

Research impact: making a difference

Supporting the development and success of the creative industries

LSE Associate Professor Gerben Bakker helped policymakers understand how to bolster the economic impact of film, music, news and other media

What was the problem?

Between 2011 and 2012, when much of the UK economy was struggling to recover from the Great Recession, the creative industries – which include film, music, television and videogames – grew by more than nine percent, faster than any other major UK industry sector. A 2013 report by NESTA reported that the creative industries provided more than 2.5 million jobs in the UK, more than financial services, manufacturing or construction.

Though the creative industries are undoubtedly robust, policy-makers and creative industry leaders have struggled to effectively assess their economic impact. This is partly because film, music and other media have become increasingly interlinked globally, with artistic, distribution and financial complexities crossing borders in ways that defy simple analysis.

A second and perhaps greater challenge is that the historic and economic circumstances that have shaped today's film, music and media industries haven't been well understood, leaving policy-makers and industry leaders short of tools with which gauge, and shape, future development.

What did we do?

Over the past 14 years, Dr Gerben Bakker, Associate Professor of Economic History, has become one of the world's foremost authorities on the economic development of the creative industries. His research brought together a unique mix of economic and historical data to examine the evolution of the film, music, theatre, news and, later, videogame industries.

Bakker's research focused on the critical impact of sunk costs, which refers to investments made that cannot be fully recovered. As the global film industry evolved, studios escalated their sunk costs – in productions, facilities, equipment and talent – in attempts to grab larger market share. Bakker describes this process as a 'quality race' – a race to create the conditions and circumstances necessary to deliver a high-quality entertainment – a term that has come into wide use not only in film but also across the television, music, and gaming industries.

Bakker demonstrated that quality races over a short period can determine the structure of a creative industry for many years, and historic data show such events happening frequently. In film, for instance, a quality race in the 1910s produced feature films, which were more

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expensive yet more lucrative than film shorts. In the 1970s, struggling Hollywood studios began investing heavily in the production, marketing and advertising of the high-concept blockbuster, starting with *Jaws* in 1975...a quality race that is still being run in Hollywood today.

Bakker demonstrated that a significant quality race in the music industry began in the 1950s when record companies began making larger A&R (Artists and Repertoire) investments and concentrated on heavily marketing a small number of popular acts. The videogame industry saw a major quality race begin in the 1990s, when greater investment in development and distribution placed more power in the hands of a few major players.

‘New concepts like the quality race encouraged a more holistic view of industry investment and development’.

Examining the news industry since the Renaissance, Bakker also revealed various strategies employed to economically evolve the industry in the context of a concept called Arrow’s paradox, which states that consumers cannot know how much they’re willing to pay for an item of information until they know its content...yet once that content is known, they no longer need to pay. The classic models of paid subscription and of using advertising to finance news content emerged in response.

Bakker’s research introduced two novel concepts: the ‘spectator-hour’, which measures the amount of time spent consuming a given entertainment service, and the rights-based multinational, which emerged in the early years of the music industry to take advantage of (and ultimately accelerate) the rapid globalization of popular music. These concepts are now widely in use across the creative industries.

What happened?

From 2009 to 2010, Bakker acted as Specialist Advisor to the House of Lords for their inquiry into the British film and television industries, a role that involved advising at about 30 official and private meetings and advising on the selection of witnesses, questions and background briefings. With the Clerk and the chairman, he helped draft the inquiry’s final report, *The British film and television industries – decline or opportunity?*, which also quoted his research. Bakker’s broad-ranging yet nuanced look at the economic and cultural history of these industries was key to offering a clearer perspective on their competitive potential in a rapidly-changing global market.

Bakker also acted as consultant on the creative industries to the Department of Business in 2009 and 2010. He participated in a workshop chaired by the Business Secretary (then Lord Mandelson) and wrote a chapter for a BIS Economic Paper titled “The Evolution of the British entertainment business.”

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In particular, Bakker's research helped policy-makers and industry leaders view the creative industries not as static environments that respond mainly to short-term action, but as being deeply influenced by dynamic, ever-changing economic activities that often require the longer view. New concepts like the quality race encouraged a more holistic view of industry investment and development.

Bakker also engaged with the business world, presenting research findings during workshops to managers of the Swedish Bonnier Group, the German Holtzbrinck AG (which owns publishing giant MacMillan) and WeltBild GmbH. He presented research findings for an audience of company directors at an event organised by the Institute of Directors, London, the Institute of Economic Affairs and the influential legal firm Baker & McKenzie. Bakker was speaker at "Soothsayers of doom," an academic-industry conference on financial journalism and the current financial crisis, and contributed a chapter to the resulting book *The Media and Financial Crises: Comparative and Historical Perspectives* (Routledge, 2015).

He also was advisor to the Clore Leadership Programme, an MBA-style programme for experienced business managers who want to lead a cultural organisation. The programme is run by the Clore Foundation, one of the UK's largest charities supporting the arts and culture.

From 2006 through its closure in 2011, Bakker was also Sumantra Ghoshal Fellow at the ESRC Advanced Institute of Management Research, where he co-ordinated a 2009 session on creative industries management attended by 50 leading creative industry managers.

Dr. Gerben Bakker is Associate Professor of Economic History at the London School of Economics. He was a Sumantra Ghoshal Fellow at the ESRC Advanced Institute of Management Research (University College London) and a Marie Curie Research Fellow (LSE), as well as being the recipient of four prestigious dissertation prizes. He is considered one of the world's leading experts on the economic development of the creative industries.

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LSE gratefully acknowledges the following for support of this research:

Economic and Social Research Council (ESRC)

European Union (EU)

<http://www.lse.ac.uk/researchImpact>

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