SCOTLAND'S DIGITAL MEDIA AND CREATIVE INDUSTRIES CLUSTER

Background

The general business environment

Scotland's economic history is rooted in very "traditional" industries. In the West of Scotland and Glasgow, tobacco importation and processing gave way to heavy engineering and the manufacturing of ships and rail locomotives. "Clydebuilt" became a global brand for Scottish manufacturing In the East and the capital, Edinburgh, printing and ship-broking gave way to financial services and banking. Further North, Aberdeen progressed from fishing and whaling into oil with the opening up of North Sea fields and Dundee was always famous for "Jam, Jute (for linoleum floor coverings) and Journalism".

To a large extent, Scots' popular image of their economy has been, until very recently, conditioned by this traditional background. A "real" job is one in which something is manufactured. A "real" business produces useful physical products. The powerful engines of the national economy are large companies and corporations with large workforces and long-term stability from their critical mass. The ideal was for a young person to learn a recognisable trade or skill and get a good job for life applying it in a substantial industrial context.

Whilst the late 20th century shift towards service-oriented or intangible businesses and smaller-sized enterprises applied just as much in Scotland as anywhere else, the popular psyche remained wedded to the old industrial models.

Alongside this rather old-fashioned industrial paradigm, Scotland has always maintained a very high respect for education, innovation, cultural life and the spirit of enterprise. Despite incorporation into the United Kingdom, Scotland has always maintained a separate and significantly different educational system with its own accreditation agencies and distinct qualifications. Scotland is very appreciative of its indigenous universities and there is a strong preference among Scottish students to attend local universities and colleges. All levels of society are proud of our literary traditions (e.g. the ubiquity of "Burns Suppers") and cultural forms of expression such as theatre and music are popularly valued. The main cities' museums and art galleries are frequent venues for family outings, which leads to continuing public investment in such amenities from the establishment of the "Burrell Collection" in Glasgow in the 1970s to the more recent opening of the Glasgow Science Centre as a public showcase for Scottish technological innovation.

Over recent decades and most particularly since 1991, Scotland has also maintained a national effort to develop its economy pro-actively from the public sector. In 1991, two of the major agencies involved, the Scottish Development Agency (largely concerned with physical infrastructure) and the Training Agency (focused on skills and workforce development) were combined into a unified agency: Scottish Enterprise withy an extraordinarily comprehensive remit to develop the Scottish economy across a broad spectrum: from workforce to company development, from physical to research infrastructures, from indigenous development to globalisation and internationalisation.

In 1993 Scottish Enterprise undertook a major piece of research in conjunction with the Monitor Group to identify which industrial sectors were particularly key to the future prosperity of Scotland, so that appropriate priority could be given to them. By 1997 this had matured into a major implementation of economic development along cluster lines, with our clusters defined as identifiable groupings of our economic base where global economic advantage and competitiveness could be built by improving the inter-linkages and collaborative mechanisms between firms and the other economic entities with whom they were functionally inter-dependent. The first four target clusters were identified as Oil & Gas; Food and Drink; Tourism and Semi-conductors and initiatives were launched in all these areas.

At the same time, Scottish Enterprise was continuing its work with other key industries with a single-sector rather than a cluster approach. One of these was film-making in Scotland, stimulated by losing to Ireland a large part of the making of the Mel Gibson feature, "Braveheart" about William Wallace, an iconic figure from Scottish history. As a result of the film initiative a public-sector body "Scottish Screen" had been set up as well as local support functions such as he Glasgow Film Office. At the same time, Multimedia began to emerge as a sub-section of the Software industry withy potential for its own focused development.

It began to be realised that there were considerable synergies and overlaps between Multimedia and Film, in terms of innovations in digital film, animation and online video. It was further conjectured that other industries might be similarly "clustered" with Film and Multimedia as a result of convergence in business models as well as technology convergence.

A basket of industries was identified as possible components of a meaningful cluster which acquired the name "Creative Industries". This immediately provoked protest from other industries. If these were "creative" industries were all other industries therefore "uncreative"? It was pointed out forcefully that creativity was vital to all industries. This apparently esoteric discussion actually led to a useful definition of "creative industries" which has been applied in Scotland. Whilst creativity is undoubtedly essential in all industries, most of the time it is harnessed as an agent of change or improvement. A factory does not grind to a halt because nobody had a creative idea today. By contrast, printing presses certainly would fall idle if nobody could think of a new newspaper article or book manuscript. Studios would be empty if nobody could think of a new screenplay. In other words, there are a set of industries in which the fruits of human creativity are actually a primary raw material to the business process rather than just a source of change or improvement. The industries in Scotland which conform to this "creativity as raw material" model are:

Music
Design (including fashion design and crafts)
Publishing
New Media (including multimedia and Internet)
Computer Games and packaged leisure software
Films
Broadcasting (including TV and Radio)
Advertising
Architecture
Cultural Industries (Museums, Art Galleries, Antiques, etc)

The cluster

Further definition of the Scottish Creative Industries cluster defined as above was immediately difficult. Because these industries had not previously been considered – anywhere in the UK - in the particular light of their creative elements, the Standard Industrial Classification (SIC) coding structure by which all UK economic activity is monitored and reported, did not accurately map on the creative sectors. For example, measures of employment in the film industry aggregated all the ancillary employment in the physical production of film stock and cameras, processing negatives and the production of the necessary chemicals, etc. The first job of the Scottish Enterprise cluster team was to form new estimates of the creative elements of these industries. Whilst this could not be done with absolute rigour, consultation with all available stakeholders, including the Central Statistical Office of the UK government, yielded a broad estimate which was considered by all concerned as sufficiently robust to be useful:

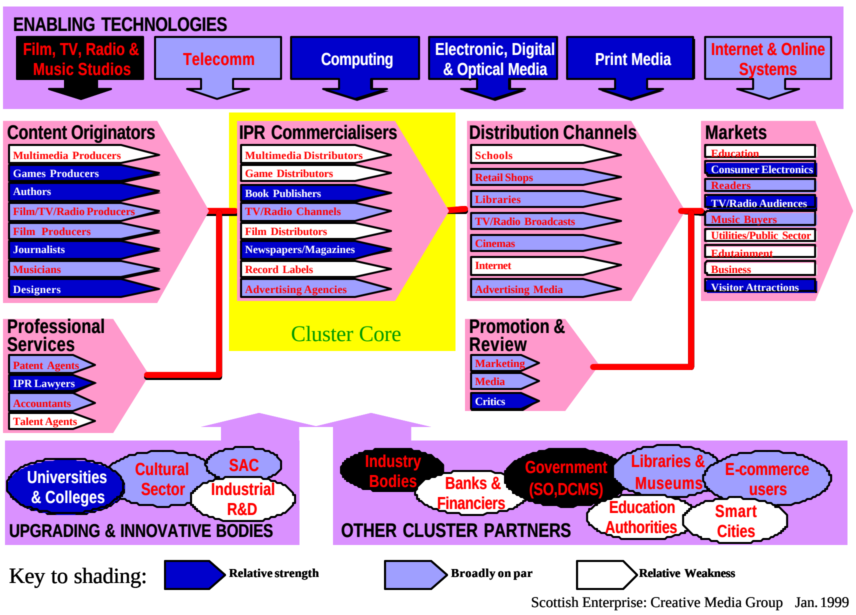
> *The Scottish Creative Industries cluster is estimated to add approximately £5.3 billion per annum to Scottish GDP (4%) and support around 70,000 full-time-equivalent jobs.*

By any standards, this makes the creative cluster a substantial element of the Scottish economy, fully comparable with electronics (45,000 employees) and whisky (55,000).

As mentioned above, most of these industries had not previously been explicitly targeted for economic development, so the early stages of engagement were primarily to establish contact and promote communication, both between creative sectors and Scottish Enterprise and among the creative sectors themselves. Scottish Enterprise were gratified to find a more than enthusiastic response from the industries themselves, who were keen to explore collaborations and mutual opportunities, primarily as a result of technology innovation. As the Edinburgh-based and Booker-prize-winning publisher Canongate told Scottish Enterprise, "… we notice that in our contracts with authors we are buying all sorts of additional rights to electronic publication, but we have no idea how to make use of those rights. We would like to talk to someone in the games industry or a web designer." 200 representatives of creative companies at a plenary symposium in 1999 were asked, "If there were one single thing that Scottish Enterprise ould do to promote the growth of this cluster, what would it be?" Their answer was, "Keep us talking to each other."

We captured our perspective on the "shape" of the cluster in a cluster "map":

Figure 4 Scotland's Creative Media Industries Cluster

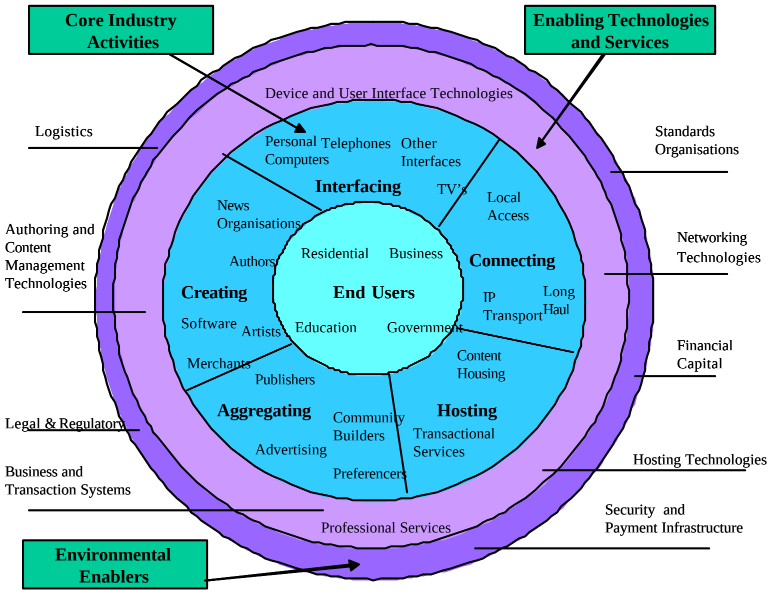


Objectives

Having confirmed that Scotland's creative industries constitute a meaningful cluster and that the industrial layers were keen to engage with us in development, the next stage was to move to a more structured diagnosis of market failures and opportunities.

It immediately became clear that the outstanding engine of immediate growth was the growth of digital media and its potential to transform all of the constituent industries in our cluster, from digital radio, to virtual reality for architecture, from high-tech print of digital designs on fabrics to sophisticated innovations in games development. From the very first, therefore, the focus has been on digital media and the ability of these industries to capitalise on its benefits.

We analysed the structure of the digital media sub-cluster in this diagram:



We further determined four main areas of market failure and development opportunity for the cluster:

1. <u>A more "creative-friendly" and supportive business infrastructure in Scotland</u>.
   It is clear to the conventional business infrastructure in Scotland that creative businesses are difficult to gauge using the normal tools of commercial appraisal. At the very simplest, consistency of performance is largely impossible to guarantee in creative industries: one film's success does not guarantee the success of he next from the same company. Also, the competitive worth of a creative company is often quite intangible: the track record of a music producer. There is a need to intervene withy key partners in finance, legal services, property, etc. to build their awareness of creative industries and the ways in which they can be robustly evaluated.

2. <u>More effective means of identifying and nurturing creative talent</u>.
   This is a further area of controversy. It has been conjectured by some that "talent" should strictly be defined as an unteachable skill and therefore must be identified and nurtured. It cannot be engendered in an "untalented" individual. Certainly talent defined in this way needs to be complemented by appropriate skills, and it can certainly be inhibited by (e.g.) and insensitive education system. Regardless of the controversy, there is a clear need to open channels for people from all walks of life to

express their creativity and contribute to the commercial health of the creative cluster. A lot of the commercially significant creative talent will exist in the structured base of the economy – inside creative companies and research departments. Even more will be found in the ancillary elements of he cluster – the large cohort of contractors, freelancers and self-employed workers. But this search must also embrace the general public, including areas of economic exclusion where recent history shows some of the most successful and saleable stories and other creative commodities can arise.

3. <u>A greater international reputation for Scotland as a creative centre</u>
   Scotland has a demonstrable global reputation for many things: its education, the grandeur of its landscape, its colourful cultural heritage. However, it is far less well known that two of the world's best-selling computer games originated in Scotland. It is not widely appreciated that one of our universities – Abertay in Dundee – was a pioneer in focussing on computer games and interactive entertainment as a major specialism. It is necessary to take steps to improve the international perception of Scotland as a powerful source of creative properties. This is not just a question of publicity. There is no major international games publisher or film distributor based in Scotland, nor is it a feasible aim to attract one in the near future. Consequently, Scotland's creatives have severe difficulties at present in accessing global markets. A greater international profile would help greatly to overcome this geographic peripherality.

4. <u>Greater interaction between Scotland's creative industries and sources of innovation</u>
   The research base in Scotland (academic and commercial) is at the forefront of many areas of technological enquiry which are central to the future of the creative industries, from virtual reality to animation, from computer science through artificial intelligence to communications technologies. However, the fruits of this innovation is not easily made available to indigenous Scottish creative companies. To often, innovation finds its way first of all to global majors like Microsoft or Sony and finds its way back to Scottish practitioners via their product offerings. Whilst this certainly gives Scottish companies access to new know-how, it is at the expense of competitive advantage. By ensuring that Scottish creative companies have more opportunity and help to be first adopters of new Scottish innovation

[We will list here an exemplary selection of some of the intervention projects we have carried out under each of the strategic priority headings above]

Process issues

Initiative and governance

The Creative Industries cluster initiative is primarily run by the national office of Scottish Enterprise but with extensive consultation and collaboration with industry representatives. For example, Scottish Enterprise works closely with all the trade associations available to us, as well as other public-sector agencies such as the Scottish Arts Council.

Importantly, here is strong regionalisation of the cluster initiative, too. The "core team" which formulates and maintains the day-to-day strategy agenda for the cluster is made up of representatives from five of the local enterprise companies in the Scottish Enterprise network, in addition to four members from Scottish Enterprise National. This has led in some cases to component sectors of the creative industries cluster being co-ordinated from a local office, in line with regional strengths, rather than everything from the national centre. For example, Tayside (Dundee), although technically a local office of SE, provides national co-ordination to the games industry. Similarly Glasgow co-ordinates design.

Digital Media and Creative Industries development is also a very high priority for the UK government and the newly-devolved Scottish Executive. There is therefore strong political support for this intervention and on-going co-operation with government, particularly a joint collaboration with the Industry departments (Department of Trade and Industry in London, Department of Enterprise and Lifelong Learning in Scotland) and Cultural departments (Department of Culture, Media and Sport in both London and Scotland)

Delimitation of membership

The creative industries cluster is spread over the whole of Scottish Enterprise's territory, which covers 93% of the population of Scotland. The less-densely populated balance of Scotland is looked after by a partner agency, the Highlands and Islands Development Agency.

The component industry sectors are as originally listed above, but the prime focus for intervention and active support is digital media. Beyond that, the main requirements for support for creative businesses are he same as for any small businesses: access to finance for investment, commercial training for management, property issues, legal advice, marketing support, etc. This is provided by Scottish Enterprise outside the cluster initiative via schemes such as he Small Business Gateway which provides general support to small businesses. We work closely with our colleagues in the SBG to ensure that creative businesses are included among their general clientele. Since a number of creative businesses characterise themselves as artistic or cultural rather than purely commercial, we are developing new schemes in partnership with the Scottish Arts Council to provide equivalent Small Business support, but couched in more congenial "artistic" language, through an specialised Gateway which we are calling a "Cultural Enterprise Office". A pilot of this concept in Glasgow has proved highly successful in attracting clients unlikely to approach conventional support agencies.

Typically a creative company in Scotland employs less than 20 people and turns over less than £200k per annum. However, we have some significantly large players capable of competing effectively in UK and global markets, particularly in computer games, television production and music.

Resources and organisation

There is not a dedicated, separate office for the Creative Industries initiative. In general support and activity is delivered through existing structures and bodies such as the Local Enterprise Companies, Industry Associations and partners such as the Scottish Arts Council.

When the action phase of the cluster intervention was launched in April 2001, the programme was resourced at £25 million over a 3-5 year period.

The client industries in the cluster have regular opportunities or active participation in most of our intervention schemes, not only in benefiting from the schemes, but in shaping them in he first place.

Creative Industries is now one of eight or nine cluster initiatives underway in Scottish Enterprise. There is regular interchange and collaboration with other clusters to monitor areas of opportunity in overlaps: e.g. bio-informatics with our colleagues in Biotechnology.

Facilitators

The main facilitators of the cluster initiative are the national and local members of he SE "cluster team" described above.

A shared framework

The shared vision for the cluster initiative is published in a document entitled "Creative Scotland: Shaping the Future" and our progress by 2002 was published in an "Annual Report" for the cluster. Both these are attached as appendices

A government agenda

Cluster-based economic development was largely pioneered in Scotland by Scottish Enterprise, but it is fully endorsed in the agenda for Scotland's devlved government.

Commitment

Whilst there is strong commitment to this initiative, here is a clear exit strategy for Scottish Enterprise. The aim is to achieve self-sustainable corrections to market failures which will eliminate the need or further intervention of this type by the end of the 3-5 year period. There is regular evaluation of progress and an annual updating of baseline data to track the progress of the cluster.

There is long-term sustainability from the initiative, however, in he enduring products which will remain from he cluster intervention. These include major infrastructure projects such as the large-scale development of media centres in Glasgow and Dundee, and also the permanent legacy of new and expanded agencies such as Scottish Screen, the Scottish Arts Council and more specific bodies such as TIGA Scotland, the games industry association.

Development over time

The creative industries cluster intiative always maintained a national scale and focus, reflecting the comprehensive remit of Scottish Enterprise. The general scale of he intervention is expected to be broadly maintained throughout the life of the project.

Performance

[We will include some highlights from the Annual Report of progress]