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Creative Industries
Policy & Evidence Centre
Led by nesta

Insights from our Industry Champions

Business model disruption and innovation during COVID-19 in the creative content industries

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As part of the Creative Industries Policy and Evidence Centre (PEC)'s research agenda on industry's response to COVID-19, the PEC has consulted its Industry Champions on their experience of business model disruption and innovation within their own organisations during the pandemic.

The PEC's Industry Champions are trusted and respected practitioners, drawn from all parts of the creative industries and from across the UK. They have deep knowledge of industry practice and a desire to inform academic research that leads to better policies for the creative industries.

We convened a virtual Industry Panel on 11 June which brought together some of the Industry Champions to address three questions:

- What, if anything, did you have to change immediately to allow your business to continue to operate (or not) in the pandemic?
- What new business models are being developed in the mid-term to respond to the changed circumstances brought about by COVID-19?
- How can industry, UK government and research best support this innovation and strengthen resilience?

The panellists came from a diverse range of content industries including film & TV, visual effects, museums, galleries, theatre, music and dance, and between them worked across the UK. A briefing paper, covering some of the academic literature on business models was produced by the PEC's Research Director, Professor Bruce Tether and used to structure the discussion. The Panel was chaired by Caroline Julian, Director of Policy and Programmes at the Creative Industries Federation.

The purpose of the meeting was for industry experts to share their experiences of disruption and business model innovation within their organisations during the COVID-19 pandemic, and discuss its implications for the medium and long term. Experiences included moves to home working, increased engagement with audiences digitally, working with communities who have low digital access and the closure of theatres and galleries.

This briefing outlines the key points discussed by the Panel. In addition to spelling out implications for devolved and central government, there are also insights for industry and for the PEC's own work. These are listed at the bottom of the briefing.

Insights

Business model disruption

The panellists observed that one of the biggest short-term impacts of COVID-19 had been the inability of their organisations to attract footfall or audience, with many noting that an in-person audience was an essential part of their business model. Whilst some of the innovations noted in this briefing worked to counterbalance at least some of this impact, panellists stressed that large swathes of the sector would not be able to go back to 'business as usual' while audiences were still social distancing.

One panellist working in theatre characterised it as a relatively mature sector with multiple stakeholders sharing profits. Heavy rents were commonplace and ticketing agency margins meant that much of the face value of ticket prices does not go to producers. There is subsequently pressure to ensure that there is a high occupancy rate, with many venues only breaking even when audiences reach over 60% capacity. A producer on Broadway for example, who had a show that was likely to do well, would naturally wait until social distancing was over to optimise the potential return. As a result, many productions in Broadway are already moving to Easter 2021 openings, slowing down the potential reopening of the sector. This is also interesting as the ticket agents and landlords themselves have an interest in productions being active, and this may indicate a moment to redistribute the returns.

Within the UK, a reduction in subsidy in recent years for theatres and the performing arts had also meant that those who had succeeded in optimising their commercial model would be likely to be hit. Local councils for example, had cut their culture budgets from £78 pounds per person on average in 2009-10 to £37 per person in 2019-20, a reduction of 52%.[1] However, it remained to be seen whether the entrepreneurial organisations

[1] https://www.ifs.org.uk/publications/14563

would then be better placed than those relatively more reliant on subsidy when the economy recovered.

Another panellist noted that the performing arts had been forced to ask the big existential question of “is it over?”. As there is plenty of evidence that people really value shared, live experiences, it is likely that the answer to this is “no” and that shared experiences in one form or another would return. However, the severity of the crisis and the uncertainties surrounding lockdown and social distancing measures meant that many venue-based organisations faced existential challenges without further Government support. **A Cultural Recovery package was announced by the government after the Industry Panel meeting took place, but further targeted support may be required for venue-based organisations.**

One panellist reported a fear of ‘digital polarisation’ between organisations that had invested in digital and those that hadn’t. Their own organisation used digital production tools which helped ‘behind the scenes’, but this wasn’t necessarily visible as this was not reported in its external communications. The high costs of equipment was also likely a significant barrier to building digital capacity in smaller organisations. **Policymakers should consider how they might assist organisations to invest in digital capacity.**

A related challenge brought up by panellists was that of navigating new regulations whilst working across multiple jurisdictions. For example, for organisations in Belfast, updates were given from Dublin, the UK mainland and the Northern Ireland executive. Many within the sector felt like they were being pulled in different directions, eg it was unclear when live performances would return. **An implication for devolved and central government is to produce clearer guidelines for organisations based in the devolved nations.**

Within film & TV, panellists focused more on disruption to modes of production than on consumption. Though some production was now able to come back, practical measures to shoot in a socially distanced way had come with their own issues. One panellist noted that there were also differences between the impact on production of factual television versus drama, due to talent commitments in dramatic productions which could be particularly challenging to disentangle. This had led to new questions about what the legal status of different bookings might be.

In the medium term, one panellist raised concerns about how long it would take to start up again. Within their sector (dance), productions normally go through about three phases of funding which can take a long time to progress. During the pandemic, there had not been an opportunity to apply for funding for future productions; this had meant that there was already a delay for future productions. One panellist suggested that **funding bodies could usefully help organisations through this period by speeding up funding processes/simplifying applications.**

Inequality in the performing arts

Although not strictly a business model issue in and of itself, several panellists raised the issue of systemic racism within the performing arts as a priority that needs addressing. Lack of innovation in this area was an obstacle to attracting necessary diverse audiences and talent who may be put off by a lack of action in this area.

One panellist stressed how the lack of diversity in the performing arts had come to the fore in the pandemic. They said that a historic underfunding of organisations serving minority and disadvantaged audiences meant that they had been sidelined and had lower profiles than they merited. This under-resourcing also meant that cash reserves in these organisations were often much lower than other theatres, which meant that many were particularly struggling at this moment. **An implication was that a greater understanding was needed of how creative organisations, in particular those that are publicly funded, can diversify their audiences, as well as of how organisations that do reach diverse audiences may be restricted by aspects of existing funding models. This was also an important area for PEC and other researchers to address.**

Job security

Other immediate problems such as the challenge of sustaining the workforce and self employed contractors could easily become long-term problems. A panellist within the performing arts speculated that there may be a backlash against digital technologies within the arts as concerns grew about their implications for job security. Organisations had to be mindful of what digital innovation would mean more generally for the sector and how to best assimilate and bring employees, other organisations and the public along with them. **Industry should prioritise training of staff on digital tools and skill them up as organisations change.**

Panellists also perceived there were worries that senior and junior staff were experiencing the impacts of the current crisis unequally, and whilst panellists - as professionals - had taken some steps to mitigate this, there were concerns for the sustainability of careers in the industry more generally.

Changing demographics

One panellist explained that their organisation, which is reliant on in-person gatherings, had already identified potential issues with returning to a business model focussed on their pre-Covid 60+ audience demographic. Would it still be able to attract an audience of 1,000 people aged 60+ in one room at the same time? Would it be able to retain this demographic through digital channels?

One panellist based in Northern Ireland highlighted that restrictions on large public gatherings are expected until at least 2021 making venues vulnerable. They noted that the pandemic had opened a massive funding chasm for organisations. Belfast was also expected to experience a further spike in its already high social deprivation levels by 2021, with up to 5 million people forecast to be unemployed. This would directly impact revenue streams for arts organisations as many would not be able to afford a £26 ticket.

Digital inequality

Several panellists raised concerns of a widening 'digital divide' between those organisations who had previously invested in technological infrastructure and those who had not. This included a gap in the ability to continue working from home, to raise finance (for technology development) and to attract audiences through digital channels.

One panellist said that their arts organisation was worried about a lack of diversity (particularly socio-economic) within their online audience, as education and learning outreach activities that were reliant on physical space had fallen away in the pandemic. Many people they served still did not have access to the internet, and so could take advantage of work which had migrated online during lockdown (as explored in the next section). When their organisation would re-open, social distancing measures would mean that the public would have to book to visit their venue and their gallery would have to cope with lower visitor numbers and no group (including educational) visits. This, they believed, would exacerbate existing inequalities. **Cultural institutions should investigate the best way to reach diverse communities without a physical space and consider how knowledge on 'what works' might be shared with the sector. Policymakers should increase investment in digital access and education for those who have restricted online access.**

One panellist noted that some of their work had completely stopped as by its nature no digital alternative could be found eg programmes for falls prevention within care homes.

It was suggested that cases of impactful digital innovation should be shared widely across the creative industries, as solidarity with other creative organisations was important. It was noted, however, that innovation needed to be understood within the specific context of the current crisis. Digital could be wonderful in creating new online experiences for audiences in lockdown, but it could not replace the core of the business. **An implication for industry is to share how digital tools are being used with other content organisations from across the creative industries.**

Digital tools

The panellists acknowledged that there had been a considerable amount of digital innovation within distribution channels. One panellist, for example, noted that as a business that revolved around people coming together, they were unable to do much about their regular programme. Instead, they were delivering pre-recorded and zoom classes as well as using the time to build digital skills within their organisation. A number of these classes were free, so the organisation was currently focussed on how to generate income from them.

A panellist who worked for a gallery explained that their organisation had been investing in digital (including more experimental) technologies prior to the lockdown, but that many organisations had not been able to adapt their model in the same way during the pandemic itself. This investment in technology had enabled them to turn their website into almost a digital publishing business with bespoke packages of content for high-level donors. Other ways to generate income had included pulling more content behind a paywall, although this had meant that fewer people had access to content - an anathema to many arts organisations. Members and donors were currently the organisation's core 'customers', and although there had also been engagement on social media, this represented a significant narrowing of the usual customer base (for example, fewer tourists and school groups had been able to access their content). **Industry will want to investigate new ways to reach visitors, tourists, school groups etc. without reliance on a physical presence.**

Panellists also expressed a number of advantages of undertaking more activities online. One panellist noted that the activity they now did online was also being accessed by a more global audience than they had historically served. Another observed that greater visitor access to online content had also helped them with understanding audience behaviours. However, concerns were also raised that a future recession would pause progress in this area (for example if organisations were forced to cut non-core expenditures), echoing problems faced by digital innovation post-2008.

Intellectual Property

For the medium and long term, a number of panellists expressed disquiet about the differential impacts of the crisis on their sectors. One panellist raised that within film and TV, larger businesses tended to be vertically integrated with their own distribution assets and those which had a deeper catalogue of IP (that can be digitally distributed) were currently facing less severe economic disruption. This panellist further noted that the amount of IP had always been a key part of the business model, but that it had become particularly valuable as a buffer when new production was not possible.

Panellists were anxious that the smaller, independent firms would suffer as they typically had less historic IP to fall back on. Given the disproportionate importance of microbusinesses to the creative industries (94.7% of the sector in 2018), a significant loss of these businesses would be extremely damaging to the sector as a whole. One suggestion was that public service broadcasters could play a key role in helping the independent sector through the disruption. **Policymakers and industry may need to revisit ways in which the independent sector can be supported to be more resilient.**

Home working

Panellists noted that once lockdown had been announced, many key changes had to be made at very short notice. One panellist noted that when lockdown was announced, all 1,000 employees at their central London studio had to work from home within a couple of weeks. They said that it felt like 'getting an 18-month IT project done in two weeks', an experience that was echoed by other panellists working within digital content industries. Panellists noted that home working had in the main been successful, with levels of productivity maintained, and many hoped to retain some form of home working in their organisations in the future.

The panellist mentioned above highlighted an important piece of partnership working their organisation had undertaken to ensure that clients felt that the confidentiality of content would be protected whilst their artists worked from home. A lot of work had gone into training and setting up workspaces in a secure way.

Another panellist echoed this experience, and noted that capital investment was needed in order to get staff working from home operating effectively. Cyber security had been a crucial consideration, and had required costly solutions due to concerns about leaked images, scripts, film and stills. They also noted struggles with storage solutions, and were still having to store content and media centrally and therefore keep a core team going. All production of filmed content had had to stop overnight, but pre-production was able to continue for a couple of projects. Once investment in home working had been made and clients had become comfortable, this panellist felt home working could be a game changer for their business in the long term. Another panellist agreed: they had pre-Covid worked in an area with a high cost of living for employees; continued home working might be beneficial for both current employees and future hires who might work for their company but be based elsewhere.

Investment opportunities

One panellist raised specific disappointment with the UK's Future Fund (a government-backed loan aimed at start-ups and innovative companies), stating that it charged the highest rate of interest they had seen, at 8% on a convertible basis (a form of short-term debt that converts into equity). The panellist had been fortunate in managing to secure essential funding from another source. Anecdotal evidence suggested that the government's bounce back loans were popular within the sector, but access to finance has long been a problem for the sector. The pandemic means that **policymakers and researchers should step up their efforts to investigate sustainable funding methods for the creative industries.**

One of the panellists called for doubling down on R&D investment into virtual productions, highlighting a blog by analyst Mark Harrison on understanding why more innovation is needed in business strategy. Rather than using the internet as a distribution platform for experiences, this panellist suggested that a wider focus on digital innovation was needed, eg how the sector can explore new opportunities through understanding the game engine landscape. A suggestion was to back trends that UKRI's Audience of the Future Fund had already surfaced. **An implication of this discussion for the Government to invest in further R&D challenges to support the creative industries.**

Addressing inequality

A museum-based panellist noted that their museum had never been closed for such a long period, but that its focus during lockdown had been on public programmes to address inequality, working with their existing partners like Barnardos. This work on inequality had caused the organisation to consider whether its value proposition should be adjusted and refined to reflect better this work.

Another panellist argued that the measures of success being used by the government for investment during the pandemic were excessively focused on economic returns, whilst the creative industries made relevant contributions that were social as well as economic. Examples were in the area of health and wellbeing, and environmental sustainability.

In terms of long-term health of the sector, a key message for many panellists was that it was critical to support talent pipelines and the independent sector. In particular, panellists felt that innovation within the sector was reliant on creative talent and there was a danger that the pipeline could dry up, particularly from communities that already struggled to access the sector, say because of socio-economic barriers. This meant that new creative ideas were key to the industry, making a vibrant talent pipeline essential. Panellists also noted that creative talent often straddled sectors, as for example theatre and film & TV. **An obvious implication for industry and policymakers alike is to retain investment in the talent pipeline, not cut back.**

Implications

The points made in the Industry Panel point to a number of implications.

Implications for policymakers include:

- A Cultural Recovery package was announced by the government after the Industry Panel meeting took place, but further targeted support may be required for venue-based organisations.
- Policymakers should consider how they might assist organisations to invest in digital capacity.
- An implication for devolved and central government is to produce clearer guidelines for organisations based in the devolved nations.
- Policymakers and industry may need to revisit ways in which the independent sector can be supported to be more resilient.
- Policymakers and researchers should step up their efforts to investigate sustainable funding methods for the creative industries.
- An implication of this discussion for the Government to invest in further R&D challenges to support the creative industries.

Implications for industry include:

- An obvious implication for industry and policymakers alike is to retain investment in the talent pipeline, not cut back.
- Industry should prioritise training of staff on digital tools and skill them up as organisations change.
- Cultural institutions should investigate the best way to reach diverse communities without a physical space and consider how knowledge on 'what works' might be shared with the sector. Policymakers should increase investment in digital access and education for those who have restricted online access.
- An implication for industry is to share how digital tools are being used with other content organisations from across the creative industries.
- Industry will want to investigate new ways to reach visitors, tourists, school groups etc. without reliance on a physical presence.

Implications for the PEC include:

- An implication was that a greater understanding was needed of how creative organisations, in particular those that are publicly funded, can diversify their audiences, as well as of how organisations that do reach diverse audiences may be restricted by aspects of existing funding models. This was also an important area for PEC and other researchers to address.

Implications for funding bodies include:

- Funding bodies could usefully help organisations through this period by speeding up funding processes/simplifying applications.