

Introduction

In August 2003, NESTA commissioned research into early stage investment in the Creative Industries by specialist, Tom Fleming.

The report, entitled *New solutions to old problems: investing in the Creative Industries*, identifies how Government, NESTA, the investor community and educational establishments can take action to improve investment in the Creative Industries, and raise their profile as a major driver in the UK economy.

It will also inform the development of NESTA's Graduate Pioneer Programme, which provides business and entrepreneurial training for graduates from creative disciplines.

Methodology / Process

To support the report, NESTA commissioned two opinion polls in December 2003 to test public and investor perceptions of the Creative Industries.

The public poll, involving interviews with 1004 people, representing a cross section of the UK population, was conducted by ICM Research in December 2003 to understand how the Creative Industries were perceived and valued by people.

The investor poll was carried out by Continental Research in January 2004, to learn how 100 venture capitalists and other financiers regarded the Creative Industries, as to their viability as an investment prospect.

The NESTA research identified that the Creative Industries make a significant contribution to the UK economy and had grown substantially. To test this hypothesis, NESTA sought to understand how investors ranked the Creative Industries alongside other market leading industries. The sectors chosen were Property Renting, due to its size, as well as profitable industries in traditional sectors: Construction, Insurance & Pensions, and Pharmaceuticals.

The surveys

Summary of the public survey

Economic contribution

The Creative Industries are one of the fastest growing areas of the UK economy. They contributed £11.5 billion to the balance of trade in 2001 and grew by an average of 8% per annum between 1997 and 2001,

significantly more than the economy as a whole over the same period (2.6%)¹. The results from both surveys show that there is confusion about the Creative Industries' contribution to the economy both among the public and the investor community.

Summary of the public poll

The results showed that the public do not understand the Creative Industries contribution to the economy, but value the products of the Creative Industries in terms of the contribution they make to the quality of their lives. While 75% of respondents agreed that the UK's capacity to be innovative plays a crucial role in maintaining and enhancing the country's economic competitiveness, they do not recognise the Creative Industries as a major driver of the economy.

Perception of value to the economy

The Construction, Pharmaceutical and Insurance & Pension sectors, were identified by the public as contributing more to the economy, than the Creative Industries. In fact the opposite is true, with the Creative Industries earning £54.8 billion a year, compared with £50.2 billion for Construction, £11.1 billion for Insurance & Pensions and just £6 billion for Pharmaceuticals².

The public felt that the Creative Industries were less likely to grow than the other sectors in the future. Interestingly, this assumption was later contradicted by half of all respondents (50%), who then correctly responded that the Creative Industries had grown faster than the economy as a whole in the last 10 years. In fact, the Creative Industries have grown in the past five years by more than twice the rate of the economy.

Knowledge of the Creative Industries

There was some confusion about what exactly the Creative Industries are. Under a third of respondents (31%) had ever heard of the term Creative Industries prior to being interviewed and more than half (54%) could not name a single type of business which falls into this category. The most commonly named type of creative business – computer games – was cited by only one in ten people (10%).

Consumption of Creative Industries' products

The public do, however, greatly value the products produced by the Creative Industries and the creativity and innovation that drives them. Creative Industries products – music, radio and television entertainment – were rated as more important to people's quality of life than holidays or

¹ DCMS (2003) Creative Industries Economic Estimates Statistical Bulletin

² The Creative Industries statistic has been taken from the *Creative Industries Economic Estimates Statistical Bulletin* (2003) published by the DCMS. The DCMS and the ONS use different definitions for gathering statistics on the performance of the Creative Industries and therefore, there is currently no source available or way of comparing the performance of the Creative Industries with other sectors. The ONS has estimated that in 2001, the Creative Industries contributed £80.5 billion to the economy. We have used the more conservative estimate.

cars. The public on average spent £198 during November 2003 on Creative Industries products. It appears from this poll, that while people want the products that are produced by the Creative Industries, they don't appreciate the economic importance of the sector.

Summary of the investor poll

The poll is based on interviews with 100 venture capitalists and financiers from the private sector.

Willingness to invest

Investors spent twice as much (£393) on average than the public on Creative Industries products, and the majority believe that the sector has a large potential for growth. Despite this, only one in five would invest in the Creative Industries. This is curious when one considers that 41 of the investors taking part in the survey had financed a Creative Industries project in the previous 12 months.

Contribution to the UK economy

The majority of investors, like the public, ranked the Creative Industries in last place in terms of contribution to the UK economy, compared with the Construction, Pensions & Insurance, Pharmaceutical and Property Rental. But when asked which of the five sectors had the biggest potential for growth, investors ranked the Creative Industries second after the Pharmaceutical industry. 91% of investors accurately stated that the Creative Industries had grown faster than the economy as a whole in recent years.

Market leadership

Two-thirds of investors (64%) agreed that Britain had the potential to be world leaders in the Creative Industries, but only a third (38%) thought people working in the sector were focused and talented individuals who sought out new ideas.

One in five investors believed that the Creative Industries were already well supported by Government and one in three thought that people in the sector were more interested in the creative lifestyle than making a profit. Not surprisingly, the same proportion of investors thought that Creative Industries business models were too risky to be worth investing in.

Conclusion

It seems that while the public demands and appreciates Creative Industries products, the investor community has little knowledge of them and is reluctant to invest in the sector, despite a huge proportion recognising its recent growth and potential for the future.

NESTA
February 2004

NESTA "CREATIVE INDUSTRIES" RESEARCH

BACKGROUND

- Research was undertaken amongst Venture Capitalists and other investors to assess opinion of "Creative Industries". These are defined by the Government as encompassing advertising, architecture, the art and antiques market, crafts, design, designer fashion, film, interactive leisure software, music, the performing arts, publishing, software and television and radio
- Telephone research was conducted immediately prior to Christmas and then in January 2004.
- A total of 100 interviews were conducted:
 - Of these, 94 interviews were with Venture Capitalists
 - 87 respondents were men
 - 70 were under 45
 - 29 worked on deals of under £500,000, 24 on deals between £500k and £2million, and 45 worked on deals of £2million+
 - 41 have been involved in deals investing in the Creative Industries in the last 12 months

KEY FINDINGS

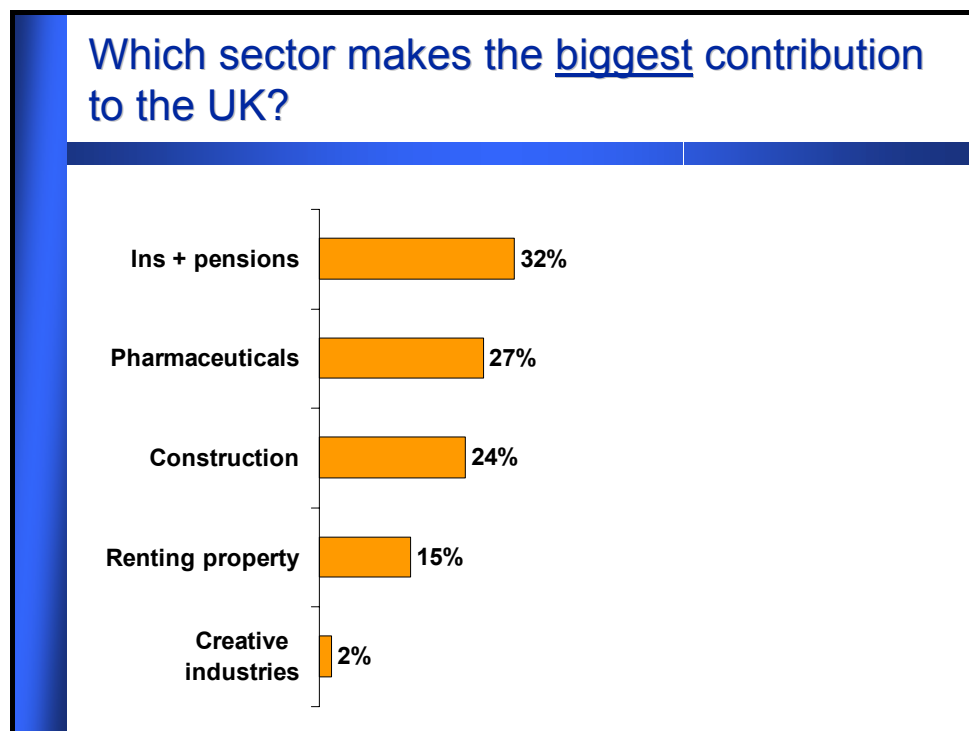
- Respondents do not rate the Creative Industries sector as being one of the sectors that is currently contributing to the UK economy. The majority ranked it fourth or fifth when asked to rank five sectors in terms of their contribution to the economy. Despite this, they do recognise it has potential for growth, and that it has grown rapidly over recent years. Those who have already invested in the sector are more positive about the sector's future performance.
- Half the respondents questioned said that they were aware of the term "Creative Industries" before it was explained to them, although some of those who it emerged had invested in this sector were not aware of the term. Respondents have a fairly positive view of the sector – two thirds think that Britain has the potential to be a world leader in this sector and only 12% think that people who work in this sector are "pretentious timewasters". Those who invested in the sector generally have a better impression of the Creative Industries sector than those who haven't.
- Although this survey has shown that respondents had a fairly positive view of the Creative Industries sector, just 22% thought they were likely to invest in the sector – this rises to 41% of those who have invested previously.
- Although there was a reluctance to invest on a professional level, respondents had spent an average of almost £400 in the Creative Industries sector in the previous month. A majority had spent money on books, DVDs and the cinema, but only a minority had been to an art exhibition or bought computer games or antiques.

ECONOMIC CONTRIBUTION AND POTENTIAL FOR GROWTH

While respondents do not rate the Creative Industries sector as being one of the sectors that is currently contributing to the UK economy, they do recognise it has potential for growth, and that it has grown rapidly over recent years. Those who have already invested in the sector are even more positive about the sector's future performance, as the following analysis shows.

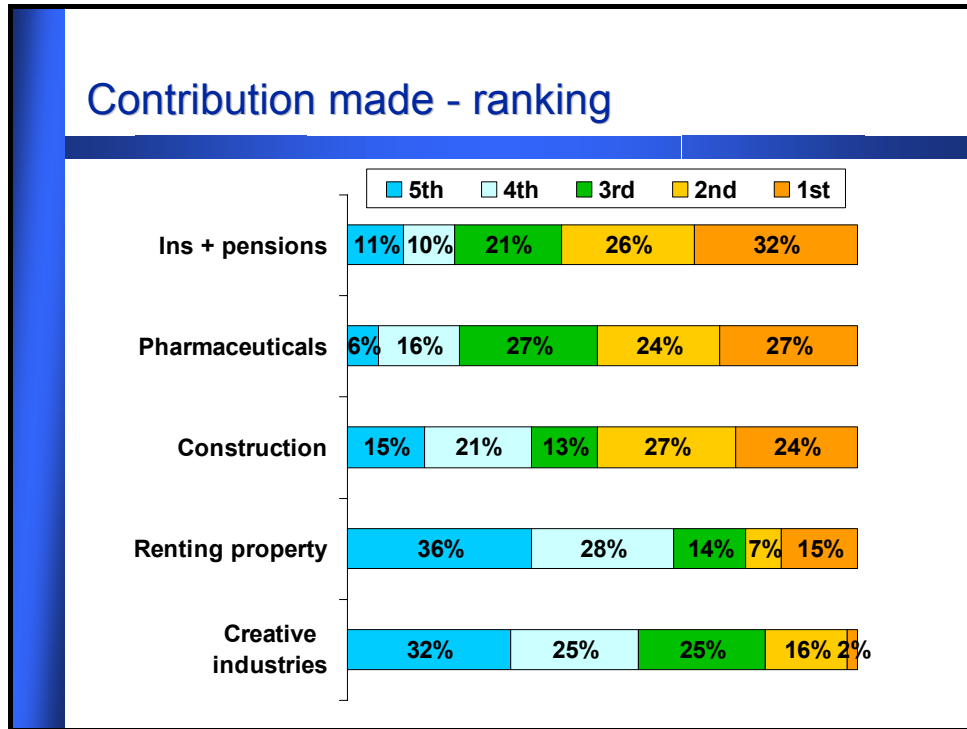
Contribution to the economy

- Respondents were asked which of 5 key sectors they felt made the biggest contribution to the UK economy:



- A third of the sample felt that the insurance and pensions industry currently make the biggest contribution to the economy of these sectors, although opinion was fairly evenly spread between this sector, pharmaceuticals and construction.
- Just 2% of respondents thought that the Creative Industries sector made the biggest contribution.

- Respondents were then asked to rank the remaining sectors in order of the contribution they make, and again, the Creative Industries sector is not highly rated for its current performance:

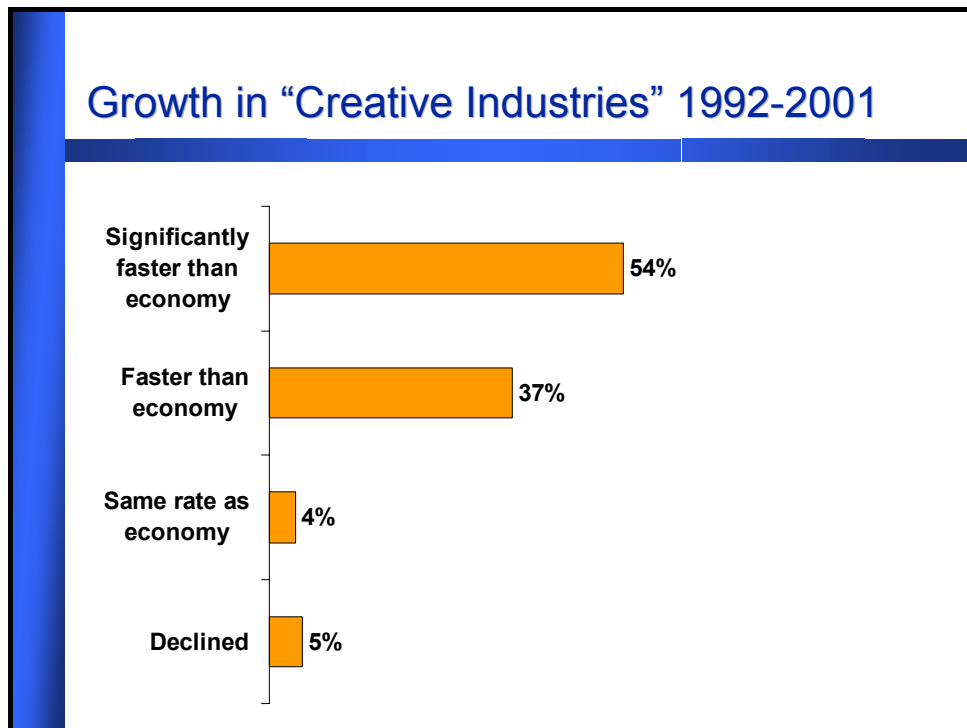


- When respondents rank all these sectors, Creative Industries is ranked lowest, with over half the sample ranking it either 4th or 5th out of the 5.
- Those who have previously invested in the Creative Industries sector do not have a different view of the contribution it makes than those who have not invested, as shown below:

	Invested before	Not invested before
Ranked 1 st	2%	2%
Ranked 2 nd	12%	19%
Ranked 3 rd	24%	25%
Ranked 4 th	27%	24%
Ranked 5 th	34%	31%

- However those who have invested before do have a much more positive view of how the Creative Industries sector has grown, as shown in their answers to later questions, shown overleaf.

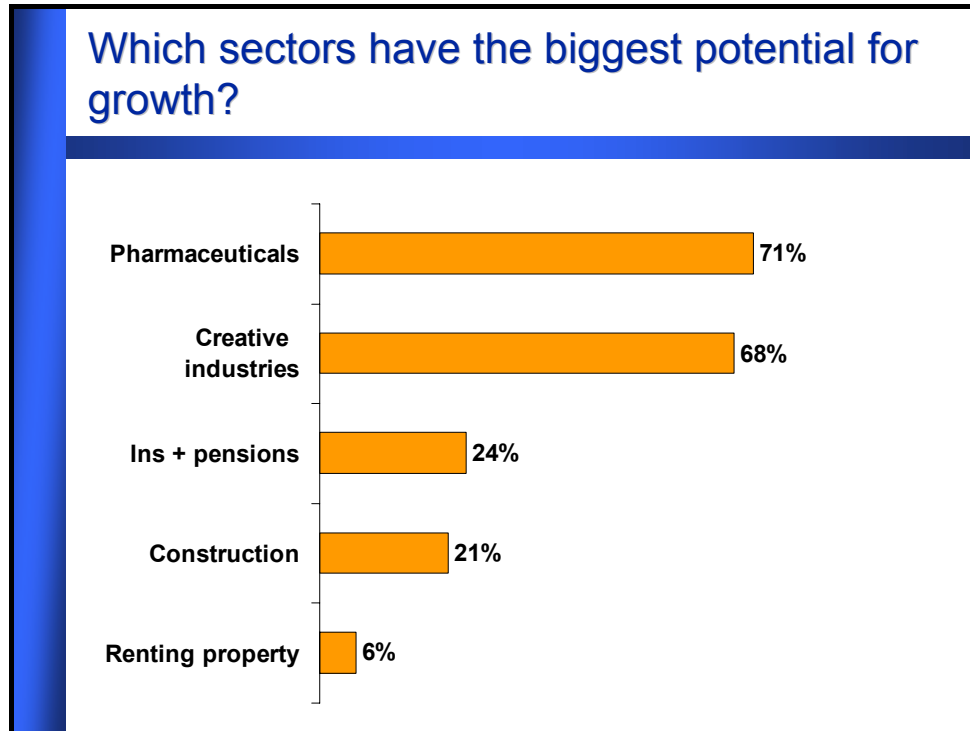
- Once they were aware of the correct definition of Creative Industries, respondents were asked to estimate how this sector had performed compared to the UK economy as a whole over the same time period.



- The majority of respondents felt that the Creative Industries sector had grown faster than the UK economy as a whole, with half those questioned saying that the Creative Industries sector had grown significantly faster than the economy as a whole.
- Those who had invested in the sector were more likely to say this (68%) than those who hadn't (44%)

Future contribution

- Whilst the Creative Industries sector might not be rated highly for the contribution it is currently making to the economy, it is seen by many respondents as a sector that will make a contribution in the future:



- Along with pharmaceuticals, Creative Industries is the sector seen as having the most growth potential, particularly by those who have invested in it before (83% chose it as one of their sectors, compared to 58% of those who haven't invested).

AWARENESS OF, AND ATTITUDE TOWARDS, THE CREATIVE INDUSTRIES

Half the respondents questioned said that they were aware of the term "Creative Industries" before it was explained to them, although some of those who it emerged had invested in this sector were not aware of the term. Respondents have a fairly positive view of the sector – two thirds think that Britain has the potential to be a world leader in this sector and only 12% think that people who work in this sector are "pretentious timewasters". Those who invested in the sector generally have a better impression of Creative Industries than those who haven't.

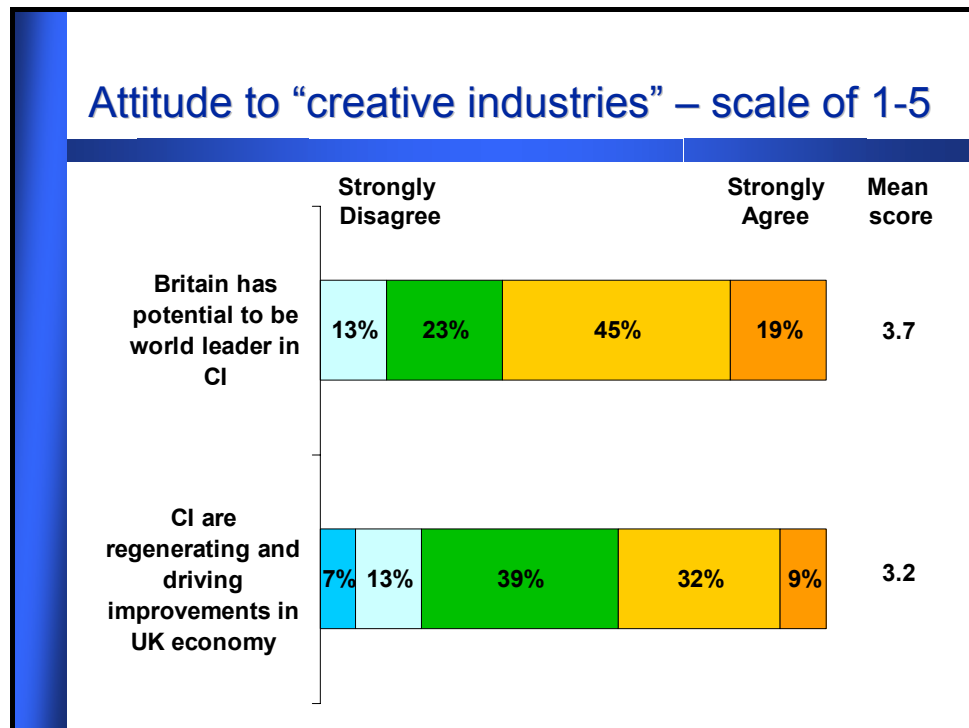
Awareness of the Creative Industries

- Before being given the correct definition, 53% of respondents said they had heard of the term "Creative Industries".
- Generally those who have invested in the sector are more likely to say that they have heard of the term (61%) than those who haven't (47%). However those who are not aware of the term include some people who have subsequently said that they have invested in the sector (16 respondents) suggesting that the definition is not one that is known by everyone.
- Although based on a small sample size, women do seem more likely to have heard of the term than men (77% v 49%)
- When asked to say what type of Industries might be included in a definition of "Creative Industries", the most common mentions were as follows. A few differences emerge between those who have invested and those who haven't, but they are not significant, suggesting that awareness of the sector is not an issue per se.

Top mentions	Overall	Invested before	Not invested before
Advertising	46%	39%	51%
Radio &TV	35%	39%	32%
Video / Film	31%	34%	29%
Design	20%	22%	19%
"The Arts"	14%	15%	14%
Marketing	14%	12%	15%
Music	13%	7%	17%
IT	12%	15%	10%
Publishing	12%	15%	10%
Computer games	11%	15%	8%
"High Tech"	11%	15%	8%

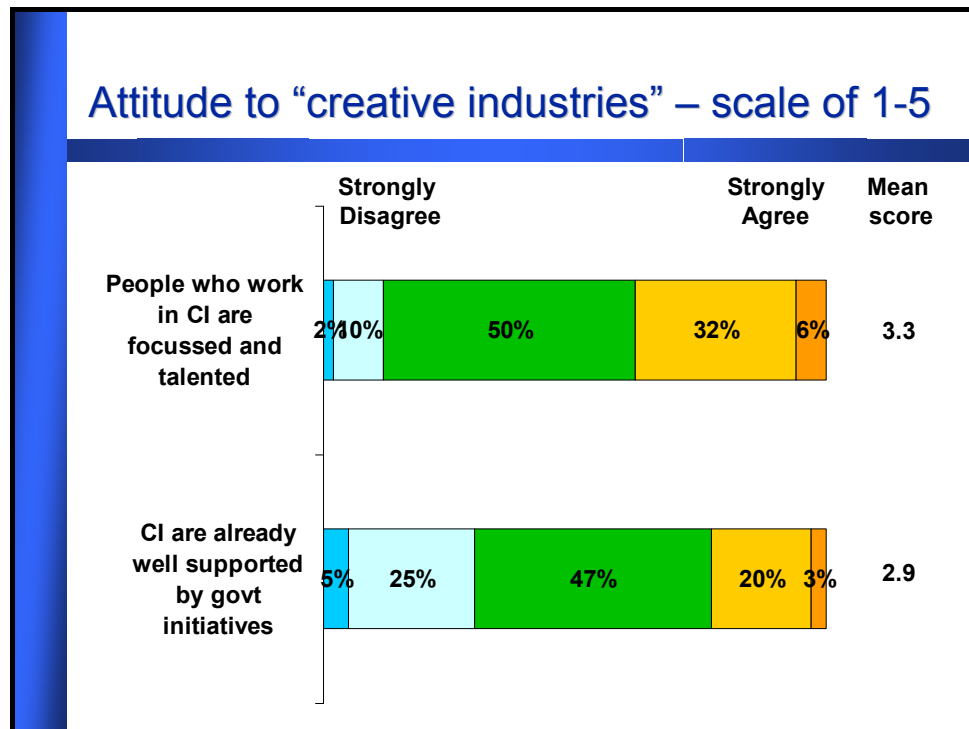
Attitude to the Creative Industries

- Respondents were read a number of statements and asked how much they agreed or disagreed with each one, using a scale of 1 to 5.

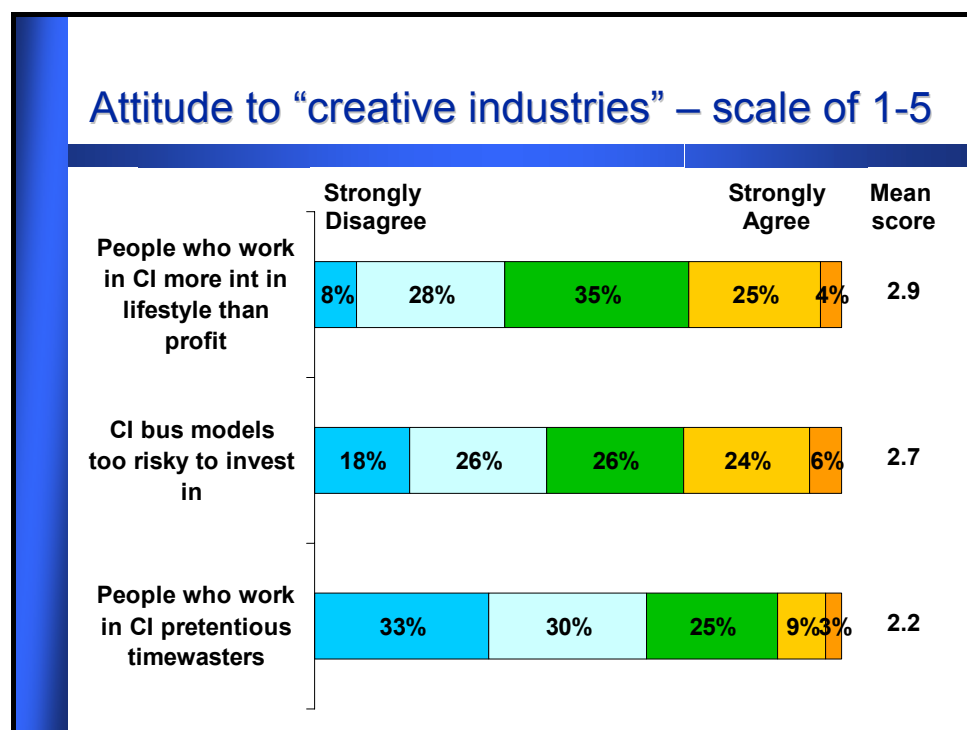


- 64% of respondents agree that Britain has the potential to become a world leader in the Creative Industries sector. This was a commonly held view with little difference by any demographic.
- 4 out of 10, 41%, agreed that the Creative Industries sector is regenerating and driving improvements in the UK economy. On this factor, those who had previously invested in the Creative Industries sector were much more likely to agree (59%) than those who had not invested (29%)

- A third of respondents think that people who work in the Creative Industries are focused and talented (although half have no strong opinion – probably from lack of knowledge as those who have not invested in the sector are more likely to say this).
- Similarly, there seems to be a lack of knowledge about whether the government is currently supporting the Creative Industries sector. 23% agree that the Creative Industries are well supported, but 47% have no strong opinion (there is little difference here by previous investment behaviour)



- The final statements also reveal a fairly positive attitude to the Creative Industries sector. However, almost a third, 29% think that people in Creative Industries are more interested in a Creative lifestyle than in making a profit (although a similar number 36% disagree with this statement). Amongst those who have invested in the Creative Industries sector, 22% agreed with this statement compared to 34% of those who haven't.
- A third also agree that the business models for the Creative Industries sector are too risky to be worth investing in – here again, previous experience makes a difference with just 14% of those who have invested previously agreeing with the statement compared to 40% of those who haven't.
- Finally, only 12% of respondents agreed that people who work in the Creative Industries are "pretentious timewasters more interested in pleasing themselves than their customers"

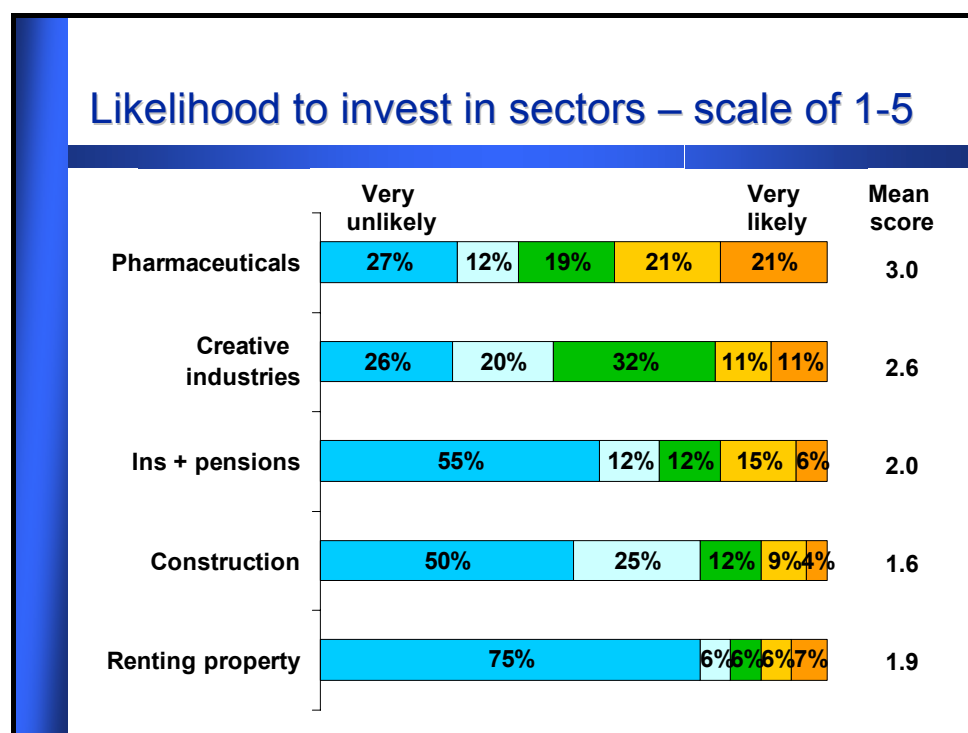


INVESTING IN THE CREATIVE INDUSTRIES

Although this survey has shown that respondents had a fairly positive view of the Creative Industries sector, this does not translate into investment behaviour. Just 22% thought they were likely to invest in the Creative Industries in future, although this rises to 41% of those who have invested previously. These respondents do however spend money in the sector themselves, spending just under £400 on average in the previous month, across a range of items. Most had spent money on books, DVDs and the cinema in the previous month, but only a minority had been to an art exhibition or bought computer games or antiques.

Likelihood to invest

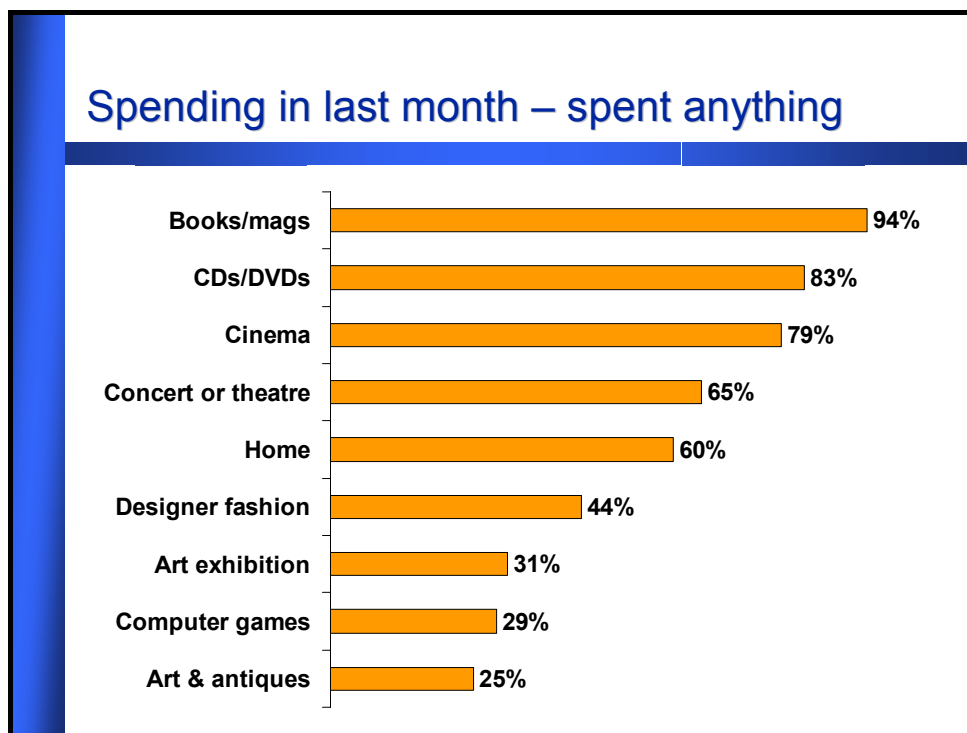
- Respondents were asked how likely they would be to invest in 5 sectors. They were asked to give a score between 1 and 5, where 1 meant they would be very unlikely to invest and 5 meant that they would be very likely to invest.



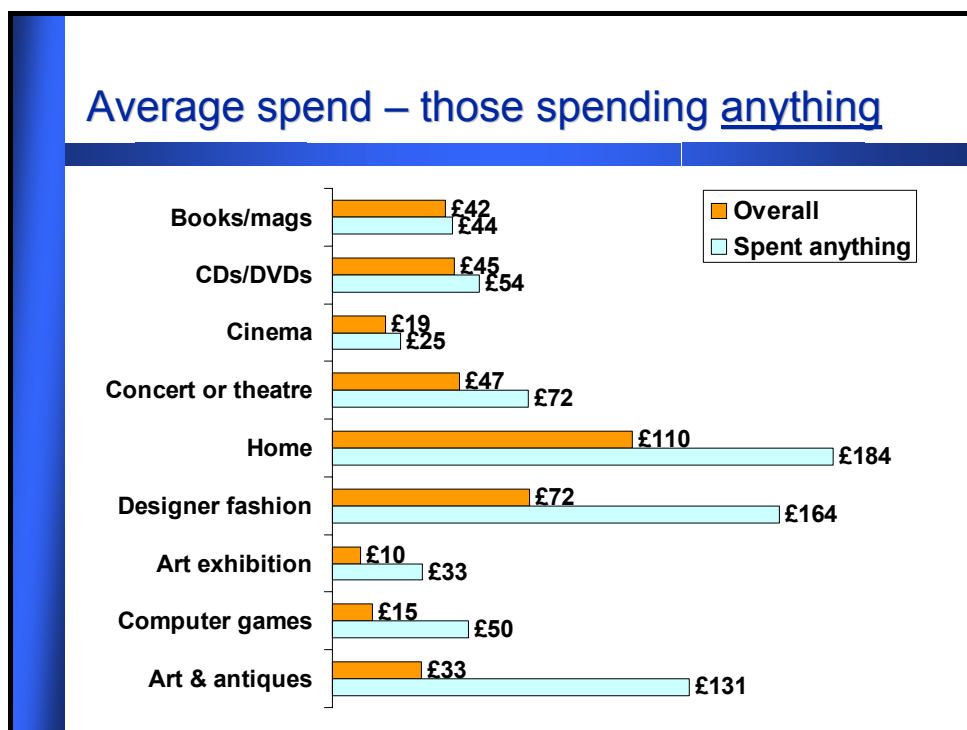
- The most popular sector for investment is pharmaceuticals, with 42% of respondents likely to invest in this sector (that is, they gave a score of 4 or 5).
- Whilst the Creative Industries sector came second, only 1 in 5 respondents, 22%, thought they were likely to invest in this sector. A third, 32%, gave a score of 3 out of 5, indicating no strong willingness to invest, but no strong disinclination either.
- Those who had invested in the Creative Industries sector previously were more likely to consider investing again – 41% of those who have previously invested would be likely to do so, compared to 9% of those who haven't previously invested.
- Women also seem more inclined to consider investing in the Creative Industries sector than men (38% v 19% but small base sizes)

- The most unpopular sector was “renting property” where three-quarters said they would be very unlikely to invest in this sector.

Spending on the Creative Industries



- Most respondents had spent money on books or magazines, CDs and DVDs or the cinema in the previous month.



- Highest spending generally was on the home and designer fashion (bigger ticket items)
- The average spend per respondent was £393 across all items.

- Those who had invested in the Creative Industries were more likely to have spent money on designer fashion and going to art exhibitions, but less likely to have spent money on their home.

Continental Research
January 2004