



MEDIA ECONOMICS CREATIVE INDUSTRIES

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Content

- I. Media economics
 - i. Cinema and motion pictures
 - ii. Music business
 - iii. Internet culture
- II. Creative industries



CINEMA AND MOTION PICTURES

Economic features of cinema industry

- Intrinsically heterogeneous (no two alike films)
- Complex consumption
 - Can't be adequately modelled with standard utility maximizing models
 - Time allocation + product characteristics (actors, music, plot) + people you attend with + surroundings, quality of the theatre
 - Opportunity costs of time and additional costs added to ticket price (e.g. baby sitters)

Economic features of cinema industry

- First week of release – strong predictor of success/failure => decision of whether or not to pull the film from circulation
- Price:
 - Low price flexibility – failing cinema theatre or movie doesn't reduce price

Economic features of cinema industry

- Main substitutes:
 - Television
 - Mass spectator sports
 - Pop music
 - Computer games
 - Videos and DVDs
 - Time spent on DIY (Do It Yourself)
- Impact is difficult to measure

Economic features of cinema industry

- Monopolistic competition:
 - small network of major exhibitors who have close links with distributors
 - independent cinemas – almost died off
- Entry barriers into industry
- Weak position of film makers outside the USA
=> cultural hegemony

Economic features of cinema industry

- High costs of production
- Large length of production – small number of films per year
- High costs of promotion
- Extreme degree of riskiness
 - firms are large,
 - diversify through differentiation of products



MUSIC BUSINESS

Music business

- Music business industry:
 - Creative artists sector
 - Record companies sector
 - Retail record stores sector

Creative artists sector

- High concentration
- High turbulence
 - Highly dynamic
 - High levels of entry and exit
 - Changes in artists ranking (changing market share = movements in top 100 singles, album charts)

Record company market

- High concentration
- Low turbulence
 - Low levels of entry and exit
 - Dominant firms – Majors
 - + many turbulent competitive firms that operate with min profits
- Why?

Record company market

- Economies of scale in:
 - manufacturing
 - distribution
 - marketing
 - financial costs (large firms are able to reduce exposure to risk by diversification)
 - penetrating markets (need penetrate many markets at the same time, due to short product life)
- Reputation

Cannibalization in music business

- Not generate much profit from hiring additional artists
 - Old artist – low costs, high profits
 - New artists – high costs, profits?
- Result:
 - Large companies can't bid all creative artists=> space for smaller companies
 - Large companies sign artists without commercialization of their music (underspending on album, videos, marketing)

New technologies (Internet) and music business

- Reduction of entry barriers
 - Artists start own record companies
 - Outsource finance and marketing
- Deconcentration => price competition
 - No, if large companies vertically integrate with online music stores

New technologies (Internet) and music business

- Diversity?
 - Small minority of creative artists dominate market at a point of time
- Why?
 - customer search costs (radio and television)
 - Result: skewed demand for particular artists (have consumer appeal, talent?)
 - Internet – free listening to music samples => lower search costs
 - Result: demand may be more skewed for talented artists



INTERNET CULTURE

Internet culture

- Free supply
- Barrier – and cost-free flows of information
- Commercial cultural sites remain difficult to promote
=> search for business modes

Internet culture

- Internet was supposed to bypass entry barriers into cultural industry
- However, without promotion, a cultural good, even free, have difficulties to find an audience
- Most likely scenario – emergence of new intermediaries
- Total self-regulation would lead to dominance of large firms in the Internet



CREATIVE INDUSTRIES

Definition of creative industries

- National definitions
 - The UK
 - France
- International definitions
 - UNESCO
 - World International Property Organization (WIPO)
 - OECD
 - KEA European Affairs for the European Commission

The UK – “creative industries”

- Department of Culture, Media and Sport (DCMS), 1990s
- *“Those industries which have their origin in individual **creativity**, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of **intellectual property**”*
- Criteria:
 - **“Creativity”** as a central input to the production process
 - **Intellectual property** (and not only copyright) as a characteristic their outputs

DCMS 13 industries

- advertising,
- architecture,
- the arts and antique market,
- crafts,
- design,
- designer fashion,
- film and video,
- interactive leisure software,
- music,
- performing arts,
- publishing,
- software and computer services,
- radio and television

France – cultural industries

- *“A set of economic activities that ally conception, creation, and production functions to more industrial functions of manufacturing and commercialising at large scale, through the use of material supports or communication technologies”*
- **Criteria:**
 - Outputs aimed at **massive reproduction**
 - Outputs are characterised by **copyright** (and not intellectual property)

France – cultural industries

- **Publishing** (book, newspapers, magazines and periodicals, music) as well as trade in books, sound recordings and press
- **Audiovisual activities** (production of films for television, institutional and advertising films, and theatrical films, technical activities related to cinema and television, theatrical film distribution, video publishing and distribution, theatrical film exhibition, radio, production of TV programmes, TV channels editing, distribution of radio and TV satellite package programmes)
- **Directly related activities** (press agencies, multimedia, advertising)

UNESCO –Framework of Cultural Statistics

- “Cultural industries” – *industries producing and distributing cultural goods or services*
- “Cultural activities, goods and services” – *those activities, goods and services, which at the time they are considered as a specific attribute, use or purpose, embody or convey cultural expressions, irrespective of the commercial value they may have.*

UNESCO –Framework of Cultural Statistics

- 9 categories:
 1. cultural heritage;
 2. printed matter and literature;
 3. music;
 4. performing arts;
 5. audio media;
 6. audiovisual media;
 7. socio-cultural activities;
 8. sports and games, and
 9. environment and nature.
- 5 cross-cutting “processes of cultural production”:
 1. creation,
 2. production,
 3. distribution,
 4. consumption
 5. preservation.

WIPO – “copyright industries”

- *“Those industries that are engaged in the creation, production and manufacturing, performance, broadcast, communication and exhibition, or distribution and sales of works and other protected subject matter”*
- **Criteria:**
 - **Copyright** is a characteristic of their outputs

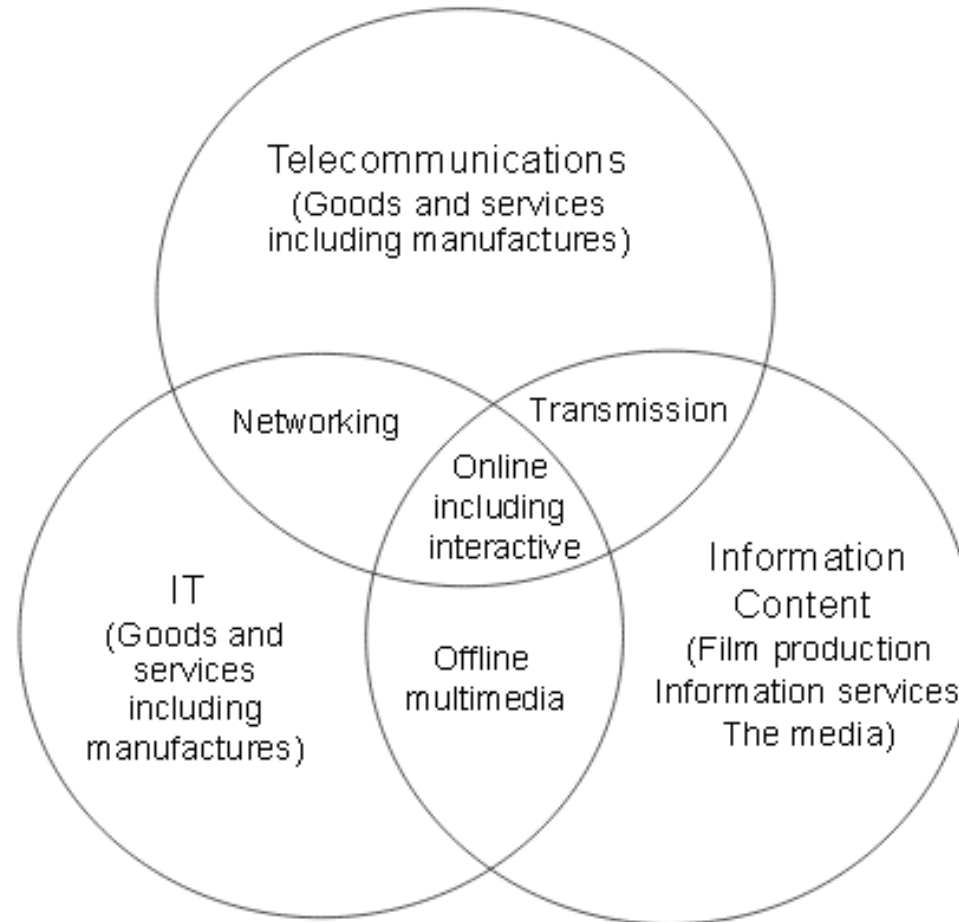
WIPO – “copyright industries”

- press and literature,
- music,
- theatrical productions,
- operas,
- radio and television,
- photography,
- **software and databases,**
- visual and graphic arts,
- advertising services,
- **copyright and collective management societies.**

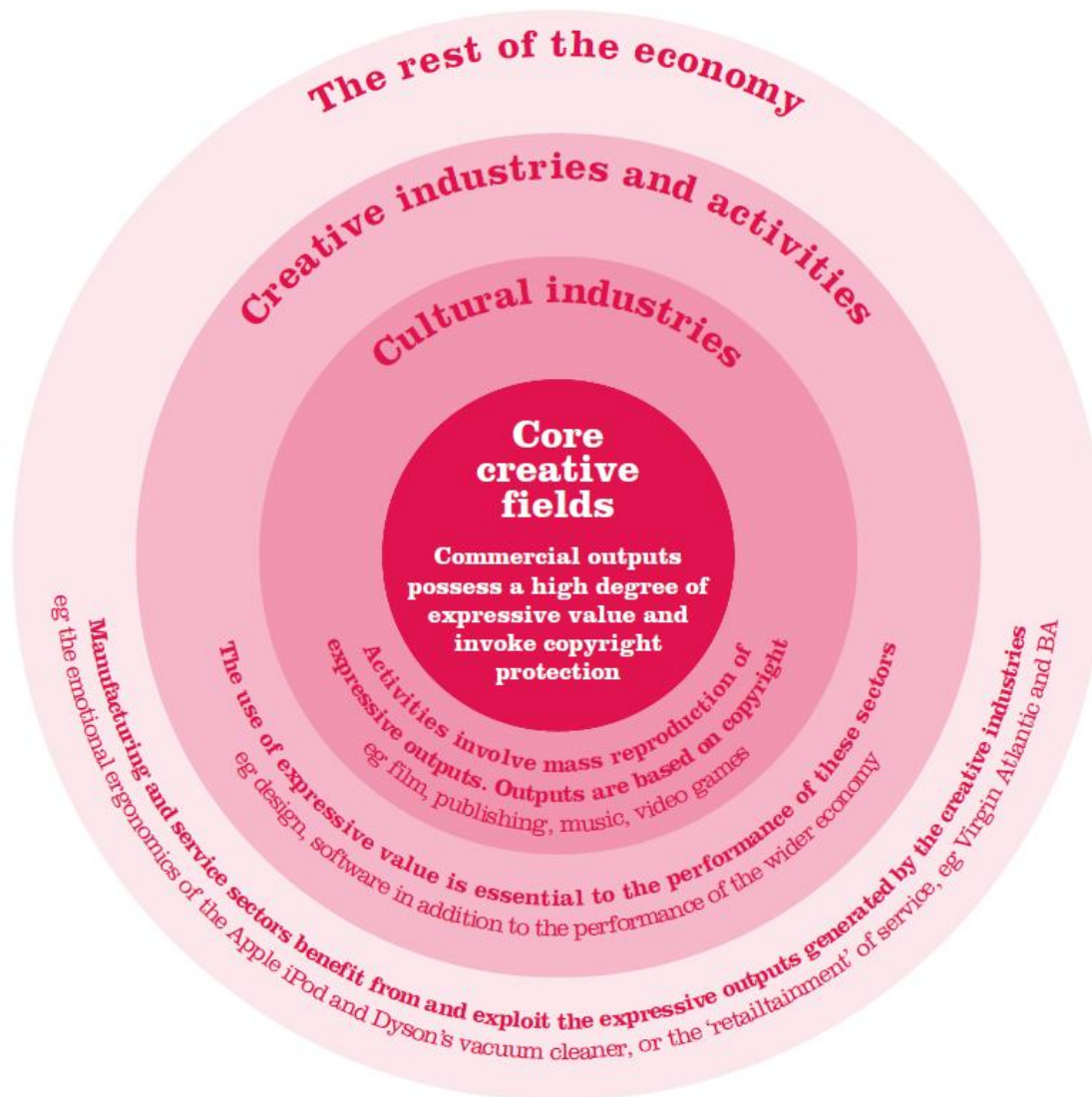
OECD – “content industries”

- “content industries” describes *the industries which produce “information content products”, whether or not digital.*

OECD – “content industries”



KEA European Affairs for the European Commission



KEA European Affairs for the European Commission

- *In the “creative sector”, culture becomes a “creative” input in the production of non-cultural goods.*
 - Video games
 - Design
 - Heritage
 - Advertising
 - Architecture

Creative industries

- https://www.youtube.com/watch?v=qtd4y_XPskA

Sources

- *A handbook of cultural economics*. Edited by Ruth Towse. Cheltenham: Edward Elgar, 2003.
- *The Economy of Culture in Europe*. KEA European Affairs for European Commission, 2006.



**THANK YOU FOR
ATTENTION!**