

New Business Models For Culture

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Cultural activities are traditionally considered as activities having uncertain or even no returns. Until quite recently, there was a tendency to justify the cultural economy by referring to the costs disease and Baumol's dilemma according to which the only way to avoid an economic deficit is to replace it with an artistic deficit. There is no doubt that this viewpoint is too simplistic as Baumol himself has pointed out. There is also a tendency – and the work done by Caves and Vary has played a seminal role in this regard – to give prominence to the intrinsic uncertainty of the response to a cultural good to underline the difficulty of making it profitable. Since by its very definition a cultural good is a creative product, there is no saying how the market will respond to it. In fact, this extreme uncertainty of cultural goods was recognized by Schumpeter himself in a passage that is often ignored.

Although this uncertainty constitutes a major difficulty when valuing cultural goods, it does not by itself explain all the difficulties. The competition between cultural institutions, and today even between media-related institutions, can play a significant role, particularly if it is biased. In the field of culture, insistence on the intrinsic novelty and distinctiveness of a cultural good leads much too often to the assumption that it faces little or no competition from other cultural goods. And even when these competitive elements are recognized, they are recognized only in the case of a particular category of cultural goods, but not between different categories of cultural goods. There is something clannish about this competition and this clannishness is even more evident since digitalization has introduced a strong element of competition into the system.

As a matter of fact, these arguments are recognized only indirectly because it is generally admitted that there is a gradation between a work of art and a film produced by the studio system. In both cases there is a prototype, but while the former remains a prototype, the latter assumes a mixed form varying between a prototype and a mass-produced good that tries its best to anticipate the consumers' response. It is possible to go even further and make the following distinctions:

- A work of art, being radically new, is exposed to the highest degree of uncertainty;
- A good produced by the cultural industry is less risky since the prototype can be tested and modified in anticipation of the reactions of future consumers;
- A good produced by the creative industry is also risky, but less than in the previous case since it is usually based on a need clearly identified in advance (high fashion as compared to the ready-to-wear sector, design furniture as compared to mass-produced furniture, etc.)

There is therefore a problem regarding the valuation of cultural goods in the market, but there are likely to be two mistakes.

- The first mistake would be to believe that the problem is a new one. The valuation of cultural products has always been problematic and attempts have been made for a long time to solve it either through the intervention of public bodies or through the intervention of patrons of the arts. But these solutions are not very encouraging, firstly because public bodies are increasingly hesitant for provide funds for goods that are not distributed as equitably as they ought to be, and secondly because the boards of directors of companies have now taken over the role of patrons of the arts and are prepared to provide funds only for those cultural goods that they can turn to profit.
- The second mistake would be to believe that this problem is not changing. Digitalization has changed the stakes involved in valuation so much so that the traditionally recognized sequence in the culture economy which emphasized the dynamic that led from live performances to the

cultural industry has made way for a reverse dynamic moving from the cultural industry to live performances. The number of consumers (paying or otherwise) of a particular piece of music available on the Net makes it easier to reach a wider audience than to transport an audience economically to a live performance.

There is thus not only room, but also a need, for new types of financial engineering because such productions must henceforth be commercially profitable.

1. New Challenges

1.1. Digitalization

There is no argument about the importance of digitalization for cultural activities. During the 90s, digital technologies pervasively impacted a variety of activities and industries, making it possible to separate the physical flow from the information flow associated with virtually every product, opening up new distribution and promotion channels and making enterprises aware of the need for - as well as the possibility of - redefining their competitive environment through unbundling and rebundling activities. But this challenge has two aspects.

Digital technologies, decreasing marginal cost and copying

One way of identifying the effects of digitalization is to keep in mind that it radically changes distribution costs and, by reducing them, makes it possible to reach a substantially larger number of potential consumers. As a matter of fact, and even arguing in terms of costs, the effect is much wider because in such conditions the marginal cost could decrease and even become negligible. This would not be so serious if the process of copying had not simultaneously become easier and faster. So what happened was just the opposite: since copiers could take immediate advantage of the appearance of a new product without having to bear the cost of producing, launching and distributing it in conditions that are at least as favorable as those for the producer of the original. With the advent of digitalization, the situation has changed in favor of the copiers, who now enjoy a structural advantage, and the result of this change is that consumers have now become producer-copiers. This evidently raises a major problem for the producers of the originals. Unless they replace their product sufficiently fast before the copiers can act, they stand to lose. But this solution, which involves always being one step ahead or having a new product at hand, is evidently not practicable when the very first consumers automatically become copiers and pirates.

Digital technologies and convergence

Apart from the cost issue, convergence is another consequence of digitalization. On the content delivery side, the contribution of computers and telecommunication industries together with the spread of digital technologies has had the following effects on cultural industries:

- increased speed and flexibility of communication;
- new economies of scope and integration that change the economics of content distribution;
- integration of existing and new means of communications allowing readers/viewers/listeners more control and choice;
- availability of different methods of interactive communication (namely peer to peer communication).

Consequently, industry dynamics will not remain the same in the future as the boundaries between cultural activities and industries are becoming increasingly blurred (the music industry being the most obvious example). The evolution of software industries opens new windows of opportunity for innovative content delivery. The entry of newcomers in the content industry from the ICT (such as AOL and Vivendi taking over Times Warner and Universal) leads to the rapid erosion of Ricardian rents built over time by traditional players. In 2000, America Online took advantage of its soaring stock prices to acquire Time Warner, an old media company having four times its revenue. Time Warner, a major producer of news and entertainment, owned a huge library of media content and also ran the second largest US cable network. America Online was the largest Internet Service Provider (ISP) in the US with some 26 million subscribers at the time of the merger. The potential gains for Time Warner-AOL through their combined strength in content creation and

in online distribution seemed very promising. However, after the bubble burst, investors and analysts targeted Steve Case, company chairman and architect of the \$165 billion merger, demanding his removal. While AOL-Time Warner once talked of magical synergies between the "new media" and "old media" and between "content" and "delivery", after the bubble burst many in the business press started speculating on when the company would split and openly claimed that the merger was a distraction for AOL. But with the exception of some business segments (academic journals, reference works and so on) and the video game industry, content producers have been relatively shy of exploring new delivery models for their content, as the separation of the content from the medium makes it difficult for content producers to track down effective access to content in order obtain adequate rewards.

But the advent of digital technologies triggered a process of convergence between the once separated industries. In their own competitive space, content companies have reacted to the initial steps of the convergence process rather than being guided. Some consequences of this convergence are readily visible:

- The emergence of systemic products: in the case of videogames, software and hardware are perceived as a single product since the games software cannot be used without the hardware and the console is totally useless without games to be played. Even more important, the quality of a videogame depends not only on the beauty of special effects and the creativity of the script, but also on the speed of the microprocessor, the ease of handling the console and the screen resolution. Therefore game developers must take into account the nature of the hardware installed when programming different features in their new titles.
- The emergence of systemic markets due to network externalities: as a product becomes more common, the consumer benefits more as benefits can be derived from complementary products and services offered for the technology in use. Therefore, the potential of services available through cell phones is increasing exponentially with the increase in the installed base.
- The emergence of systemic architects, i.e. companies able to align a variety of players within the newly formed competitive space.
- The generalization of two-sided markets: newcomers can easily operate in a "dual product market" (Picard, 1989) in the sense that they generate two commodities: content sold to consumers and audiences sold to advertisers.

Due to these two challenges in terms of constraints and opportunities, it can be said that content will be produced keeping in mind not only the traditional cultural consumers but also indirect consumers. Content can be easily versioned, stored and retrieved. Editorial activities will change due to technological convergence through digital storage, rebundling and delivery. In this new systemic competitive space, the catalogue structure affects the type of medium to which content can be transferred and therefore defines a priori the number and variety of value creation systems which the company may create. As the number of new titles increases exponentially, competition often emerges from new distribution and delivery business models. To the extent that content providers have been able to create and organize a digital archive of their catalogue and link it to the company's core processes and strengthen their blockbusters, they can face convergence in the broad competitive space through bundling and price discrimination strategies.

1.2. New Consumption Spaces

At the risk of appearing somewhat sketchy, it may be pointed out that there are two strong tendencies here. The first and oldest tendency is the increase in the individual use of cultural products. It characterizes the use of the media that were introduced on a long-term basis in domestic space, but the process did not occur in the same manner or at the same pace in the case of different cultural practices.

Privatization and Individualization

As Sonia Livingstone has rightly pointed out, it is advisable to distinguish the process of privatization from that of individualization (Livingstone 2002). Privatization consists of a shift towards the domestic sphere of cultural activities traditionally practiced in public spaces like concerts or movie theatres. Radio and television were largely responsible for intensifying this shift while the culture of 'entertainment exit' was relatively well maintained. Individualization takes place in the second phase at a speed determined by the medium. It is based on the dual phenomenon of owning more than one piece of equipment, and, more recently, on the addition of peripherals to this equipment. It is therefore related to technological innovations such as the miniaturization of equipment and economic changes such as the decrease in its cost.

Individualization is a tendency that can be observed in the long run in the case of all equipment meant for domestic cultural consumption. The invention of the transistor in the post-war period made it possible to individualize the practice of listening to the radio which was largely collective when the first radio stations were set up. The same was true of the marketing of portable record players. The drastic fall in the cost of television sets during the nineties contributed in a large measure to the increase in the number of television sets in a household: the number of French families having more than one television set more than doubled between 1986 and 1998 (Donnat and Larmet 2003). The number of computers per household has been increasing during the last ten years. 69% of households have microphones and 25% of them have at least two computers. The phenomenon of individualization becomes more pronounced when a household has several members, particularly teenagers, as there are several pieces of the same equipment. This phenomenon tends to become more complex as it leads to a new mapping of the distribution of cultural preferences according to sex and generation in the various areas of a private home with children's rooms becoming truly autonomous cultural universes.

However, the process of diversification of listening mediums is the most sophisticated in the music sector. In addition to radio and television, other mediums with stations and programs dedicated to music have multiplied during the last twenty years and there has been a revolution in the variety of equipment specifically intended for listening to music: CDs became the most popular medium overtaking audio-cassettes and vinyl records. Methods of listening also diversified with the development of portable players (Discman and Walkman). But it is undoubtedly the development of digital music in the MP3 format which is the most spectacular phenomenon of these last few years leading to a marked increase in the number of people listening to music on the computer and the digital Walkman. This development was accompanied by an intensification of the practice of exchanging and remote loading of music files. All these technological innovations have changed the landscape of listening to music divided by criteria of sex and age, listening to digital music in all its forms being associated more with males and young persons than listening to music through traditional mediums. A similar though less spectacular change is seen in the practice of film consumption where the DVD has partially supplanted VHS video cassettes and following the progressive rise of the DivX or compressed video which is the functional equivalent of the digital MP3 format for films. But here again, consumers of digital pictures are more frequently male and young.

Network Culture

The second tendency is much more recent and relates to the rise of what one could call a "network culture". It is based on an overlap of cultural and communication practices, especially remote communication through the use of new technologies, that is much more evident than in the past. This questions the traditional balance between cultural exchanges within the household and exchanges with external interlocutors. Let us take as an illustration the consumption of culture by the young.

In the sixties, we witnessed the success of some cultural products targeted at the younger generation. Fifty years later, this "youth" culture is incomparably greater in volume and more diversified. The birth of FM radio stations for young listeners, the explosion of magazines targeted at those under 25, the multiplication of programs and even of TV channels for the young and, of course, the development of video games on consoles or PCs were the main levers of this change. This "youth culture", which is consumed at home, is subjected to varied parental control as modern parents make less and less effort to control the consumed contents, except in the case of very small children.

It could be said that there is nothing really new about this "youth culture", were it not for its rapid spread. But a major phenomenon that makes it very different from the "youth culture" of the fifties or sixties is that it has not developed against a background of conflict between generations. It is not a "counter-culture" used by the younger generation to dissociate itself from its parents or oppose them nor is it a subculture; but it is a culture "based on sharing", quite different from the one inherited from preceding generations which spread in a climate of cohabitation often marked by great serenity. All in all, this increasing autonomy of youth culture was skillfully encouraged by the market through a number of by-products like branded clothing. It was also accomplished by changing the family model and encouraging parents to give children their own individual space, in which they can give expression to all their cultural preferences without any adult interference.

The spectacular development of the Internet during the last few years contributed significantly to bringing about a change in the different types of cultural consumption in private space. We could talk of the "network culture" here. A person having a passion for a particular type of manga comic will now try to

contact on Internet forums other persons sharing the same interest. P2P (peer to peer) follows the same logic by making music available to other Net surfers. This principle of sharing experiences related to cultural products with other individuals with the aim of either obtaining more information about them or starting critical exchanges and arguments, has brought about a major transformation in the family's private cultural life because these exchanges take place with people who are outside the home. The young use the technical possibilities offered by the digitalization of picture and sound to create social networks to exchange their views and experiences with others. It should also be noted that the development of data processing and the Internet have contributed to the development of artistic activities among amateurs. These new creative amateur activities in the digital universe generate an "expressive individualism".

1.3.Change in Traditional Mediums

The Decrease of Central Government Support

The decrease of central government support to culture is another important characteristic. It is a general tendency with very rare exceptions as in the case of France. In this country, the government has always adhered to the principle of allotting at least 1% of the state budget to culture while the budget for 2007 envisaged a two-fold increase in the expenditure on culture as compared to the increase in the general state budget. But this led to a great deal of acrimony as the Ministry of Culture reduced the funds allotted for heritage conservation and diverted them to fund the activities of "part-time" artists.

This disengagement has been very perceptible since the early nineties. The efforts demanded of European central governments to enforce the Maastricht criteria obliged them to reduce some subsidies, particularly those given to the performing arts, which in its turn led to a reduction in the number of artists in many countries (Italy). This reduction of subsidies to the detriment of culture reflects the superior characteristics of cultural goods as posited by Veblen. The higher the income, the greater the demand for culture, once essential needs have been satisfied. Thus the consumption of cultural goods goes down when the income decreases. This unfavorable trend became stronger with the inclusion of new states in the European Union. Whereas in the past, culture occupied an important place in the central budgets of European countries, as well those of local communities, cultural activities have suffered a decline due to the rise in transition costs and privatization.

In some cases, this disengagement led to palliative measures. The best known of these measures are the devolution of cultural functions to local governments (Spain, Italy) and the introduction of matching grants from the central government and local bodies. Another palliative resulted in finding other sources of funds for cultural activities such as lotteries (United Kingdom) and the reserves of the banking foundations (Italy). In both cases, this brought about a significant change in the management of culture. When there is decentralized funding of centralized activities, direct tax-payers do not have any control and the number of users increases. The satisfaction of users or taxpayers is then given top priority when reallocating funds. Moreover, when the central government leaves things in the hands of local communities, the production of national existence values becomes less important than the production of direct use values. Thus heritage conservation is neglected in favor of the development of reading or music.

The New Logic of Sponsorship

This factor is increasingly influencing the development of artistic and cultural activities in Europe. Even though patronage or '*mécénat*' plays a less important role in Europe than in the United States, its presence is increasing. Besides, central governments continue to give incentives to encourage business houses to contribute funds for culture. But the content of this patronage is changing.

For a long time, patrons or their representatives in the boards of directors of cultural institutions were directly involved in the management of the funds they provided for culture to fulfill the proposed artistic and cultural objectives. Today, companies have changed these traditional methods of patronage and prefer to formulate specific cultural policies. The development of these policies is so important that they have begun, in some cases, to replace the policies laid down by central governments. Nowadays companies are keen to promote the arts so as to project themselves as being innovative and liberal. As John Murphy, Vice President of Philip Morris, said when inauguration the exhibition titled *When Attitudes Become Form*, "*Us in Philip Morris, we regard as normal bringing these works to the public, because there is an element in this*

art nouveau who has his guarantor in our business world, namely the innovation, without which no progress would not be possible in our companies”.

How do companies disseminate their culture in society? They try to define a coherent relationship between images and products. They try to influence the utility function and managerial behavior of nonprofit institutions. Their aim is to disseminate the values of creativity. According to some observers, there could be something more in the companies' desire to disseminate through the arts the values they regard as their own: to legitimize the economic system by merging tangible products with intangible ideas. By exerting an influence on the public space of ideas and social dialogue, businesses can now seek objectives that largely exceed their commercial role and acquire a social legitimacy which is disputed by their adversaries in the market. They are thus fully reinstated in the public space as a central and non-conflicting partner.

The culture of a company is bound to benefit from this movement at a time when traditional patrons are less active on the art scene. Art collections of companies, company museums, corporate art awards, use of innovative architecture and organization of cultural events have become the main tools of these policies.

These cultural policies also take interest in *low culture*, cultures of minorities, digital culture, etc. For companies, the difference between high and low culture does not matter: they treat them as no more than two segments of culture in which they are willing to experiment and, in extreme cases, their techniques are very similar. Moreover, in the case of postmodernism, this can put an end to the opposition between social structures in the general field of consumption.

Corporate cultural strategies thus invest in technologies which make, consume and structure identities, facilitate the transfer of images, permit an osmosis between economic and artistic creativity so that companies become full-fledged partners of civil society. The digital media occupy an important place in this strategy because they are capable of bringing together these two forms of creativity. Thus, the *Ars Electronica Center* in Linz wants to be a kind of mixture between a park for virtual research and development and a museum. It is also called the *virtual Bauhaus*.

These corporate cultural policies finally resort to a new lever: quasi patronage of their employees. In the eighties, Mrs. Thatcher allowed employers to refund the amount spent by employees from their income for cultural purposes (*Give have you earn, or payroll giving* of 1987), which gave the companies a strategic role in spreading information, decision-making and funding of artistic or cultural activities. Another law enacted in 1984 made the system considerably more flexible by linking the right to deduction either to the position of the staff member or to the significance attached by the company to the donation given. If these donations are of great value to the company, it can deduct the amount from its tax liability. So it is enough to prove that a payment has improved the company's image to make it eligible for deduction in the eyes of the patronage law which acts as an incentive for large corporate donations.

2. Upstream: Other Values and Perspectives

2.1. From Intrinsic to Instrumental Values

One reason to extend the scope of valuation of the arts is because they promote broad social and economic goals such as economic growth and better academic performance. These benefits are called “instrumental” because the arts are seen as an instrument for obtaining them. They differ from the intrinsic benefits derived from experiencing art such as aesthetic pleasure and enrichment which are viewed as having strictly private and personal value. The values related to instrumental benefits are greater productiveness, better learning skills, better health, increasing social capital, etc.

In fact there is no contradiction but rather a continuum between these two kinds of benefits. In between, there are benefits that enhance individual lives and have positive effects in the public sphere. In this continuum we may find values such as extended capacity for empathy, cognitive growth, etc. Both this differentiation and distinction are important since they underline the possibility of funding cultural activities in the expectation of promoting these instrumental values. It is quite possible that the payer may not be the direct user but an organization interested in the spread of such benefits. In fact this argument is not so new

and it has been taken into account by the “merit want” approach. But recently, we have witnessed a greater demand for cultural activities from non-cultural institutions such as schools, hospitals, prisons, etc.

But there are two main difficulties:

- The first difficulty concerns the behavior of artists. They can protest against their instrumentalization since their creativity is bounded by a set of objectives that lie outside artistic perspectives. This is not a radical conflict but it can give rise to many issues, particularly regarding the governance of cultural activities
- The second difficulty is what the Rand Corporation calls “the missing link”. Can we be sure that intrinsic benefits will automatically create instrumental benefits? At the beginning of the process, individuals will participate in the arts for the intrinsic benefits of experiencing art such as pleasure, meaning, etc. and not to improve their test scores, to stimulate the economy or to better their health. The challenge therefore lies in ensuring that the demand for intrinsic benefits can create instrumental benefits. It is possible that the condition for creating this link is a sustained involvement in cultural activities which is a much wider challenge than the recognition of new business model. Here, Rand experts consider that two conditions should be satisfied: the participants should be exposed to the arts when they are young and they should be motivated by the high quality of their experience of the arts to seek similar experiences in the future.

2.2. Apprehending the External Effects of Content

Cultural activities can affect people other than those involved in such activities and targeted consumers. The most traditional example is the effect of culture on the hospitality industry through cultural tourism. That is why some twenty years ago Mossetto introduced the concept of non-cultural demand for cultural goods.

Today, the digital content business can influence a great diversity of people in many different ways and this influence on third parties can be both positive and negative. According to Uchida (2008), two typical examples of good influence are the Japanese motion picture entitled “Love Letter,”¹⁾ which has successfully attracted many Asian tourists to Otaru, a place in Japan where a large part of the movie was shot,²⁾ ; and “Trade follows the films”, a US policy that promoted the export of movies in the 1920s. “Love Letter,” after its release in Japan in 1995, played in theaters in South Korea, Taiwan, etc. in 1999. It achieved blockbuster status, especially in South Korea where more than 1.2 million viewers saw the movie. Yomota describes the phenomenon in the following words: “*Tourists to Japan are rushing to Otaru, the movie’s location*” (Uchida, 2008). A survey conducted by Tourism New Zealand says that of all the tourists who visited the island nation during and soon after 2003, at least 9% were partly motivated to do so after seeing the movie “The Lord of the Rings.” Looking at these examples, we find that content can make more people want to visit the locations depicted in it, in addition to the direct economic effect location shootings have on these spots. Thus, even after the production of content has been completed, it may continue to stimulate local tourism and other industries. Furthermore, in addition to such economic effects, content can help improve the image of a region or country, as part of its culture. Yet another frequently discussed example of positive effects is the “Trade follows the films,” policy mentioned earlier.

Such external effects open the way for new business models as long as producers can capture the corresponding monetary value in the market, which is not that easy. Let us take the following example. Suppose a cultural business project– for example a game software - requires 1 million euros as the total cost of production, marketing and other things. If the estimated income from this project is 0.9 million euros, the cultural organization will not produce the content since the project does not break even. Still, if the content’s externalities have a positive value of 0.3 million euros for society in general, the company obtains a total benefit of 1.2 million euro, the total of 900,000 euros and 300,000 euros. However, because the project puts the cultural organization in the red, it will not execute it. Thus, the externalities are lost and both private and public welfare are reduced. If, however, a game machine manufacturer collects A net 0,4 million dollars in externalities from a particular software, he can pay the software producer 0.2 million dollars and both of them can make profit. This is a case of people adjusting economic incentives to prevent market failure, taking into consideration externalities that can arise out of their actions. Such adjustment to incentives is called “internalizing of an externality”. In Japan, Sony Computer Entertainment supports firms developing software compatible with its game machines, thereby successfully improving the lineup of software products available. Because many consumers choose to buy a game machine that lets them use attractive games software and the price and quality of the game machines are not the main

considerations, Sony's support to software developers pays off and software developers can receive support for the game software that they create. This is a win-win arrangement. This gainful opportunity is provided by the existence of a complementary good. If such a two-party agreement cannot be concluded, it is still possible to have a collective agreement between game software producers and game machine producers, but this is not very common. Another possibility is the acquisition of game software producers by game machine producers, but the cost in this case is much higher than in the earlier cases.

Another possibility is to look for product placement. A product distributor and a content producer work together in this advertising technique to capitalize on the externality because products appearing in a movie and/or TV program tend to have more buyers. The content producer internalizes this externality, the benefit of which was enjoyed by a third party before this technique was employed. At the same time, the producer takes advantage of the content's externality.

Today, the film industry demonstrates the potential of using external effects as a relevant business model (Uchida, 2008). For instance, "The Lord of the Rings" was shown in some 10,000 places all over the world and also distributed on DVDs. The bandwagon effect spread the movie's popularity the world over in a short period of time, affecting more people than anyone could have imagined in the past. The movie made 300 million US dollars in box-office returns in the US and 800 million around the world. At the same time, its economic externalities attracted more tourists to New Zealand from the world over (Baker, 2007). Turning our attention to the changes in self-regulation intended to control the negative externalities of content, though currently the scope of such self-regulation extends only to the bounds of each industry, we must point out that different content industries will have to work together to lay down regulations as more content is now used across different platforms. Moreover, regulations imposed by national and local governments are limited in effect as the Internet now carries content across national borders in no time. Governments too need to collaborate with one another since a single country's regulations cannot control the content carried over the Web.

The trade-off is clear. Since tourism follows films, it is advantageous for countries, regions and cities to share some of the costs of film production (mainly shooting costs). What is common to the successful examples of film tourism in Australia, New Zealand and United Kingdom is that the national governments worked willingly with private businesses and organizations in an effort to make the most of the image content's externalities. It is essential that they create an attractive content with powerful externalities for tourism. To enhance such externalities, campaigns of this kind should spread the related information through multiple platforms such as movie maps and websites. In efforts of this kind, film commissions play the crucial role of interfacing between content producers and the communities of targeted sites. Many film commissions are non-profit organizations supported by national and/or local governments, chambers of commerce, etc. These commissions invite companies and offer to provide help for location shootings for movies, TV programs and commercials. One purpose that a film commission serves is to promote tourism by improving a targeted region's image.⁴⁸⁾ Services provided by such commissions include among other things the provision of information about locations as well as the information needed for location-shooting such as the availability of accommodation, meals, equipment, car rentals, procedures to obtain the necessary permissions, etc. and following the necessary legal procedures on behalf of film/TV makers to obtain the necessary shooting permission from the police and other public authorities. Sometimes, a commission even makes arrangements for securing extras and accompanies the shooting crew to the site.

In order to take advantage of external effects, movie maps were created by the British Tourist Authority (Finney, 2007). The BTA thought that English-language movies were an effective way of developing the global market and took certain measures to take advantage of them. Movie maps constituted the core of this strategy (Scottish Tourist Board, 1997). When the first-ever movie map was produced in 1990, it was financed mainly by the BAFTA-Shell UK Venture. To decide which location sites should be listed in the map, the BTA asked the British Film Institute to conduct a survey and initially chose 250 sites. Later, the Authority narrowed them down to 75 after considering how best to spread the map's benefit to the whole nation and listening to opinions from its overseas offices. Later, in 1996, under the catch phrase "Visit Britain" and with financial support from Vauxhall Motor Manufacturers, the BTA created another movie map listing some 200 sites that had appeared in British movies and TV programs during the last 60 years. Following the British success, Tourism Australia distributed a movie map in 1996. The movie "Finding Nemo", released in 2003 and targeted at the 16-35 age group, collaborated with Walt Disney to conduct the largest single film tourism campaign ever. This was the first major

campaign of its kind after “Crocodile Dundee” in 1986. Taking advantage of Disney’s powerful influence, the campaign tried to establish the Great Barrier Reef and Sydney as images representative of Australia. The campaign chose as its major targets China and Japan, as well as the US. ⁴⁶⁾

3. Downstream: The Ripple Economy

Content can give rise to a cluster of products around the original product in the sense that it may open the way for a series of new products which brings to mind the complementarity between video games and consoles. Often, the notion of a bandwagon or cluster effect is used to explain such a concept and two ideas have been put forward: firstly, producers as well as consumers gain from the success of a particular product and from the positive trend that it sets in motion and, secondly, consumers follow one another as if they were being ordered to do so.

A product may be offered to the consumer in three different ways.

Windowing

The first method is traditionally known as “windowing”: a given content is presented on several different platforms. For example a film, apart from being shown in a cinema hall, is also available on DVD or as Video on Demand; it can be seen on pay television channels and finally it may be shown on commercial or “free to air” channels. The difficulty here is that the potential consumers are the same so that the availability of a new window may give rise to an eviction effect. Also the sequence of the availability of the film on these different platforms is extremely important and the prevalence of different regulations in different countries could create further difficulties in the case of quasi global products, not taking into account their translated versions. This shows that the entire value chain is controlled in such a case by a company which can negotiate the product’s intellectual property rights so that it can obtain the maximum benefit.

Versioning

The second method is called “versioning”. In this case there is no change in the content but it is made available to the consumers in different versions. Thus a book may be first published in hardback and later, after some time, in a paperback edition. By changing the form and the price, it is possible to reach consumers who would not otherwise have been interested in the basic product or who could not be considered as buyers of the basic product. There is therefore less competition between various segments of possible consumers and a company may find it advantageous to sell its content to a company involved in a different kind of business without worrying about a fall in its own business. But the market, which opens up after the first version is made available to the consumers, will benefit from the reputation acquired by the product’s first version thus giving rise to a positive external effect of the content.

Derived products

The third method is based on derived products and markets. Several forms are possible in this case¹⁴: the sale of the music of a film in the form of a CD, using a novel as the basis of a film-script or, on the contrary, using an audio-visual program as the basis of a book or finally, what is most prevalent, the creation of products based on the characters in a film. From Walt Disney to Pocket Monster, there has been a spate of illustrations of increasing diversity. In this case there is even less competition between various groups of consumers than in the two previous cases even though all those who buy these derived products are aware of the existence of the original product to which other effects have been added to make it trendy and also of the imitations that it has spawned.

The notion of the content’s external effects plays a basic role because some companies can benefit by the success of certain products by turning to account new areas of demand. The competition between companies can survive if the first company intends to enter into new fields of business, but there is no indication that it wants to do so or even that it is in its interest. It may then find it advantageous to negotiate the intellectual property rights so that it will become more and more difficult to turn them to good

account as one moves further from the original product. On the other hand, it is quite obvious that the success of the first product will create a positive atmosphere which will benefit the other products. We can talk of atmosphere – and that is how Alfred Marshall defined the financial external effect. If we were to consider a more recent reference, it could be said that there is a long line of products that could be exploited.

Combining Content and Software

Some companies access content production from the software design side. By integrating different platforms/operating systems and/or developing sophisticated digital retrieval/diffusion systems, some players have gradually incorporated their own content or developed close alliances based on content. This is the case with many network providers whose business model is based on the control of supporting activities in the media value net: these activities get increasingly important and are often able to generate substantial added value. Examples of these software-centered business models are network utility providers who provide software programs connecting users with destination websites or with each other, allowing them to perform specialized tasks that are beyond the basic capabilities of Web browsers and e-mail programs such as accessing “rich media” or chatting in real time. Examples of utilities include Adobe’s Acrobat Reader, which allows users to access audio, download and read documents, RealNetworks’ Real Player, through which users can access audio and video content “streamed” over the Internet and America Online’s ICQ service which allows instant messaging between groups of Internet users. In this paper, we will focus on media players, such as RealNetworks’ products, which are used to access files that incorporate pre-recorded audio, photos, animation and/or video elements. Such files may be streamed or downloaded to a user’s PC for later consumption.

Leveraging Brands

In 1991, Nintendo had captured almost 90% of the world market share in the console segment of the growing videogames market. At a time of technological discontinuity, Sony managed to offer a superior product from a technical viewpoint. As the competitive game console has an installed base, technical superiority is a necessary, but not a sufficient, condition to overcome huge switching costs for end-users already playing on the Nintendo console and having already bought proprietary Nintendo games. Leveraging its brand position as a consumer electronics manufacturer and its extensive distribution network, Sony positioned itself as a more family-oriented brand than its competitor. What is more important though is that by making it easier and more advantageous from an economic viewpoint for game developers to develop titles for the new equipment, Sony was able to present to the market a brand new systemic product consisting of a technically superior hardware and a vast catalogue of brand new games and reach world market leadership within three years. Playstation is still the highest margin product in Sony’s portfolio. Sony Playstation has been able to steal a march on Nintendo because of its superior industry chain architecture benefiting all actors involved (Dubini & Rana, 1999). Incidentally, Nintendo still maintains a world leadership with its long-selling product – the Game Boy.

If we had to give an example of the combination of these approaches of the ripple economy, the best one would probably be Pokemon. In the chart below, Uchida (2008) shows that Pokemon has simultaneously used windowing, versioning, derived products, bundling, etc., to considerable economic profit. Evidently this is an extreme position.

4. Concomitance: Other Industrial Designs

According to Zorloni, content industries have long been viewed as bounded competitive spaces that can be easily analyzed using traditional Porterian models. Content industries shared, in a varying degree, comparable product-driven business models in which the key sources of competitive advantage (and therefore profitability) were Ricardian in nature: the size of catalogue on the one hand and the creation of captive markets on the other:

- Companies got their basic earnings from front-list titles and profits from back-list titles.
- Captive markets were created by gaining control over a selected number of distribution channels: ownership of TV channels enormously increased the bargaining power of media moguls; publishers invaded shelf-space in bookstores and newsstands with series of titles as a ploy to prevent smaller players from gaining visibility.

Given the nature of content (which is highly versatile) and the nature of these industries (in which supply may generate demand), the original content was always available to fill up space and to create a reserve of new products. Economies of scale and scope were obtained vis-à-vis suppliers and distributors, as a growing catalogue meant more bargaining power.

At that time, each competitive space tended to be clannish in nature: companies engaged in tough intra-industry competition for author and channel control, but were relatively oblivious of the dynamics of international and other content industries. Vertical integration, cross-media diversification and internationalization were options open only to the bigger players willing to buy in the market share, grasp higher profits or pursue economies of scope through copyright management and sharing of marketing costs; Individual businesses and individual brands were managed separately, pretty much as if they were parts of a conglomerate. As these industries were highly product-driven and as sources of competitive advantage were closely related to the size of catalogue, it is not surprising that core competencies were focused on the company's editorial side.

During the last few years, the competitive space in which content producers operate has changed. There are fewer boundaries, the number and variety of competitors has increased, motives for profitability have changed, thus making it necessary for content industries to incorporate new competences and develop new routines to face the new competitive space. Two engines have contributed to this radical change: digitalization (that has been described earlier) and the emergence of bestsellers as products maximizing Ricardian rents for content producers;

It is necessary to explain the role of bestsellers in more precise terms. As far as content industries are concerned, evidence shows that the uncertainty of commercial success of new products is high. This increases the tendency – at least in the beginning - of bigger players to bet on a limited number of titles in their catalogue in order to maximize sales, appropriate the highest possible share of returns and capitalize on these same titles to version the content (Shapiro, Varian 1999) in terms of channels and formats. The explosion of distribution channels has favored this strategy: bestsellers and blockbusters are developed mainly by big players and their distribution helps to accelerate the industry consolidation process. Bestsellers are favored by distribution channels which prefer cross-media diversification and industry internationalization. Given the high investment required to launch a bestseller in a given market, the product will be offered to competitors in different countries for local sales with a more or less limited time-span between entry strategies in these countries and with more or less merchandising depending on the nature of the product.

However, it is necessary to explain one specific point of this approach. This exploitation of the economies of scale and scope has been largely examined with respect to product differentiation. For content industries, the resource-based view theory demonstrates that competencies may also be the main driver for diversification. Markides and Williamson (1994) have suggested that the long-term value of related diversification lies not so much in the exploitation of economies of scope, but in allowing corporations to expand their stock of strategic assets in a more cost-efficient manner. Since in content industries competencies are unique, distinctive and create a competitive advantage, companies tend to concentrate and focus their learning on what they know best, thus strengthening their competence base. In keeping with this logic, diversification into related business areas has been suggested as the most appropriate way to simultaneously ensure growth, profitability and coherence of the corporate strategy. Early examples of

strategies of diversification into multimedia by companies with a huge content patrimony (such as Encyclopaedia Britannica or *Institut National de l'Audiovisuel in France*) support the view that editorial and publishing know-how and competence are not major drivers of related diversification in media industries. But competences are relatively rigid and the ability of the company to overcome inertia and modify its competence base over time is an essential meta-competence to survive in the long run. As content producers find it hard to grasp a significant portion of the growing market for digital value added services, it is mandatory for them to focus on the evolution of the convergence competitive space, to assess likely institutional architects and future positioning. If content producers do not want to be spectators of a promising convergence show, they must react and join the successful architectures in their long strides. This involves a new role for content producers:

- As copyright managers, it becomes crucial to rethink their distribution strategy and

frequently update it in order to guarantee constant intellectual property protection;

- As digital asset managers, they need to define new market segmentation criteria and, on that basis, design new value-creating systems to bring more value to customers. This would result in new models for content management and delivery.

This consideration explains three additional features:

- The need for introducing greater flexibility and transforming creative departments into a set of project-oriented activities;
- The use of new business models by newcomers, one illustration being Apple's foray in the music industry with the creation of a new business model for the digital music business.
- A diversification strategy based on the content management node depends on the extent to which specific inputs and specialized content can be re-packaged and exploited more fully through the company's diagonal expansion. This depends on how homogeneous each media content is and how easily this content can be manipulated and re-formatted into different products.

5. Future Prospects: Intellectual property as a business model?

During the last few years the scope and the content of intellectual property rights have grown and so has their observance. For many producers and artists, it is a means of safeguarding themselves against the uncertainty of the public response to their work and also against the risk of copying. In Europe, this was seen in the development of related rights like the artist's right to a portion of the proceeds of the public sale of his work. It could thus be said that in some ways the recourse to protection of intellectual property has almost become a business model.

But we may ask ourselves today if it is a satisfactory answer. Watt has shown that the when protecting the value of a product, the real problem is to find a way to keep one step ahead of the copiers, that is to say change the product sufficiently fast so that it can be distinguished from the copies and catch the attention of possible users. In Europe, the debate on the working of collective management organizations dealing with copyright has shown that artists (in particular) have not benefited as much as was expected.

Collective management is the exercise of copyright and related rights by organizations acting in the interest of and on behalf of the owners of rights. More specifically, collective management organizations monitor the use of protected works on behalf of their creators and are in charge of negotiating licenses and collecting remuneration.

Thus, copyright owners may consider joining a collective management organization for two fundamental reasons:

-Copyright holders usually lack the necessary negotiation skills. They work in isolation most of the time and know little about the economic potential of their work. Also, they would have to bear heavy transaction costs to monitor all the uses of their works.

-The users of cultural products may find it advantageous to deal with a single entity, instead of having to seek permission from every author each time they wish to use a copyrighted work.

Collective organizations for the management of copyrights thus reduce transaction costs borne by both creators and users. Collective management societies looking after 'authors' rights' normally play an increasingly important role in the life of many creative persons such as authors, composers, performers, publishers, photographers, record production companies, designers, etc. Their role is very significant in some fields.⁴

- Counsel and legal advice on the right of public performance, the right of broadcasting (live and recorded performances on radio and television), the right of mechanical reproduction of musical works (reproduction of works in the form of compact discs, tapes, vinyl records, cassettes, mini-discs, or any other form of recording), the right of performing dramatic works (stage-plays), the right of reprographic reproduction of literary and musical works (photocopying), related rights or the rights of performers and producers of records to obtain remuneration for broadcasting or the communication of records to the public.
- Delivery of information and documentation to explain the relationship between the use of works and the expectation of payment to the main actors and intermediaries in the creative products market.
- Marketing services for identifying markets and accessing them.
- Some collective management organizations offer various types of social protection to their members and promote socio-cultural services that may support the development of creative products (training, exhibitions, prizes, etc.).

These advantages may become limitations depending on whether one looks at them from the creators' or the users' viewpoint. If the collective management organization collects money to the detriment of copyright holders, there can be exploitation. Another difficulty may arise because collective organizations will be interested only in protecting the most promising products and leave others to their fate. If collective organizations are tempted to sell creative products for which there is little demand together with other products having a high demand, this can result in the users losing interest in the purchase of works. Finally, for both sides a bureaucratic management system can result in the collection of revenue to the detriment of both copyright holders and users.

So the problem is to know how to make these collective organizations contribute to social welfare instead of confining themselves to money-making that is detrimental to both copyright holders and users. Normally, the plurality of these organizations should stimulate competition among them and make them offer advantageous conditions to both copyright holders and users. In this context, the European Commission has stated that "the licenses of royalties and collective trust companies are, as such, subjected to the competition rules laid down by the Union". But we may ask whether many of these competing organizations would have the minimal size needed to guarantee their efficacy.

This debate shows that intellectual property cannot provide a relevant business model although it may give rise to illusions in this regard. This has led many governments to introduce complementary mechanisms such as taxes on blank cassettes or on free public libraries, the proceeds of which are deposited in a retirement fund for artists.

Conclusion: Big companies versus New SMEs?

Diversification, concentration, greater or lesser profitability, rise in advertising costs and increased financial needs stifle the development of cultural companies.

Bigger companies – mainly those linked to media industries – may be able to face these challenges. The existence of two-tier markets opens new opportunities and changes the nature of difficulties due to the relative intensity of the two-tiered demand.

But for the smaller companies - those having no strategic links with media industries - the challenge is even greater.

Many European countries witnessed the emergence of a large number of small companies, particularly in the production sectors. This was a logical response to the diversification of demand and the need to produce in a continuous flow a large number of new products. These companies have entered the audio-visual field and also live shows where they often replace older companies that were bigger but received less support from the government. This led in Europe to the real decentralization of production while the distribution sector continued to be controlled by a few big companies. Though these small companies are not as fragile as it is generally believed, they face nevertheless several challenges:

- In most Cultural SMEs there is an imbalance between 'production' and 'marketing'. Their resources are allocated mainly to technical operations and those allotted for marketing are often inadequate.

- Cultural enterprises often lack information about the market and the kind of support structures that are available. This lack of information is frequently amplified by the isolation of the rare organizations that exist.

- Lack of specialized professional competencies is certainly a characteristic of cultural enterprises. Further, many creators are simply overwhelmed by the wide array of skills needed to run a business and potential entrepreneurs by and large do not undergo any specialized training before starting a business.

- In countries where resources for training are limited, this lack of professional skills is very evident. Moreover, several cultural actors are forced to undertake tasks in which they do not necessarily have a comparative advantage which compromises efficiency and distracts them from their core artistic activities. Generally speaking, the failure of many crafts enterprises may be attributed to the lack of management skills rather than design deficiencies.

- The lack of funding is a major problem faced by cultural industries where initial funding is critical. In the case of crafts, which require relatively less capital, this lack of funding is not such a handicap.

These new cultural enterprises may benefit from support from either public or non-profit organizations in order to reduce the uncertainty resulting from the systematic novelty of creative products; to optimize the expenditure between production, which is supposed to maximize the quality of cultural goods, and distribution, which makes it possible to mobilize consumers in their favor; to professionally manage within a given period the modifications required in the organization of production in order to implement new objectives and, when employing artists, to select an appropriate labor contract that suits the nature of the activity and avoids moral hazards.

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