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The Digital Transformation of Business Models in the Creative Industries

By Feng Li

The Covid-19 global pandemic has hit the creative industries particularly hard. In the UK alone, [a £74bn drop in revenues and a loss of 400,000 jobs](#) have been projected, equating the loss of about one in five creative jobs. Leading arts organisations and industry bodies have already warned that the UK risks an exodus of talent from its creative sector. Thus, new sources of sustainable income for the creative industries are urgently needed.

Already before the pandemic, many talented, highly skilled artists and creatives were poor. So how could we draw inspiration from the institutional setups of some creative businesses, such as advertising agencies or successful theatre companies, where the organisational structures enable the creative talents to focus on being creative while others with commercial skills take care of the business activities? In particular, could digital technologies help them transform the way new ideas are created and distributed and capture a larger slice of the values they create without compromising their intellectual freedom and artistic integrity?

My curiosity about these questions led to a research project funded by the Economic and Social Research Council (ESRC) on ‘Sustainable and Scalable Business Models in the Creative Industries’; and then spiralled into a series of larger research projects funded by the RCUK’s flagship Digital Economy Programme. The ideas in this paper have mostly emerged from

these projects, which demonstrate that the continuous rapid growth of the digital economy is indeed a silver lining. An increasing number of creative products and services is created, distributed, transacted or consumed online, allowing creative businesses to continue to generate revenues and engage with their audience. This has stimulated new creativity and innovation in the production, distribution and consumption of creative products and services, although the benefits by now are unevenly distributed. What could business leaders and policy makers do to lay the foundation for a sustainable and prosperous future for the cultural sector and the creative industries?

There is no shortage of general advices on how to make money online, but most such advices tend to focus on helping individuals earning some extra cash on the side by selling products or services. For the creative industries, however, earning money online takes significantly more than simply advertising on the internet and making a few extra sales. Digital technologies enable creative businesses and arts organisations to fundamentally rethink their products and services, structures and processes, organizational designs, infrastructure support and customer engagement, and their visions, strategies and business models. The challenge is to identify and implement sustainable and scalable approaches to capture a fair share of the financial values from existing and new creative products and services using digital technologies, and mitigate the huge risks involved. Policy interventions and increased public funding are necessary, but ultimately, new solutions need to be found from within the field, particularly by adopting new digital business models to make adequate money online while pursuing social and cultural objectives, both now and in the future.

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What is so special about the creative industries?

Compared with most other sectors of the economy, the creative industries are a broad church consisting of a wide range of activities and many different types of organizations based on individual creativity, skill and talent. They represent a significant and rapidly growing sector of the world econ-

omy. In the UK, for example, they are comparable to the financial industry in size and have a strong global reputation in design, fashion, film, game, media, music and publishing. They create significant cultural goods both for domestic consumption and global export each year. As an economic sector, the creative industries also imply that the focus is not just on the art and artists, but also adjacent activities in the entire supply chain, including those ‘non-creative’ activities, products and people within the sector.

However, the notion of the creative industries is not without problems, and has been fiercely contested for valuing arts and culture primarily for their economic contribution rather than their contribution to ideas or society. Furthermore, since the links between creative industries and other sectors of the economy are difficult to disentangle, it raises practical difficulties in measuring the creative industries. Most studies focus on industries whose outputs rather than activities are considered creative, because creative occupations are found in all sectors of the economy. In addition, compared with most other sectors, the creative industries are characterised by high levels of self-employment and micro businesses. Many of them are below the VAT (value added tax) threshold in the UK, so the official economic data underestimate their full economic contributions. This is also reflected in the relatively junior ministerial representation in most national governments.

The creative industries are not only a significant engine of economic growth, job creation, and social cohesion, but also a hub of managerial innovation and experimentation and new organisational and business practice, which stimulate innovation and entrepreneurship in other sectors of the economy. They include the full range of organisational characteristics, from large multinationals, major national and regional businesses to micro-businesses; and the full spectrum of activities, from the digitally native sectors (such as digital games) where many new business models are developed, traditional sectors that have been significantly disrupted by digital technologies (e.g. publishing, advertising, design and music), and areas where the full impacts of digital technologies are still to emerge (e.g. fine art, museums and cultural heritage). The creative industries offer an ideal setting for experiment in new ways of value creation and capture through digital technologies and the adoption of new digital business models for making money online.

What is a business model?

In this section, I will present a holistic business model framework which can be used both as a cognitive tool to understand emerging phenomena and a planning tool to explore innovative ways of transforming business models.

A business model is one of those unfortunate concepts of which the view or definition held by one person often differs slightly or even significantly from those held by others. This is usually not a problem in everyday conversation, but as a management concept it lacks rigour, which creates serious problems when undertaking research, developing business strategies or making policy.

What can be said is that a business model provides the vital link between a firm's vision and strategy with its structures and processes, and it determines the way a company or organisation defines objectives, motivates effort, coordinates activities and allocates resources, as well as its sources of revenue, cost structure, and make-or-buy options. The design of a business model defines the value logics specific to the firm, and how much room is available for operational manoeuvre. Having a good business model is critical to the survival and development of any organisation. Much of the business model transformation in recent years has been enabled by digital technologies.

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An essential concept that has been emphasised by nearly every business model study is the notion of value as a multi-layered construct. My research with business leaders from the creative industries has highlighted the importance of an organisation's rationale and logic for value recognition (sensing), value creation (production), value delivery (distribution) and value capture (realisation).

The top layer is the value proposition, which defines the products, the market segments the company or organisation targets, and the financial or pricing model it adopts for revenue generation. The middle layer is the value architecture, which defines how businesses sense (identify), create,

deliver and capture value. At the foundation is the functional architecture, which consists of product innovation and commercialisation, infrastructure management for production and delivery, and customer relations management. By translating a firm's strategy into organisational structures and processes, the business model determines who does what, where, when, how and how much (Figure 1).

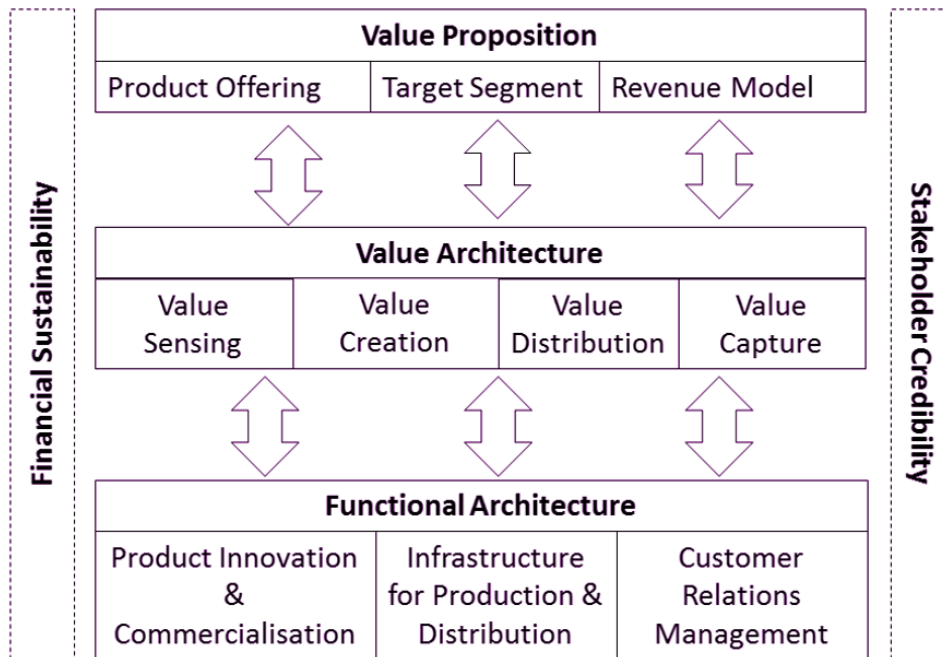


Figure 1: A Holistic Business Model Framework.

Source: Li, F. (2020). The Digital Transformation of Business Models in the Creative Industries: A Holistic Framework and Emerging Trends. In: *Technovation*, Volumes 92–93, April–May, 102012.

A business model is evaluated by two sets of major criteria. One is financial sustainability, meaning all organisations have to make more money than they spent over time, either directly by selling products and services, or indirectly by delivering compelling values to society and persuading someone (such as public funding bodies or other sponsors) to pay for them. Even for organisations whose primary focus is not profit making (which is particularly applicable to some creative organisations), financial returns are still needed to sustain their social and cultural objectives. So a business model is not good if it is not sustainable, and it is not new unless it creates new value adding sources, mechanisms or logics by recognising new value generating opportunities, developing new products and services, implementing new ways of producing and delivering products and services, or forming new relationships with key stakeholders.

In the creative industries, an added consideration is the need to manage the tensions between commercial values and social and cultural values. Many creative organisations are located between profit-making and not-for-profit, so their credibility with key stakeholders is often critical to their survival. A business model analysis therefore needs to identify the key stakeholders whose identity and demands may vary in time, space and sector. Other criteria, such as operational scalability, are also important for creative businesses interested in scaling up and grow, but they are not universally regarded as essential.

Financial sustainability and stakeholder credibility are closely related. The demands and expectations by key stakeholders can significantly influence the structure and goals of the business. The sources of revenue and controllable costs of the firm are influenced by the socio-cultural constraints established by these stakeholders. This is particularly relevant to the creative industries.

The digital transformation of business models in the creative industries

Over the last 30 years, the rapid development of digital technologies has facilitated significant changes in the business models across different industries. Changes in business model constructs enabled by digital technologies can be classified into three broad categories: automation, extension and transformation (AET). Automation refers to cases when a company or organisation uses digital technologies to automate or enhance existing activities and processes, such as displaying information or supporting communications. Extension illustrates cases when a firm uses digital technologies to support new ways of conducting business, which supplement, but not replace, existing activities and processes. Transformation refers to cases when digital technologies are used to enable new ways of conducting business to replace traditional ones. By combining AET with the business model constructs in Figure 1, we are able to systematically understand the digital transformation of business models in terms of what has changed, how and why.

Earning money online

To earn revenue online, we need to look at the ways that digital technologies can be used to automate, extend or transform the different constructs and relations in your business model. The secret is not only in identifying

and creating value through art and culture (which many creatives and arts professionals are very good at), but also developing effective (digital) mechanisms to identify customers (audience) and distribute the value to those who are willing and able to pay, and capture a fair slice of that value. By systematically exploring the way your organization identifies (senses), creates (produces), distributes (delivers) and captures (realizes) values, you can purposefully decide about the products or services you offer, who you offer them to, and your pricing and revenue strategy. This in turn will determine your product innovation and commercialisation capacity required, the infrastructure you need to produce and distribute the product, and how to manage your relations with customers (audience) and other stakeholders.

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This simple framework can be used to make sense of a range of contemporary phenomena in the creative industries, such as exclusivity through personalisation, brand/reputation extension through association, ‘pay as much as you like’ pricing models, dynamic pricing or how to exploit the ‘wisdom of the crowd’. For example, some recording artists increasingly give away their music for free via digital platforms, which helps create a new bond with their fans and allow the artist to make more money through live concerts, merchandises, advertising and product endorsements. Equally, digital technologies enable some of them to identify and sell different levels of personalised services to different customers, from standard music tracks online to live home concert via Zoom (or in person). Digital technologies enable these artists to efficiently manage different levels of personalised relations with their fans at different prices. In doing so the total revenues can be maximised.

Examples for new ways of making money

During my research, I have been fortunate to meet some of the most creative talents around the world. Some of them are not only successful in creating new arts and ideas, but also in experimenting with new ways of making money and engaging with their audience through digital technologies.

For example, a digital artist experimenting with different business models first opened his immersive digital studio so the audience can sit there and experience the process of his art creation as well as the finished digital art. This experience for the audience is similar to going to the theatre or cinema, and also generated modest entrance fees for the artist. The completed digital arts are then licenced to clients for a fee. Eventually, the artworks and bespoke products are sold to collectors.

By using digital channels to engage with the audience and exploiting the digital nature of his products, another artist has been able to generate additional revenues by allowing the audience to select and buy prints of not only his completed artworks, but also of specific frames of his work-in-progress. Different from limited editions of identical signed prints, this has allowed him to sell an unlimited number of 'limited edition' as each print is unique and different. In doing so, those who cannot afford his artwork can now own a signed print of "unfinished" artwork that is genuinely unique. The financial value of his creations has been maximised and engagements with audience have been strengthened and extended.

Digital technologies have also enabled product innovations and new forms of digital art. Even in traditional areas of art, one artist digitally captured the process of her art creation every day to accompany each of her oil paintings, which enables her audience to look at the different layers of the painting and the painting process, giving them a more intimate and nuanced understanding of both the art and the artistic process. When the paintings are sold, the photos and the video are offered to collectors as supplements, creating a new level of engagement and bond. Although the main product itself (oil painting) is not digitally transformed, the digitally captured process of art creation can be used to increased sales and higher prices.

It should be noted that tinkering a business model can be highly risky, and thus needs to be handled with care. During my research I have come across many organizations that have tried new business models but failed and in the worst case went bankrupt because they could not revert to the old business model.

Thriving in the post-pandemic world

Despite the huge challenges for the creative industries, digital technologies are opening up many lucrative new opportunities for product and business

model innovations. Whether you are from a digital native sector, a traditional sector that has been significantly disrupted by digital technologies, or an area where the full impact of digital technologies is still to emerge, digital technologies enable you to identify new sources of value, develop new products and services, experiment with new ways of distribution and consumption, and create new value added services to supplement traditional products. The creative industries are ideally positioned to use some of its creativities to explore new ways of value sensing, creation, distribution and capture and earn significant amount of money online. As digital technologies continue to develop rapidly, a wide range of new technologies – from AI, big data, 5G, internet of things (IoTs) and 3D printing – are emerging and waiting to be exploited, giving the creative industries new impetus to be creative. There is nothing wrong with making money if it does not compromise your artistic integrity. The time has come to use some of your creativity to capture at least some of the economic values you create.

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