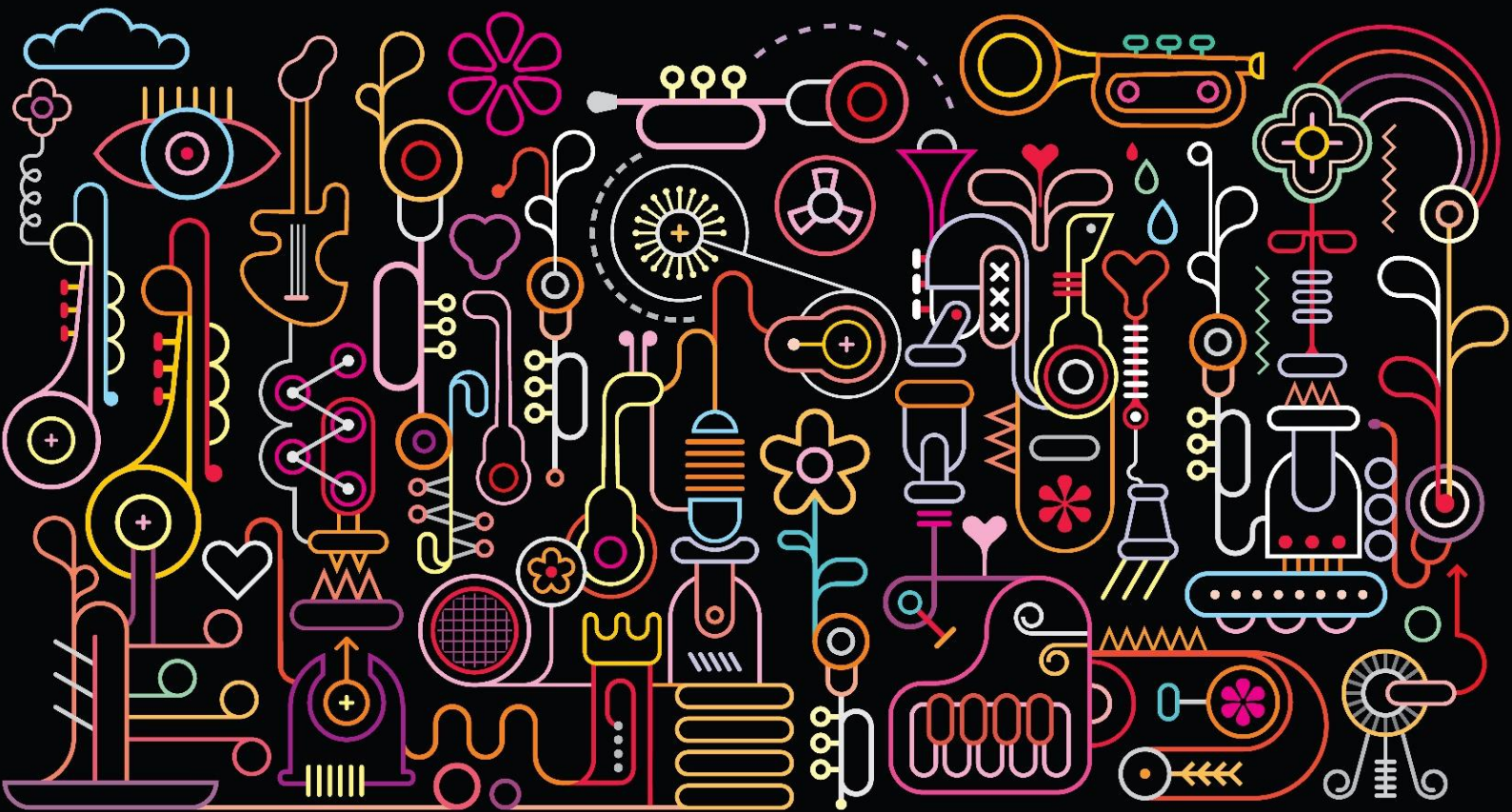




European  
Commission



# Mapping the Creative Value Chains

*A study on the economy of  
culture in the digital age*

*Executive summary*

# Mapping the Creative Value Chains

*A study on the economy of culture in the digital age*

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*The research team would like to thank all the stakeholders that have contributed to the research by sharing their valuable expertise and insights during the interviews and online DISCUTO process.*

## EUROPEAN COMMISSION

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Luxembourg: Publications Office of the European Union, 2017

ISBN 978-92-79-66621-6  
doi: 10.2766/491907

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# Mapping the creative value chains - a study on the economy of culture in the digital age

Cultural and creative sectors (CCS) have become well established in both an economic and policy context as important assets in strengthening Europe's economic structure and maintaining its competitiveness in the global economy.<sup>1</sup>

However, the competitive position of CCS is continuously challenged by exogenous factors affecting creative value chains, especially digitisation. From creation to actual consumption, all steps in the value chains have been influenced by new digital solutions, bringing about new opportunities for innovative practices and even creating radically new types of interaction with audiences. At the same time, digitisation poses significant challenges for CCS actors, such as the increase of piracy as well as increased pressure on existing models of value creation and remuneration.

New actors have entered the market and boundaries between creative value chains and other value chains have become more blurred. The process of blurring boundaries has been further reinforced by a relatively recent process of rethinking the role of culture, arts and creativity in a complex society in transition, confronted with different global challenges that require innovative multidisciplinary approaches.

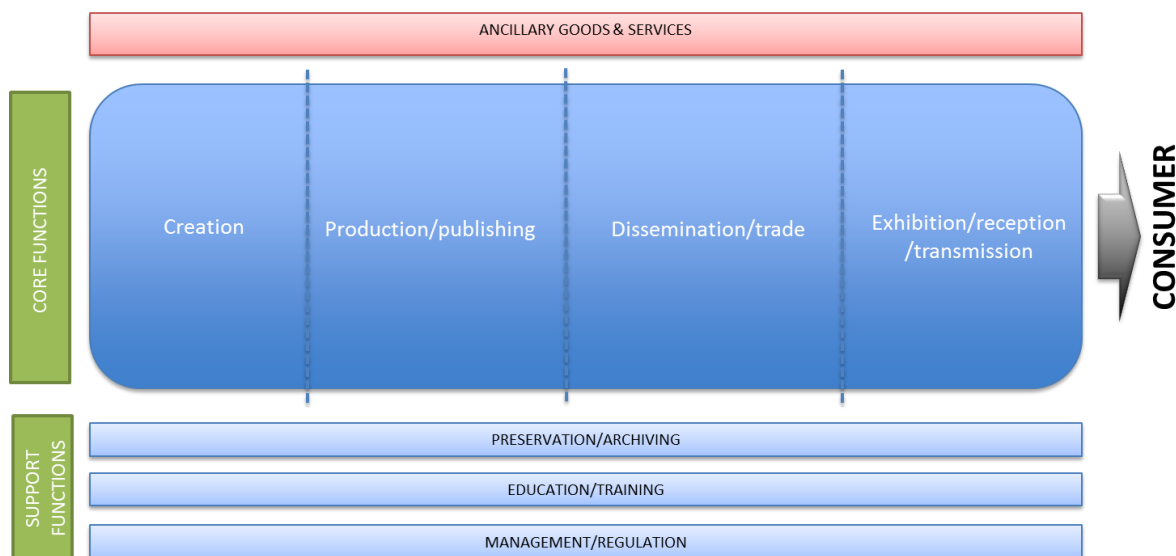
## Changing interrelations and competitive dynamics

Against this background, the current study maps the economic structure of creative value chains and analyses how digitisation has influenced market relations and competitive dynamics.

To this end, we use the stylised value chain model in the figure below as the overarching framework for the economic analysis of activities and interrelations within creative value chains. We distinguish four core functions (Creation, Production, Dissemination/trade and Exhibition/reception), as well as a number of support functions and relations with other sectors for the supply of ancillary goods and services that are critical for value creation in the creative value chains.

To take into account the wide variety of activities and actors covered by the CCS, the analysis is not carried out at the level of the CCS but rather at the level of the following cultural and creative domains: visual arts, performing arts, cultural heritage, artistic crafts, book publishing, music, film, television and radio broadcasting, and multimedia.

*Stylised Creative value chain model*



<sup>1</sup> See e.g. TERA (2014), KMU Forschung Austria and VVA (2016)

Based on the value chain analyses, we find that digitisation has a multidimensional impact on the structure and market dynamics in all nine creative value chains. Digitisation gave rise to new tools that allow actors in all stages of the nine creative value chains to:

- ▶ automate or organise existing activities in a more efficient and/or effective manner (production, communication,...);
- ▶ explore new (cross-sectoral) market opportunities, including new roles in the value chain;
- ▶ take up completely new activities, including completely new business models whereby digitisation allows creators to bypass traditional intermediaries ('disintermediation'), sometimes even (radically) changing the rules of the (business) game.

But the impact has not been equal in all creative value chains. The differences in impact link back to a number of structural differences in the economic characteristics of the nine cultural and creative domains:

- ▶ **The degree of complexity of creation:** cultural and creative domains that are characterised by relatively simple production processes are more affected by a trend of disintermediation/re-intermediation, where new intermediary actors (mostly online platforms) become more important in the value chain and can gain a dominant position.
- ▶ **The level of upfront investment costs needed in production:** higher upfront investment costs to produce a creative work mean that stronger project coordination is needed to keep investment risks to a minimum and thus creative value chains are less affected by processes of disintermediation.
- ▶ **Economies of scale:** higher digitisation rates – i.e. higher shares of revenue from digital business lines in the total global revenues - can be found especially in those domains where cultural works can easily be reproduced at low marginal cost and without diminishing their cultural value.
- ▶ **Degree of substitutability of digitised versus non-digitised cultural works:** for some cultural works consumption of a digitised version is a close substitute for a non-digitised version, thus opening opportunities for a higher impact of digitisation on value creation. In other sectors this degree of substitutability is much lower (although new digital tools such as virtual tours or virtual reality experiences also affect this degree in those sectors).

## No drastic reconfiguration, but rather increasing complexity of creative value chains

Digitisation has a multidimensional impact on the economic structure of creative value chains. At the same time, we observe that digitisation has not drastically reconfigured creative value chains. No actor has become obsolete so far; rather new actors have joined, thus increasing the complexity of value chains. Moreover, although power balances have changed in several value chains, those actors that have dominated the value chains as gatekeepers before digitisation, mostly remain playing a pivotal role in the current economic organisation. There are several reasons to explain this:

- ▶ Although new digital tools allow creators to get involved in activities along the value chain, they often lack the size and capacity to take full advantage of these opportunities on their own.
- ▶ Creators still need intermediary organisations to overcome their individual weak bargaining position vis-à-vis users to control the exploitation of their works and to negotiate fair terms of remuneration.
- ▶ Building a reputation is of high importance to be successful in the "winner-takes-it-all" CCS market and to make a living. A strong reputation is seldom (if ever) built by creators alone without the support of gatekeepers.
- ▶ Getting access to good qualitative cultural content is very important for any distributor, including digital distributors such as online platforms. The catalogues of cultural works managed by the traditional gatekeepers (primarily producers and publishers) are still very valuable in that context.
- ▶ An important part of cultural consumption still remains non-digital. The traditional actors remain the key actors in delivering offline cultural experiences.
- ▶ The online intermediaries that challenge the traditional structures (e.g. Google, Amazon, Apple, etc.) in some parts of the value chain (mainly dissemination) are (non-European) global businesses that currently lack a sufficiently strong network of contacts and insights into local cultural and creative markets to cover the highly-fragmented EU market without intermediation.

Rather than drastically changing the configuration of the creative value chains, digitisation resulted in challenging existing power balances and (inter)sectoral relations by providing alternative models to create, produce, promote or distribute.

## Challenges to maximize the benefits of digitisation and minimize market imbalances

Building further on the value chain analyses, we examine five transversal thematic areas where specific challenges for the CCS and policy makers exist in fostering an enabling framework for CCS actors to get the most out of digitisation, while at the same time minimizing potential market imbalances.

### ▶ **Intertwining and convergence in creative value chains**

Collaborations between cultural actors and non-cultural actors are nothing new; the CCS are said to have a natural 'convergence or confluence culture'. However, the degree of integration and intertwining of creative value chains with other sectors has never been so high. The increased complexity of societal challenges and (the speed of) technological advances have been important drivers of this process.

Some sub-sectors of the cultural and creative industries are more prone to intertwining and cross-sectoral innovation (e.g. broadcasting and gaming), while others show lower levels of openness to and integration with non-cultural sectors (e.g. artistic crafts or visual arts). This is also illustrated by the diversity of convergence processes in three specific case studies analysed: 1) gaming and healthcare, 2) broadcasting and telecom, 3) arts and science.

Despite the diversity of convergence processes, there are certain bottlenecks that currently limit CCS actors from exploiting the full potential of cross-sectoral collaborations:

- Traditional industries are underrepresented in the customer base of most cultural and creative organisations.
- The social capital in CCS organisations is often used in a sub-optimal way for intertwining due to market imperfections: e.g. co-operation occurs in an opaque marketplace, lack of common language, no continuum of institutional support and reliance on individual partners.
- The dynamics of knowledge sharing and crossovers are rather different when it comes to bottom-up versus top-down processes. Evidently, the bottom-up processes are more conducive to intertwining than top-down processes.
- Creators are often in a disadvantaged position to benefit fully from the potential benefits of the convergence as they lack skills and financial resources to reposition themselves vis-à-vis their new partners/clients from other industries.
- Public support (e.g. funding, support for networking opportunities) to stimulate cross-sectoral collaborations is often concentrated at the beginning of the value chain (creation). However, there are also important bottlenecks at the later stages of the value chain, especially in dissemination/exhibition (i.e. to get access to distribution channels/audience).
- Innovative developments that happen at the borderline of traditional sectors and/or policy areas, are often confronted with "silo thinking" and regulatory fragmentation that limit the flexibility to experiment.

### ▶ **Competitive dynamics in two-sided markets**

Cultural sectors are increasingly becoming organised as two-sided markets, where new online companies play the role of platforms mediating between different categories of users (e.g. advertisers and readers).

Two-sided markets are often characterised by market dominance of one or a few platforms, as incumbents benefit from structural and/or strategic entry barriers. This may raise competition issues. Major concerns relate to, among others, platforms imposing unfair terms and conditions, platforms refusing access to important user bases or databases, unfair "parity" clauses with detrimental effects for the consumer as well as transparency issues - notably on platform tariffs, use of data and search results.

At the same time, the emergence of platforms has been accompanied by a huge amount of innovations, developed by third parties that make use of platforms, as well as by platforms themselves. However, platforms can also make use of their economies of scale or leverage market power in adjoining markets, leading to reduced innovation by third parties in the longer term. Such ambiguity in the relationship between platforms and innovation feeds the

tendency to neither prevent nor penalise online platforms' dominance, since dominance relies on innovation and can be challenged by potential competitors.

Most classical tools fail when it comes to the assessment of two-sided markets from a competition policy point of view. The research suggests that regulatory measures concerning online platforms are best set up on a problem-driven basis, rather than applying a "one-size-fits-all" approach. Nevertheless, a set of common guiding principles when dealing with online platforms is needed – along the lines of the policy approach outlined by the European Commission in its Communication on online platforms in the Digital Single Market (2016).

### ► **Digitisation and new opportunities for creators**

Disintermediation is increasingly regarded as an interesting way for creators to avoid possible market and revenue imbalances and ensure fairer remuneration. A rising number of creators take responsibility for creating and producing their own works and further distribute them, thus substituting themselves for traditional actors in the value chain. This allows for:

- removing filtering of content by other actors such as distributors and decreasing asymmetry of information;
- reducing the number of intermediaries and costs;
- building a different relationship with the audience, based on increased user engagement and co-creation.

Disintermediation thus leads to lower entry barriers for creators. At the same time, it results in increased competition as well as higher pressure on creators to become "creative entrepreneurs" and take the lead in innovating their business models. In order to be successful in the digital ecosystem, creators need to turn into *polymaths* (KEA, 2009) and master an increasing mix of abilities. To be more autonomous artists would need to combine their talent and creative skills with business, technical and social skills. Training does not often cover these topics and creators have to rely on learning-by-doing mechanisms (or outsourcing, since they need to dedicate their scarce time concentrating on their core artistic activities). Another obstacle relates to the limited access to finance and knowledge about opportunities in foreign markets.

### ► **Remuneration and rights management in the digital age**

In recent years, the internet has become the main marketplace to access and consume copyright-protected content. At the same time, the enforcement of copyright and related rights has become more problematic in the digital world. Next to problems related to increased possibilities for illegal use of copyrighted works, there is growing concern as to whether the value generated by some of these new forms of online content distribution is fairly shared between distributors and rights holders and ultimately benefits the very creators who are at the origin of such value generation.

This concern is strongly linked to the lack of transparency in payment flows. Several elements are at the basis of this lack of transparency: (1) the role of new digital intermediaries and the impact of the new business models according to which they operate; (2) the complexity of licensing processes and clearance of rights; (3) the current practices with respect to contractual arrangements that foster information asymmetry and thus lack of transparency; (4) the fragmentation of the European market and the complexity of licensing schemes.

This study suggests two sets of measures as a way forward to improve transparency and creators' ability to receive fairer remuneration:

- A **better application, recognition and control of metadata** for identifying online copyrighted content, may result in a better basis for creators to leverage the use of their creative work, decrease information asymmetry and lead to better identification of rights holders;
- Making more use of **collective rights management and licensing mechanisms** may empower creators in providing them with the infrastructure and capacity needed to process large amounts of data relating to the digital exploitation of creative works. It might also improve their bargaining power while reducing transaction costs at the same time for service providers interested in the commercial exploitation of creative content. Initiatives and mechanisms such as MERLIN, BMAT/ARMONIA and WIN analysed in this study illustrate the potential positive impact.

### ► **Cultural diversity**

Cultural diversity is an important component of European identity, and is as such a cornerstone in cultural policy development.

The impact of market structure on cultural diversity is ambiguous, in particular concerning the impact of online platforms. On the one hand, such platforms give access to a large diversity of content, a condition for diversified consumption. To some extent such platforms could contribute to overcoming the historical lack of cross-border circulation of cultural content.

On the other hand, greater availability of diverse content does not necessarily correspond to higher visibility, discoverability and thereby accessibility, in particular when it comes to the very diversified cultural production all across Europe. Furthermore, online markets are becoming increasingly concentrated, at the potential expense of creators and traditional intermediaries.

Policy makers may consider or are already undertaking at EU- or national level various actions and measures aiming at supporting cultural diversity (see also further below). They range from fostering regulatory harmonisation to facilitate cross-border circulation of content and ensure a level-playing field on the market to varied support schemes that encourage the production and circulation of creative works and the mobility of creators. However, further efforts seem crucial in terms of data collection and monitoring to properly assess how digitisation affects both supplied and consumed cultural diversity.

## Actions to redress market imbalances

The sectoral value chains mapping and the five thematic papers clearly show that market relations and competitive dynamics in creative value chains have been subject to significant change over the last decade due to digitisation, even leading to market imbalances in a number of situations (e.g. increasing dominance of a number of online platforms, the use of creative content without transparency over remuneration flows, the installation of closed ecosystems leading to 'lock-in' effects, etc.).

For cultural and creative actors in Europe to make the most out of these significant evolutions and for European policy makers to further develop the right framework to support the competitive position of those actors and ensure cultural diversity in Europe, we recommend further actions at EU-level in six areas. The suggested areas for action as well as the proposed actions have been tested and validated during an online interaction process with a selected group of participants from the stakeholders' community.

### ► **Better statistics / data for monitoring**

Official statistics on CCS provide an important amount of information that enable understanding and monitoring of how CCS are evolving. However, official data on the CCS mostly focus on data at the level of individual entities (business units) and traditional sectors (following the NACE classification), rather than taking a value chain perspective. Official statistics need to be complemented with data that go beyond the traditional delineation of the CCS.

To improve statistics / data to better monitor the impact of digitisation on the economic structure of and market dynamics in creative value chains, we recommend to invest in:

- new data gathering – both quantitative and qualitative - on market relations/dynamics within value chains to complement current official structural business statistics;
- the development of a monitoring system to adequately monitor evolutions in the remuneration and working conditions of creatives;
- finding new research methods to better monitor the impact of digitisation on creative businesses and CCS in general, including the use of internet data for such research.

### ► **Connect to overcome fragmentation**

Powerful dynamics take place at the borderlines between various sectors, but sectors and policies are still often organised in sectoral silos, limiting the scope for synergies and the emergence of new solutions and businesses. To successfully overcome this fragmentation, we recommend that actions are taken at different levels to address the current fragmentation, focusing on:

- awareness creation with CCS actors, other businesses, academia, teachers and policy makers about the added value of cross-sectoral collaborations between CCS actors and other sectors ("inspire");
- the provision of supporting tools that lower the barriers therefore permitting engagement in cross-sectoral collaborations ("support cross-sectoral experiment");



- actively promoting the importance of “out-of-the-sector” thinking and cross-sectoral connections for the European economy and society at large by bringing together policy makers from different policy areas (education, innovation, economic policy, social affairs, ...) and stimulating exchanges of experiences, overcoming bottlenecks and regulatory silos,... (“stimulate supportive policy development”).

#### ▶ **Support capacity building**

New developments require new skills. Many CCS organisations currently fail to get the most out of the opportunities that digitisation and the changing societal context brings, due to a lack of skills and/or lack of scale. To support capacity building with CCS actors, we recommend the following actions at EU level:

- Support intermediary organisations to further promote entrepreneurial and business skills as an integral part of CCS actors’ curriculum. Support for entrepreneurial culture should already start during formal education, via innovative curricula in arts education with a better integration of business, marketing and entrepreneurial courses, and more flexibility in combining different disciplines.
- Invest in supporting environments conducive to creative entrepreneurship, such as creative hubs, living labs, creative business incubators and co-working spaces and to enhance peer-learning and business opportunities. Such support could follow on from the recent example of an EU-funded initiative, i.e. the European Network of Creative Hubs
- Stimulate intermediary organisations to develop adequate material and training about the business implications (opportunities and challenges) of digitalisation. One type of output could be a toolkit on how to make smart uses of all the data that CCS actors collect (including inspirational examples). Such toolkit should sufficiently take into account sector specificities to be relevant.
- Stimulate the CCS to find new models of co-operation to overcome the small size of most entities, and to join forces to increase their bargaining power, by facilitating exchange of good practices and learning lessons.
- Help the CCS to build collective representation through sector associations. Exchange good practices to prevent precarious working conditions for creators through new forms of work in today’s collaborative economy.

#### ▶ **Optimise the use of EU funding**

Several EU funding programmes focus on increasing the competitiveness of organisations (through innovation, capacity building, etc.). These programmes are also accessible to CCS actors. However, barriers to accessing EU funding are still (very) high for most CCS actors, despite the many challenges that CCS actors face to remain competitive in the digital age. We recommend focusing EU actions in this area primarily on the following:

- Promote inter-clustering and cross-sectoral networking, for example via an annual event for EU-supported initiatives linked to culture and creativity (covering relevant programmes, in particular Creative Europe, COSME, H2020, Interreg and URBACT).
- Promote better and more differentiated access to finance for CCS: stimulate the uptake and integration of alternative finance instruments such as crowdfunding, microfinance, etc. in the overall mix of financial instruments available to CCS.
- Encourage crowdfunding for the CCS, notably via fiscal incentives/tax shelters (also for reward-based and donation-based crowdfunding) and increased exemption limits to encourage entrepreneurial activities. Public authorities (local, regional, national) should also partner with crowdfunding platforms to support the CCS through match-funding schemes, for example.
- Support for CCS SMEs to access markets outside of the EU and support collaboration and networking amongst creative entrepreneurs, as well as distribution and commercialization.
- Encourage equity investment in the CCS by supporting the development of a framework for the valuation of creation content.
- Lower the barriers to accessing EU funding for SMEs by limiting the administrative burden.

#### ▶ **Promote cultural diversity**

Digitisation opens up opportunities for creators and traditional intermediaries in terms of greater circulation of content, and greater diversity in consumption itself. However, as mentioned earlier, our findings confirm that various factors may prevent such positive impacts from materialising. The study therefore suggests to:

- promote the access to, and visibility of, the diversity in the offer of content services.
  - Quotas may be instrumental in some cases, but their efficiency needs to be assessed (see for e.g. the revision of the Audiovisual Media Services Directive);
  - In other cases, incentives could be considered - for example through facilitating stakeholders' initiatives aimed at increasing the discoverability of European cultural production in sectors being especially reshaped by digitisation (e.g. music);
- foster regulatory harmonisation and level-playing field as appropriate in areas which are particularly relevant to ensure the availability and accessibility of a diverse content offer in a digital context and enable local and smaller cultural and creative players to fully benefit from digitisation;
- support the correct use of metadata to retrieve less visible cultural content and collective rights licensing initiatives to promote the distribution of small catalogues;
- develop tools to assess and monitor diversity. This requires overcoming challenges related to data availability and conceptualisation of cultural diversity. In this respect, we suggest the following to be considered:
  - assessing the impact of support programmes through independent studies, possibly combined with testing the feasibility of embedding cultural diversity indicators across programmes;
  - building on synergies with existing data collection and research resources (e.g. the European Audio-visual Observatory, Eurostat etc.) to define and narrow down relevant aspects of cultural diversity (e.g. discoverability) for policy assessment.

#### ► **Improve the regulatory environment**

Digitisation has led to new actors entering the CCS value chain and new types of relations being built across the value chain and between different value chains. The EU regulatory framework for the CCS is undergoing a significant overhaul under the Digital Single Market strategy.

European cultural production inherently caters mainly for local and different linguistic markets. Fostering a better accessibility and visibility of such diverse production across these markets is extremely challenging. Today Europe's incredible diversity and excellence in production has difficulty reaching consumers outside their country of origin.

In addition, the increased role of licensing deals in the CCS revenue flows adds pressure on often overstretched smaller players of the value chains, due to the multiplication of contracts and negotiating parties. Our recommendations thus propose regulatory solutions for the circulation of European cultural diversity, as well as easing the rights management processes, especially for creators and SMEs.

In further improving the regulatory environment, we recommend focussing EU policy actions on:

- promoting cultural diversity and a competitive European creative sector as part of EU innovation and cultural agendas and programmes, with implications for different policy areas (for example by supporting cultural consumption via a reduced VAT rate).
- fostering the circulation of cultural and creative works in the single market (for example through licensing hubs initiatives to ease the clearing of rights across European markets), and incentivise investment in content creation and production.
- increasing transparency across the creative value chains and achieve fair remuneration of creators, whilst also ensuring a level playing field for all digital service providers. Enforcement of the copyright legal framework could be strengthened also by supporting systems for a better application, recognition and control of cultural metadata, as well as supporting digital rights licensing infrastructures, notably in the context of collective rights management mechanisms.
- ensuring social protection of creators in an increasingly precarious working environment. In its Resolution of 13 December 2016, the European Parliament reminds us that it is increasingly rare for cultural and creative artists to be in permanent employment and that they are, to an increasing extent, self-employed, alternating between self-employed and employed activity or engaged in part-time or irregular activity. Flexibility and mobility are inseparable in the context of professional artistic activity, and it is therefore important to offset the unpredictable and sometimes precarious nature of the artistic profession by a providing a guarantee of genuine social protection. Measures should be undertaken to help creators cope with these challenges.

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