Kultur- und Kreativwirtschaft

Ökonomische Impulse für Nordrhein-Westfalen

Cultural and Creative Industries

Economic impulses for North-Rhine Westfalia

Michael Söndermann, Büro für Kulturwirtschaftsforschung, Köln

Mitarbeit
Raimund Franken, rmc rinke medien consult GmbH, Wuppertal
Joachim Kobuss, DesignersBusiness®, Köln + unternehmen design, Berlin
Margrit Müller, Englische Übersetzung, Arusha, Tanzania/Bonn, Deutschland

Auftraggeber
NRW.BANK

6. English Summary

Cultural and Creative Industries

by Michael Soendermann, Office for Culture Industries Research, Cologne
Commisioned by NRW.BANK, Dusseldorf

1. Objectives

Cultural and creative industries have been the focus of economic discussions in North Rhine-Westphalia for several years because of the important and relevant economic potentials of this multi-faceted complex of sectors.

After a steady increase of the cultural and creative industries during the 1990ies and until the years 2000/2001, the sector slid into a growth crisis which lasted until 2003 and led to negative growth in almost all cultural market segments. Meanwhile, the 5th Culture Industries Report for North Rhine-Westphalia has confirmed that the development of the cultural and creative industries shows positive trends again. While companies showed unaltered dynamics of growth, the development of turnovers took a positive turn after a previous depression.

Nevertheless, there are quite a number of factors hampering the optimal development of the cultural and creative industries. These include the central problem of under-financing or lack of adequate capital of enterprises and freelance offices that is typical for the sector. Economic policy makers including the European Commission have recognized that the sector of micro businesses has become exceedingly important. The NRW.BANK is going to offer a special micro loan for this particular sector in the near future. The programme will provide micro and small-scale loans of up to € 25,000.

However, cultural and creative industries do not consist of micro enterprises only. Economically sustainable small and medium enterprises form the established core of this complex of branches. This is where the NRW.BANK steps in with its new financing fund of 30 million euros in support of the creative industries. This fund of the NRW.BANK picks up existing structures and develops them further.

In order to analyse the entire sector of the cultural and creative industries with respect to the needs of the Bank, the economic potentials of the cultural and creative industries will be analysed in a new differentiated approach.

Besides continuing the analysis based on the results of the 5th Culture industries report up to and including the year 2007, the inner structure of the cultural and creative industries will be analysed according to several focal points. These are the inner segments dividing the entire complex into three types of enterprises.

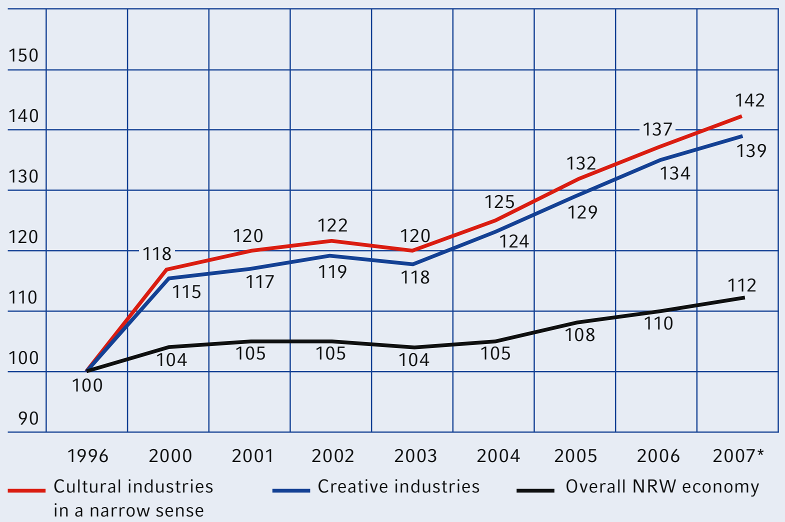
The first type consists of large companies, the so-called majors; the second type are standard-size businesses, typically organised in the Chambers of Commerce and largely determining the picture of the sector, while the third type includes a great number of micro enterprises, in Germany often called the “humus economy”. The analysis is carried out according to the category of size for the different types of enterprises. The report provides a concise insight into the structure of this complex of branches. Strengths and weaknesses of individual subgroups and their development over time will be compared. The report closes with an overview of the general perspectives and the perspective of each subgroup.

2. Central basic data and trends

The market analysis commissioned by the NRW.BANK in connection with its planned fund for creative industries, which is presented here, shows that the present strengths and weaknesses of North Rhine-Westphalia as a business location continue to offer great potentials for growth and employment in the creative branches.

The analysis of recent economic and employment data of the Federal Statistical Office of the Land North Rhine-Westphalia and the Federal Agency for Employment show a steady and increasing growth trend in the cultural and creative industries starting from 2003, the year when the sector went through its last depression.

Figure 2: Development of enterprises in the cultural and creative industries compared to total economy in NRW, 1996–2007*
Percentage change, Basis 1996 = 100%



Notes: *Number of enterprises in 2007 estimated based on the previous years
Source: Federal Office for Data Processing and Statistics NRW 2008; calculations and estimates by Michael Soendermann

Fig. 1: Basic data on the cultural and creative industries in NRW, 2005-2007
Taxable enterprises achieving annual turnover of 17,500 euros or more.

				Change in %	
	2005	**2006**	**2007***	**2006/2005**	**2007/2006**
Number of enterprises					
cultural industries	34,845	36,140	37,711	3.7%	4.3%
Cultural and Creative Industries (CCI)	46,252	48,005	50,301	3.8%	4.8%
Share of CCI in overall economy	*7.2%*	*7.3%*	*7.5%*	–	–
Turnovers in billion euros					
cultural industries	22.6	23.5	24.8	4.0%	5.4%
Cultural and Creative Industries (CCI)	32.1	33.4	35.3	4.3%	5.7%
Share of CCI in overall economy	*2.7%*	*2.6%*	*2.6%*	–	–
Number of employees (liable to social insurance deductions)					
cultural industries	97,826	96,004	96,291	– 1.9%	0.3%
Cultural and Creative Industries (CCI)	156,683	157,244	162,012	0.4%	3.0%
Share of CCI in overall economy	*2.8%*	*2.8%*	*2.9%*	–	–
Number of persons employed**					
Cultural and Creative Industries (CCI)	202,935	205,249	211,897	1.1%	3.2%
Share of CCI in overall economy	*3.3%*	*3.3%*	*3.3%*	–	–
For information					
additional mini jobs***	235,024	235,866	243,018	0.4%	3.0%

Notes:
* Enterprises and turnovers 2007 were estimated based on previous years; employment 2007 preliminary data by the Federal Agency for Employment
** Self-employed persons and employees liable to social insurance deductions in part- and full-time jobs, excluding mini-jobs
*** Estimate of mini-jobs according to DIW-key: 1.5 per employee liable to social security deductions
Source: Federal Office for Data Processing and Statistics NRW, 2008; Federal Agency for Employment, 2008; calculations and estimates by Michael Soendermann

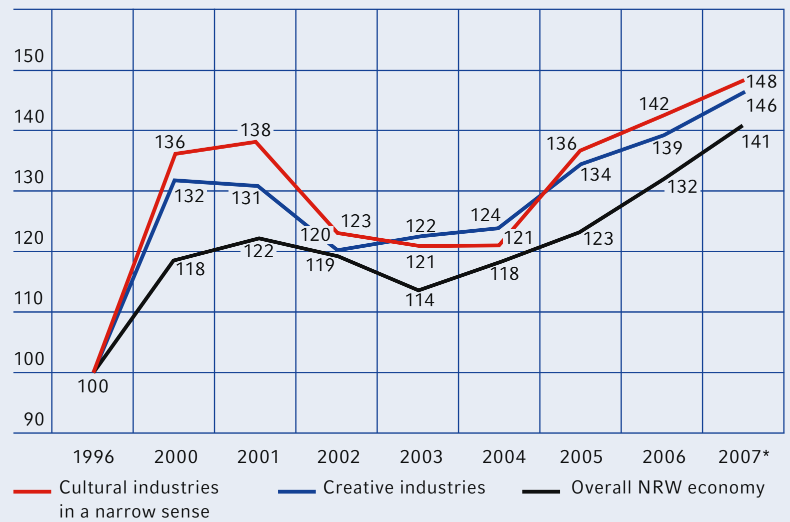
While the number of enterprises in the cultural and creative industries has been continually increasing, reaching a new high of 50,300 enterprises in 2007, the economic development of the sector measured in terms of turnover volumes is now obviously steadily catching up. Last year, in 2007, the cultural and creative industries managed to achieve a total turnover of about € 35 billion, 3 billion more than two years earlier.

Figure 2 illustrates that the number of enterprises in the cultural and creative industries has been growing significantly in recent years, after a period of stagnation between the years 2000 and 2003. During the last two years (2006 and 2007) the share of new businesses and freelance offices entering the market amounted to 4% on average. The respective turnover volume increased even more. The enterprises were able to increase their turnover volume by 4% to 5% annually during the period under review.

The graph indicating the development of turnovers from 1996/2000–2007 (see **figure 3**) show a significant decrease of turnover volumes in the cultural and creative industries between the peak years of 2000/2001 and the middle of 2003/2004. The general recent economic development also led to an improvement of economic results and a continuing growth trend in the cultural and creative branches. **Figure 3** shows a strong rise of the graph since 2004 at the latest. As the graph representing the overall NRW economy illustrates, cultural and creative industries obviously follow the general trend of the overall NRW economy.

Whereas the 5th Culture Industries Report of the Land North Rhine-Westphalia still reported a very difficult situation in the **labour market**, more recent data of the Federal Agency for Employment register positive signals also in this segment. For the first time in years, the number of employees liable to social insurance deductions has grown, amounting to more than 162,000 now, with a growth rate of 3% in 2007 as compared to 2006. These findings become still more surprising when compared to the overall employment situation which had registered an employment increase of just 2% in 2007 compared to 2006.

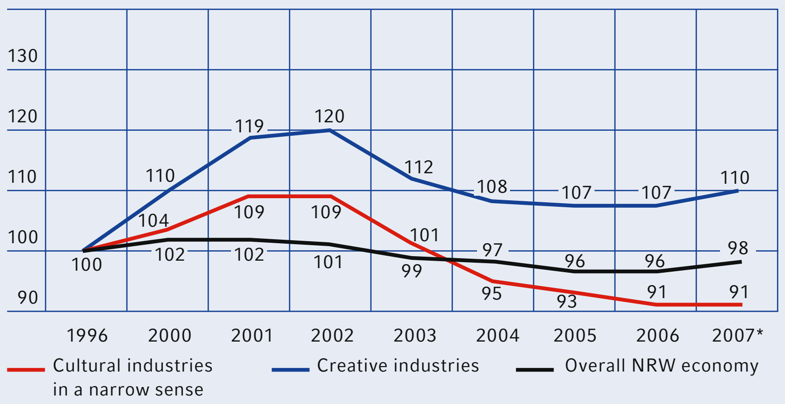
Figure 3: Development of turnovers of enterprises in the cultural and creative industries, compared to overall NRW economy, 1996–2007*
Percentage change, Basis 1996 = 100%



Notes: * Number of enterprises in 2007 estimates based on the previous years
Source: Federal Office for Data Processing and Statistics NRW 2008; calculations and estimates by Michael Soendermann

The highest level of employment in the cultural and creative industries was achieved in 2001/2002, when a total of 176,000 job places liable to social security deductions were registered. Since then all companies and offices in the cultural and creative industries have constantly reduced the number of such job places. Some of these work places were changed to self-employed or freelance jobs.

Figure 4: Development of employment in the cultural and creative industries compared to the overall economy in NRW, 1999–2007*
Percentage change, Basis 1999 = 100%



Notes: * Employment data for 2007 are preliminary data
Source: Federal Office for Data Processing and Statistics NRW 2008; calculations and estimates by Michael Soendermann

In 2007 there were 212,000 persons employed in the cultural and creative industries. This number includes the large number of self-employed persons as well as jobs that are liable to social insurance deductions. Their share in the overall economy amounts to 3.%. If mini enterprises (annual turnovers below € 17,500) and mini jobs are included, the number of persons working in the cultural and creative industries increases by another 243,000. This brings the overall number of employed persons up to 455,000, including mini jobs, multiple employment, full employment and self-employment.

3. Conclusion and perspectives

The empirical findings prove that the cultural and creative industries in North Rhine-Westphalia continue their positive development. Since the latest peak of the years 2000/2001 they have again developed a clear growth trend after the economic depression of 2003.

The structure of the cultural and creative industries can be described as a multi-faceted complex of branches; this is mainly due to the inclusion of a great variety of different sub-branches. Although each market segment has its specific structures, they are all equal in one respect: small and micro enterprises are typical for the cultural and creative industries. Their number has been growing steadily since 2000. Even during the phase of weakness in 2003 the number of enterprises did not decrease. More new small and very small enterprises, freelance offices, agencies and studios entered the cultural and creative market. Whereas in 2000, there were 41,000 companies active in the market, their number increased by about 9,000 until 2007, bringing the number of enterprises in the cultural and creative industries in North Rhine-Westphalia up to 50,300.

Turnovers in the cultural and creative industries have been steadily growing again over the last three years. It should be noted that the absolute turnover volume had reached the level of the year 2000 already in 2006 and has exceeded the level of 2000 by almost 2 billion euros ever since. Based on estimates of 35.3 billion euros for 2007, the difference to the year 2000 is even higher than 3 billion euros. This is noteworthy because turnover volumes in the overall German cultural and creative industries had not yet reached the absolute level of 2000 in 2007. Therefore the cultural and creative industries in North Rhine-Westphalia have again shown significantly better development trends. The greatest share of turnovers is created by limited companies or corporations as the main drivers of economic development. As the cultural and creative industries are demand-dependent industries, their development is always closely connected to the overall economic development. A look at the long-term experience of 20 years of cultural and creative industries in NRW shows that cultural and creative industries usually flourish when the overall economy runs smoothly. During such phases it generally shows a growth rate that is two or three times higher than the average rate.

The **labour market** of the German cultural and creative industries has shown a long-term trend of work-place reductions. In many regions there is a decrease especially of job places liable to social insurance deductions. This process has also been observed in NRW. It is therefore especially satisfying that the reduction of job places could be stopped in NRW and the labour market has shown a significant growth rate of 3% in 2007 compared to the previous year. The cultural and creative industries now employ 162,000 employees liable to social security deductions. This trend is further strengthened by the growing number of self-employed persons.

Self-employed persons and employees liable to social security deductions together make up a total number of 212,000 persons working the cultural and creative industries. However, the share of self-employed persons is growing steadily and amounts to 24% of all persons employed in the sector. For comparison: only 10% of the persons employed in the overall economy are self-employed. The change from a traditional sector with conventional full-time work places towards a project-oriented type of economy with flexible work place is in full swing in the cultural and creative industries. New forms of job place quality, stability and sustainability are being tested in the cultural and creative industries. Networking structures are tried out everywhere.

The structural analysis clearly shows that the usual European classification of enterprises into micro and small enterprises, medium and large companies is too undifferentiated for the cultural and creative industries and that it does not adequately reflect the specificities of the sector. The smallest types of enterprises (with regard to turnovers) play the greatest role in the cultural and creative industries as compared to the overall economy. Micro businesses have much greater importance in the cultural and creative industries; about 95% of all enterprises in the cultural and creative industries belong in this category. Therefore future analyses of the cultural and creative industries have to take account of the relative weight of the single types of enterprises.

The discussion about **investment opportunities** in the cultural and creative industries have been entirely neglected so far. Meanwhile there is a general consensus that the overall economy is mainly driven by technologies. This is of course also true for the cultural and creative industries whose swift development, especially in the realm of small and free-lance offices, is unthinkable without the corresponding technological prerequisites. It also becomes more and more obvious that the cultural and creative industries are driven by the special conditions of content-production more than any other sector of the economy. It is increasingly realized that investment and its strategic importance will gain a special meaning for the cultural and creative industries.

At the same time, the cultural and creative industries are also characterised by general under-capitalisation, which takes two general forms. On the one hand micro and small businesses need small-scale financing for rather modest investments during the founding and start-off phase. On the other hand, more established small and medium enterprises have to deal with the realisation and development of new products and services while using new technologies. Here economic structures need to be strengthened by supporting the activities of the enterprises in content production and the use of technologies through adequate financing instruments.

As North Rhine-Westphalia is the largest German federal country (Bundesland) it determines the overall development of the German cultural and creative industries in a central way. The analyses and presentations of the development in the cultural and creative industries show that there are innovative developments, but they require adequate action by financial management in order to become promising and economically successful. In the future, there will probably be sufficient financing instruments for all kinds of financing needs. Local financing institutions need to gain trust in the enterprises of the cultural and creative industries, and it will be their responsibility to make means of financing available to the very small offices and agencies and also to the small and medium enterprises in this sector.

The future of the cultural and creative industries is closely connected to the overall economic development of the country. Support to the cultural and creative industries does not mean that traditional industrial sectors are neglected. On the contrary, there is a growing awareness that cultural and creative sectors are a necessary complement to a modern economic infrastructure. Cultural and creative industries may and will become a valuable service provider for the production sector. Moreover, the cultural and creative industries have for a long time provided goods and services on a large scale for the consumers market and have therefore become an important economic factor in North Rhine-Westphalia. The major new perspective for the cultural and creative industries will be to find a third way besides their two points of reference in inland production and consumers markets: the strategic development towards an independent export economy to explore new markets in the European and international field will probably become a central issue. The creative industries fund provided by the NRW.BANK may already today make a strategically important contribution towards all three perspectives.

Annex

Classification

Statistical Definition of the core sectors of the cultural and creative Industries

Definition by the Cultural Statistics Working Group according to the official German General Classification of Economic Activities WZ03

Structure according to the definition of core sectors agreed by the "Working group culture industries" of the Conference of Ministers of Economic Affairs

Subgroup	No of Classification of economic activity and name of economic branch according to Classification of Economic Activities	
1. Publishing/sound recording industry	22.1	Publishing/sound recording industry
		Publishing of books, newspapers, journals and periodicals, sound recordings and other sound recording industry
2. Motion picture and video activities	92.1	Motion picture and video production, distribution and projection
3. Radio and television activities	92.2	Radio and television activities and production
4. Other entertainment activities	92.3	Other entertainment activities
	92.31	Artistic and literary creation and interpretation
5. Own-account journalists agencies	92.4	News agency activities and own-account journalists
6. Museums and other cultural activities	92.5	Commercial museums and other cultural activities
7. Retail sale of cultural products	52.45.3	Retail sale of musical instruments and scores
	52.47.2	Retail sale of books and technical journals
	52.48.2	Retail sale of art, pictures and others
8. Architecture market	74.20.1	Architectural activities in building construction and interior design
	74.20.2	Architectural activities in town, city and regional planning
	74.20.3	Architectural activities in landscape architecture
9. Design industry	74.20.6	Machinery and industrial plan design
	74.40.1	Visual design
	74.87.4	Fashion design a.o.
10. Advertising market	74.40.2	Dissemination of advertising activities
	74.40.1	Advertising Design (included in Design)
11. Software/Games industry	72.2	Software and games consultancy and supply

Note: The German definition does not include WZ-No. 36.3 Manufacturing of musical instruments, WZ-No. 22.3 Copying of music, video and data recordings.
WZ 2003 = German Classification of Economic Activities; based on European NACE Rev.
1 = Nomenclature statistique des Activités économiques dans la Communauté Européenne – Statistical Classification of Economic Activities in the European Union
Source: Arbeitskreis Kulturstatistik e.V. (Cultural Statistics Working Group)

Datenquellen

- Bundesagentur für Arbeit: Beschäftigtenstatistik 2007 und diverse Jahre
- Landesamt für Datenverarbeitung und Statistik Nordrhein-Westfalen: Dienstleistungsstatistik. Strukturerhebung 2003–2005
- Landesamt für Datenverarbeitung und Statistik Nordrhein-Westfalen: Umsatzsteuerstatistik 2006 und diverse Jahre
- Ministerium für Wirtschaft, Mittelstand und Energie des Landes Nordrhein-Westfalen: 5. Kulturwirtschaftsbericht Nordrhein-Westfalen, Düsseldorf 2007
- PricewaterhouseCoopers (PwC): German entertainment and media outlook: 2007–2011. Die Entwicklung des deutschen Unterhaltungs- und Medienmarktes, Frankfurt/Main 2007

Data Sources

- Federal Agency for Employment: Employment Statistics 2007 and selected years
- Federal Office for Data Processing and Statistics North Rhine-Westphalia: Service sector statistics. Structural data collection 2003–2005
- Federal Office for Data Processing and Statistics North Rhine-Westphalia: Turnover tax statistics 2006 and selected years
- Ministry of Economic Affairs and Energy of the State of North Rhine-Westphalia: 5th Culture Industries Report North Rhine-Westphalia, Dusseldorf 2007
- PricewaterhouseCoopers (PwC): German entertainment and media outlook: 2007–2011. Frankfurt/Main 2007

List of figures

Inhalt