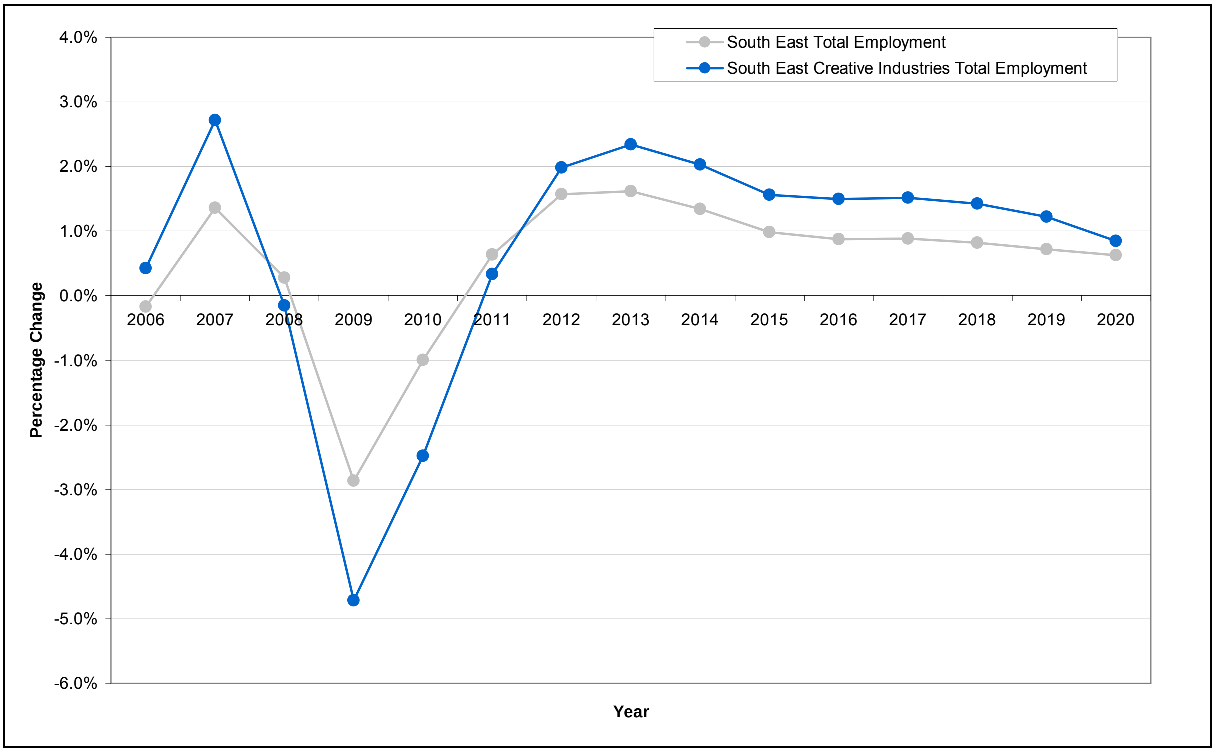
The impact of economic change in the sector will work its way through to the labour market, albeit employment trends tend to lag trends in output. Examination of total employment suggests rapid job shedding in the South East creative industries, with the workforce shrinking by 4.7 per cent in 2009, compared to a contraction of 2.9 per cent of the regional workforce as a whole. Indeed, other sectors are not predicted to experience as steep an employment decline in 2009 (only hotel and catering declines as steeply). Decline also appears to be steeper during 2010, with 2.5 per cent contraction in the creative industry workforce in contrast to a much shallower 1.0 per cent across all sectors. That said, as the industry returns to the strong rate of growth over the medium and long term, stronger growth is predicted for the creative industries workforce in comparison to the rest of the South East.

[20] Whilst every effort is made to ensure accurate information, the difficulties involved in forecasting in recession must not be underestimated. With a rapidly changing, unprecedented economic situation, the process of predicting future developments in recession is difficult. Forecasting in this recession is particularly difficult given is the unprecedented nature of the events leading to the recession – the credit crunch, banking sector collapse, a synchronised global downturn etc. This has made it difficult to find historical precedents for guidance. Experian economic forecasts are however produced every month with the most accurate data available. These take a view based on fairly stable fundamentals like population, industrial structure, spending patterns, wealth etc.

[21] National Business Database, Experian 2009

[22] Information supplied by Experian Business Information Solutions. Figure refers to businesses within the Business Link South East Region identified as having been dissolved in the last 12 months.

Figure 2.2 – Total employment change in South East sectors



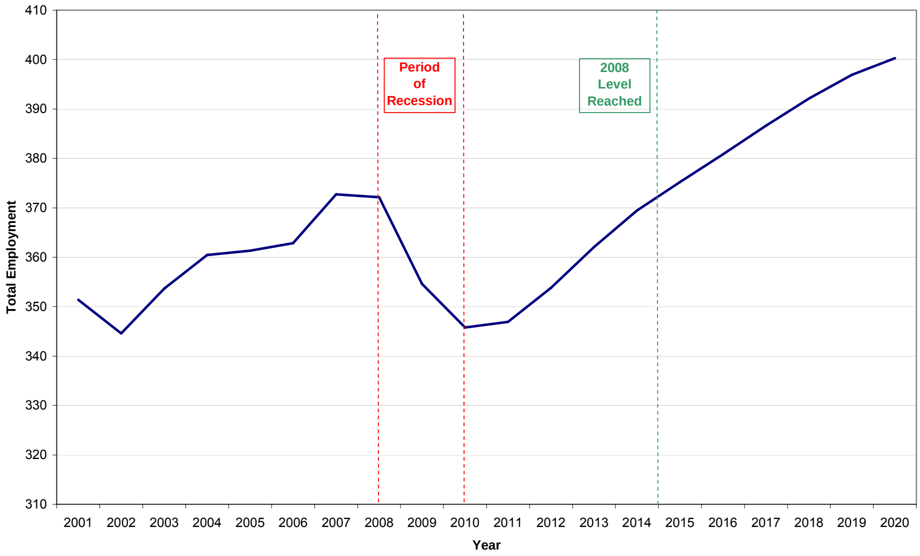
Source: Experian, April 2009

However, the depth and duration of decline is not forecast to be as severe as the GB creative industries

It is evident that the recession is forecast to impact the creative sectors more severely than other sectors of the region – however, when we compare the creative sector in the South East to that of Great Britain as a whole it appears that it is set to fare much more favourably.

Experian anticipate a significant decline in employment in the South East between 2008, when there were an estimated 372,000 working in the sector, and 2010 where we forecast total employment in the sector to fall to 346,000. The 2008 total employment level is estimated to be exceeded by 2015.

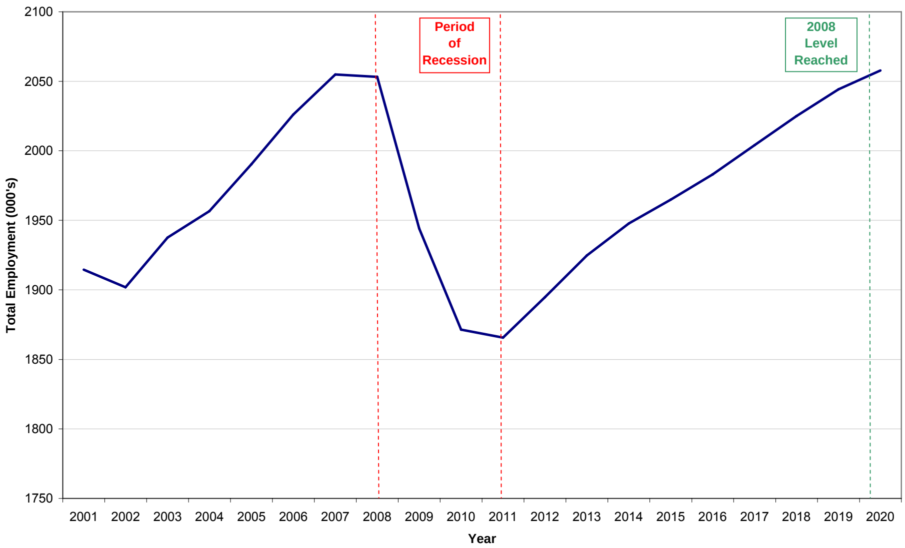
Figure 2.3 – Total employment in creative industries in the South East 2001 - 2020[23]



Source: Experian, April 2009

In contrast, when we compare this picture to the performance of the creative industries across Great Britain as a whole, not only is the duration of the decline period longer for the country as a whole from 2008 to 2011 but it is also predicted to be deeper during this period. In terms of recovery time, levels of employment in the creative sector for Great Britain as a whole are not expected to reach 2008 levels until 2020, much slower than the creative sector in the South East.

Figure 2.4 – Total Employment in Creative industries in Great Britain 2001-2020



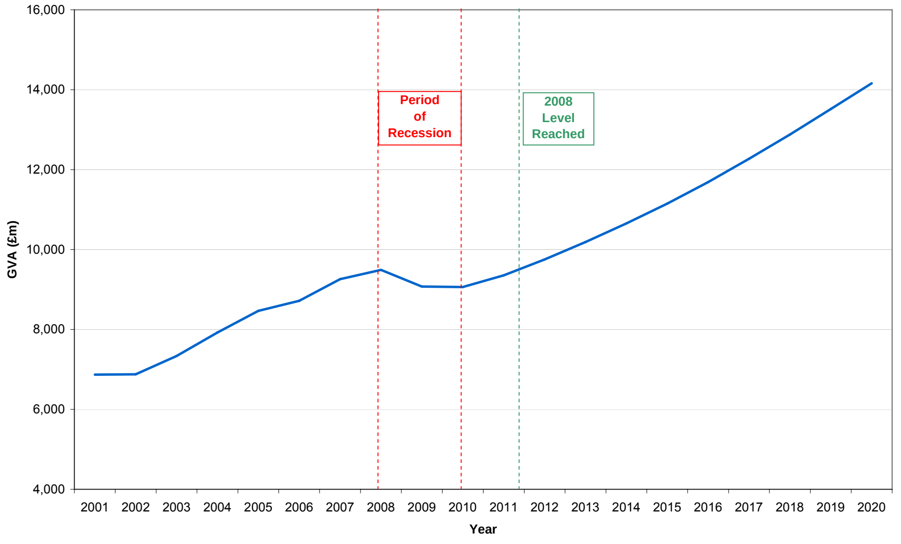
Source: Experian, April 2009

A similar trend is seen in Gross Value Added (GVA)[24] albeit not as stark as the employment trends. In terms of percentage decrease, the creative industries appear less affected in the South East than nationally. Over the period of decline (2008-2009) creative industries in the South East witnessed only

[23] Total Employment in Creative Sectors for South East and Great Britain as a whole uses the full SIC and SOC definition of creative sector.
[24] GVA output as calculated does not include data for creative industry occupations (SOC) – i.e. individuals employed in the creative industries but in non creative sectors.

a 4.4 per cent drop in GVA levels compared to a 5.7 per cent drop for GB, with recovery expected to be much stronger in the South East from 2011 onwards.

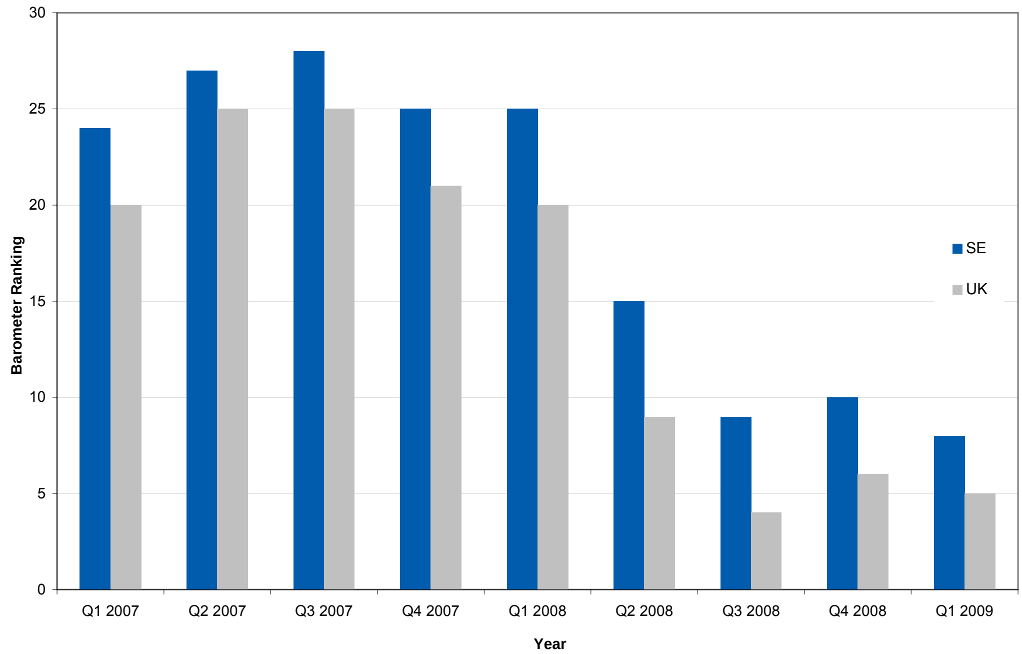
Figure 2.5 – Creative industries GVA in the South East 2001 - 2020



Source: Experian, April 2009

The reason for these trends almost certainly lies in part in the position of the South East economy as a whole – which, as highlighted above, is estimated to experience one of the shallowest recessions of all regions. Consumer confidence in the South East, although low is not as low as the rest of the UK. There was a clear dip in optimism between 2008 Q2 and Q3 for both the UK and South East and recovery has been patchy with an increase in 2008 Q4, likely reflecting the beneficial impact of the fiscal stimulus measures. Overall though, the South East continues to be more optimistic than the UK as a whole.

Figure 2.6 – Consumer optimism over the last two years for the South East and UK



Source: *Gfk Consumer Confidence Barometer* (on behalf of European Commission)

The enviable location of the South East is also a clear factor in its relative success over other regions. Undoubtedly its close proximity to the capital and to the rest of Europe has played a part in more favourable business trading conditions. Finally the South East creative sectors have a key strength in terms of software, computer games & electronic publishing – this is a growing industry and one which will experience substantial growth post recession.

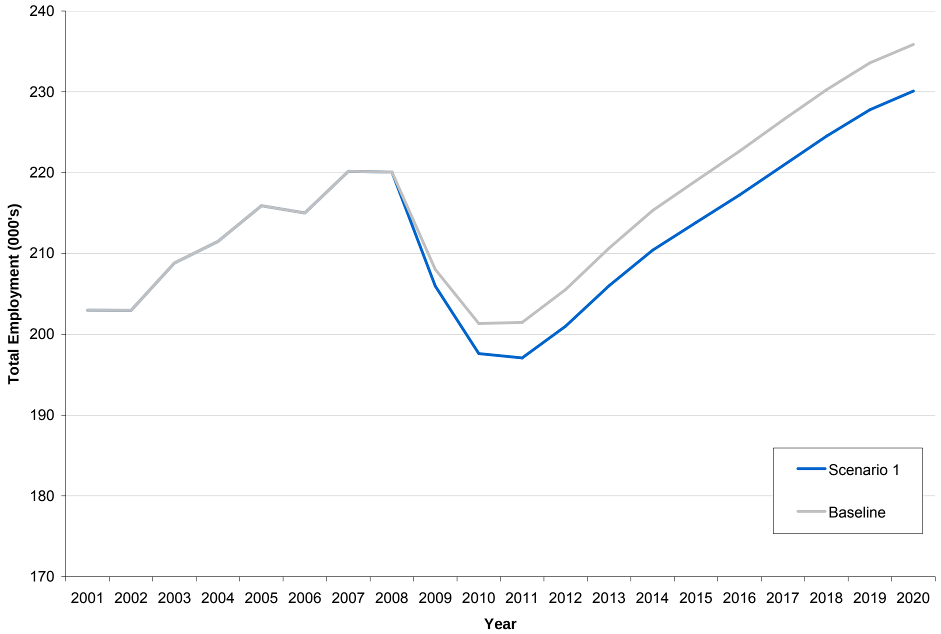
In the current ever changing climate it is important to understand the implications of a more pessimistic scenario for the South East creative industries

That said economic forecasting in this climate is incredibly difficult[25], given the rapid rate of change in the economy and the unprecedented policy response we have seen. In volatile times it often pays to understand the implications of a more severe economic climate scenario for example the BRIC economies may not recover as quickly as anticipated, the period of deflation may be more protracted than anticipated. Scenario 1 presents a more adverse scenario for total employment in the South East. Experian have modelled the impact on job losses and GVA as if the creative industries in the South East were to perform in line with the creative sector in Great Britain as a whole (Figure 2.7).

Clearly we can see that the more adverse scenario will result in a more severe decline in total employment, with 2,000 further job losses from the South East creative industries by 2009, increasing to 6,000 additional losses by 2017. Software, computer games & electronic publishing and publishing will be the most severely affected sectors. In terms of GVA output a reduction of £326 million between the scenario GVA output and the current baseline is predicted – making GVA as a whole £13.8 billion – this confirms the strong position of the South East creative sector in comparison to Great Britain as a whole.

[25] See footnote 19, page 11 for comments on forecasting in the downturn

Figure 2.7 – Scenario 1 – Projected total employment change in the South East (adverse performance & recovery)



Source: Experian, April 2009

Other softer implications of the downturn should be taken into consideration as they will undoubtedly impact the South East

We can see clearly from these forecasts that the recession will have a direct impact on job losses and a reduction of GVA during the predicted recession period, but the picture is far more complex than this. A recession often leads to changes in individual working patterns with more flexible methods such as part time and temporary working adopted.

The effect of these changes is not immediate, and this lag effect explains why we haven't been able to capture significant changes to date – the workforce composition of the creative industries has been very stable over the last 5 years. It is comprised predominantly of permanent workers (on average 73 per cent were permanent between 2003 and 2008Q4) and the numbers of self-employed to employed has also remained stable over this time period, with around one fifth self employed.[26]

Skills provision is also often affected during a recession as many firms seek to trim their budgets by reducing training opportunities. Again though, we are not yet seeing the full effects of any changes due to time lags. The level of training in the creative industries appears not to have altered significantly over the last 5 years, with on average 22 per cent of employees each year claiming to have received work-related training in the last 13 weeks (at the time of survey).The lowest figure of 18 per cent of employees having received training in the last 13 weeks was in Q3 of 2008,[27] but further data from 2009 Q1 and Q2 would be required in order to determine if this was a recession related trend.

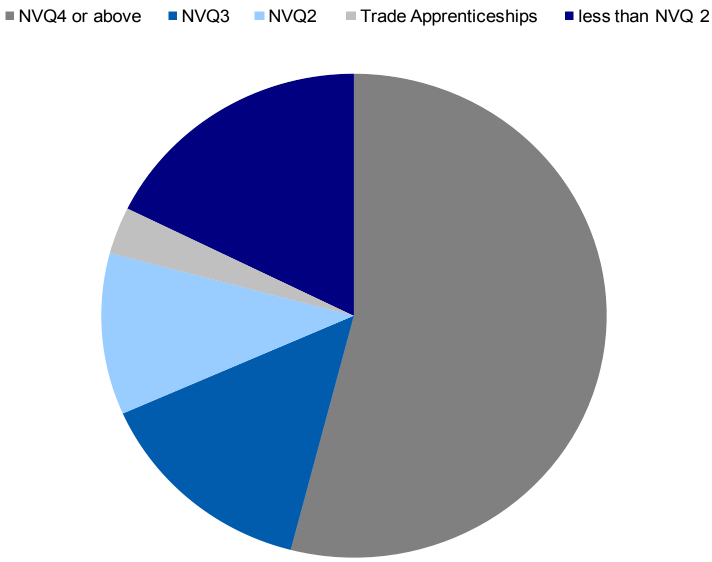
There has also been little change in the qualification profile of the creative industries over the last 5 years, and the effects of the downturn on accredited training provision are likely to be further lagged.

[26] Data on workforce composition is drawn from the Annual Population Survey (APS). APS is a household survey providing data on family and household labour market statistics at local areas and for small sub-groups of the population across the UK.

[27] It should be noted that this quarter education take-up is often slightly low due to it containing 'summer holidays'.

Taking 2008Q4 as an example – 54 per cent of employees in the creative sector have NVQ level 4 or above,14 per cent have NVQ level 3 and the remainder have NVQ2 and below.

Figure 2.8 – Qualification breakdown in creative industries – 2008 Q4



Source: Annual Population Survey, 2008Q4

It appears also to be too early to capture if there has been any impact on hours worked and workers wages. In fact over the past three years there has been an increase in average earnings for creative industries workers, both regionally and nationally. The increase has been most significant in the South East (20 per cent rise 2006-08 compared to 12 per cent nationally over the same period).

The same appears to be true for those that work in creative roles in non creative industries over the past three years although the increase is more modest. Again, the increase was larger in the South East (5.1 per cent compared to 4.4 per cent nationally). In terms of hours worked there has been very limited change from around 35 hours per week[28] for the creative industries over the last 3 years in both the creative industries and creative occupations.[29]

[28] This assumes that stated and actual hours worked are alike.
[29] ASHE

3 Creative industry sub-sectors and supply chains

3.1 Impact of the downturn on the creative industry sub-sectors

The creative sector is very diverse and it is vital to assess how individual sub-sectors within it are performing in order to gain a fuller picture of the sector as a whole. To date opinion suggests that there is a split between the commercial and consumer facing sectors with e.g. advertising and construction faring much worse than software, computer games & electronic publishing, for instance. This does appear to be true, however we are also seeing a potential split between more traditional and innovative sectors emerging and some consumer facing sectors appear to be bucking the recessionary trend more successfully than others.

Traditional sectors are being hard hit in the downturn

Publishing, in parts a very traditional sector, appears to have shown the greatest decline in terms of GVA output between 2007 and 2009 (4.5 per cent decline year-on-year). Total employment decline is not as severe and is below the average for the creative sector as a whole – (1.8 per cent compound decline between 2007 to 2009). This could in part be explained by the breadth of the sub-sector, as some occupations such as publishing of books are likely to have experienced fewer workforce reductions, as consumers are choosing cheaper entertainment e.g. books and home activities, to more expensive luxury items.

The **print industry** appears to be the worst affected – large numbers of regional newspapers in particular have folded as they are reliant on regular advertising and spending from businesses which is declining. A worrying trend is that publishing is forecast the smallest growth in GVA output between 2010 and 2015 (0.4 per cent in contrast to 4.2 per cent for the creative sector as a whole). It is, in part, reflective of a long term decline in this sector in the South East. GVA for the publishing sub-sector in 2001 was £1063 million compared with £937 million in 2007, however as a key sector for the Region alongside software, computer games & electronic publishing and advertising – it certainly warrants attention.

Commercial facing sectors have been some of the first affected by the recession

Advertising is also a key sector for the region, and a business-facing sector which is feeling the effects of the downturn. As highlighted above, due to its linkages with other sub-sectors it has had a much more severe impact on the creative industries as a whole than the data necessarily suggests. Total employment decline in advertising is 2.8 per cent year on year between 2007 and 2009 and employment growth is predicted to be half that of the creative sector as a whole between 2010 and 2015 – this clearly demonstrates the negative impact that the recession has had on the sub-sector.

In terms of GVA decline the advertising sector appears to mirror the trends of the creative sector as a whole. It is very evident that businesses in the downturn have trimmed or removed their advertising budgets - TV advertising in particular has been very severely affected and the impact of declining advertising with regional press has been discussed in the previous section. There is some evidence that those advertising companies which have diversified their revenue streams and expanded into areas such as consumer-targeted advertising, like Facebook may be more successful – but in general the sector has been badly affected.

Figure 3.1 – Total Employment (Industry and Occupation) in the South East

	Total Employed (000s)				Compound Percentage Change	
	2007	2008	2010	2015	2007-9	2010-15
Advertising	45.5	44.2	42.4	45.3	-2.8%	1.3%
Architecture	16.5	15.9	15.0	15.7	-3.9%	1.7%
Arts and Antiques	9.0	8.9	8.9	9.9	-1.0%	3.8%
Crafts	16.1	17.0	14.5	14.4	-3.6%	-0.1%
Design	14.7	16.0	14.5	16.0	-0.1%	3.3%
Fashion	9.4	9.9	9.2	10.4	-0.9%	4.0%
Film and Video	10.1	10.0	9.0	8.8	-3.8%	-0.8%
Software, Computer Games & Electronic Publishing	192.6	191.3	178.4	198.0	-2.4%	3.5%
Music and Visual and Performing Arts	24.1	23.5	21.9	22.5	-3.3%	0.9%
Publishing	28.3	29.3	26.2	28.5	-1.8%	2.9%
Radio and TV	6.4	6.3	5.7	5.5	-3.4%	-1.0%
Creative Sector SE	372.7	372.1	345.8	375.2	-2.5%	2.8%

Source: Experian

Architecture, another business-facing sub-sector, is also predicted to be one of the worst affected sub-sectors. Compound employment decline between 2007 and 2009 is forecast to reach 3.9 per cent for the sub-sector, and GVA decline for the same period is expected to be around 3.3 per cent. GVA growth is, however, predicted to be fairly healthy from 2010 onwards, but lagging behind the creative sector as a whole. Architecture has clearly been affected by its strong linkages with the construction sector, which has faced very difficult trading conditions with dramatic reductions in consumer demand for new house builds and substantial shortages in private sector investment to finance commercial construction projects.

Radio and TV, and film and video, both in parts fairly traditional, comprise only a small proportion of total GVA output for the sector at just 1 and 2 per cent of the total respectively. They have however, both been relatively badly affected by the downturn showing employment decline year-on-year between 2007 and 2009 of 3.8 per cent for film and video and 3.4 per cent for radio and TV. In terms of GVA decline they are both demonstrating a decline in GVA output which is higher than the creative sector as a whole between 2007 and 2009 with film and video performing considerably worse than radio and TV.

There is certainly anecdotal evidence to support TV production struggling and particularly large high profile companies such as ITV have made heavy head count reductions. Evidence on the film industry though is more mixed, with consumer facing parts faring well, for example cinema attendance increased dramatically in 2009Q1 and the industry has seen the most box office turnover at the cinema since 2003. Yet other parts have not fared so well – due to the lack of liquidity and perhaps increased reluctance of consumers to watch quirky films alongside blockbuster films – some film production companies have not been able to undertake as much work as they would in a non recessionary period, resulting in job losses. Employment decline for both sub-sectors does look set to continue between 2010 and 2015 – again reflective of longer term decline in the South East.

The **Music and visual performing arts** are forecast to decline fairly rapidly in terms of headcount reduction between 2007 and 2009 (3.3 per cent year on year change) and although GVA output decline is not as severe during the same period, both GVA and Employment growth beyond 2010 is lagging behind the creative sector as a whole. This mixed response is in part reflective of the fact that some parts of the music and visual performing arts sector are doing very well – digital music sales and gigs and performances for example are booming. Other companies are not faring as well, potentially reflecting issues with their business models, for example a dependence on advertising revenue with music offered cheaply or for free which will be less viable in this climate.

As highlighted earlier there is limited data on the **craft industry** and the vast majority of companies are not captured by official statistics. The data that is available for employment does suggest that there will be a relatively strong decline between 2007 and 2009 with a further year-on-year decline between 2010 and 2015. This does not tend to align with anecdotal evidence which actually suggests that the craft industry is taking advantage of the downturn as people are choosing to stay at home and get involved in more experience based activities rather than opt for expensive trips out. In fact Felicity Harvest of the Arts Council suggested that there may have been resurgence in craft work e.g. knitting – with knitting fairs attracting a wide demographic and large audience. However it is evident that more high-end luxury craft items are not faring well and individual craft makers are suffering as overall they have witnessed a reduction in commissions.

The most innovative sectors appear to be bucking the recessionary trend

Those sectors which appear to be bucking the trends do appear to be those that are the most innovative as well as being, to a large extent consumer-facing. **Software, computer games & electronic publishing** is the prime example of this and although in absolute terms the sub-sector is set to witness the greatest decline in number of employees – a reduction of up to 13,000 roles is estimated to occur between 2008 and 2010 – this employment decline is, however, in line with the sector as a whole and is explained by the fact that the sub-sector accounts for 52 per cent of the total employment in the creative sector.

GVA decline is predicted to be 0.4 per cent year on year between 2007 and 2009 - this is well below the average for the creative sector as a whole and both headcount and GVA is predicted to grow more rapidly than any other subsector from 2010 onwards. Indeed, the sector may be benefiting from a greater number of consumers choosing to stay at home and spend money on experiences e.g. computer games, rather than luxury items. Indeed one consultee suggests the gaming industry hasn't been affected by the downturn due largely to consumer trends *"this is due to the fact that buying games consoles and games is seen as a cheaper alternative to e.g. eating out in Jamie Oliver's restaurant. It's the same principle as sky subscription figures not falling – people are choosing activities which are home-based".* It is also important to note that game development is done over 12-18 month development deal – and many of the deals struck prior to the downturn will still be in progress providing a certain degree of stability.

Other sectors which appear to be performing well include **fashion and design,** both of which are highly innovative sectors by their very nature and are likely to be able to respond quickly to the downturn – Fashion in particular is expected to grow by 2.3 per cent from 2010 to 2015. Surprisingly **Arts and Antiques** also appears to be one of the stronger performers of the creative sub-sectors during this period with employment decline between 2007 and 2009 of just 1 per cent – again this is contrary to some anecdotal evidence which suggests that high-end antiques have been badly affected as consumers are choosing to spend their disposal income on more necessity items and experience based activities. However there is also evidence to suggest that there has been resurgence in sales of lower value antiques – with for example Sotheby's suggesting that business is booming as people look to make money from their valuables in these difficult times[30].

[30] Anecdotal evidence also suggests that consumers are investing in antiques as they look to invest in items perceived as less volatile than stocks and that may yield more return than interest rates.

Figure 3.2 – Total GVA for creative industries in the South East

	Total GVA (£m)				Compound Percentage Change	
	2007	2008	2010	2015	2007-2009	2010-2015
Advertising	431	430	436	537	**-1.0%**	4.2%
Architecture	349	339	330	384	**-3.3%**	3.1%
Arts and Antiques	194	196	195	231	-0.1%	3.4%
Fashion	179	179	184	233	-0.4%	4.8%
Film and Video	217	223	204	217	**-2.2%**	1.2%
Software, Computer Games & Electronic Publishing	6357	6563	6281	8057	-0.4%	5.1%
Music and Visual Performing Arts	468	492	453	491	-1.0%	1.6%
Publishing	937	937	860	875	**-4.5%**	0.4%
Radio and TV	126	132	120	125	-1.4%	0.9%
Creative Sector	9259	9492	9063	11148	-1.0%	4.2%

Source: Experian, April 2009

3.2 Supply chain linkages

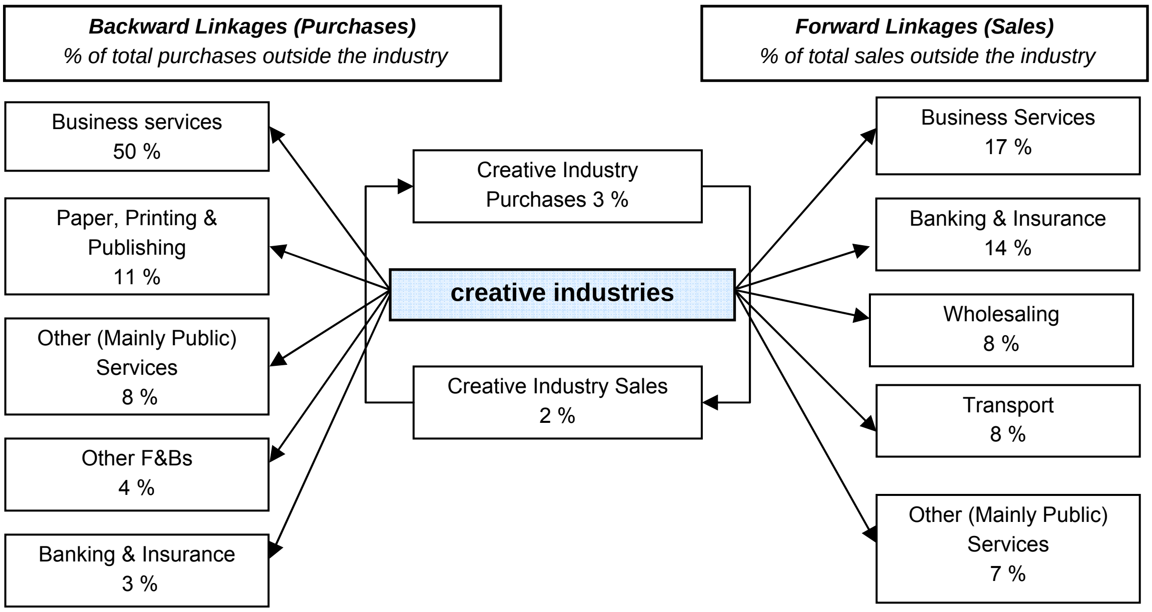
The creative industries have been impacted by their supply chain linkages…

The report has already highlighted a number of key reasons as to why the creative industries will be hit relatively harder by the recession than other sectors including: falling consumer spending (particularly for high end luxury goods) and higher rates of business failure during the recession as a result of their relatively higher proportion of small and micro-businesses. The creative industries will also be impacted indirectly as a consequence of their connection with the most severely hit sectors of the economy through sales and purchasing behaviour or 'supply-chain linkages'.

Experian's analysis of the purchasing patterns highlights that around half of purchases by the creative industries are made from business services, with other important sectors including paper, printing and publishing and other (mainly public) services.

In terms of sales, it is clear that the creative industries count amongst their most significant B2B clients the business services (17% of sales) and banking and insurance (14% of sales) and to a lesser extent wholesaling and transport (both 8%). Ultimately this means that nearly one third of sales made by the creative industries are to sectors of the economy that have been hardest hit by (at least the first wave of) the downturn.

Figure 3.3 – Supply chain linkages of South East's creative industries



Source: Experian

Indeed, business and financial services both showed a strong reduction in their previously healthy GVA growth during Q3 and Q4 of 2008. 2009 Q1 showed contraction for both sectors of around 1% in GVA output - this will undoubtedly impact on the creative industries. Both sectors are, however, predicted to exceed their GVA output of 2008 from 2011 onwards suggesting that their reduced spending is likely to be short term. When we compare this picture to that of the creative sectors in London, it appears that the sector in the South East is more resilient and has less reliance overall on the financial services, mainly as a consequence of the strong role that city-based financial services play in the Capital's economy.

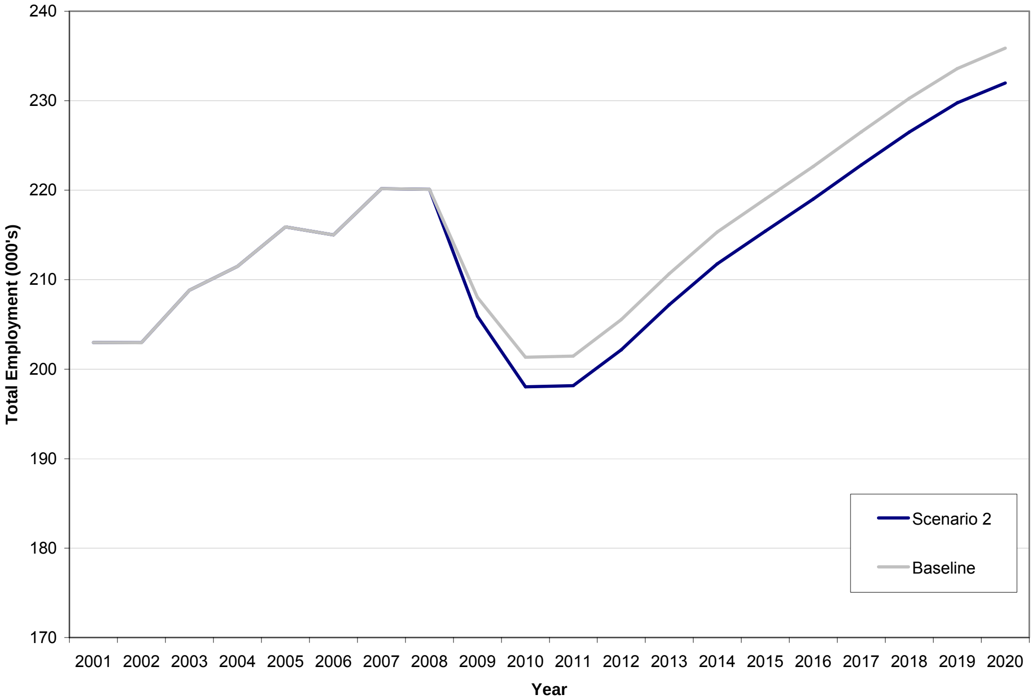
Wholesaling is also a fairly important sector for the creative industries and one which experienced strong decline during 2008 Q4 and 2009 Q1, as is transport which is also predicted to decline in GVA output by 1.4% in 2009 Q1 – again these changes will undoubtedly impact on the creative sectors.

….however the true extent of the impact is not likely to have been fully played out yet

To reflect the ever changing economic climate Experian have modelled a more pessimistic view of the impact of changes in sales and purchasing patterns - it provides further evidence of the effect of supply chain linkages on employment numbers and GVA output. This adverse scenario for supply chain impacts (scenario 2) has assumed that the two largest sectors make fewer purchases from the creative sectors over the long term. The result is a more severe decline in total employment in the creative sector which will continue as a long-term trend.

From 2010 onwards, there is forecast to be between 3,000 and 4,000 fewer workers employed in the sector than under the baseline assumption and the software, computer games & electronic publishing sector will experience the greatest decline of all sectors, due to its stronger linkages with the sectors outlined in figure 3.3. The difference in terms of GVA output will increase over time and by 2020 there will be £232 million less in terms of total output than the current baseline for 2020 of £14.2 billion.

Figure 3.4 – Scenario 2 – Projected Total Employment change in the South East (adverse supply chain effects)



Source: Experian, April 2009

The creative sector is strongly embedded in the South East Economy

Analysis of the supply chain multipliers for the creative industries provides further insight into how embedded the creative sector is in the local economy, that is, to what extent it buys and sells goods and services with other sectors the local economy. A figure of £1 million is used to demonstrate how an increase or decrease in financial output within the sector would affect the wider economy. Type I multipliers measure the industry effect only, whereas Type II multipliers also includes income from employment and consumers expenditure. Type II multipliers therefore measure the total effect both from industry and from income and consumption (See Appendix A for further details of methodology).

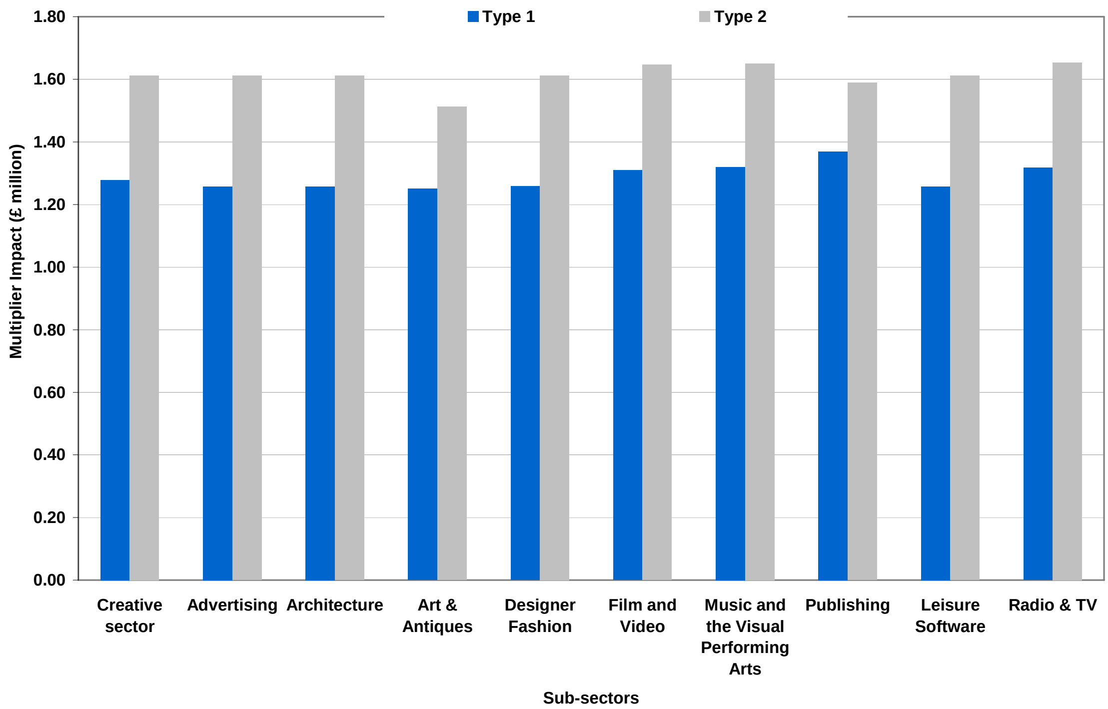
For the creative sector as a whole an extra £1 million of output within the sector would increase the creative sector's purchases from other sectors by £1.28 million (Type 1 multiplier) and the 'income' effect of the jobs generated from rising demand for products and services from other businesses (Type 2 multipliers) would be £1.6 million for the wider economy . This provides a strong indication of the importance of the sector to the broader South East economy and further evidence to suggest that changes in purchasing and sale patterns within the regional economy will clearly impact the sector due to its high number of inter-linkages.

The **publishing sub-sector** appears to have the highest type I multiplier effect; an extra £1 million of output within the sub-sector generates £1.37 million for supplying sectors. This confirms its position as one of the key sectors for the South East and its importance to other industries within the regional economy. In light of the findings above, which suggest that the publishing sector will be one of the worst affected by the recession, it is certainly of concern as the decline experienced by this sector is likely to have wider implications for other businesses in the South East economy than a comparable contraction in other sub-sectors.

In terms of broader Type II impacts **film and video, radio and TV, and Music and the Performing Arts** are the highest with a £1 million increase generating £1.65 million for the wider economy. Even though proportionally these sectors are not the largest in terms of GVA output in comparison to the other sub-sectors – it is clear that a small increase in output from them will have a strong positive impact on the economy of the South East as a whole. The reverse is also true due to their strong linkages – they will have the largest relative impact on the wider economy as a whole – this is certainly important to note given the impact that the recession is forecast to have on these sub-sectors.

The sub-sector with the smallest inter-linkages with the rest of the economy is the **Arts and Antiques** sub-sector (£1.51 million). This suggests that any changes in this sector will have fewer implications for the South East economy as a whole than other sectors.

Figure 3.5 – Supply Chain Multipliers (Types I and II)



Source: Experian, April 2009

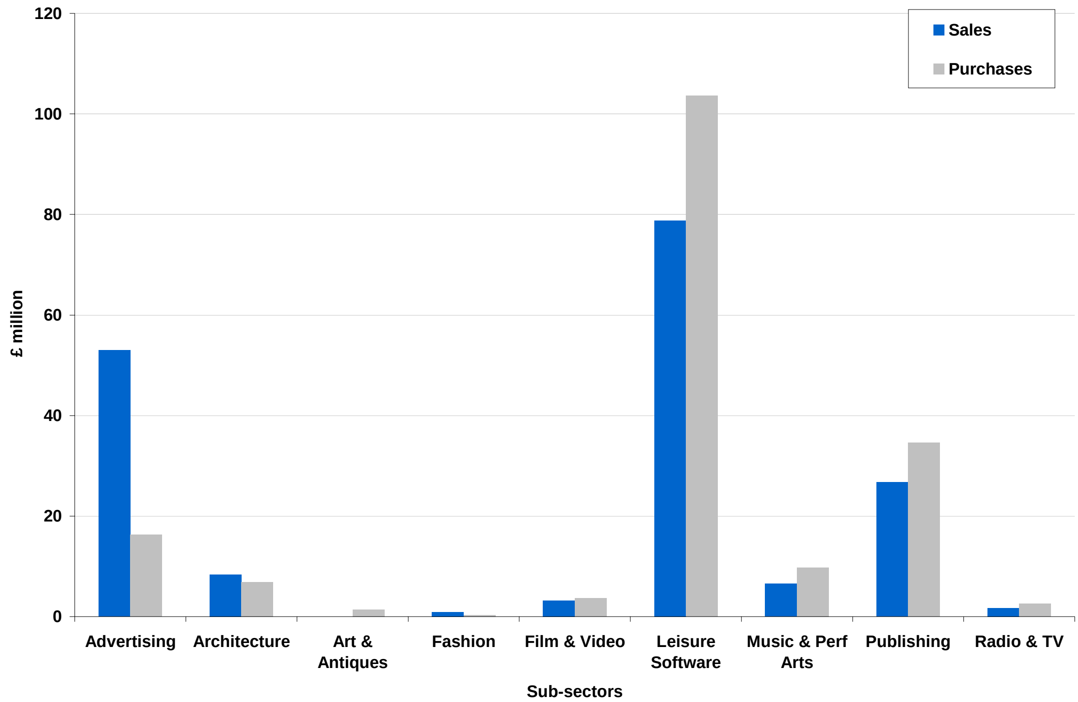
Internal supply chain linkages have had a knock-on effect on the success of the sub-sectors

Internal supply chain linkages – that is intra-industry sales and purchases – account for £179 million for the sector and changes in sales and purchasing patterns will have a knock on effect on the success of the sub-sectors.

The **software, computer games & electronic publishing** sector purchases the most from the rest of the sector at £104 million (largely due to its relative size) with **publishing** £35 million. In terms of sales to the rest of the sector again **software, computer games & electronic publishing** is by far the biggest with £79 million with **advertising** second at £53 million.

The **advertising**, **architecture,** and **fashion** sub-sectors make more sales to the creative industries than they purchase from the sector – this is most starkly the case for advertising – where they purchase £16.3bn of products and services from the creative industries but have sales of £53bn to the sector – the reverse is the case for the remaining sub-sectors. Advertising's largest clients are software, computer games & electronic publishing and publishing – these are also the sectors from which advertising purchases the most, suggesting strong links between them. It supports the anecdotal evidence that declining advertising spend by businesses has had a knock on effect on the publishing sector – particularly regional newspapers who often rely solely on advertising revenue as their main source of income. **Arts and Antiques** and **Fashion** have the fewest links to the rest of the sector.

Figure 3.6 – creative Industry Supply Chain - Purchases and Sales



Source: Experian, April 2009

4 Opportunities and Challenges

4.1 Introduction

Prior to the downturn the prospects for the creative industries were extremely positive. The Cox Review of 2005 suggested that creativity, properly employed, carefully evaluated, skilfully managed and soundly implemented, is a key to future business success – and to national prosperity.[31] This study, alongside other government initiatives such as the *Creative Britain Report*[32] and the *Creative Economy Programme*[33], highlight the importance of the creative industries sector to economic growth. Tessa Jowell also voiced the Government's view that the sector is of economic importance, stating that 'Our creative industries are key to Britain's economy… [with] so much untapped potential'.[34] This is particularly true in the digital industries, as this is an area in which the UK has a competitive advantage[35].

The previous chapter demonstrated that the sector will certainly not be unscathed by the downturn, however long term prospects remain strong. Jonathan Kestenbaum, Chief Executive of NESTA states that the industry has the potential to become a key driver in the UK's recovery from the recession[36]. Indeed Lord Putnam suggests that '… an economy based on our creative industries is considerably more sustainable in the long-term than one based on credit default swaps'.[37]

The recession brings with it both challenges and opportunities for the sector. More attention is paid to the challenges such as insufficient capital making it difficult to fund new initiatives. However, the creative industries can use the recession as a catalyst and an opportunity for businesses to become more introspective, examining and critiquing their ways of working to become more efficient, as well as to devote more time to innovative thinking and new ideas which can stimulate business in the upturn.

This section will examine both the challenges and opportunities for the sector – it will undoubtedly include some of the issues highlighted above relating to the downturn but it will take a longer term view as well as placing a particular focus on those issues which are unique to the creative sector.

4.1.1 Opportunities

The creative sector should harness its innovative capacity as a catalyst for growth

"innovation is key for the upturn – the lesson that we have learnt from the financial crisis is that you can't artificially create wealth, you can only create an illusion of wealth. Innovation is the important thing and we need to facilitate the connection of ideas to markets.[38]"

[31] 'The Cox Review of Creativity in Business: Building on the UK's Strengths', 2005
[32] 'Creative Britain – New Talents for the New Economy' *DCMS,* Feb 2008
[33] Creative Britain Work Foundation is Staying ahead: the economic performance of the UK's creative industries, *The Work Foundation,* July 2007
[34] 'Tessa Jowell 2002, Praises London College For Joining Creative Flair With Business Brains', http://www.culture.gov.uk/reference_library/media_releases/2902.aspx
[35] UK CES' 2008, Working Futures 2007- 2017 Evidence Report II
[36] Jonathan Kestenbaum, chief executive of Nesta ,Creative Industries Could Outstrip Financial Sector, http://www.designweek.co.uk/Articles/141374/Creative.html
[37] 'Lord Puttnam calls for promotion of UK's creative industries', *Industry and Parliament Trust,* 28th January 2009, http://www.ipt.org.uk/IPTblog/blog_pages/IPT+Creative+Industries+Fellowship+launch.htm
[38] Consultee - Gus Desbarats, BDI

The creative industries are amongst the most innovative sectors in the UK and must stay that way in order to remain competitive. 78% of creative firms are active innovators with creative firms attributing 52% of their turnover to new or improved products, compared with 40% of firms in other sectors.[39] Indeed the Department for Innovation, Universities and Skills – Skills for Business Report found that companies that don't invest in growth, research and development during a recession are 2.5 times more likely to fail than those that do.

The creative industries can harness their innovative capacity in a number of distinct ways. The report *Creative Britain* clearly highlights their ability to adapt to new business models and technological advances. NESTA also attributes their optimistic medium-term outlook to this strength and examples such as the success of 'iTunes' digital distribution model attest strongly to this.[40] The ability of businesses within the sector to adapt their business models to suit the environment will protect the sector to some extent from the most adverse effects of the downturn. One such model is the 'shared risk and reward' model – this mode of operation is most effective in times of shortage of credit as instead of commissioning on a "fees for service" basis, in which a product is designed for a fixed budget, a reduced design cost is negotiated alongside a share of the licensing. If the product goes exponential then the designers can reap the rewards from that success without requiring a large initial capital outlay.

The importance of investment in innovation has been clearly recognised by the public sector and £10 million in Research & Development grants for the creative industries have been made available by the technology strategy board since the publication of *Creative Britain* in February 2008. Spring 2009 has seen a further £5 million funding. It is vital that this is maintained going forwards, particularly in preparation for the upturn.

The creative sector is well equipped to adapt to a new market place

The creative sector due to its innovative nature is well equipped to rebrand the recession as an opportunity rather than a challenge (clearly some sub-sectors are better equipped to do this than others e.g. design sector). Some consumer facing parts of the sector in particular are able to take advantage of the favourable euro and dollar exchange rates, which have encouraged a larger number of people to enjoy 'experiences' such as gigs and theatre performances in England rather than holidaying in Europe and further afield. There is also clear evidence that the software, computer games & electronic publishing industry has been able to capitalise on changing consumer habits with an increase in those staying at home playing computer games as opposed to opting for expensive meals out / luxury goods.

A large number of businesses have also recognised the opportunities that the public sector can provide during this period. The 2012 Olympic Games is a prime opportunity, particularly for creative industries in the South East, to get involved due to their close proximity to the location of the games.

A flexible and highly skilled workforce can facilitate long-term growth for the sector

The creative sector attracts more highly skilled and innovative workers, who tend to be more adaptable in times of recession, than other sectors such as manufacturing. It is for this reason that during a recession there is often an increase in new ideas as 'creatives' have more time to focus on designing new products when in an upturn they are often more busy with client work – as Maxine Horn, CEO, BDI remarked: *"In a downturn, with less client commissions available, creative people tend to focus on furthering their own product and business ideas and the development of innovative marketing activities. In an upturn economy they have less time to spend on their own development…"*

[39] DCMS, (February 2008) *Creative Britain New Talents for the New Economy*
[40] UK Creative Industry to Drive Significant Growth in UK Economy, NESTA, 19th February 2009

The creative sector is also characterised by a higher start up rate than other sectors – such is the ease with which particular digital companies can set up – often as freelancers working from home and this large number of talented and innovated people can certainly be harnessed as a catalyst for growth.

Many creative businesses can also take advantage of their digital basis to offer more flexible working conditions in the downturn. Whilst for many industries flexible working may be an 'add-on', many creative industries can take advantage of their digital work matter and allow staff to work from home.[41]

"There are few barriers to entry – you basically need a broadband connection"

Flexibility of digital media businesses in South East

Micro businesses, in particular web companies, can quickly respond to changing conditions by agreeing to reduce margins on future work and taking pay cut as they are formed from flexible working arrangements. They often started out as a one man operation in a bedroom.

Larger companies on the other hand may not be able to make these decisions so quickly and are more likely to make headcount reductions.

With the continuance of difficult trading conditions though, we may see more SME companies – particularly the smallest ones, who have already squeezed their margins as much as possible, going out of business.

The sector can take advantage of well established cross-collaboration working patterns

Creative clusters are a vital piece of the toolkit in supporting business to prepare for the upturn as this mode of working enables them to share experiences, innovation activities and support growth – they are also particularly vital as a large proportion of the sector is comprised of small and micro-businesses which require strong networks. Indeed the *Creative Britain* report stresses that location matters. People and firms operate in and across different locations. Their interaction can either support or constrain the development of the creative industries. Getting both the policies and the investment right to support this networking will be crucial for continuing creative and commercial success.

Clusters are certainly evident in the South East and should be further fostered as they provide excellent support for businesses, they enable networking and cross-collaboration, and they attract talent and investment, working to ensure the continued prosperity of the creative sector in the South East.

A broader objective must also be to increase creative industry cohesion across the region. Such initiatives have already been organised with, for example, the creation of such groups as *Creative Brighton* – the creative industry leadership group for Brighton & Hove that aims to encourage a thriving creative industries sector.[42] There are clear opportunities for the Brighton Cluster, it has games / TV and web companies in its cluster and this enables cross collaboration and is internationally recognised,

[41] Flexible working 'could get lost in recession', http://www.smallbusiness.co.uk/channels/office-and-homeworking/news/747561/flexible-working-could-get-lost-in-recession.thtml
[42] http://www.brightonbusiness.co.uk/htm/a20041004.427748.htm

particularly in the USA - encouraging inward investment. Brighton also benefits from a young and highly educated pool of labour.

The sector can capitalise on the enviable location of South East

It is essential that the South East seeks to develop and capitalise on existing and potential links with London's creative sector and its wider economy, as well as international markets. Being in such close proximity to the largest creative sector in the UK is certainly advantageous for the South East and they are in an enviable position as they have strong ties to London, but as fixed costs including office space are not as high, they have scope for expansion. Indeed a report by ANCER SPA has noted that many creative businesses have scope for scalability.[43]

4.1.2 Challenges

The severe lack of liquidity could prevent new ideas being brought to the market

A key issue which is common to the vast majority of businesses in all sectors at this time is access to finance. Public funding available in the UK for creative industries is not always comparable to funds in other countries, for example Germany and Denmark and this in itself means that there is relatively less capital available to fund projects. In a recession the situation is severely exacerbated with a dramatic reduction in access to private capital leading to reductions in risk taking, as well as a marked reduction in new projects. This is certainly of key concern for the creative industries as a relatively high proportion are small and micro-businesses and so are much less likely to have access to large reserves of capital than larger companies.

Access to funding can be particularly difficult for the creative industries in times of recession as inevitably the types of projects that they are involved in are fairly risky for the lender – this can provide a further barrier to access to capital. As discussed above, there are opportunities to develop new models of working such as shared risk and reward models – however not all sub-sectors have this opportunity particularly for larger more traditional sectors e.g. radio and TV and Publishing which tend to be comprised of larger businesses where change cannot be implemented as quickly. The 'crunch point' for the former is believed to be June, when next major commissioning round begins and therefore if production businesses do not secure further work then there could be an increase in the number of casualties as a result of the recession.

Furthermore there are major issues for any organisations which require public funding as there a likely to be cuts over the next three years. An LGA report on Local Authority finance suggested leisure and culture to be in the front line for cuts. Hence, while in the short term commercially focussed businesses may be hardest hit, over the medium term it could be those dependent on the public sector that are most at risk and could suffer long after the more commercial industries come out of the recession.[44]

Funds are available for the creative sector from a number of sources including the Arts Council who recently announced a recession package of £44.5 million of initiative to sustain the arts sector. This includes Sustain, which is a £40 million, open application fund which will provide extra support for organisations under pressure as a result of recession – it is a fixed two year programme designed to sustain artistic excellence in a tough climate and will be funded from Lottery income. There will be additional support for individual artists and smaller arts organisations through Grants for the Arts with an increase in budget from £52m to £54 m in 2009/10 and to £56 m in 2010/11 again funded by Lottery

[43] ANCER SPA (London and South East) Ltd, Strategic Framework and Action Plan for Development of the Creative Industries in South East England, 25th September 2006
[44] Regional Review for SEEDA 2009

income.[45] Further work is definitely required to make sure that these and other initiatives are clearly communicated to the sector so that more businesses can take advantage of them.

Challenging times for business leaders

Creativity is at the core of this sector and the types of businesses included range from a freelance sculptor up to a large advertising agency. Clearly at the higher end of the spectrum most business leaders are likely to be highly experienced (well-trained) for running a successful business, but for many micro and small-businesses, creative and innovative ideas are the focus and the development of a strong client base and a network of connections is key to running a successful business – particularly in the up-turn. While these businesses may have thrived in the upturn, the recession has created a hostile climate for businesses to operate in, and those running smaller, fledgling businesses may be less experienced, and less well trained in making the tough business decisions required to survive in this climate.

Gaining access to the business skills required can also prove to be an issue. There appears to be a lack of knowledge around what actually exists, as well as how to get access to it – and there is concern that the support available is not tailored for the creative sector. The Creative Blueprint highlights nine issues to be addressed in England a number of which relate to this ‘business skills’ gap, including management and leadership skills, business skills and enterprise, and general guidance around occupations and skills development[46]. Clearly these are long standing issues for the sector which have been brought to the fore as a consequence of the tough decisions required to survive in this harsh economic climate.

Another key area in which particularly small and micro businesses are having difficulties is concerning getting products out to market. Without access to appropriate manufacturers and an appropriate route to market, small designers are less likely to produce and innovate – choosing instead to stick to products for which they do have clear channels. This signifies a clear need for brokerage between the designer and manufacturer and there is almost certainly a role for public sector in supporting these business linkages.

Finding business models which work in the downturn

The fast pace of the industry and the flexibility with which many of the sub-sectors are able to function is clearly testament to the success of the sector. However, the digital revolution which has provided an enormous boost to the industry has also thrown up a range of new challenges. It has put pressure on existing business models and adaptation to online medium has provided a new set of challenges[47]. In times of recession a purely advertising funded model is not very effective – as highlighted above advertising has been one of the worst affected sectors and as businesses are choosing to reduce their advertising budgets this revenue stream has unfortunately been dramatically reduced.

The most successful digital media business models appear to be those that are diversifying their revenue streams – this means that they are offering a staged product (i.e. providing basic 'free' content) with the option to add 'premium' tiers (i.e. additional upgrades). Spotify is a prime example of this – the basic music streaming is free (with adverts), but users can pay 99p/day or £9.99/month to enjoy the music ad-free[48]. Another option which is proving very successful is in becoming more sophisticated in what you offer advertisers. Obvious examples of behavioural targeted advertising include Facebook,

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[45] www.artscouncil.org.uk
[46] Creative & Cultural Skills (June 2008) *Creative Blueprint England: the Sector Skills Agreement for the creative and Cultural industries.*
[47] Economist (March 19th 2009) The end of the free lunch - again
[48] Topping, A. (6th April 209) *Music fans will buy songs, says head of free online music site Spotify*, Guardian

with for example Unilever targeting Slimfast at female Facebook users who are listed as engaged.[49] There are still many concerns with this type of advertising – for example, the controversial Phorm online advertising agency, which has developed technology that allows internet service providers to track what their users are doing online[50]. In terms of more traditional TV and Radio – a sector which is certainly suffering in the downturn – this means that for commercial television in addition to standard spots (adverts), additional revenue streams such as sponsorship of programmes is an option including potentially channel sponsorship.

Protecting intellectual property

The issue of protecting intellectual property (IP) is something which impacts a variety of the creative Industry sub-sectors. Both *Digital Britain*[51] and *Creative Britain* were firmly behind further consultation on this issue. Indeed *Creative Britain* – as part of its twenty six commitments proposed to take action on illegal file sharing and raising awareness of IP and since the report there has been consultation on illegal file sharing as well as a fake Free London campaign in 2008 run by the DCMS. *Digital Britain* also highlighted the importance of bringing industry together to agree how to provide incentives for legal use of copyright

The Gower Report on IP provided a detailed assessment of IP rights and infringements – highlighting that the creative industries by the very nature of their business were heavily impacted by infringement of IP. The report provided a set of sensible recommendations focussing on three key areas: strengthening enforcement of IP rights, reducing costs of registering and litigating IP rights for businesses large and small; and improving the balance and flexibility of IP rights to allow individuals, businesses and institutions to use content in ways consistent with the digital age.[52]

Competition from other creative clusters in the UK

Despite the South East's enviable position with its close proximity to London and international markets, the region is facing increasing competition from other parts of the UK who are developing their creative industry clusters. A prime example of this is Manchester, which is actively pursuing the development of a media hub through the creation of Mediacity:UK. Indeed some consultees argued that the North West Regional Development Agency is more responsive in terms of grant provision and integrated approaches in terms of services. This is certainly a key area which must be examined by policymakers in more detail to ensure that they are attracting talented and innovative businesses.

[49] Murphy, C (2009) Campaigns get smart, Guardian
[50] Wray, R. (April 2nd 2009) *Dotcom companies consider boycott of Phorm's online advertising technology*, Guardian
[51] DCMS (January 2009) Digital Britain: The Interim Report
[52] HM Treasury (November 2006) Gowers Review of Intellectual Property

"We're going to build a media city in the UK… media is the new manufacturing"

Felicity Goodey – chair of Central Salford Urban Regeneration Company (Guardian, 2006)

Mediacity:UK, Salford Quays

North West Regional Development Agency

Mediacity:uk is the most significant media development in the UK and will see the creation of a 'media city' for the world's leading creative and digital businesses.

An international leader, mediacity:uk will deliver £1bn in additional net value added to the British economy over five years once complete.

It is highlighted in the Northwest Regional Economic Strategy as a key transformational action, making it one of the most fundamentally important projects in the region.

Broadening the workforce demographic

One important trend for the sector is in diversifying the workforce. It is evident that particularly in certain sub-sectors e.g. Arts and Antiques that there is a specific demographic – White middle class and often female and the recession is likely only to exacerbate these trends as training budgets are cut and only those who are willing to work for free are able to compete and enter the job market.

There is also a distinct lack of BME groups within the creative industries workforce and much needs to be done to address this in order that regardless of background or ethnic group it is the most talented and creative that are entering this high growth sector. The public sector certainly has a role here in insuring that there are adequate training and apprenticeship opportunities for people wishing to enter these industries.

5 Key messages

The previous chapters have highlighted that the creative industries in the South East, previously one of the star performers of the regional economy, are expected to be badly hit by the downturn – contracting more rapidly and shedding relatively more jobs than is average across the regional economy as a whole.

But there are tentative signs that the pace of decline is slowing and Experian forecasts suggest that the South East in particular will witness an upturn next year (albeit moderate compared to the rapid expansion seen previously). It is therefore evident that, with only a short window of time in which the public sector can actively support creative businesses during the recession, only the most pertinent issues should be addressed. While the focus of this research has very much been on the short-term, longer term priorities must also be given sufficient attention as this will ensure that the right conditions are in place to allow for a thriving creative sector in the upturn.

Building on our discussion of the opportunities and challenges in the previous chapter and discussions at the policy workshop, we highlight two short term priorities that policy makers have a role in addressing:

- First and foremost businesses must understand what support is currently available for them in this difficult period and how to access it. There has been a whole raft of rescue packages from Central Government designed to support businesses through the recession and appropriate **communication is absolutely pivotal** to ensure that businesses can maximise the funds and support that is available.
- Secondly, there appears to be a skills gap particularly in terms of business skills and a need for more **tailored training programmes** for the creative sector.

These immediate priorities are accompanied by much broader long term initiatives to create an environment in which the creative sector can thrive and to support those sub-sectors which are experiencing long term decline.

Improved communication and collaboration

Pivotal to the success of the creative sector is an increased collaborative effort between all parts of this diverse sector. It is important that the public sector leads by acting as a facilitator, ensuring the joining up of business support structures and making the entire sector aware of the Regional Recovery Plan.

As well as business support, essential is the bringing together of other resources and information regarding available funding to ensure that the sector can react to the recession collectively and efficiently. A number of agencies have a role to play in ensuring the joining-up of information. The Sector Consortia, Finance SE, Business Link and SEEDA must work together with already successful smaller initiatives and trade organisations to ensure the joining-up of business support and funding opportunities, as well as to ensure that support (for example around business models, finance, and funding) is tailored to the needs of Creative businesses.

It is also important that government leads in continuing to streamline its business support products, making available resources more accessible and that Business Link advice is tailored accordingly so that it is considerate of, and appropriate for, the sector as a whole.

Addressing skills deficiencies through tailored training

It is essential to the success of the creative sector that it can continue to draw from a talented pool of workers and innovators and hence skills and training must be a key priority for the sector. The public sector has a key role to play in ensuring that the training delivered at all levels – from school through to university – is truly 'employer-led", reflecting the specific needs of Creative businesses.

This would to a large degree be supported by the brokerage between providers and large companies who in turn require support to maintain their workforce at the required skill level via schemes such as Train to Gain. It is essential that government actively encourages training and yet with the take-up of these schemes at full capacity, a lack of training opportunities will undermine business efforts to use 'down-time' to upskill staff to ensure they are well placed to take full advantage in the upturn.

This extends to supporting smaller businesses also. For example, the public sector has a role in implementing projects such as the Sussex Internship Programme which is a partnership programme led by Wired Sussex and the University of Sussex. This initiative places graduates in micro-businesses who have few staff and therefore would never normally be able to take on an intern, thus giving the student experience and benefiting SMEs.

Creating an environment within which the creative sector can flourish

While the creative industries are experiencing tough times, the sector is forecast to be one of the fastest growing of the South East economy over the medium to long term. Rather than 'picking winners', the role of the public sector lies in creating the right environment within which creative businesses can thrive. In line with the Government's strategic vision for Britain's recovery, it is vital that there is continued investment in growth and jobs in the creative sector to speed recovery and build for the future[53].

The creative industries are ultimately quite unique in many respects, and their success will be dependent on a variety of factors. Given the innovative nature of creative businesses, **a dynamic investment climate** with adequate funding available, will be essential in ensuring sufficient investment in new initiatives and product development that lies at the heart of the industry. This will ensure that the UK and the South East is viewed as an attractive place for both domestic and inward investment.

A world-class telecommunications infrastructure will also be crucial in supporting this increasingly digitalised industry, and this was the key conclusion of *Digital Britain* – which laid down a commitment to provide 2mb broadband for every home in Britain by 2012. It stressed that in order for the creative industries in Britain to compete globally, wireless communications and broadcasting networks must meet the demands of the modern knowledge based economy.

As discussed above, the creative industries also require **a pool of highly skilled labour** and there must be adequate pathways into the sector from universities for talented individuals regardless of their background.[54]

Finally, fostering **knowledge share opportunities** and promoting the South East's creative clusters must also be a key long term priority. This will be particularly important for small businesses, providing access to knowledge and information and facilitating collaboration both within the sector and with suppliers. While there are examples of successful localised initiatives, a more comprehensive and consistent approach is required.

[53] HM Government (April 2009) *New Industry, New Jobs: Building Britain's Future*
[54] DCMS, (February 2008) *Creative Britain New Talents for the New Economy*

Appendix A

Data Methodology

Defining the creative industries

Defining the creative industries is an inherently difficult task as it encompasses such a wide variety of disciplines and both those who work exclusively within creative as well as those who have creative roles within non creative sectors.

Experian utilised the ABI and Experian projections at four digit SIC code to produce an estimate of employment for the sectors that comprise the DCMS definition of the creative sector. Further research has been carried out to establish whether the proportion of detailed industries used in the DCMS definitions reflect the structure of creative industry in the South East. Our approach uses the 5 digit SIC data from IDBR to examine where possible the elements of creative sub-sector in each the 4 digits SIC industries specified by the DCMS definitions. As the employment data is based on VAT and PAYE records for local units, this provides a regional representation of the creative industry in the South East. However, it should be noted the allocation of a local unit to a particular code is based on the predominant business carried on at that location, this is therefore a limitation of the data as clearly other subsidiary types of business at that location will not be captured; it does however offer a strong and standardised method for allocating the data.

The Use of SIC and SOC Employment Data

This study uses both SIC and SOC classifications to define the creative sector. Whilst, where possible, both SIC and SOC definitions are used, in order to capture the entirety of workers in the creative sector, this is not always possible. For example for the location quotient maps it is only possible to plot wholly creative businesses i.e. SIC rather than SOC – throughout the report there are footnotes indicating any parts where the full definition have not been used. SIC and SOC are defined by the *Office of National Statistics* as follows:

Standard Industrial Classification

The Standard Industrial Classification of Economic Activities (SIC) is used to classify business establishments and other standard units by the type of economic activity in which they are engaged. It provides a framework for the collection, tabulation, presentation and analysis of data and its use promotes uniformity. In addition, it can be used for administrative purposes and by non-government bodies as a convenient way of classifying industrial activities into a common structure. The system is identical to the EUROSTAT System NACE at the four digit class level and the United Nations system ISIC at the two digit Divisional level.

Standard Occupational Classification

The Standard Occupational Classification was first published in 1990 to replace both the Classification of Occupations 1980 (CO80) and the Classification of Occupations and Dictionary of Occupational Titles (CODOT). SOC 1990 has been revised and updated to produce SOC2000. The two main concepts of the classification remain unchanged:

- kind of work performed - job, and
- the competent performance of the tasks and duties - skill

DCMS Mapping Sector	SIC Four Digit Description	DCMS Share	IDBR Revised Share
Advertising	7440 : Advertising	100%	100%
Architecture	7420 : Architectural activities	25%	**16%**
Art and Antiques	5248 : Other retail sale: specialised stores	5%	**12%**
	5250 : Retail sale: second-hand goods in stores	5%	**20%**
Fashion	1771 : Manufacture of knitted/crocheted hosiery	0.50%	0.50%
	1772 : Manufacture: knitted/crocheted pullovers	0.50%	0.50%
	1810 : Manufacture of leather clothes	0.50%	0.50%
	1821 : Manufacture of workwear	0.50%	0.50%
	1822 : Manufacture of other outerwear	0.50%	0.50%
	1823 : Manufacture of underwear	0.50%	0.50%
	1824 : Manufacture of other wearing apparel nec	0.50%	0.50%
	1830 : Dressing and dyeing of fur	0.50%	0.50%
	1930 : Manufacture of footwear	0.50%	0.50%
	7487 : Other business activities nec (SIC 2003)	3%	**7%**
Film and Video	2232 : Reproduction of video recording	25%	25%
	7481 : Photographic activities	25%	**39%**
	9211 : Motion picture and video production	100%	100%
	9212 : Motion picture and video distribution	100%	100%
	9213 : Motion picture projection	100%	100%
Computer Games, Software & Electronic Publishing	2233 : Reproduction of computer media	25%	25%
	7221 : Publishing of software	100%	100%*
	7222 : Other software consultancy and supply	100%	100%*
Music and the Visual and Performing Arts	2214 : Publishing of sound recordings	100%	100%
	2231 : Reproduction of sound recording	25%	25%
	9231 : Artistic and literary creation etc	100%	100%
	9232 : Operation of arts facilities	100%	100%
	9234 : Other entertainment activities nec	50%	50%
	9272 : Other recreational activities nec	25%	25%
Publishing	2211 : Publishing of books	100%	100%
	2212 : Publishing of newspapers	100%	100%
	2213 : Publishing of journals and periodicals	100%	100%
	2215 : Other publishing	50%	50%
	9240 : News agency activities	100%	100%
Radio and Television	9220 : Radio and television activities	100%	100%
Source: DCMS, IDBR			

*Shares of 100% remain as it was not possible to determine a creative/non creative split.

DCMS Mapping Sector	SOC Four Digit Description
Advertising	1134: Advertising and Public Relations managers
	3433: Public Relations officers
	3543: Marketing associate professionals
Architecture	2431: Architects
	2432: Town Planners
	3121: Architectural technologists and Town Planning technicians
Art & Antiques	
Crafts	5491: Glass and Ceramics makers, decorators and finishers
	5492: Furniture makers, other craft woodworkers
	5493: Pattern makers (moulds)
	5494: Musical Instrument makers and tuners
	5495: Goldsmiths, Silversmiths, Precious Stone workers
	5496: Floral arrangers, Florists
	5499: Hand Craft occupations not elsewhere classified
	8112: Glass and Ceramics process operatives
	9121: Labourers in Building and Woodworking Trades (Δ)
Design & Designer Fashion	2126: Design and Development engineers
	3411: Artists
	3421: Graphic Designers
	3422: Product, Clothing and related designers
	5411: Weavers and Knitters
Video, Film & Photography	3434: Photographers and Audio-Visual equipment operators
Music and the Visual & Performing Arts	3412: Authors, Writers
	3413: Actors, Entertainers
	3414: Dancers and Choreographers
	3415: Musicians
	3416: Arts officers, producers and directors
Publishing	3431: Journalists, Newspaper and Periodical editors
	5421: Originators, Compositors and Print preparers
	5422: Printers
	5423: Bookbinders and Print finishers
	5424: Screen printers
Software, computer games & electronic publishing ‘Software, Computer Games & Electronic Publishing’	1136: Information and Communication Technology managers
	2131: IT Strategy and Planning professionals
Radio & TV	3432: Broadcasting associate professionals
	5244: TV, Video and Audio engineers
Additional Occupations included	
Software, Computer Games & Electronic Publishing	2132: Software Professionals

Deviation from other Methodologies

Other bodies of work have defined the creative industries sector as part of their methodology. Below are some alternatives definitions discussed alongside the Experian method.

ANCER SPA Methodology Note

The *Strategic Framework and Action Plan for Development of the Creative Industries in South England*, produced by ANCER SPA draws extensively from a detailed evidence base analysis and strategic findings produced by Burns Owen Partnership (BOP).

As stated by ANCER SPA, 'a vital element of the BOP work has been arriving at a workable definition of the creative industries for analytical purposes and in defining a methodology through which SICs and SOCs can be used to arrive at reasonably accurate estimates of the numbers of creative industry businesses and employment across the various locations of the region'[55].

The definition used in the data analysis is the original DCMS definition that appeared in the first two creative industries Mapping Documents, published in 1998 and 2001. The one change to this definition was to report separately the figures relating to software and computer services. This separation was to allow for the findings to be sensitive of the debate as to whether mainstream software and computer services should be included as creative industries.

The technical definition is that which is contained in the DCMS Creative Industries Economic Estimates that have been produced annually since 2003. In calculating the numbers of employees working creative occupations outside the creative industries sector, ANCER SPA used the SOC codes contained in the DCMS Creative Industries Economic Estimates.

The definition used by Experian differs slightly from that of ANCER SPA. This too is based upon the technical definition which is contained in the DCMS Creative Industries Economic Estimates. However, some adjustments have been made to the DCMS proportions, with changes to *Architectural Activities, Other Retail Sale: Specialised, Retail Sale: Second-hand goods in store, other business activities (SIC 2003)* and *Photographic Activities.*

The rationale for these alterations was to adjust for the fact that the DCMS definition reflects the UK as a whole. Experian's Economic Modelling team have thus adjusted this definition to be reflective of the South East region. By using five digit SIC codes to build a definitive understanding of what constitutes the sub-sectors of the creative industries, the definition has been adjusted to reflect as accurately as possible the makeup of the creative industries in the South East.

Frontier Economics Methodology Note

The *Comparative analysis of the UK's creative industries,* produced by Frontier Economics for DCMS groups the 13 creative industries for which DCMS is responsible into three broad industry types. These are:

- Production industries (industries that are characterised by the production of physical or tangible products – for example the production of CDs in the music industry);
- service industries (provide services to customers – for example architecture); and
- arts and crafts industries (those which are relatively small in value terms and are often characterized by people who engage in the industry for non-financial reasons – for example, the crafts industry).

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[55] *Strategic Framework and Action Plan for Development of the Creative Industries in South England*, ANCER SPA, 25th September 2006

These grouping were applied in order to illustrate the common features of the sub-sectors and in order to identify cross-cutting policy development. Given the differing focus of the work undertaken by Experian, such groupings are not relevant as the impact of the downturn on each specific sub-sector is of vital importance in understanding the effects of recession.

Multiplier Analysis

Multipliers estimate the total impact of a £1 million increase in an industries output, allowing for the stimulus this provides to supplying sectors (and their suppliers, etc).

The principle behind this is that a change in output will have knock-on effects in the local economy. These can be described as multiplier effects and are assumed to take place through two channels:

1. Supply-side linkages – if an industry increases employment / output it can be assumed that production will increase. This expansion requires more raw materials, services etc. from other industries. In turn these other industries may need to increase production to meet the demand and they too will increase output.
2. Consumer or Wage effects – an increase in employment / output will mean a higher wage bill. This money will be spent partly in the local economy. This rise in consumer demand requires increasing production of goods and services, hence increasing employment.

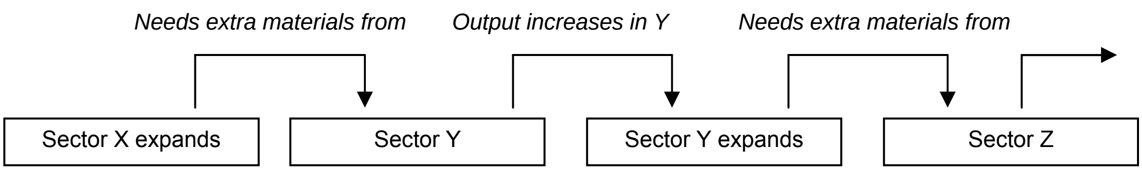
Type I multipliers measure the industry affect only whereas Type II multipliers also include income from employment and consumers expenditure. Type II multipliers therefore measure the total effect both from industry and from income and consumption.

The heart of the multiplier effect system is the input-output matrices. These describe how industries source from each other when producing an extra unit of output. They show how much extra output will be created by the multiplier effects. In this way we can investigate how a change in demand in one sector would have knock-on or indirect effects on other sectors in the economy.

The process by which multipliers are used to estimate the total impact that an expansion of a sector has on the wider economy is illustrated in the diagram.

The multiplier therefore estimates the total impact of (say) a £1 million increase in a sector's output in the wider economy, by calculating the stimulus this provides to supplying sectors (Type 1 multiplier). This analysis also considers the 'income' effect of the jobs generated from rising demand for products and services from other businesses (Type 2 multipliers).

Figure x: The Multiplier Process



Scenario Planning

Scenario planning presents the opportunity to alter some of the underlying assumptions inherent in our standard forecasts to explore a range of alternative futures for the creative sector. Given the focus is on the impact of the economic downturn we have focused on two short-run alternative scenarios.

The baseline projections suggest that the creative sector in the South East is expected to experience a relatively minor reduction in output compared to the national creative sector and is expected to recover at a faster rate. The first scenario therefore shows the impact of equalising growth rates of the sub-sectors that comprise the creative sector in the South East to GB growth rates from 2009 onwards.

Scenario 2 draws on the findings from the supply chain analysis which identified Business Services and Banking & Insurance as the key sectors of the economy which historically have made the highest level of purchases from the creative sector. Informed by how the purchasing sectors are expected to perform in the short run, in this instance from 2009 to 2010, we have revised our creative sector output forecasts to reflect the expected downturn in the Business Services and Banking & Insurance sectors. Our output forecasts for Business Services and Banking & Insurance see both sectors returning to long run growth so we have used our growth from the baseline forecasts for the creative sector from 2011 onwards.

In both scenarios the alternative output projections are converted into alternative full time equivalent employment projections using our baseline productivity data. Likewise we have used the baseline relationship between total employment and full time equivalent employment to produce alternative total employment forecasts.

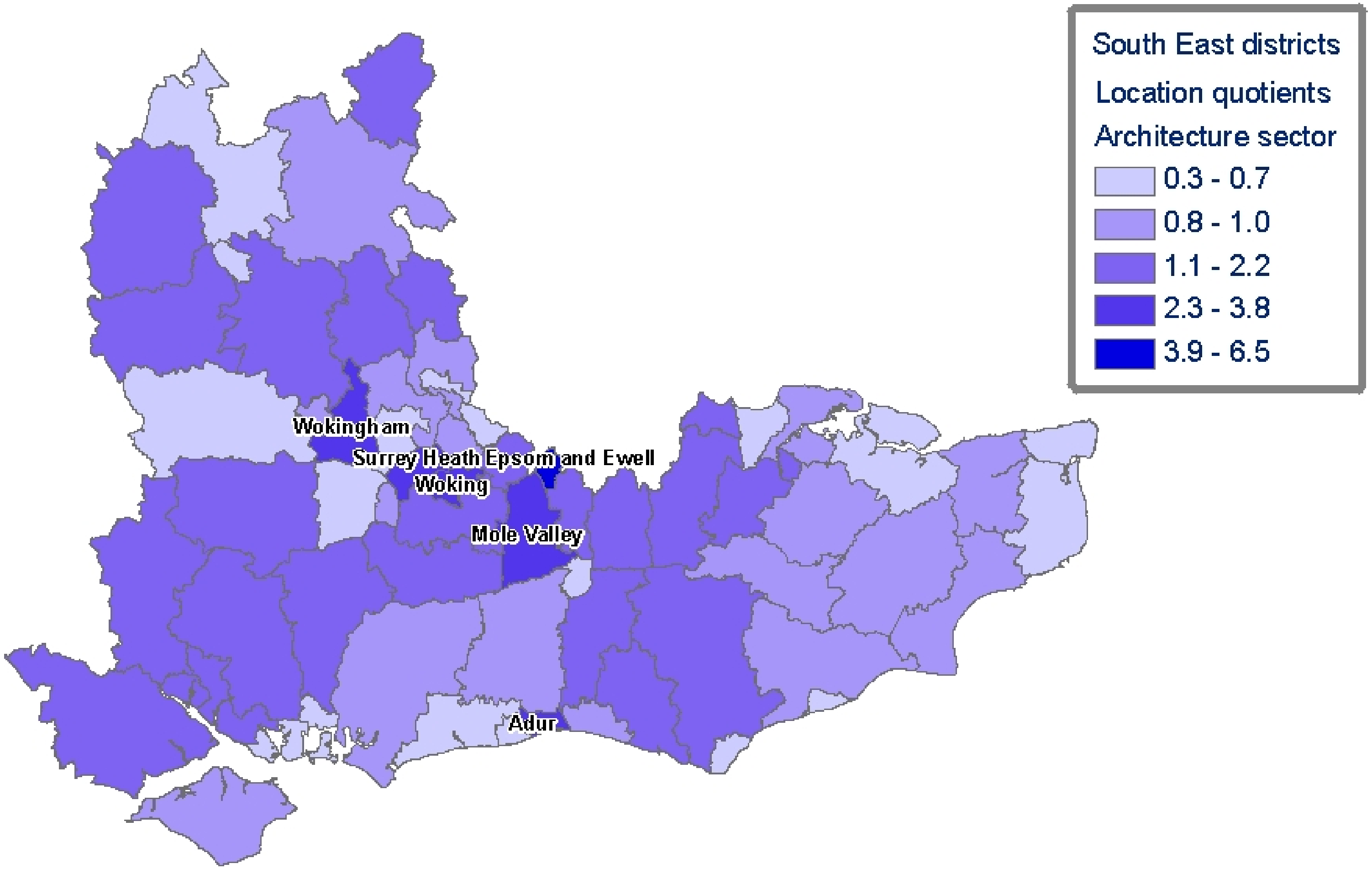
Appendix B

South East Location Quotient Maps

To build a picture of a sub-sector's *relative* importance to an area's economy, it is useful to use Location Quotients (LQ). Location Quotients are a measure of the concentration of any given sub-sector in an area, *relative* to the presence of that sub-sector across Great Britain. A LQ equal to 1 means that the sector's share of total employment is the same in the local area as it is in Great Britain. A LQ below 1 means that the sector accounts for a smaller proportion of the workforce in the local area than it does nationally (and thus is *relatively less* important to the local economy), and above 1 means it accounts for a greater proportion (and thus is *relatively more* important to the local economy). It is important to note, however, that a low LQ does not mean that the sector is not important to employment in the local area – the LQ measures *relative* importance compared to Great Britain. A sector with a low LQ may employ many more people than one with a high LQ.

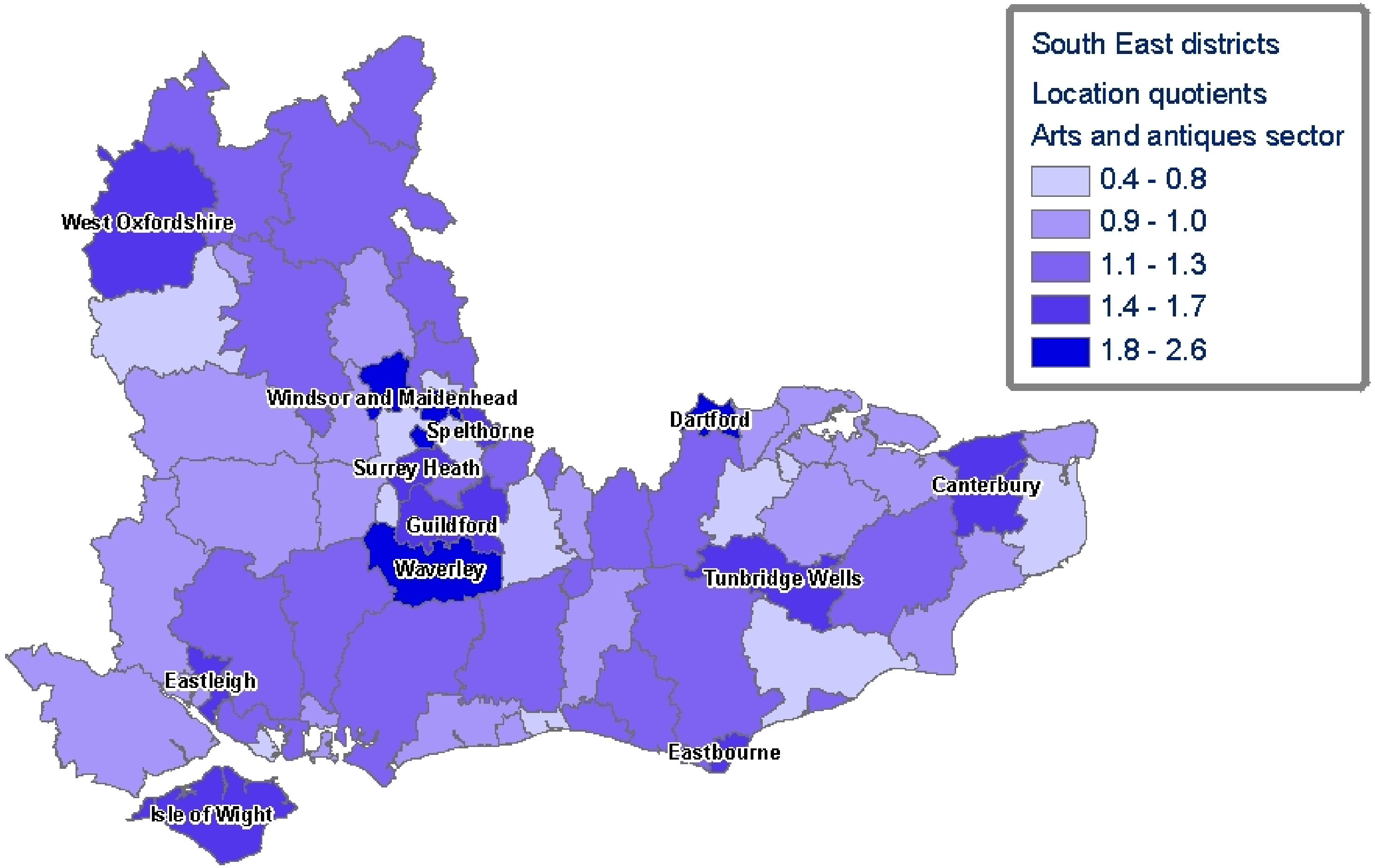
Location quotients for South East districts

Architecture



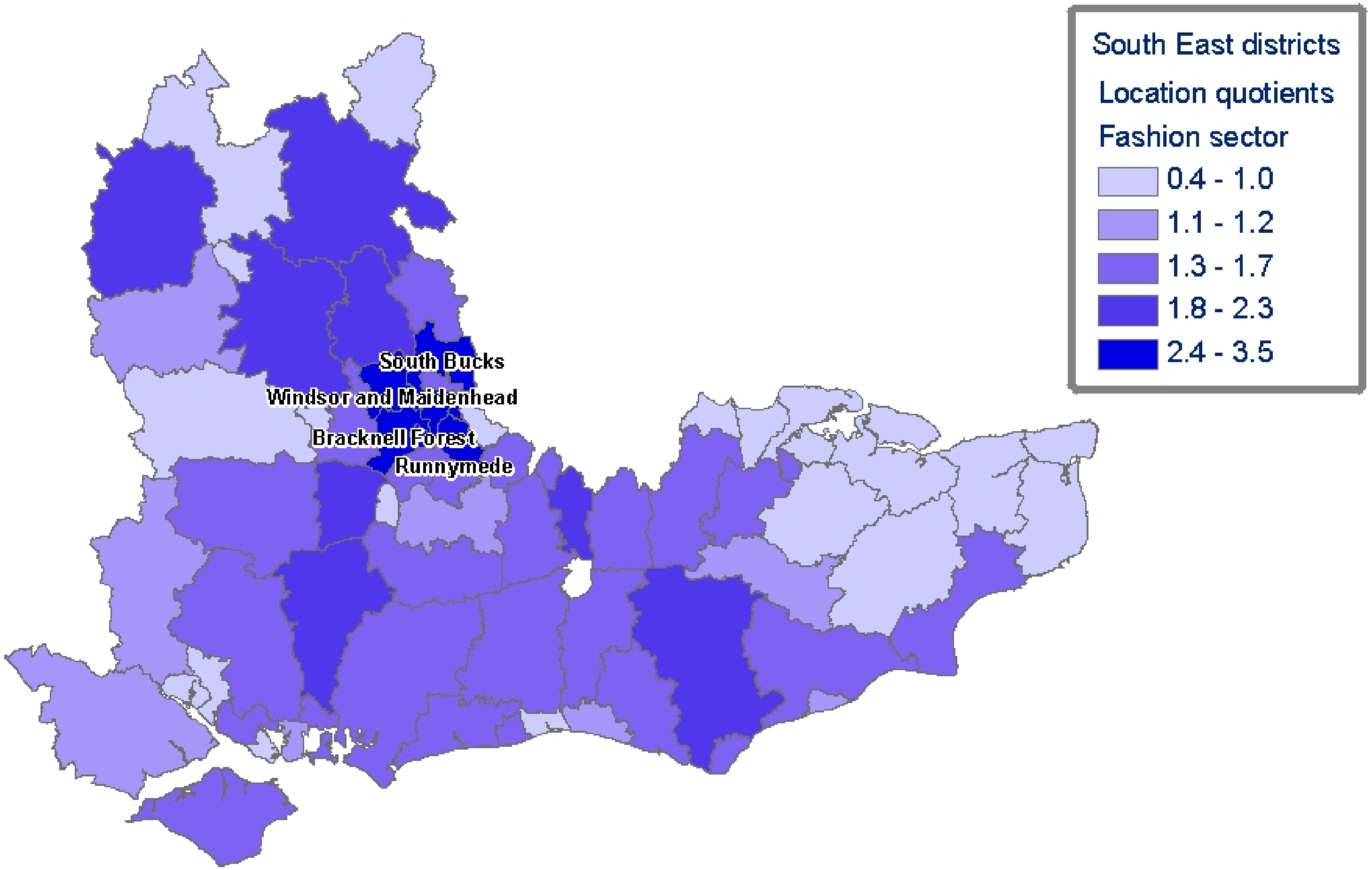
Location quotients for South East districts

Arts and antiques



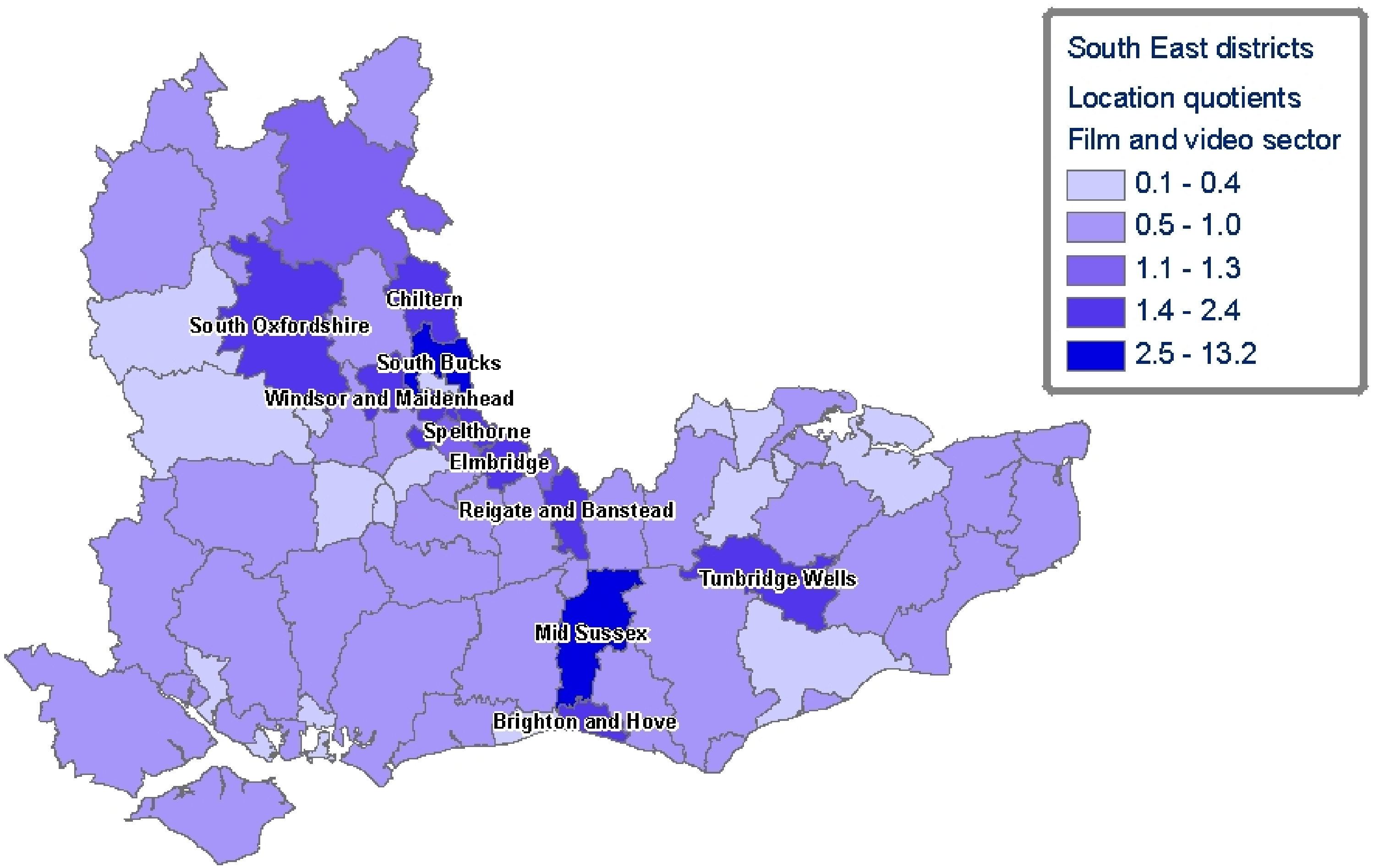
Location quotients for South East districts

Fashion



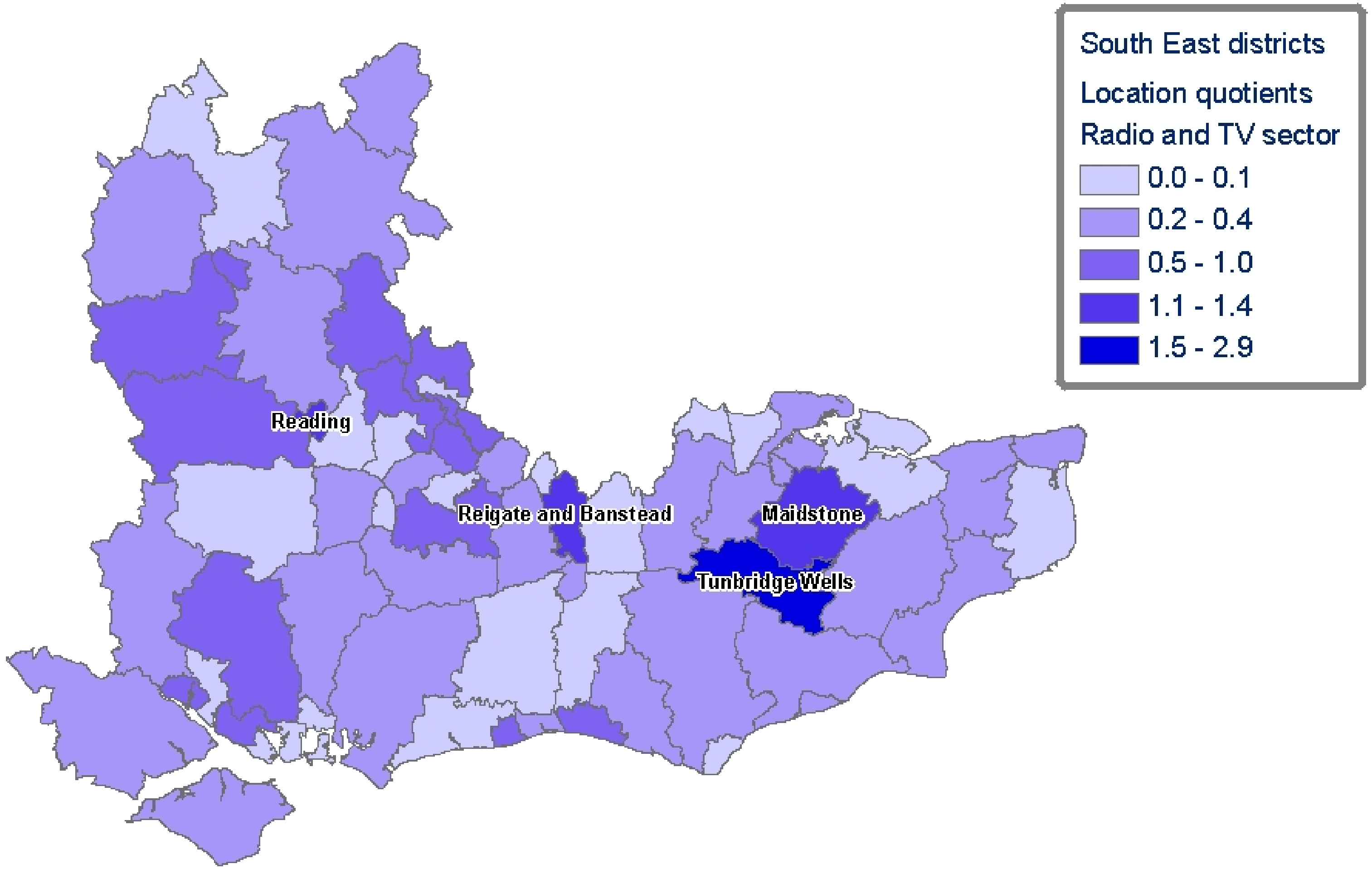
Location quotients for South East districts

Film and video



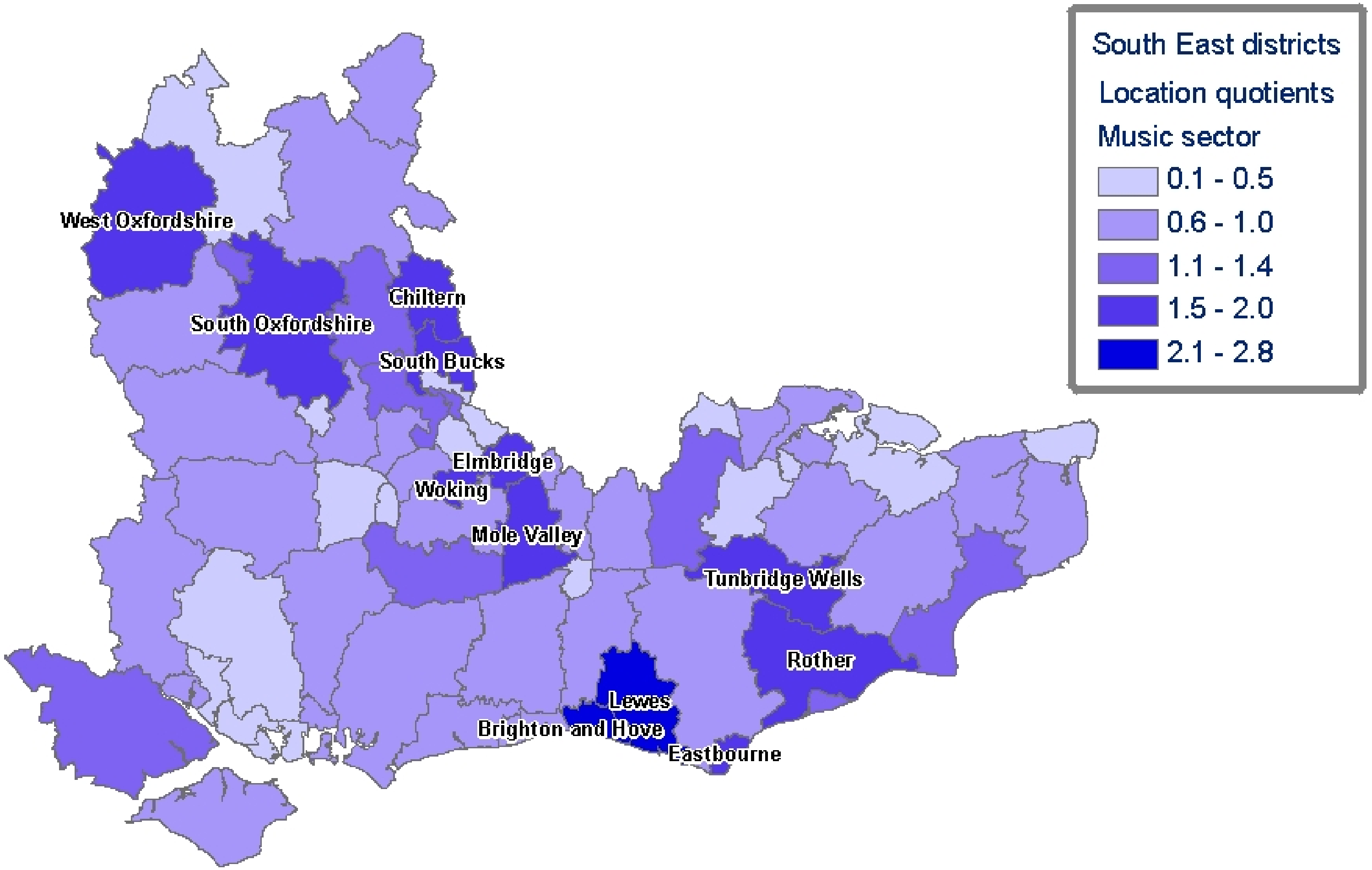
Location quotients for South East districts

Radio and television



Location quotients for South East districts

Music



Appendix C

About us

Who we are

Experian

Experian is a global leader in providing information, analytical and marketing services to organisations and consumers to help manage the risk and reward of commercial and financial decisions.

Combining its unique information tools and deep understanding of individuals, markets and economies, Experian partners with organisations around the world to establish and strengthen customer relationships and provide their businesses with competitive advantage.

For consumers, Experian delivers critical information that enables them to make financial and purchasing decisions with greater control and confidence.

Clients include organisations from financial services, retail and catalogue, telecommunications, utilities, media, insurance, automotive, leisure, e-commerce, manufacturing, property and government sectors.

Experian Group Limited is listed on the London Stock Exchange (EXPN) and is a constituent of the FTSE 100 index. It has corporate headquarters in Dublin, Ireland, and operational headquarters in Costa Mesa, California and Nottingham, UK. Experian employs around 15,500 people in 36 countries worldwide, supporting clients in more than 65 countries. Annual sales are in excess of $3.8 billion (£1.9 billion/€2.8 billion).

For more information, visit the Group's website on www.experiangroup.com

SEEDA

SEEDA is the Government-funded agency set up in 1999 responsible for the economic and social development of the South East of England - the driving force of the UK's economy.

SEEDA's aim is to create a prosperous, dynamic and inspirational region by helping businesses compete more effectively, training a highly skilled workforce, supporting and enabling our communities, while safeguarding our natural resources and cherishing our rich cultural heritage.

SEEDA aims to be a catalyst for change within the South East, working with partner organizations – businesses, education at all levels, local authorities, Government agencies, voluntary and community organisations and many others - to produce clearly recognisable results.

We also have funds from Government to enable us to invest directly in a range of economic and social development programmes, and are in a position to help secure European Union and private sector investment for the region. Accountable to Government, SEEDA is a business led organisation, governed by a Board whose Members have wide-ranging experience in industry and commerce, local government, education, trade unionism and voluntary service.