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# **Changing Business Models in the Creative Industries: The cases of Television, Computer Games and Music**

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## **Executive Summary**

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# Executive summary

## Overview

This research examines the business model response to the change from analogue to digital in the creative industries. Looking at both traditional and emerging business models, the project focuses on three sectors: television, computer games and music. A series of six case studies, two from each sector, provide illustrative cases of the business model response to challenges to enforcement of copyright and the advent of digital technologies.

This paper reports on the findings of qualitative research into business models comprising six case studies from 25 semi-structured interviews, participant observation and literature sources. The research incorporates a literature review to establish the business model methodology and analyse the current state of research. The research findings show that the creative industries are in a state of business model experimentation and that the roles of intermediaries are changing. Furthermore, the evidence suggests that the Intellectual Property (IP) framework may be secondary to other influences on business models.

## Key Themes

The six business model case studies provide a snapshot of the current state of business models in three key creative sectors and suggest four emerging themes. These four themes are: IP; high rates of change; sectoral differences in models; and the changing role of intermediaries.

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## IP

Surprisingly, the research does not indicate that the case study firms felt that their business models developed and changed because of challenges to enforcement of IP. A common attitude was that piracy would always occur and should be minimised, but that it was more important to focus on creating new content. The business models respond instead to reduced sales of physical product, which is correlated with increased copyright piracy. Licensing of content, which is based on IP rights, was repeatedly cited as an important feature in the development of content. While IP is not perceived by the case study participants as an important influence on the structure of business models, it does play a number of roles in governing the implementation of business models. For example, out-of-copyright material can be a key resource for these business models. Overall, the evidence suggests that case study participants view IP as a secondary influence on their business models.

## High Rates of Change

Repeatedly emphasised by interviewees was the rapid pace of change of their business models. When asked about their business model, one interviewee mentioned ‘it changes every three months.’ Three of the case study firms did not exist ten years ago and all of the case studies had content producing business units that were less than five years old. Overall, this rapid change means further challenges and opportunities for the creative industries. It also suggests one very important point for both researchers and policy makers: data dates quickly. The three creative sectors surveyed in this research imply that the creative industries are far from reaching equilibrium in business models. Researchers and policy makers should expect further, rapid changes in business models as the technology evolves and content adapts.

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## Differences between sectors

A comparative analysis of the case studies reveals key differences between the sectors. Culture, file size, technology platforms, adaptive ability, consumption of content and delivery methods varied amongst the case studies. The evolution of digital media has already blurred the boundary between sectors as media begins to overlap. Collectively, this suggests that analysis of business models in the creative industries in one sector cannot be generalised to other sectors and thus, the successes of one sector may not translate to other sectors. The singularity of the digitally native games sector contrasts with the relatively traditional music and television sectors and may point the way to the future.

## Changing role of intermediaries

The role of intermediaries in these industries is changing. A hot topic in creative industries has been the concept that new technologies and delivery platforms are enabling disintermediation in the digital markets. The case studies presented here evidence both disintermediation and intermediation. They do not support a dominating trend of disintermediation which would lead to an overall reduction in intermediaries. Indeed, examples such as the market dominance of iTunes in the music sector and the success of Facebook suggest that the digital era is creating fewer, more powerful intermediaries.

Overall, the research highlights the role of IP, the rapid rate of change in business models, the differences between the sectors and the role of intermediaries.

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## Methodology

As Osterwalder and Pigneur's (2010) note, "a business model describes the rationale and infrastructure of how an organization creates, delivers and captures value." This definition forms the basis of the business models analysis and is mapped onto the Osterwalder and Pigneur (2010) business model map. The map breaks the business models into nine parts: key partners, key activities, key resources, value proposition, customer relationships, channels, customer segments, revenue streams and cost structure. The map structures the qualitative data gathering via interviews, participant observation and literature. The case study sectors are chosen using the Technology Strategy Board's (TSB) sector segmentation approach to select the three sectors with the highest combination of digital output and technology aided creative processes: computer games, music and television. The case study firms are selected via quota and snowball sampling via the Moving Targets<sup>1</sup> digital media project.

## Case Studies: Computer Games

As a digitally native sector, computer games have rapidly embraced new technology and new formats. The sector is likely to be less affected by illegal copying due to the proprietary hardware associated with gaming, technical protection measures (TPM) and the online nature of many games. As games are an interactive process, the network effect driven by the subscription model and social interaction encourages users to play using legitimate copies.

The two case studies in computer games are Dynamo Games and YoYo Games.

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1 Moving Targets is a digital media project with the Universities of Abertay, Edinburgh and Edinburgh College of Art. [www.movingtargets.org.uk](http://www.movingtargets.org.uk)

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Dynamo Games is a computer games developer founded in 2004. Based in Dundee, the 20-person firm produces sports and beauty games for Facebook and mobile devices. Dynamo bundles three games development business models: mobile games for publishers, mobile games sold via iTunes and online games for Facebook, which collectively allow them to capture different segments of the games market. These three models are further distinguished by technological and pricing differences. Potential online fraud is a concern, but the Digital Rights Management (DRM) of iTunes and specifics of Facebook games reduce concerns of unauthorised copying.

YoYo Games is a computer games toolmaker, developer and publisher founded in 2007. With offices in England and Scotland, the 8-person firm produces game development tools and games for computers and mobile devices. YoYo games bundles two interrelated business models: development tool and publishing. Its origins lie in the computer games development tool, Game Maker which allows amateurs to develop games, which are then published, rated and discussed on its community platform, [www.yoyogames.com](http://www.yoyogames.com). The best of the amateur games are then selected by YoYo Games, further developed and then published.

## Case Studies: Music

The music industry has been at the forefront in dealing with the changes arising from the shift from analogue to digital. The smaller file size of songs means that their digital distribution is relatively fast and easy. Unsurprisingly, the music industry has been the first industry to be heavily impacted by the change to digital. Traditionally, the music industry sold the bulk of their products to end-users by way of bundling multiple songs into an album. In the physical world, the sale of singles was largely unprofitable as there were economies of scale in album sales. However, the falling costs of distribution and reproduction have reduced this economy of scale and unmet demand for singles is now satisfied in the digital realm via licensed and unlicensed content. The fall in demand for bundled products has undermined the previously dominant album-based business model in the music industry.

The two case studies for music are Heist Records and Clash Music.

Heist Records is a music producer for games, a talent developer and music development company. The company functions as a sole trader, Ged Grimes, Managing Director, who works with a variety of other artists and media firms. Based in Dundee, Heist Records was founded in 2010 and builds on Grimes' 25 years in the music industry. Heist records incorporates three business models: that of a performing musician; artist representation and development; and music for games. Changes in the market structure of music, particularly those precipitated by the decline in sale of physical products, have heavily influenced the business model of Heist Records. No longer convinced that the traditional model, dependent on musicians signing to a major recording label and selling CDs, is the route to success, Heist Records seeks alternative route to markets via Computer Games and social media.

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Clash Music is a media group based on an independent music magazine published on a monthly basis. Founded in 2004 in Dundee, Clash operates both in the music and publishing industries. Clash Music operates three primary business models all of which are based on the monthly magazine, Clash Music. The first model is music journalism which includes the magazine and website<sup>2</sup>. In its second business model, Clash develops marketing campaigns for brands by incorporating social media, [ClashMusic.com](http://ClashMusic.com) and musical events. Finally, Clash works as a media partner and curator at music festivals. Collectively, these business models work together to form the media group Clash Music.

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2 The printed magazine and the website could be considered separate models but are here combined in the interest of brevity.

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## Case Studies: Television

The digital distribution of television programmes widens the viewing possibilities for consumers. Television programmes are now digitally available for streaming or download in addition to traditional broadcast methods. This has been great news for consumers but these new business models are not straightforward. The advertising funding model for television is under strain as other media, including internet web sites, compete for advertising revenue.

The case studies for television are Tern TV and BBC.

Tern TV is a television and digital content producer with offices in Glasgow, Aberdeen, Belfast and London. Tern, with approximately 50 employees plus freelancers, focuses on lifestyle and factual content for television and storytelling for digital platforms. Tern has two primary business models: television production and digital content production. As a case study, Tern provides a prime example of the evolution of a traditional business model (television production) embracing new technologies and spawning a new business model (content for digital platforms.)

The BBC, with 24,000 employees, is a large player in the television sector and its publicly financed business model plays a unique role in shaping the sector. As a very large organisation, the BBC has roles in many parts of media by producing and commissioning sports, news and entertainment content for radio, television and online distribution. Unique elements in the BBC business model are its funding from license fees and its non-commercial mission to “inform, educate and entertain.”<sup>3</sup> The non-profit, public service and free-at-point-of-consumption nature of the BBC presents a unique business model case study.

These case studies form the evidence base of the research findings.

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3 About the BBC, [http://www.bbc.co.uk/aboutthebbc/purpose/public\\_purposes/](http://www.bbc.co.uk/aboutthebbc/purpose/public_purposes/)

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