Dr Martin Smith, Visiting Fellow in Creative Industries, Goldsmiths, University of London—written evidence (CRF0003)

House of Lords Communications and Digital Select Committee inquiry "A creative future"

The author is a founder member of the Creative Industries Council (CIC); Visiting Fellow in Creative Industries at Goldsmiths, University of London; Special Adviser, Ingenious Media; and a former chair of trustees at the Young Vic Theatre Company and St John's, Smith Square. The views expressed in this submission are personal and are based on my experience as a practitioner, consultant, investor and academic. The submission cautions against a 'one-size fits all' approach to answering the questions posed and calls for the rehabilitation of the strategic approach to policy-making reflected in the 'sector deal' for the creative industries announced by the last government in March 2018.

1. Which areas of the creative industries face the greatest potential for disruption and change in the next 5–10 years, and what impact could this have?

An introductory remark about classification and language is required. The invention of the 'creative industries' as a policy construct has served as a brilliantly successful exercise in political marketing for a quarter of a century or more, but the concept presents serious challenges when one attempts to grapple with questions of this nature. These industries are homogeneous only at quite high levels of abstraction (the generation of intellectual property (IP) or 'content', in the argot of media business, is the main defining characteristic). The five 'sub-areas' highlighted by the Committee, when viewed from the perspective of business economics, exhibit significantly different characteristics: they are distinguishable by contrasting business models and commercial practices and varying levels of exposure to technological disruption.

These differences were brought into dramatic focus during the first stages of the pandemic when some 'cultural industries' (to use older terminology), for example theatre, dance and music, were quickly decimated whilst other, digitally driven sub-sectors based largely on the provision of 'non-live' experiences, for example games (including so-called esports), boomed.

Against this background, there is almost no generalisation about the 'creative industries' that can confidently be made as regards future prospects over a 5 - 10 year time horizon without some measure of qualification (the answer must depend on which sub-sector or genre is under discussion).

Furthermore, there are a number of 'known unknowns' that could have a critical impact on future trajectories. These include the course of the pandemic/future pandemics; global market shifts, including the movement of exchange rates (global investment is highly mobile, especially in the screen sectors); and the prospects of certain core funders of the UK's creative infrastructure, especially the BBC but also Channel 4. It is hard to overstate the importance of these factors in any horizon-scanning exercise, not least because we have come to take for granted the favourable competitive conditions that the UK has enjoyed in the global creative economy over the last two decades or so.

What can be asserted with confidence is that the global 'creative economy', highlighted by UNCTAD and the UNDP in their ground-breaking report *Creative Economy Report 2010*, will become significantly more competitive as more and more countries aspire to increase their shares of the global market for cultural goods and services. As the process of engagement between traditional forms of creative production and digital distribution deepens, it is certain that the global shortage of skills – creative skills, technical skills, cultural management skills and business skills - will intensify as countries compete for regional and global advantage.

It is also likely that the new gatekeepers of cultural and creative distribution, the US, Chinese and other internet platforms, by virtue of their market power and control of digital advertising revenues, will come into greater conflict with legacy era businesses, activist groups of artists, writers and cultural producers whose share of gross economic value created shifts, seemingly relentlessly, against them, and increasingly also with regulators. These market trends pose difficult challenges for policy-makers but will not bear equally, or in the same way, on 'creative' sub-sectors as radically different as, for example, museums, the fashion business and video games.

As a rule of thumb the more embedded technology is in an art form or medium the more likely it is to be disrupted by a new wave of insurgents. Esports and video games sit at one end of the axis, with theatre, museums and crafts at the other and audio-visual industries somewhere in the middle.

More importantly, a clear distinction should be made between production and distribution. There are eighteen speaking parts in *King Lear* and it takes four musicians to play a Beethoven quartet: that will always be true in live performance. The impulse to reduce costs, which drives much innovation, is only realisable by reducing wages or production budgets. In the world of online *distribution*, on the other hand, the marginal cost of adding an extra viewer for a film, concert or show is now effectively zero thanks to digital technology and innovative, legal 'disrupters' like YouTube (note that there are scores of *illegal* disrupters, including torrent or 'pirate' platforms, which now closely resemble streaming services).

It can also be asserted with confidence that the further incursions of digital technology into the worlds of cultural production and the exploitation of cultural assets will generate myriad disputes between rights-holders, licensees and others. The newest culture/IP scandal (it has already embroiled Anish Kapoor) involves NFTs (non-fungible tokens), a form of digital asset stored in a blockchain, or distributed ledger. The art world is struggling to evaluate this innovation. It is a potential minefield of competing rights – legal and moral. The implications for the economics of culture (including investment and trade flows) are presently incalculable.

a) **What changes are expected in the way creative/cultural content is produced; the way audiences are engaged (for example through digital or immersive experiences); and the way business models operate?**

Any generalisation across the multiple genres and sub-sectors that comprise the 'creative industries' is, as noted above, fraught with difficulty.

Museums everywhere are experimenting with AR, VR and related technologies in order to engage more deeply with existing audiences, win new audiences, especially young people, and thus transform public understanding of what a museum is by reinventing the 'visitor experience'. Much of this work, publicly funded by the research councils, is early stage. Does it add significantly to the pleasure of studying a painting by Veronese if, wearing a VR headset, one is taken ethereally to sixteenth century Venice to hear stories about how and where the artist worked, what he was paid and who his clients were? The narrative possibilities are limitless, but the jury is out. Not everyone wants to wear a headset: there are ways of seeing and enjoying pictures that do not depend on doing so. Equally, the challenge to connect with younger audiences is a vital one across the spectrum of visual and performing arts with some cultural practitioners looking to the games industry for inspiration. Augmented experiences are already commonplace in the world of exhibitions (the V&A has blazed a path) and may be expected to become more so.

Technological wizardry does not always work well with creative formats or stand the test of time in all genres of cultural consumption. The first film to be made using 3D techniques, *The Power of Love*, was made exactly 100 years ago in 1922. 3D movie-making arguably reached its apogee with *Avatar* (co-financed by Ingenious Media) in 2009, but has never generated lasting audience enthusiasm.

Contrast this with the 'born digital' world of video games, in which devotees will spend hundreds of pounds to enter ever more elaborately engineered 'immersive' digital universes. The film industry at the Hollywood end of the business is busy deploying advanced special effects technology (at which the UK excels) in attempting to give their fantasy, action and super-hero movies a more games-like feel. Significantly, the games industry is now substantially bigger than the film industry, a trend which is unlikely to be reversed given the pressures that cinemas now face and the shift in games to mobile consumption. A more interesting discussion contrasts quintessentially 'live' and 'non-live' experiences. Digital advances achieved by producer-distributors such as the National Theatre (NT Live) and the Metropolitan Opera in New York, have brilliantly transcended this dichotomy, widening their audiences and extending public access to their work both online and via 'event cinema'. There are substantial educational and commercial upsides to these innovations, but the financial dividend is generally only available to large organisations with established brands and big budgets.

However, for the purposes of creative industries' future gazing, it is important to acknowledge a pervasive myth. The myth is that putting something online will sustainably expand the audience in all or even most cases. As the experience of the pandemic has demonstrated, online distribution has generally *not* grown the audience for core cultural consumption in the UK in the aggregate. The work of the Audience Agency and the Centre for Cultural Value at Leeds University shows that whilst the shift to digital *has* transformed cultural experiences *for those already engaged* with cultural activities, it has failed to diversify or grow total cultural audiences.[1]

Technology can deliver wonders and augment access to cultural products in multiple ways but is not a financial magic wand and does not, for most of us, substitute for live performance. The experience of the pandemic has shown that 'breathing the same air' as performers, especially in music but also in theatre and other performing arts, remains for most audiences the most satisfying way of appreciating a Bach Mass or the ageless Rolling Stones – or *Macbeth* or the Birmingham Royal Ballet.

This does not mean that technology will cease to transform the modalities of cultural production and consumption, as any regular reader of media analysts' reports, or parent of teenage children, will attest. It is now possible to start and grow a creative enterprise generating substantial revenues, solely by building a customer base on an internet platform, like YouTube or TikTok. One may expect this pattern of evolving home-grown, 'digital first' enterprise to accelerate, which is a positive trend. Equally, this is a world of fragmenting markets and social media-driven sensations, many of them transitory, in which the greatest rewards flow to global technology companies and a small number of mega-stars and super 'hit-makers'.[2]

As regards business models, how to compare mobile gaming, in which models change seemingly with every passing week, with national or regional museums, which are mostly stuck with free entry, analogue era costs and varying degrees of dependence on (falling levels of) public subsidy? Pity the museum director who has talked a major corporation into donating millions of pounds in exhibition sponsorship only to discover that a significant section of the public does not wish museums to accept such 'tainted' contributions. The 'business model' here is under severe pressure, as are the models of any legacy era institution or performance space which is unavoidably saddled with high fixed costs.
One of the ironies of the pandemic in the performing arts was that those organisations that had done most to diversify their revenue streams (thus becoming more 'commercial' and thus good guys in the eyes of funders), were hardest hit by forced closure. Although these organisations were rescued from incipient bankruptcy by the government's Cultural Recovery Fund, equally, many of them have been scarred at executive level by the experience.
What is clear, leaving aside 'born digital' businesses, is that the digital shift has not enabled the full replacement of lost 'analogue era' revenues: substitution has been partial at best.

The classic case is the film industry. The significant switch to streaming subscriptions promoted by Netflix, Amazon and others has exacerbated the already chronic problems of the independent film sector in the UK, as evidenced in the recent report by Alma Economics for the British Film Institute.[3] This report

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1 Walmsley, Gilmore, O'Brien and Toreggiani, *Culture in Crisis: impacts of Covid-19 on the UK cultural sector and where we go from here,* Centre for Cultural Value, University of Leeds, 2022.

2 See Anita Elberse, *Blockbusters: why Big Hits – and Big Risks – are the Future of the Entertainment Business*, Henry Holt, New York, 2013.

raises big questions about the role of public subsidy in leveraging private investment in a market characterised by extreme box-office uncertainty. The issues are especially pressing in film but apply more broadly to the future of the 'creative economy'.

Sadly, there is little public understanding about how the mixed economy of the cultural and creative sector works, or of the subtle but profound linkages between the subsidised part of this economy and the more commercial end of the business, especially in the provision of creative education and the incubation of talent flows; or how this mixed economy might so easily be undermined by misconceived acts of re-regulation. This lack of understanding is itself a threat to future UK competitiveness.

2. What skills will be required to meet these emerging opportunities and challenges?

The short answer is that there is a desperate shortage of skills across the piece, but especially in the audio-visual industries, and that almost all skills training provision is sub-scale.

I sometimes work in Central Asia. Whenever I am in Tashkent, Almaty or Bishkek, someone asks whether the UK could provide someone who could help train up their film industry technicians. I always reply, first, that from a much higher base we too have this problem – shortage of skilled technicians – and second, that anyone who is good will invariably be booked out.

We have skills shortages everywhere in the creative sector, a situation which has been exacerbated by the pandemic, especially in the performing arts, because people have left the business, many never to return. This reflects poor working conditions and overlong hours, for example (but not only) in theatre. 'Creatives' have largely returned (they are driven by their passions to do so); many backstage and administrative workers have not.

In the film industry the problem is different: the government's intervention to kick-start production (the £500m Production Restart Scheme) in 2020 was brilliantly successful in its own terms but had the consequence of sucking in record levels of inward investment. Production ramped up putting the squeeze on independent producers and pushing up costs (by as much as 20%). Labour demand greatly exceeds supply: it's a great time to be a production accountant! Trying to extrapolate from current bottlenecks to future market conditions is, however, largely futile: the inward investment boom is unlikely to last judging from historic data.

We should distinguish between creative skills, cultural management skills, technical skills, digital/computer skills and business skills. Others can comment more knowledgeably on the first four categories. As regards business skills the sector is littered with failed initiatives. Who remembers the Centre for Creative Business at London Business School? Or the MBA in Film Finance at the Cass

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3 Alma Economics, *An Economic Review of UK Independent Film*; *A Report commissioned by the BFI,* London, 2022.

(now Bayes) Business School? Both initiatives were short-lived. These failures tend to get buried and no lessons are learned.

My colleagues at the Institute for Creative and Cultural Entrepreneurship (ICCE) at Goldsmiths have for many years successfully demonstrated one pedagogical model combining arts management and entrepreneurship training with creative practice in a range of MA courses, with pathways in music, fashion, theatre and performance, design and other subjects. Other colleagues at the National Film and Television School (NFTS) have developed a different model for older graduates in the form of a practitioner-led MA in Creative Business for Entrepreneurs and Executives (CBEE). To achieve any kind of scaled impact we need more courses of both kinds, alongside other training provision.

3. What actions are needed from the Government and local authorities to ensure there is an appropriate talent pipeline equipped with these skills?

Countless government, think-tank and industry reports have documented these skills shortages over the last two decades. It is difficult to see how they might be more effectively addressed in the absence of a fully articulated industrial strategy (for the creative industries) of the kind that was announced by the last government (in March 2018), a sector first).[4] This strategy document which, leaving aside the university-led R&D and Audience of the Future programmes, was noticeably light on funding commitments was, nonetheless, generally welcomed within the sector as a base on which to build. It contained a useful indicative summary of actions taken on the skills front under the heading of "People". This strategic approach has apparently been abandoned by the present government, to widespread dismay.

The main challenge that presents itself in the case of the creative industries flows from its essential economic characteristics: it is overwhelmingly dominated by micro-companies employing four people or less. Leaving aside the special case of business skills, many of which are accountancy based, the most successful approaches to addressing the skills gap are likely to be sector-specific and industry run, delivered regionally or locally. Models can be found in the fashion, film and TV industries, operated by trade associations, but they are characteristically sub-scale and underfunded.

a) How can this be sufficiently flexible to take account of the pace of change in the sector?

A generic approach is unlikely to be effective. If you want to understand the pace of change in the games industry and respond accordingly, you look to their trade associations (especially UKIE in this case), or to UK Music in the music industry. The best approach is always likely to be industry-led but government supported and regionally or locally delivered.

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4 BEIS and DDCMS, [Creative Industries Sector Deal (publishing.service.gov.uk)](), March 2018.

4. What actions are needed from industry to support the talent pipeline development?

This is not my area of expertise. I would note, however, that the capacity of the sector's relatively few large employers to support pipeline development is being progressively constrained. The largest investor in the UK's creative economy, the BBC, cannot contribute what it did in the 1960s. At the other end of the spectrum, micro-companies often cannot finance formal training programmes from within their own resources, and fear losing people who have benefited from upskilling (a perverse incentive applies). Workable solutions are likely only to be realisable at sub-sector level and with taxpayer support.

a) What actions are needed from organisations in the creative industries to prepare for and accommodate the requirements of the future workforce?

This is not my area of expertise.

5. What role do innovation and research & development play in addressing the future challenges facing the creative industries?

I was previously a member of CIAG (Creative Industries Advisory Group), the UKRI/AHRC body established in 2018 to advise on the government's creative industries 'sector deal' announced in March 2018, and in particular the university-led clusters' and Audience of the Future programmes. These programmes have been generally successful in attracting private sector funding – they have exceeded my expectations – and have succeeded in deepening cluster activity in those nine university sub-regions which were successful bidders. It is still too early to make a judgment about how successful this R&D activity has been in seeding commercially viable businesses: many of the projects in development are at pre-market stage, and one must always distinguish between viable *projects* and sustainable *businesses* (which depend on being able to finance a pipeline of successful projects).

The industrial language of 'R&D' and 'innovation' is neither natural nor customary to core *cultural* industries: in the world of musical theatre you proceed via story outline, a few musical ideas, script and score reading, improvisation - what is usually called 'work-shopping'. This kind of free-form creative process does not easily lend itself to the metrics deployed in developing new drugs or car batteries. Sometimes you have nothing to show for years of work: if you're lucky you arrive at *Phantom of the Opera*.

This explains why the cultural sector has largely failed to secure 'innovation' funding via the R&D tax credit regime: its *modus operandi* is distinctively haphazard. But musicals still need to be funded through their invariably long and tortuous gestation by development capital which is generally lacking unless your name is Cameron Macintosh or Andrew Lloyd Webber. Equally, in film and TV drama, development funding is always scarce, and is often only available through public bodies like the BBC, Channel 4, Creative England and the BFI. These pots are very small.

There is, however, a broader question to be asked about the UKRI/AHRC's clusters programme, notwithstanding its success. Should all such funds be distributed via successful university bidders, conditional on obtaining industry partners, or should some funding be made available on a reverse basis, that is to say via industry bodies (or companies) conditional on securing academic partners? Who serves whom in these arrangements and on what terms? Having for some years had one foot in industry and another in the academy, my experience is that the 'R&D' agenda is often set by academics with little interest in building sustainable businesses (as distinct from securing research funding). The closer you are to the market the more likely you are to ask the sharpest, most commercially informed questions. Too often there is a bias against commercial wisdom in favour of clever but self-serving approaches to 'research'. In my experience the research councils which administer the investment of public money into 'innovation' frequently fail to understand creative industry requirements because they are not familiar with the creative process – practice which does not easily sit within their familiar, techology-inflected templates. It would be helpful if Innovate UK, for example, were to engage some dancers, dramaturgs, composers and museum curators.

a) What actions are needed from the Government, funding bodies and sector organisations to support innovation, and research & development?

The government should revisit the Bazalgette report of 2017[5] and the sector deal which followed it, evaluate subsequent progress, reassess threats and opportunities and reset policy accordingly. Sector bodies, including the main trade associations, are universally keen to help, but it is hard for them to do so when government attempts to bury or ignore the work of previous administrations.

6. How effective are the Government's existing strategies at supporting the creative industries to meet the challenges and opportunities ahead?

It took a long time for the creative industries to obtain the government recognition which was formally bestowed by the 2018 'sector deal'.[6] It felt like a beginning and an achievement on which to build. There is a widespread sense in the creative sector, broadly construed, that we are going backwards.

7. What lessons can the UK's creative industries learn from other countries, and other sectors?

This is an interesting question as regards its first part; as regards the second part (learning from other sectors), from the perspective of business economics the answer must be conditional. There are many *services* businesses in the creative economy (in marketing and design, for example) which for most analytical purposes differ little from services businesses in other sectors. *Content* businesses however (producing books, films, games and shows), as defined by what they do, how they finance themselves and their risk profiles, are

5 Sir Peter Bazalgette, *Independent Review of the Creative Industries*, DCMS, 2017.
6 Martin Smith, *'Creative industries' revisited: contestable narratives, the 'sector deal' and the Policy and Evidence Centre*, Goldsmiths, University of London, 2019.

intrinsically different from businesses found in other industrial sectors, although the digital shift has highlighted some common features.

The question about what can be learned from the experience of other countries is timely. For much of the last two decades it could reasonably be claimed that the UK was in the vanguard if not genuinely 'world-leading'. But what becomes clear is that different countries pursue different paths to economic success, and that the drivers of creative economy development are highly variable.
In many countries the state plays a leading role, in others virtually none. The contrast between two small, similarly populated and distant but similarly mountainous countries, Kyrgyzstan and Slovenia, both of which I have visited during the last twelve months, is instructive. In the former, development is entrepreneurially led via the origination of managed industrial workspace with a highly creative twist. In the latter development is currently design led with seed corn public funding obtained from the European Union. Political, cultural and economic context are determining factors in each case.

The 'UK model' has been widely admired and emulated, especially but not only in Anglophone countries, for two decades, with the British Council playing a leading role in promoting it. (It is very regrettable that the British Council's Creative Economy Team has apparently been axed during recent cost-cutting).
But other models are pursued in much of Asia and South America. In much of Asia there is a familiar emphasis on economic growth and employment: in Latin America, by contrast, the emphasis often tends more towards cultural identity and community self-development. Most of the growth in the global creative economy comes from the 'global south', thanks to the rapid expansion of the middle class (documented by UNCTAD and the UNDP). Most dramatically, South Korea has become a leading creative power in a relatively short time thanks to ambitious state planning, a noticeable focus on culture and generous public funding.

We can always learn from the experiences of other countries and there is a great international appetite to do so, but what works in country A can rarely be transplanted wholesale, or effectively, to country B: the nuances of political, social, cultural and economic context are invariably important factors in determining development trajectories.

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Grammatically corrected 31 October 2022