

Report for the Creative Industries Innovation Centre

Analysis of creative industries by turnover, value chains and discussions with business advisers

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ABSTRACT

This document looks at whether businesses under \$1 million turnover should be supported through the Creative Industries Innovation Centre business review process. It looks at available data on turnover distribution, analyses value chains, and collates the views of CIIC staff. It also identifies some of the gaps in the data about the creative industries.

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Executive Summary

There are proportionally more creative businesses with turnover under \$1 million than other Australian businesses. Creative businesses under \$1 million also contribute more to the total turnover of the creative industries than their counterparts in other Australian industries.

Distribution of creative businesses by turnover

93 percent of creative industry businesses have an annual turnover of less than \$1 million. The proportion of creative businesses under \$1 million is greater than for all Australian businesses: 93 percent of creative industry businesses have an annual turnover of less than \$1 million, compared to 89 percent of all Australian businesses.

The proportion of Australian businesses which have annual turnover above \$1 million is about twice that of the proportion of creative industry businesses (11.4 percent of all Australian businesses compared to 6.6 percent of creative industry businesses).

In actual fact, the majority of creative industries businesses have an annual turnover of less than \$200,000. 74 percent of all creative industries businesses have an annual turnover of less than \$200,000, compared to 62 percent of all Australian businesses.

Creative businesses under \$1 million contribute about eight percent more to the total turnover of the creative industries than their counterparts in other Australian industries.

Businesses in the \$700,000 to \$1 million turnover range

At present, CIIC has a pool of about 5,451 businesses it can reach in the \$1 million to \$5 million range.¹ If the CIIC could access businesses with a turnover of \$700,000 to \$1 million, it could access an additional 2,704 businesses, an increase of 50% in the total available pool.

Creative industries value chains

Businesses with turnover under \$1 million make critical contributions to the total value of the sector, by playing key roles in their industry. The total value which these businesses contribute to the value chain is often hidden, due to self-subsidy and a willingness to work for no or low fees.

¹ There are 1,585 businesses above a turnover of \$5 million, but they rarely seek the services of the CIIC business review.

Whilst the creative industries are often client or market driven, they are also often creator driven, which may lead to over-supply and a distortion of pricing where people are prepared to work for low or no fees.

The value chain methodology is limited in its ability to explain the creative industries. Further research into how creative businesses create value would be of benefit.

PART ONE

Overview

1.1 Introduction

The purpose of this paper is to look at the available information about creative industries turnover and value chains. This paper will be used to inform the Creative Industries Innovation Centre (CIIC) on how to best services for businesses with turnover of less than \$1 million.

This paper considers:

- What is the turnover distribution of creative industries businesses in Australia?
- What is the role of creative industries businesses in the creative industries, or other, value chains?
- Is the CIIC currently missing a large and/or important proportion of the creative industries by only supporting businesses over \$1 million?

In developing this paper, the question has also begun to be answered:

- What are the gaps in the available research and data about the creative industries?

1.2 Methodology

The methodology for this paper was as follows:

1. Quantitative analysis of the most recent Australian Bureau of Statistics turnover data for the creative industries
2. Desk research into the key literature about creative industries value chains and the creative industries business ecology
3. Qualitative interviews with creative industries experts, including CIIC business analysts and representatives of the creative industries sector. A full list of interviewees is at Appendix 5.

The timeframe for this project was 6-30 April 2010.

1.3 Definitions

For the purposes of this project, the definition of the creative industries was taken from the Centre for International Economics 2009 Creative industries economic report:²

² Centre for International Economics, *Creative industries economic report*, 30 June 2009, p.16.

- music and performing arts
- film, television and radio
- advertising and marketing
- software development and interactive content
- writing, publishing and print media
- architecture, design and visual arts

1.4 Limitations of the research

The research for this project was limited by the amount of time for the project, and the limited, extant literature on the subject. It is not a comprehensive literature review or data audit.

The research nevertheless provides a valuable insight into creative industries value chains, and is sufficient for the purposes of designing a pilot to test interventions with businesses under \$1 million.

The data analysis was similarly limited by the extant data about the Australian creative industries. However, it does provide the CIIC with the granularity required to understand the distribution of creative industries businesses according to turnover.

Ultimately, the research contained in this paper brings to light several gaps in the available data about the creative industries, which the CIIC may wish to seek to address in future projects or collaborations.

1.5 Rationale for the research

CIIC is a relatively new player in the creative industries. Its role is to support creative industries businesses to exploit their productivity and growth potential. It is one of seven government-funded “Enterprise Connect” centres operating across diverse industries.

CIIC’s main investment is in the existing Enterprise Connect model for government intervention: business reviews and matched funding of \$20,000 to act on the review’s recommendations. CIIC is currently allowed to give this service to companies that have an annual turnover of \$1 million or more. CIIC offers complementary services to assist businesses under this threshold.

The assumption of the Enterprise Connect model is that support for a creative industries business with over \$1 million annual turnover will have an impact on productivity and growth for that business and the whole sector. This impact will be sufficiently large to warrant the investment of limited government resources, whereas the same support for a business under \$1 million would not.

However, this assumption has not been tested in the creative industries. Creative industries businesses with a turnover under \$1 million may occupy key roles in the industry’s ecology as drivers of content, innovation or change.

For example, the Australian film industry's high turnover distribution and post-production houses would collapse without the small production houses which produce the content that powers the entire machine. These small production houses are unlikely to have an annual turnover of more than \$1 million, and so do not qualify for CIIC business review support. Yet services for these businesses could have a greater impact on the industry's productivity and growth, than a business review with a high turnover, post-production business would. This is because of the small, but key businesses' position in the ecology, or value chain, of their industry.

The same may be said for the role of small creative industries businesses in the value chain of other sectors. For example, an advertising firm plays a critical role in the value chain of the manufacturing and technology industries – yet a typical advertising business probably does not currently qualify for CIIC review.

Therefore, the CIIC needs to understand the roles of the various types and sizes of creative industries businesses in the overall, business ecology / value chain in order to know where in the ecology to make its intervention so as to maximise impact on overall productivity and growth in the sector and related industries. Whether this should include businesses under \$1 million turnover needs to be tested.

PART TWO

Analysis of creative businesses by turnover

Key points:

- 93 percent of creative industry businesses have an annual turnover of less than \$1 million.
- The proportion of creative businesses under \$1 million is greater than for all Australian businesses: 93 percent of creative industry businesses have an annual turnover of less than \$1 million, compared to 89 percent of all Australian businesses.
- The proportion of Australian businesses which have annual turnover above \$1 million is about twice that of the proportion of creative industry businesses (11.4 percent of all Australian businesses compared to 6.6 percent of creative industry businesses).
- There may be “transformation points” at the \$200,000-300,000 turnover range and the \$500,000-\$600,000 turnover range. This would need to be tested by targeting services to businesses in these ranges.
- It is estimated that creative businesses with turnover under \$1 million contribute roughly eight percent more to total sector turnover than their counterparts in other Australian industries.

2.1 Introduction

This section contains a statistical analysis of the annual turnover of businesses in the creative industries compared to all Australian businesses.

2.2 Notes

The graphs and tables presented in this document are contained in the file *Analysis 8165 2007.xls*. The original data is contained in the file *Original data 8165 2007.xls*.

Other notes:

- Source: Australian Bureau of Statistics (ABS) *Counts of Australian Businesses, Including Entries and Exits* (cat. 8165.0).
- Reference year: 2007
- Classification: ANZSIC93 (see attachment 2).
- Definition of Turnover: The total revenue generated by a business from the provision of goods and services for a given accounting period.

2.3 Gaps in the ABS data

The proportion which businesses at various turnover points contribute to total creative industries turnover is not known.

This would help to establish the dollar value of sub-\$1m businesses' contribution to the creative industries sector. Using the available ABS data, it is roughly estimated that businesses under \$1 million account for about 34% of total creative industries turnover, compared to businesses of under \$1 million contributing about 26% of all Australian industries' turnover. However, this cannot be confirmed, as it is based on ranges rather than 'actuals', and should be used with caution. The statistical error is roughly the same for both figures, so they can be used relationally – eg, creative businesses under \$1 million turnover contribute about eight percent more to their sector turnover than their counterparts in other Australian industries.

The actual turnover of creative industry businesses, including medians and averages is not known.

This is because the ABS collects data from the Australian Taxation Office in turnover ranges, so as to protect confidentiality.

The contribution of creative industry businesses to overall creative industries turnover by size of business is not known.

This would help to understand the contribution of small operations, such as freelancers and sole traders to the overall creative industries sector.

The most recent data is from the 2006/07 ABS series 8165.0.

The games industry is not specifically segmented within the 2006/07 ABS data.

However, it would most likely be captured within the “interactive content” and “software” ANZSIC codes. It should in future be easier to segment out, as ANZSIC codes have since been revised.

2.4 Annual turnover under \$1 million by sector

The data show that the creative industries tend to have a greater proportion of businesses with annual turnover under \$1 million. In 2007, there were 99,575 creative businesses with an annual turnover of less than \$1 million. This represented 93 percent of creative industry businesses. By comparison, 89 percent of all Australian businesses had an annual turnover under \$1 million.

The comparisons are not easy to read in graphical form because of the high proportions (around 90 percent). Differences between the creative industries and all

industries are more clearly visible by comparing the smaller percentages – those showing the proportions of businesses with turnover of \$1 million and above.

Businesses with annual turnover less than \$1m, 2007

Creative industry segment	Number	Percent	Percentage points difference from all industries
Music and performing arts	9,494	95	6
Film, television and radio	6,093	91	2
Advertising and marketing	8,852	88	-1
Software development and interactive content	35,588	94	5
Writing, publishing and print media	3,178	86	-3
Architecture, design and visual arts	36,370	95	7
Total creative industries sector	99,575	93	5
<i>All industries</i>	<i>1,783,302</i>	<i>89</i>	

Source: ABS cat. 8165.0

Annual turnover by sector, 2007

	Less than \$1m	\$1m and over
	Percent of businesses	
Music and performing arts	95	5
Film, television and radio	91	9
Advertising and marketing	88	12
Software development and interactive content	94	6
Writing, publishing and print media	86	14
Architecture, design and visual arts	95	5
Total creative industries sector	93	7
<i>All industries</i>	<i>89</i>	<i>11</i>

Source: ABS cat. 8165.0

2.5 Distribution of turnover by sector

The distributions indicate that it is generally in the lowest turnover ranges – and in the lowest range (0 to under \$50,000) in particular – that the creative industries have greater proportions of businesses.

In the creative industries, 73.7 percent of businesses have annual turnover of less than \$200,000, compared to 61.8 percent of all Australian businesses. There are also

proportionally more creative industry businesses in the \$100,000 to \$200,000 range than in all Australian industries – 20.7 percent compared to 17.8 percent. Concomitantly, there are a lower proportion of creative industry businesses in the turnover ranges above \$200,000 compared to all Australian businesses: 26.3 percent compared to 38.2 percent of all Australian businesses.

Looking at the data, it is possible to begin to hypothesise about the turnover points at which creative businesses must make choices about growth.

For example, it can be hypothesised that the majority of businesses with turnover of less than \$200,000 are one or two person operations.³

Beyond \$200,000, and the number of businesses more than halves, from 20.7 percent in the \$100,000 to \$200,000 band to 7.8 percent in the \$200,000 to \$300,000 band. It then halves again, to four percent in the \$300,000 to \$400,000 band.

This could simply be due to the structure of the industry, with the higher turnover businesses in the sector and businesses from other sectors reliant on a large pool of freelance workers. Turnover is not an adequate proxy for qualitative research into the turning points in the creative business life cycle.

However, it *may* indicate a pressure point at the \$200,000 turnover mark – a point at which businesses make a decision about growth, or are unable to meet challenges to growth.

A similar pressure point may be at about the \$600,000 turnover mark, where a drop off from 16.0 percent of businesses in the \$200,000 to \$600,000 turnover range can be seen, to 3.7 percent in the \$600,000 to \$1 million range. Again, this could merely be structural to the industry.

Interestingly, the numbers start to level out in the \$600,000 to \$1.5 million bands – as the turnover bands increase, there are not so many dramatic drops in the number of businesses. For example, there is about the same proportion of businesses in the \$600,000 to \$800,000 range (2.2 percent) as in the \$800,000 to \$1 million range (1.5 percent), and in the \$1 million to \$1.5 million range (1.9 percent). This could indicate that the point of change for a business which has the potential to grow to \$800,000 to \$1.5 million is really when that business is at the \$600,000 turnover range.

³ This is borne out by the ABS 2006-07 statistics on business count by number of employees, included in the CIE report, which show that more than half of all creative industry businesses are non-employing: Centre for International Economics, *Creative industries economic report*, 30 June 2009, p.51.

As noted earlier, these observations could be the results of structural artefacts of the industry. Turnover is not an adequate indicator of a business' growth potential. It may be worth further exploring where the opportunities for growth and the pressures preventing growth in creative businesses really are, and attempt to match these to turnover indicators.

Annual turnover, some aggregated ranges, 2007

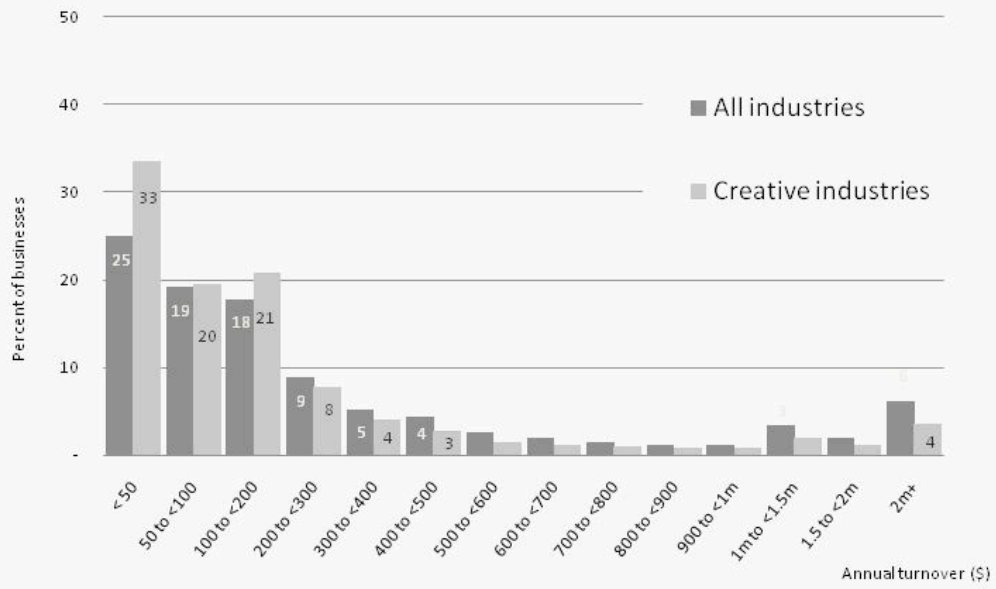
Annual Turnover	Total creative industries sector	All industries
	Percent of businesses	
\$0 to less than \$50k	33.4	24.9
\$50k to less than \$100k	19.6	19.1
\$100k to less than \$200k	20.7	17.8
\$200k to less than \$600k	16.0	21.0
\$600k to less than \$800k	2.2	3.4
\$800k to less than \$1m	1.5	2.4
\$1m +	6.6	11.4
Total	100.0	100.0

Source: ABS cat. 8165.0

The tables in Appendix 3 show the numbers and percentages of businesses in each sector by turnover ranges. The figures below present this data in graphical form.

Note that the data combines business counts for turnover of \$2 million and over. Tables with all turnover ranges ordered from the ABS are supplied in a separate spreadsheet (*Analysis 8165 2007.xls/Full Tables*).

Distribution of annual turnover: Creative industries combined, 2007



Source: ABS cat. 8165.0

PART THREE

Creative industries value chains

Key points

- The creative industries value chains are a mix of creator, client and market driven
- Low turnover businesses can sometimes drive the turnover of higher turnover businesses, as feeders of content or as freelance work on a project basis
- Turnover does not necessarily reflect the value contributed by lower turnover businesses, which may play critical roles in the chain, or self-subsidise their contribution to the sector
- The software development and interactive content sector contributes the greatest proportion of industry gross product. However, it still has five percent more businesses operating under \$1 million than all Australian businesses.

4.1 Introduction

“...whilst there seems to be general agreement on the broad segments that make up the creative industries, there is no consensus on what specific activities are included...”

- CIE report, 2009, p.16.

The data in the preceding section shows that almost all creative industries businesses have turnovers under \$1 million. However, this does not prove that giving them services would lead to a strategic impact on the whole industry's growth and productivity.

Desk research and consultation have been conducted about the value chain of creative industries sectors and any available data about the contribution of the under \$1 million businesses to the value of the creative industries.

The research shows the value chains of each sub-sector of the creative industries.

4.2 Gaps in the available research

Unfortunately, there is no data which measures the contribution of the various players in each industry's value chain to the overall value created by the sector. The contributions of businesses with turnover under \$ 1million to the overall sector cannot be accurately quantified.

4.3 Limitations of the value chain methodology

The creative industries show characteristics which are not reflected in other, traditionally structured industries. The “value chain” methodology is limited in its ability to capture the nature of how the creative industries operate as a network of value creation, rather than as linear processes. Conceptualising creative industries as comprising value networks, where value is co-created, may help when devising government interventions. Greater research in this area would be of benefit.

For example, the creative sector relies on freelancers, which suits the project-based nature of the sector and the innovation and value creation which comes from constantly shifting creative collaborations. Horizontal growth in the number of small or medium sized businesses rather than scale may therefore be a more appropriate form of growth for this sector than attempting to grow individual businesses. There is also hidden value in the early stages of product and idea creation in the creative industry value chains, due to self-subsidy. The value chain methodology also does not deal with the nature of many creative products as unique offers, complicating the application of traditional efficiency approaches.

The value chain research contained in this document should therefore be read as only a first step towards a deeper understanding of these sectors as they genuinely create value.

4.3 Music and performing arts

Key points:

- 95 percent of music and performing arts businesses have turnover under \$1 million.
- The sector has the highest proportion of businesses operating under \$200,000 of all the creative industries.
- The actual value contributed to the sector by small businesses is higher than it appears in turnover figures.
- The sector has impacts on the electronics, screen, radio and cultural industries, as well as intangible benefits to community and society.

Snapshot: music and performing arts

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	10,039	100	n/a
Businesses under \$1 million	9,494	95	+6
Businesses under \$200,000	8,050	80	+18
Businesses under \$50,000	4,378	44	+19
<i>Comparison to total creative industries</i>	<i>Music and performing arts</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	1,028	29,494	3.5
Total number of creative businesses, 2006/07	10,039	106,611	9

**Source: ABS cat. 8165.0 **Source: CIE report p.24*

In 2006/07, there were 10,039 businesses in music and the performing arts. 95 percent of these had turnover of under \$1 million – six percent more than all Australian businesses. Businesses were concentrated under \$200,000 (80 percent, compared to 62 percent of all Australian businesses). The majority of these operate under \$50,000 – more than in other creative industry.

According to the CIE report, this sector's gross product was about \$1,028 million in 2006/07.⁴ In 2006/07 the music and performing arts sector comprised about nine percent of the total number of creative industry businesses, and produced about 3.5 percent of the sector's industry gross product.

Businesses under \$1 million operate at all stages of the value chain. The businesses with higher turnover in the sector, such as recording businesses or large arts organisations (e.g. orchestras) rely on the freelancers and individuals at the opposite end of the turnover scale for content, skills and ideas.

Thus the value chain can be understood better as an ecology, where each player relies on the others for overall sustainability and growth.

Self-subsidy is fairly typical, with individuals working in other jobs, working for low or no fees in the industry, or taking the risk on their productions in order to make a name for themselves and secure future work. Individuals in music and performing arts are often not solely profit-motivated, with significant personal, artistic or community motivations for their work.

This can hide some of the real costs of the sector, and distort the distribution of turnover towards the top end of businesses. For example, businesses at the upper end of the turnover range, such as recording studios or large performing arts organisations, may not be paying for the actual costs of the freelance services which they buy in, as those freelancers are self-subsidising their own work. This may have created a distortion in the distribution of turnover, with high turnover businesses not distributing the wealth of the sector equitably with the creators of that wealth.

The result is that the total value created by the lower turnover businesses and individuals is not accounted for within turnover data. Freelancers and content creators at the lower end of the turnover range may be creating more value for the industry than is ever captured in records of their turnover.

Music

The figure below represents the music value chain.

⁴ Centre for International Economics, *Creative industries economic report* p.24. "Gross product" is "closely related to industry value added" and is a measure of the value of output of an industry, less intermediate outputs. The 2006/07 estimates from the CIE report have been used, rather than the 2007/08 estimates, as the business number figures from the ABS are for 2006/07.

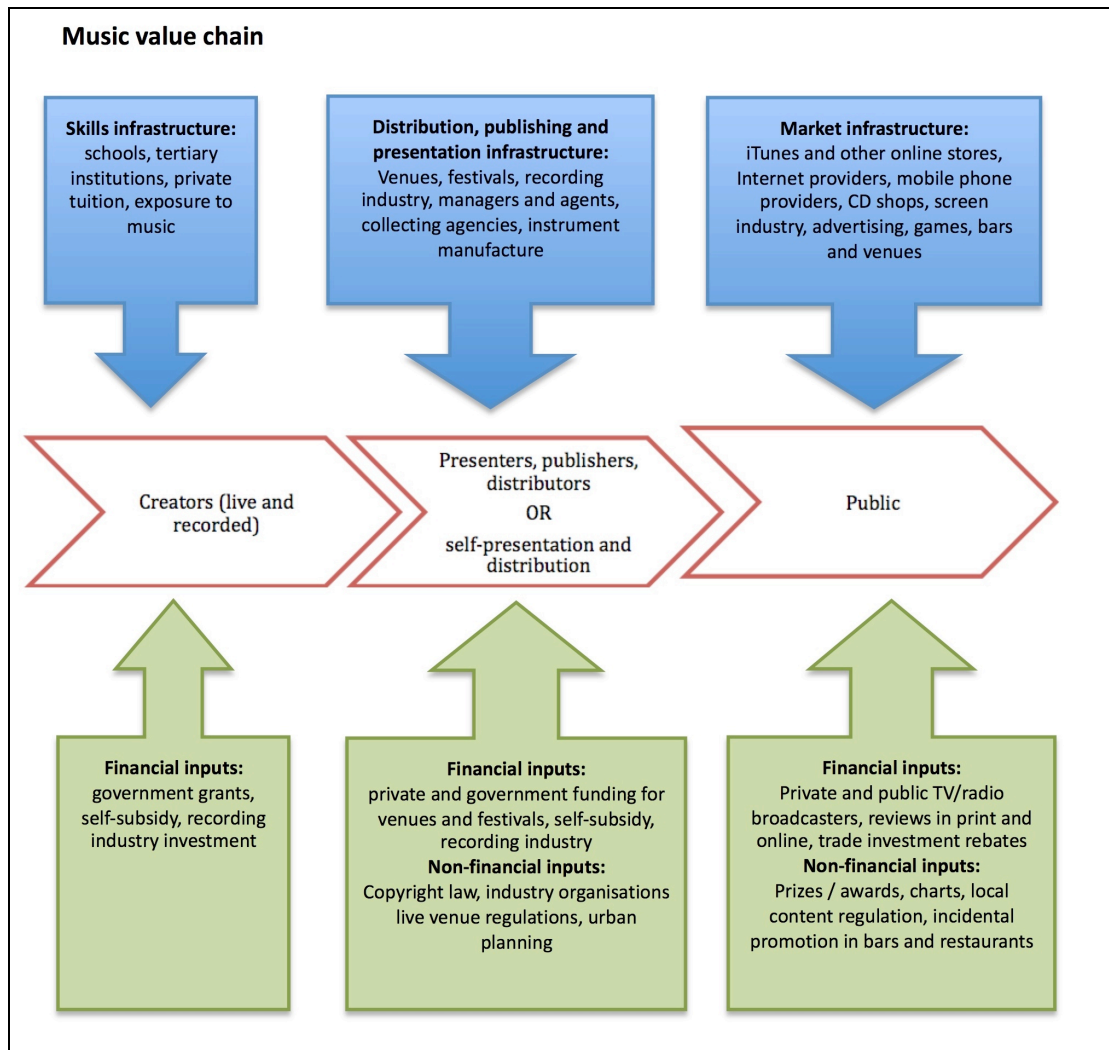


Figure 1: Music sector value chain

As the value chain shows, musicians and composers feed the mobile phone, games and Internet provider industries. Music creators also incidentally support businesses such as bars and restaurants, as well as cultural tourism. In turn, music creators are supported by these infrastructures.

Music also has intangible impacts, not recorded in the value chain, such as cultural outcomes, contribution to national or personal identity, artistic impact, pleasure and enjoyment, and educational outcomes. The figure below shows some of the impacts from music.

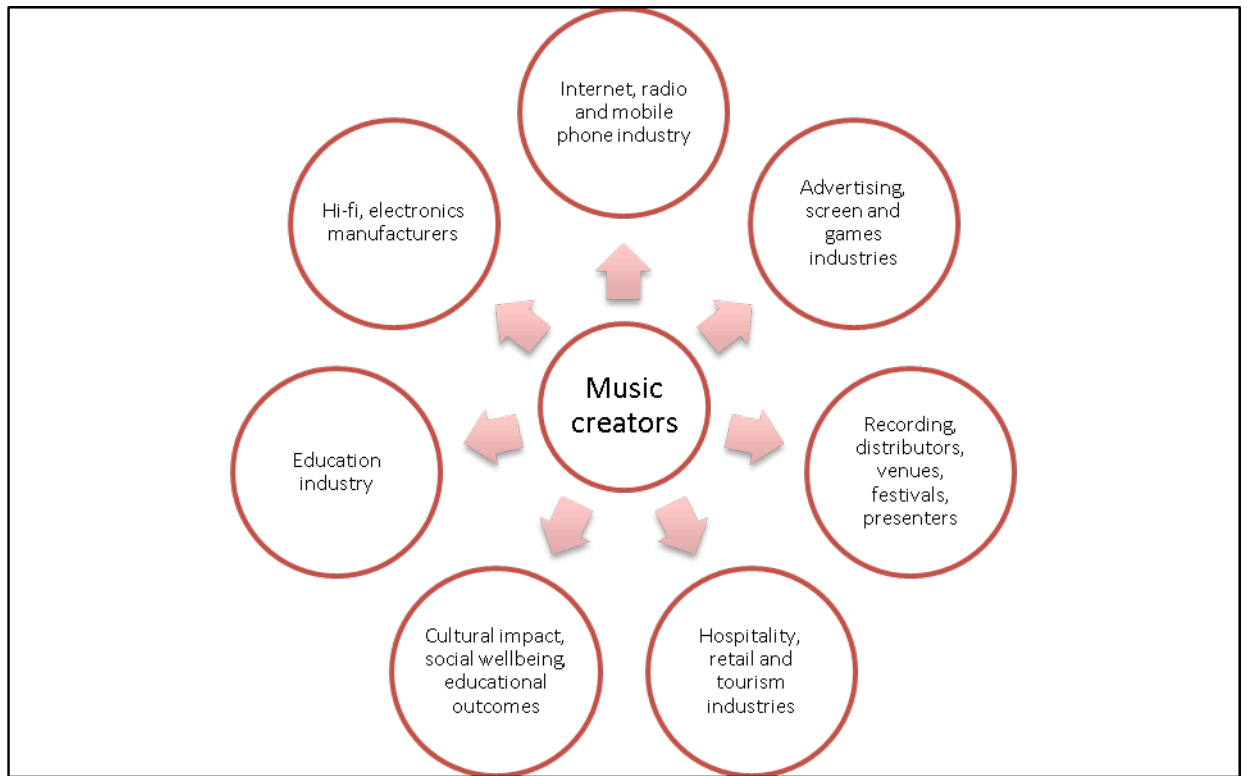


Figure 2: Music's financial and non-financial contributions

The performing arts

The figure below represents the performing arts value chain.

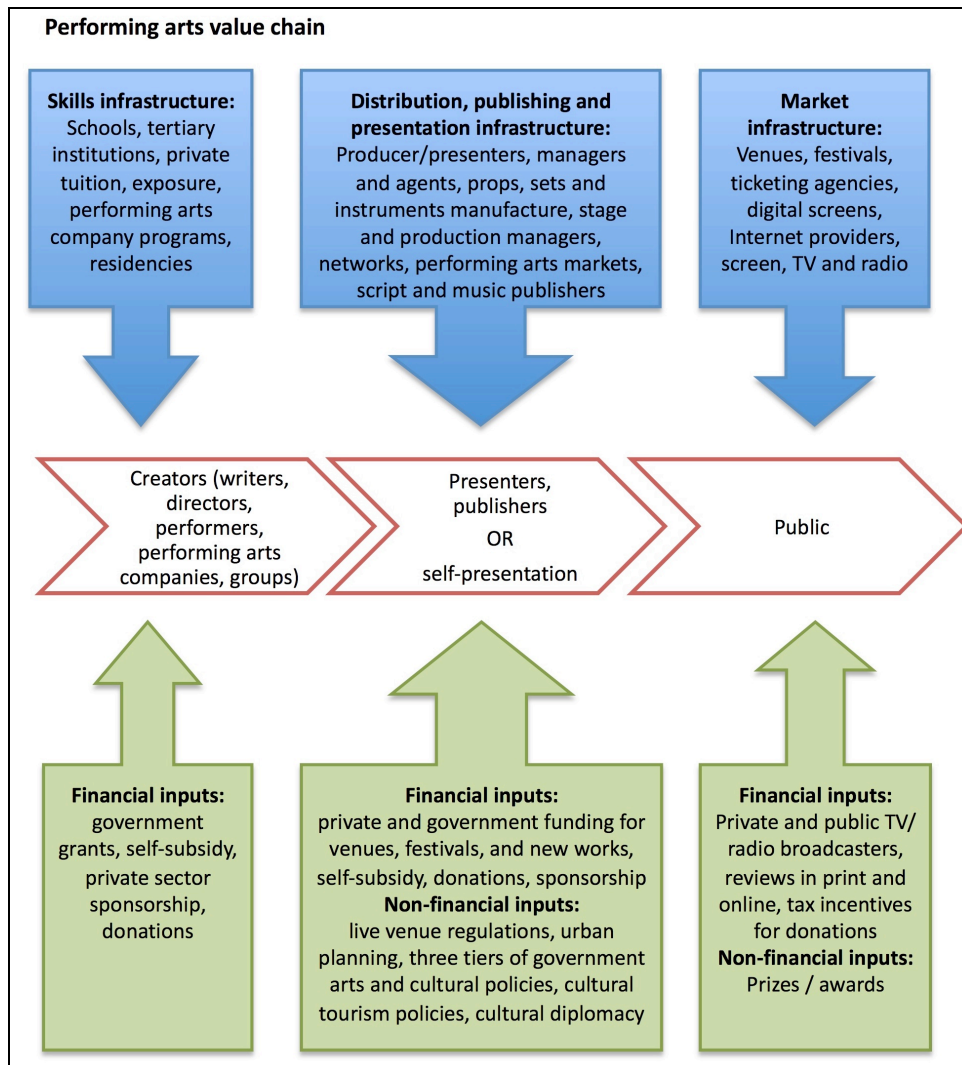


Figure 3: Performing arts value chain

Creators of the performing arts feed the chain of venues, presenters, tour operators, cultural tourism destinations and ticketing agencies. They have impacts on cultural and other industries, as well as intangible, cultural and social impacts, as shown in the figure below.

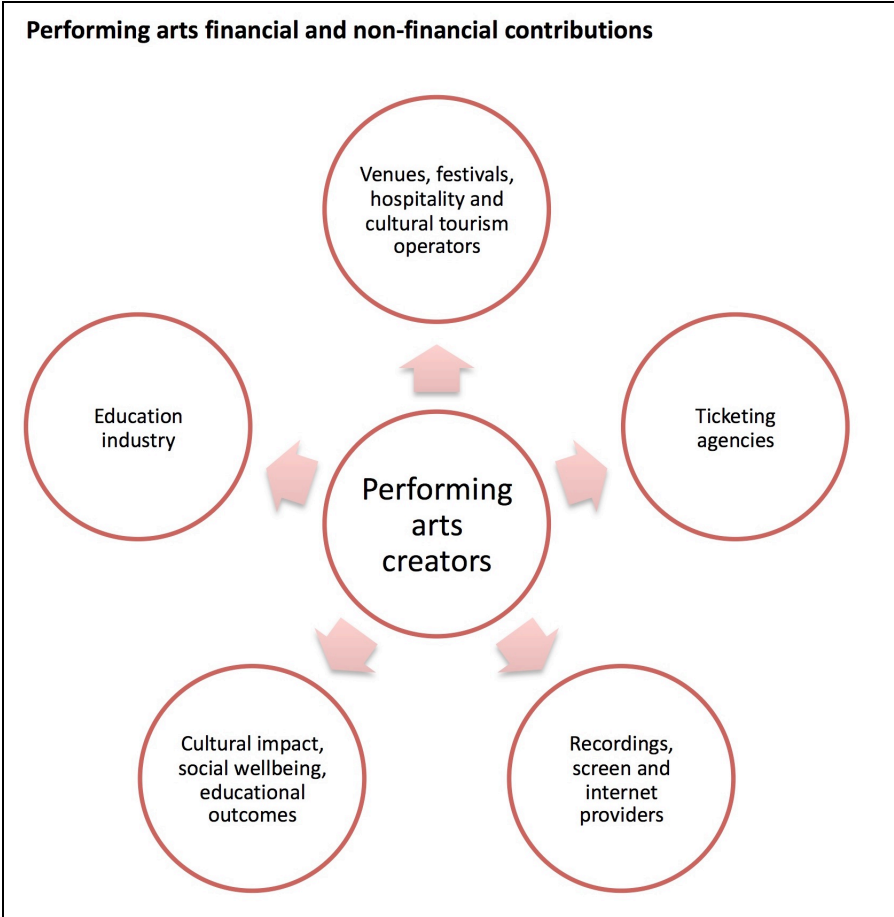


Figure 4: Performing arts financial and non-financial contributions

4.4 Film, television and radio

Key points:

- 91 percent of film, television and radio businesses have turnover under \$1 million.
- Self-subsidy distorts the actual value of low turnover businesses, as well as the real contribution of these businesses to the higher turnover businesses in the value chain. For example, freelance filmmakers may make unaccounted, “in-kind” contributions, through low or no fee work, to post-production and distribution houses.

Snapshot: film, television and radio

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	6,705	100	n/a
Businesses under \$1 million	6,093	91	+2
Businesses under \$200,000	4,828	72	+10
Businesses under \$50,000	2,319	35	+10
<i>Comparison to total creative industries</i>	<i>Film, TV and radio</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	4,701	29,494	16
Total number of creative businesses, 2006/07	6,705	106,611	6

*Source: ABS cat. 8165.0 **Source: CIE report p.24

In 2006/07 there were 6,093 businesses operating in film, television and radio, with 91 percent under the \$1 million turnover threshold – two percent more than all Australian businesses. According to the CIE report, the sector had a gross product of about 4,701 million in 2006/07. As a sector, it comprised about six percent of the total number of businesses, but produced about 16 percent of total creative industries gross product.

Turnover distribution could indicate an industry dominated by freelancers and small businesses that feed higher turnover businesses. Most businesses had turnover under \$200,000 (72 percent compared to 62 percent of all Australian businesses). This difference is due to a higher concentration under \$50,000, at 35 percent

compared to 25 percent. The sector had fewer businesses compared to all Australian businesses operating in all subsequent turnover ranges, except above \$2 million, where it had about the same proportion as all Australian businesses (about six percent).

The value chain for this sector is market, cultural policy and creator driven. Creators will pitch ideas to studios, the government or private investors, which then make their investments based on an assessment of market and cultural considerations.

Businesses under \$1 million turnover operate at all stages of the value chain, but are likely to be concentrated as freelancers and small operators in content production and post-production. Larger players such as exhibitors and distributors rely on these small businesses to drive the sector. Large production houses and post-production houses, such as Southern Star productions or Animal Logic, also use freelancers on a project basis.

Individuals working in film, radio and television may also work across other creative industries sectors, such as theatre and advertising. The level of cross-over has not been mapped, but would be worth exploring to get a more accurate picture of the creative ecology.

Similar to the performing arts, self-subsidy is typical, with individuals working in other jobs, working for low or no fees for other businesses in the industry, and taking the risk on their own productions, in order to make a name for themselves and secure future work. This can hide some of the real costs of the sector, as well as some of the value created by the lower turnover businesses and individuals.

Further research into the level of self-subsidy and its contribution to the value of the sector would help to understand the real value created by lower turnover businesses in the sector.

The figure below shows the film, television and radio value chain.

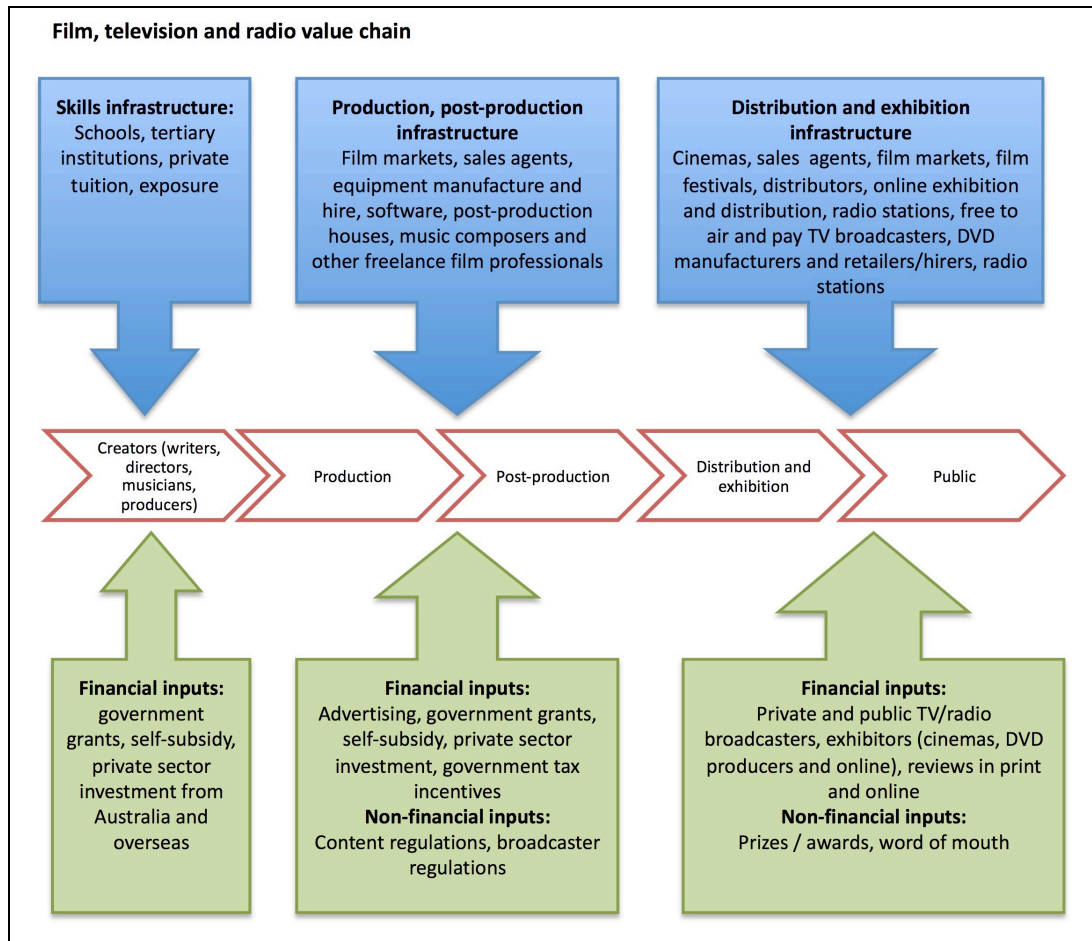


Figure 5: Film, television and radio value chain

The film, television and radio sectors contribute to other sectors and industries, as well as create cultural and social benefits.

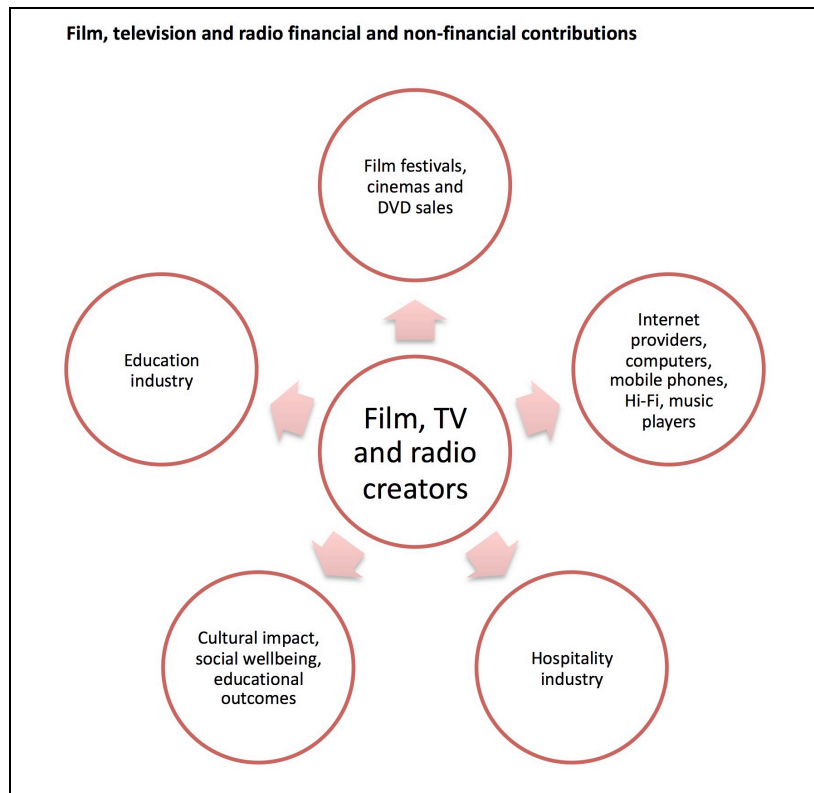


Figure 6: Film, television and radio financial and non-financial contributions

4.5 Advertising and marketing

Key points:

- 88 percent of advertising and marketing businesses have turnover less than \$1 million.
- This means that 12 percent have turnover above \$1 million, which is comparable to the rest of Australian businesses (11 percent).

Snapshot: advertising and marketing

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	10,114	100	n/a
Businesses under \$1 million	8,852	88	-1
Businesses under \$200,000	6,493	64	+2
Businesses under \$50,000	2,983	30	+5
<i>Comparison to total creative industries</i>	<i>Advertising and marketing</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	911	29,494	3
Total number of creative businesses, 2006/07	10,114	106,611	9

**Source: ABS cat. 8165.0 **Source: CIE report p.24*

In 2006/07 the advertising and marketing sectors comprised 8,852 businesses, with 88 percent of these operating under \$1 million in turnover – one percent less than all Australian businesses. The sector created about three percent of creative industries gross product in 2006/07, and comprised about nine percent of the total number of creative businesses.

The sector is basically structured as agencies, which have a core group of employees, and which hire contractors on a project basis. Unlike many of the other creative industries, the advertising and marketing value chains are client-driven, rather than creator or market-driven.

Like all the creative industry sectors, advertising and marketing had more businesses operating under \$50,000 than all Australian businesses, at about 30 percent compared to 25 percent of all Australian businesses. However, apart from this band, advertising and marketing had very similar distribution of businesses by turnover to

all Australian businesses, and more operating over \$2 million – about eight percent compared to six percent of all Australian businesses. The value chain can be understood as follows.

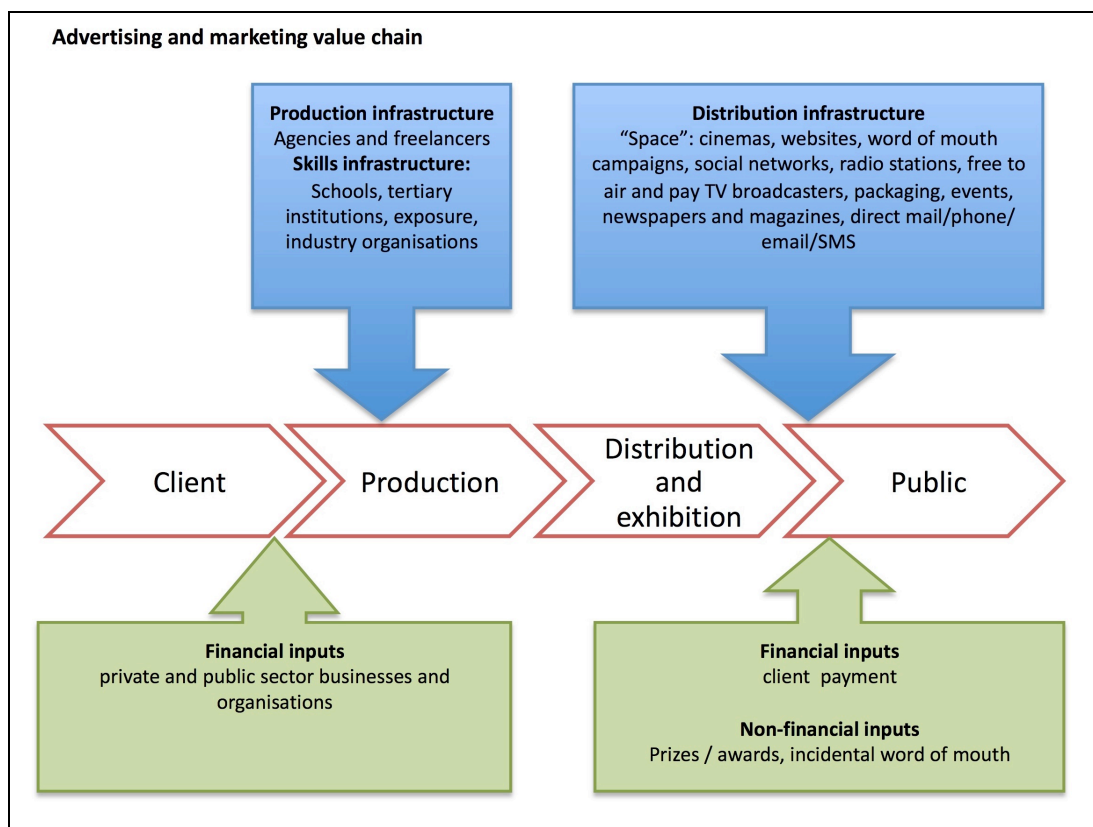


Figure 7: Advertising and marketing value chain

The advertising and marketing sectors are critical to many other sectors, adding value to the value chains of clothes, food and all other forms of manufacturing, technology, services and any other sector which has a sales outcome. Advertising and marketing in turn rely on small operators such as photographers, designers, copywriters, copy editors and market researchers. Indirectly, advertising also supports some other parts of the creative sector, by providing paid work for individuals working engaging in low or no fee work in some of the other creative industries.

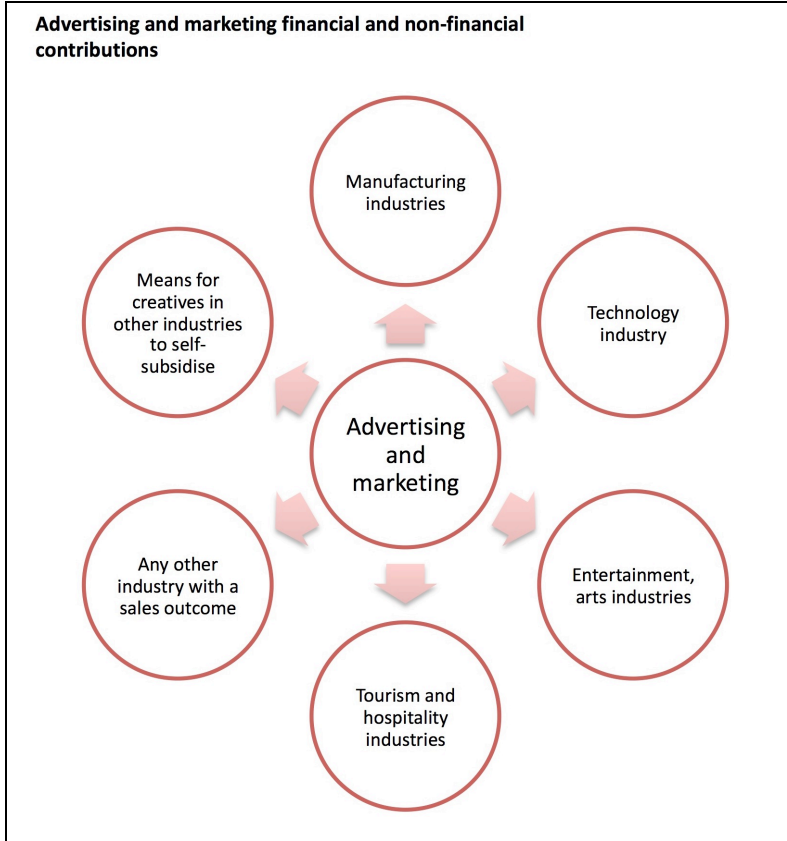


Figure 8: Advertising and marketing financial and non-financial contributions

4.6 Software development and interactive content

Key points:

- 94 percent of businesses have turnover under \$1 million. This is five percent more than the proportion of all Australian businesses.
- Most of the games industry in Australia does not develop its own intellectual property (IP).
- The industry has impacts on a wide variety of industries, including screen, entertainment and electronics manufacturers.

Snapshot: software development and interactive content

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	37,965	100	n/a
Businesses under \$1 million	35,588	94	+5
Businesses under \$200,000	27,350	73	+11
Businesses under \$50,000	11,361	30	+5
<i>Comparison to total creative industries</i>	<i>Software development and interactive content</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	12,840	29,494	44
Total number of creative businesses, 2006/07	37,965	106,611	35

*Source: ABS cat. 8165.0 **Source: CIE report p.24

In 2006/07 there were 35,588 software development and interactive content businesses in Australia, and 94 percent had a turnover under \$1 million – five percent more than all Australian businesses. The CIE report states that this sector generated about \$12,840 million in gross product – about 44 percent of the total creative industries' gross product of \$29,494 million in 2006/07. It comprised about a third of the total number of creative businesses.

Most businesses operated under \$200,000 (73 percent compared to 62 percent of all Australian businesses). This difference was due to the greater number of software businesses under \$50,000 (about 30 percent compared to 25 percent) and between \$100,000 and \$200,000 (25 percent compared to 18 percent). The distribution in

subsequent turnover ranges was about the same as for all Australian businesses, although almost always slightly lower, and there were only three percent of businesses above \$2 million, half that of all Australian businesses at six percent.

Although the ABS does not define games or Internet and phone application developers, it can be assumed that such businesses are captured within this category.

The software development and interactive content sector is creator, market and client driven, with some works commissioned, some work outsourced to the sector as part of larger projects, and some work developed by the creator, who then pitches it to a games or software publisher which makes a market judgment about investment.

Where the piece is commissioned, the end product is owned by the commissioning client unless the parties contract to do otherwise. There may be an after-market business revenue stream in writing manuals and providing training and support services. Most web-design projects are bespoke to a large extent, with each client having unique logos, mission statements and requirements.

A software developer may choose to retain IP in their product to on-sell to a broader consumer market. In this case, they will frequently build a product and then pitch it to a software publisher/console manufacturer, or take it direct to market online. Companies that make the decision to write new software IP frequently choose to set up a new entity to develop the software. These are called "Start-ups".

Setting up a start-up is frequently seen as advantageous within the software industry as software implementations are usually very "scalable" (i.e. able to be widely implemented across a number of client sites with very little further capital expenditure). Thus, if the software product is successful in the market, the value of the company behind the software can increase in direct proportion to the new product, rather than being averaged out with other company products and services. Companies such as Microsoft, Apple, Google and Facebook are examples of technology start-ups.

In the case of games produced in Australia, many are made under license from an overseas IP holder. This may create jobs in the Australian economy, but a large percentage of revenue will pass to the commissioning company. Much of Australia's games industry appears to be in the developer and freelance community, rather than in games publishing.

The figure below sketches the value chain for software development and interactive content.

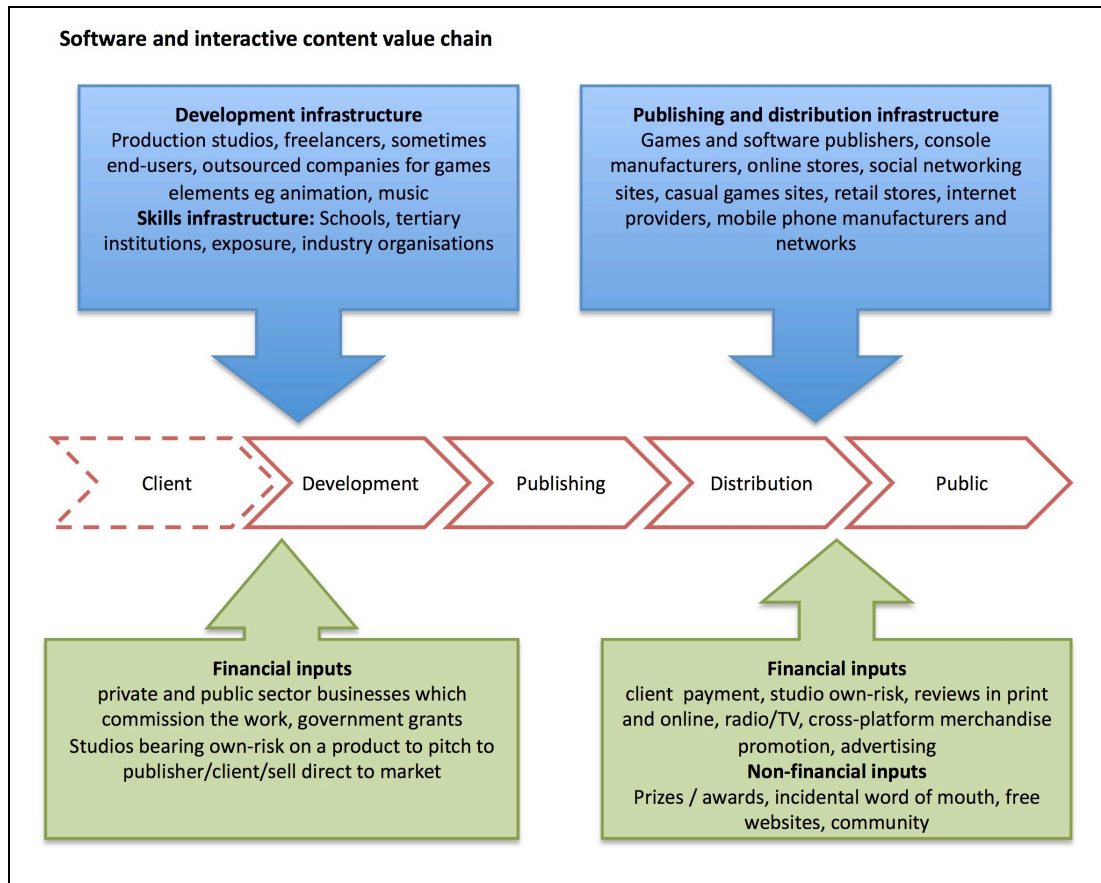


Figure 9: Software development and interactive content value chain

The software and interactive content industries also have impacts on a variety of other sectors, including the screen, advertising, marketing, and design sectors. Interactive content developers could be said to have an impact similar to advertising, on any Australian business with an online presence.

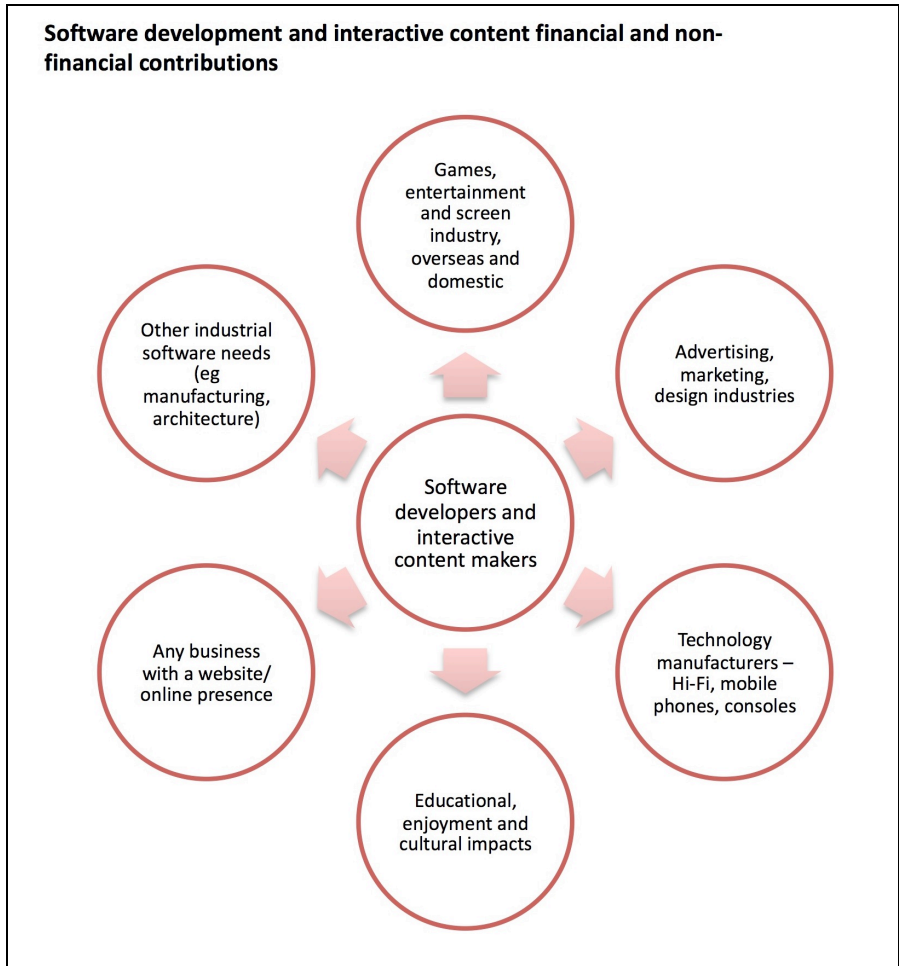


Figure 10: Software development and interactive content financial and non-financial contributions

4.7 Writing, publishing and print media

Key points:

- 86 percent of businesses have turnover under \$1 million.
- The hidden contribution of writers who self-subsidise the industry has not been quantified. This means that actual turnover at the lower end of the scale does not represent actual value of these small businesses.

Snapshot: writing, publishing and interactive media

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	3,696	100	n/a
Businesses under \$1 million	3,178	86	-3
Businesses under \$200,000	2,182	59	-3
Businesses under \$50,000	1,117	30	+5
<i>Comparison to total creative industries</i>	<i>Software development and interactive content</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	6,523	29,494	22
Total number of creative businesses, 2006/07	3,696	106,611	3

**Source: ABS cat. 8165.0 **Source: CIE report p.24*

In 2006/07 there were 3,178 businesses operating in writing, publishing and print media. According to the CIE report, the sector generated \$6,523 million in gross industry product in 2006/07. This is about 22 percent of total creative industry gross product, generated by about three percent of the total number of creative businesses.

The data indicates a relatively high proportion of high turnover businesses, in the form of newspaper, book and magazine publishers. 86 percent had a turnover under \$1 million – two percent less than all Australian businesses. This sector had the highest proportion of businesses above \$2 million of all the creative industries, at 8.4 percent. This is also higher than the proportion of all Australian businesses (six percent). The sector had fewer businesses under \$200,000 than all Australian businesses (59 percent compared to 62 percent). However, these businesses had a higher concentration under \$50,000 than all Australian businesses, at 30 percent

compared to 25 percent, reflecting the creative industries' general trend of a higher proportion of businesses under \$50,000 than all Australian businesses.

The industry is both creator and market driven, and is made up mostly of several large, news organisations and publishers and a corpus of freelance writers, designers, copy editors and some small to medium sized independent publishing houses. Several of the larger book publishers are overseas companies with an Australian presence. Again, the sector is characterised by self-subsidy amongst many writers seeking to develop a book to pitch to publishers, and increasingly self-publish direct-to-market through the Internet on sites such as lulu.com, amazon.com and e-readers such as the Kindle or the iPhone / iPad.

Writers may also operate across creative industry sectors, such as games, screen, performing arts and book publishing. The level of this sort of cross-over has not been measured, but may be worth exploring to better understand the actual size of the creative industries and how the industries work within a larger ecology. The figure below outlines the value chain.

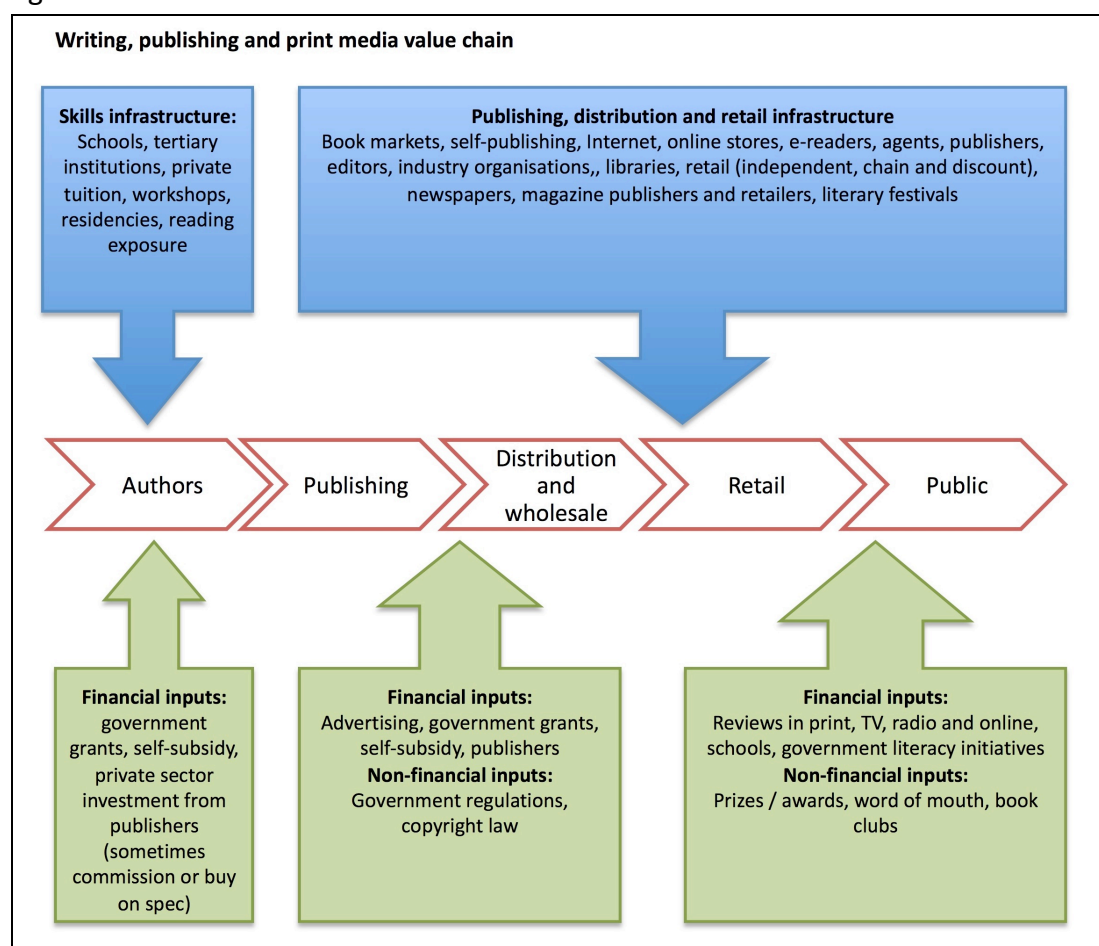


Figure 11: The writing, publishing and print media value chain

The writing industry has an impact on other sectors, including games, screen, performing arts, education and culture, online culture as well as personal enjoyment, national identity and cultural tourism. The following diagram sets out some of these impacts.



Figure 12: Writing, publishing and print media financial and non-financial contributions

4.8 Architecture, design and visual arts

Key points:

- 93 percent of architecture, design and visual arts businesses have turnover under \$1 million.
- Architecture is client-driven, whilst design and visual arts are client, creator and market driven.
- This sector has the second highest proportion of businesses operating under \$200,000 (music and the performing arts has the highest).

Snapshot: architecture, design and visual arts

	Number	Percent	Percentage points difference to all industries
Total businesses, 2006/07*	38,101	100	n/a
Businesses under \$1 million	36,370	95	+6
Businesses under \$200,000	29,672	76	+14
Businesses under \$50,000	13,503	35	+10
<i>Comparison to total creative industries</i>	<i>Architecture, design and visual arts</i>	<i>Total creative industries</i>	<i>Percent</i>
Industry gross product, 2006/07** (\$m)	3,493	29,494	12
Total number of creative businesses, 2006/07	38,101	106,611	36

**Source: ABS cat. 8165.0 **Source: CIE report p.24*

There were 36,370 businesses operating in architecture, design and visual arts in 2006/07. 93 percent of these had turnover under \$1 million – four percent more than all Australian businesses – with the concentration of businesses (76 percent) under \$200,000. The sector generated about 12 percent of total creative industries gross product in 2006/07, and comprised about 36 percent of the total number of creative businesses.

Although a number of individuals may operate across these sectors, the three sub-sectors are different from each other in terms of their value chains, and so will be dealt with separately.

Architecture

Typically, the sector is structured with a pool of architects working independently or in small firms, with some larger firms such as property development companies employing architects in-house and taking them on a project basis. The value chain of architecture can be described below.

Most commonly, architecture firms will employ draftspeople to carry the bulk of the repetitive drawing tasks, as well as Computer-Aided Design experts who are skilled in architectural software. It is also common for architect firms to employ interior architects and designers, as well as landscaper architects and more commonly nowadays, environmental consultants. In small practices, many of these tasks may be outsourced, or sourced separately by the client. Nevertheless, it suggests one means of reducing volatility is to increase the diversity of skills within the architectural practice.

In a crowded market, clients will frequently exploit the circumstances by running design competitions. Thus, the architecture firm is being asked to design “on-spec” with a percentage chance of winning in each competition. It is a parallel to the situation in the filmmaking industry, where the clever client can commission a “film festival” and pick only the best for its purposes. Likewise, this may occur in advertising where clients run open competitions for logo designs, video commercial content and even practical solutions e.g. the Netflix Prize for the team that came up with the most accurate algorithm in predicting customer preferences.

As a consequence, architecture reflects many of the hallmarks of other creative industries, in that architects will accept less money for their years of training and expertise than someone with far lower qualifications will accept, bearing in mind that most architecture degrees in Australia are 5-6 years in duration.⁵

The value chain for architecture can be understood below.

⁵ For example, see the article <http://archrecord.construction.com/news/daily/archives/090421youngarchitects.asp>

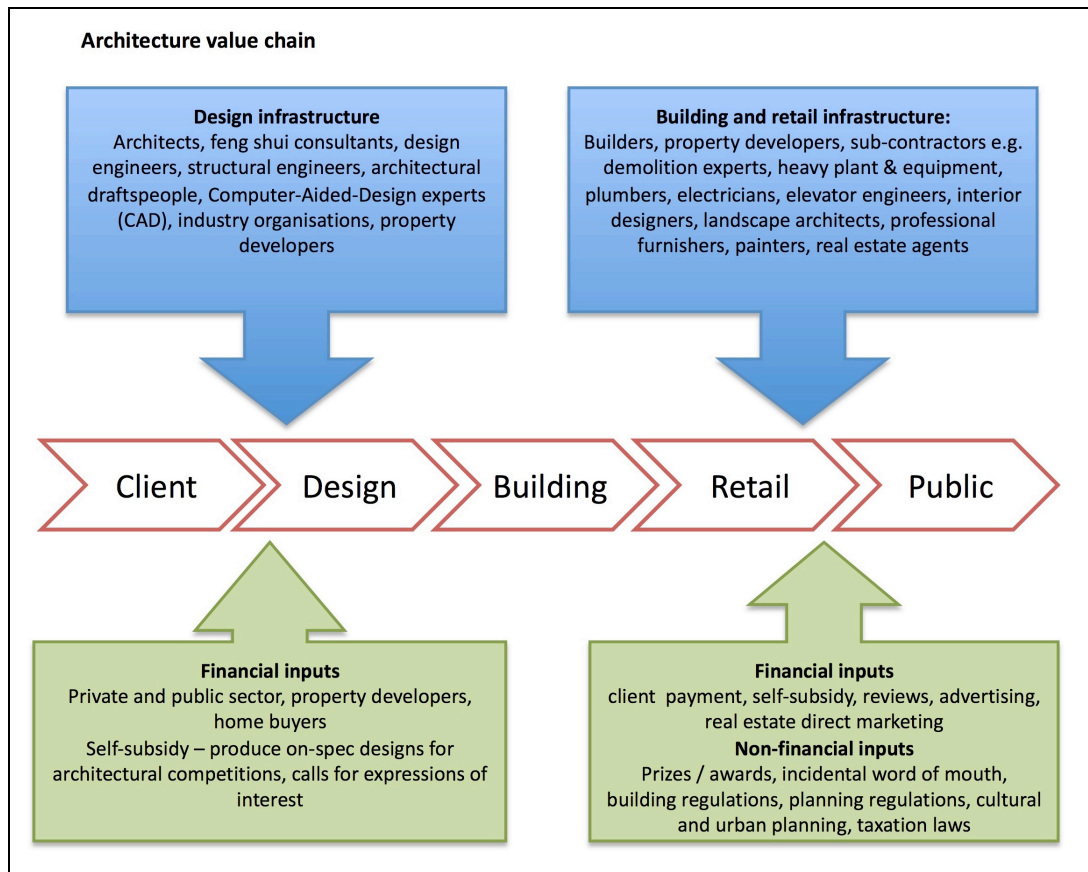


Figure 13: Architecture value chain

The architecture industry has a wide impact, affecting the built environment and the way it looks, functions, feels, and is built. Architecture is broadly seen as a key mechanism for communicating a society’s culture on a global level. The Joern Utzon designed Sydney Opera House, Frank Gehry’s Bilbao Guggenheim, the Burj-al-Arab hotel in Dubai and Gaudi’s Sagrada Familia are all iconic pieces of architecture that bring in a large number of tourists for their respective cities, stimulating in turn retail markets, hospitality and cultural tourism industries.

Design

Design can include industrial design, commercial arts, fashion, jewellery, website and graphic design. The sector operates largely on a small business or freelancer basis, contracting to other sectors such as advertising as projects arise. The sector is both client and creator driven, with graphic design services purchased by other businesses, but fashion and jewellery businesses driven by creators and market demand.

The sector contributes value to the advertising and marketing industries, as well as publishing, screen, manufacturing and retail sectors.

The value chain can be understood as follows.

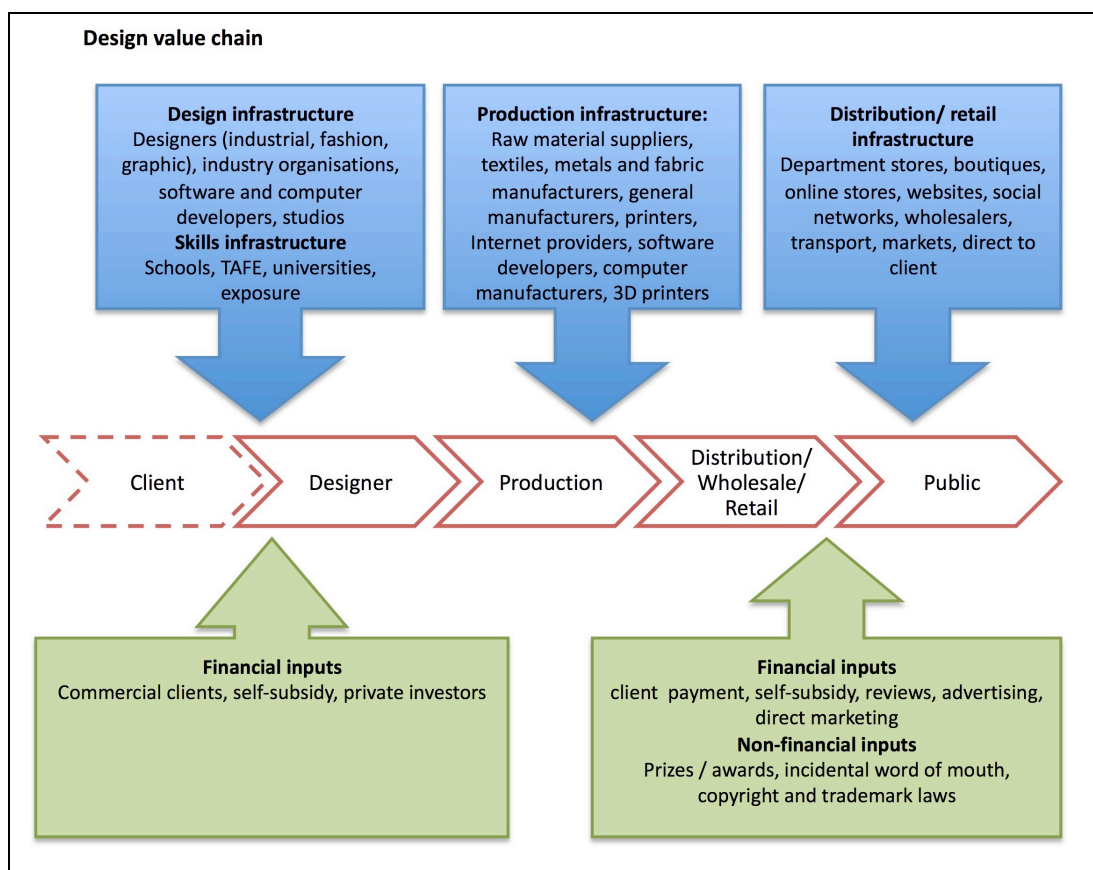


Figure 14: Design value chain

Design contributes to other sectors such as the manufacturing, retail, advertising and cultural sectors. See the below diagram for more details.

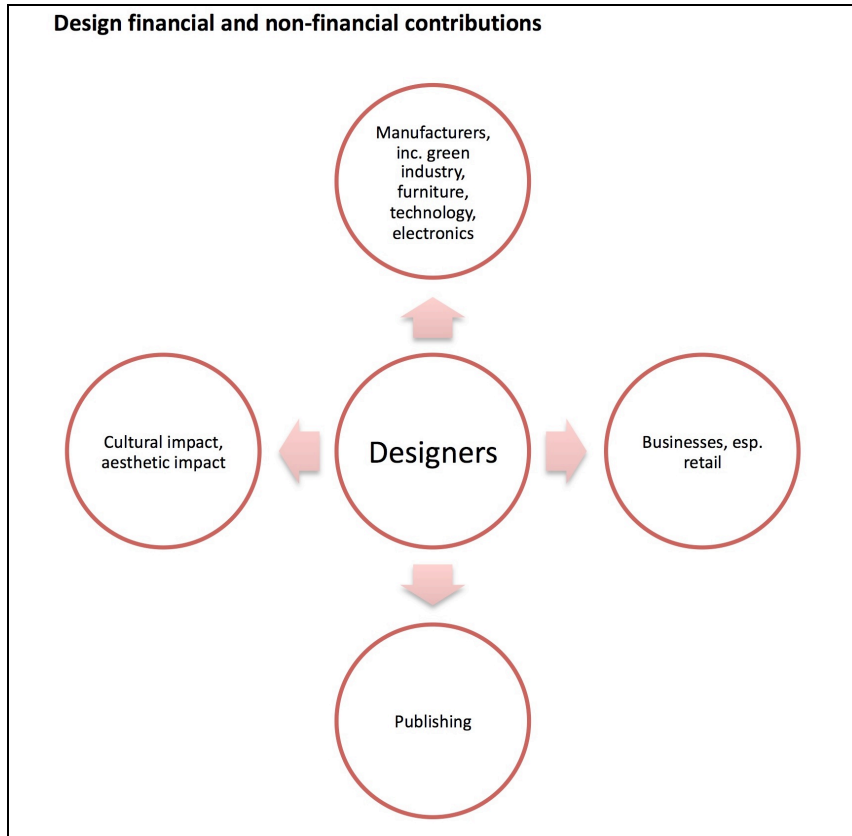


Figure 15: Design financial and non-financial contributions

Visual arts

Visual arts can include painting, media and sound artists, performance artists, and physical installations. It is a largely creator-driven sector, with some private and public art commissions, or galleries that motivate production by offering shows to artists. The value chain, or ecology, can be understood from the following diagram.

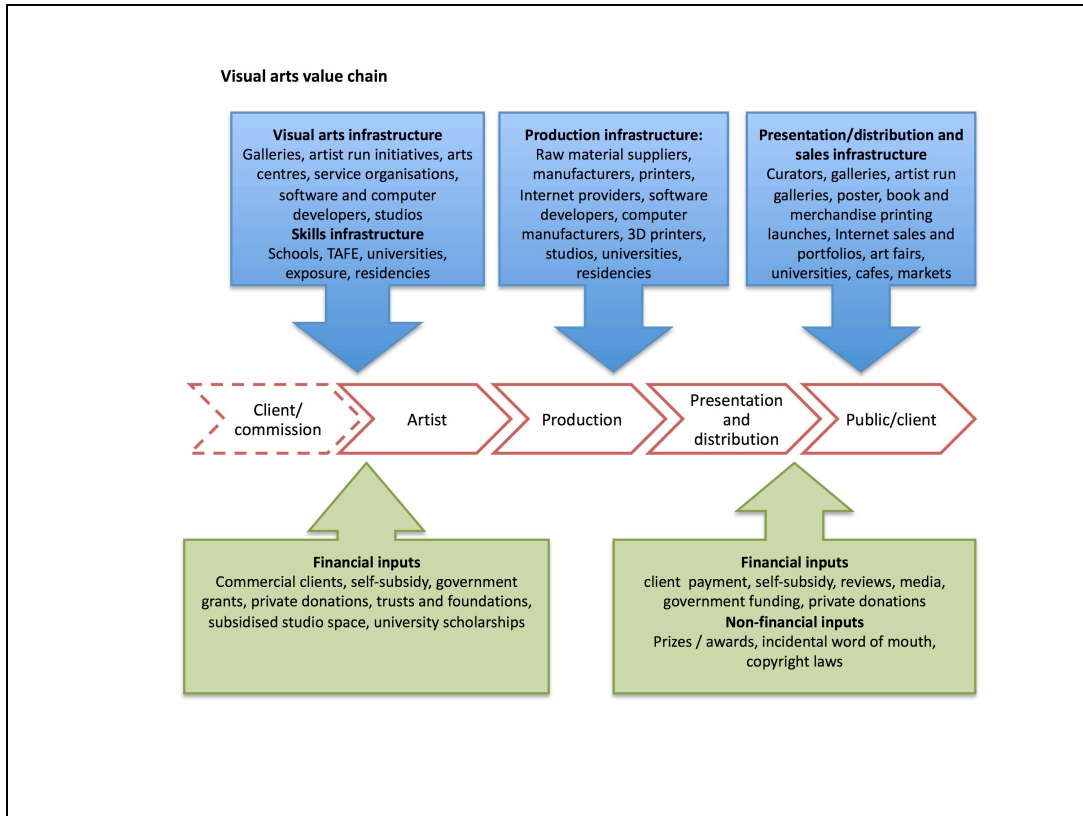


Figure 16: Visual arts value chain

Visual arts can have broader impacts, including as inspiration for other creatives and individuals from other industries, cultural impacts, and urban landscape.

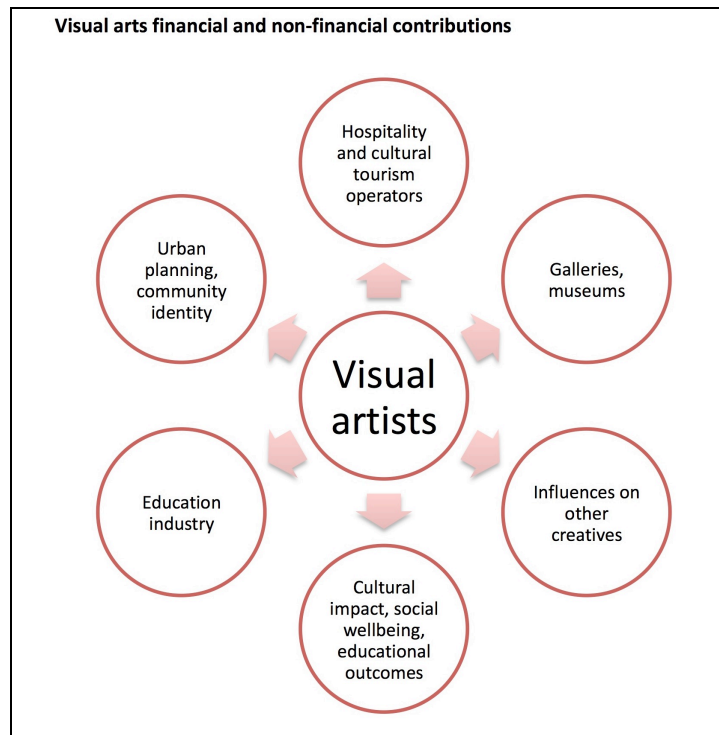


Figure 17: Visual arts financial and non-financial contributions

Part Four

Views of the CIIC business advisers

Key points:

- The \$1 million turnover criterion should be removed
- Eligibility criteria for the business review should be about: stage of business life cycle, willingness to change, aspirations and potential, time in operation, and ability to act on the review outcomes
- The best support CIIC can give businesses both under and above \$1 million is personalised, one-on-one advice. A modified, one-on-one service similar to the BR, would suit businesses under \$ 1 million.
- After the BR, businesses should also be eligible for coaching/mentoring to help them respond to the BR.

5.1 Introduction

The CIIC's seven business advisers, partnerships and programs director and commercialisation manager (see Appendix 2 for the list of interviewees) were interviewed. They were asked the following questions:

1. Is it an issue that CIIC can't currently do business reviews under \$1 million? If yes, why? If no, why not?
2. Would the business review service be useful to businesses under \$1 million, or some other form of support?
3. What are the gaps in the available data and information about the CIIC, if any, which you need to do your job better?
4. Any other issues?

5.2 Interviewee responses

5.2.1 Is it an issue that the CIIC can't currently do business reviews under \$1 million? If yes, why? If no, why not?

The interviewees all agreed that the current limitation on eligibility based on turnover is an issue. They agreed that turnover is not a good indicator of business readiness for a business review (BR), or how much the business might benefit from a BR. Businesses under \$1 million may be poised for transformation or growth.

They also agreed that the turnover limitation meant that the CIIC is missing whole sub-sectors of the industry, as well as parts of each sector, such as:

- Visual arts
- Writers and small publishers
- Jewellers

- Much of the performing arts and music
- Graphic designers
- Filmmakers – currently only capturing post-production houses but no content producers
- Casual games developers
- Smaller web designers
- Photography
- Rural businesses that lack scale

One interviewee noted that the turnover criterion is irrelevant in a sector that largely works on a project basis, scaling up for large projects and then back down until the next project. For example, this happens in advertising and filmmaking, with a business taking on contractors as necessary and, in film, setting up a company for the purposes of the project.

What should the criteria be?

Interviewees recommended that more appropriate criteria for eligibility for the BR would be:

- Willingness to do the BR
- Motivation and ability to act on the BR
- Business aspirations and potential
- Stage of business life cycle (not in start-up phase, so probably beyond \$200,000)
- Three years in operation
- Company status, or like status for a significant, non-profit institution (e.g. the Jam Factory in South Australia)

Interviewees noted that turnover is a misleading proxy for life cycle, as the vast majority of creative industries businesses are under the \$1 million threshold, and yet may nevertheless fulfil the above criteria which the advisers believe to be the best predictors of the future impact of a BR.

One interviewee also recommended criteria to be more strategic about supporting companies which demonstrate potential growth:

- Potential to be a greater contributor – e.g. a smaller business which could get bigger, a larger business which could be more productive
- IP opportunities
- What does the business management look like
- The market the business is operating in
- Untapped export potential / under threat from international suppliers
- Affected by broad industry or economic change

How can the CIIC be more strategic with its support?

One interviewee suggested that the CIIC could be more strategic about its support by differentiating between dying industries and growth industries, or industries which need change.

The interviewee suggested that CIIC could also focus its efforts specifically on businesses which are no longer start-ups, but which are still in the sub-\$ 1 million turnover range, as this is a sector of businesses which does not receive much support from any other realm of government. This was borne out by several other interviewees, who noted that there is a lot of government support for start-ups, but very little for businesses once they are past about \$200,000. One interviewee noted that the BR support would probably not be useful until a business had reached a scale of about \$500,000 turnover.

Another interviewee suggested that CIIC develop a way to identify businesses at a “point of transformation” and focus on these businesses. CIIC could develop a checklist of opportunities and stresses, and indicators for whether a business is poised for change – e.g. recent growth in a short period of time. Then, CIIC could tailor support services to these businesses.

Benefits of extending eligibility to businesses under \$1 million

Interviewees recognised the following benefits of extending the eligibility to businesses under \$1 million:

- Could reach more of the creative industries, including sectors which CIIC currently cannot service at all because they almost entirely fall under \$1 million
- Send a strong signal to the creative industries that CIIC understands the sector that it works with
- Would be interesting and fun – open up new possibilities for the BAs
- Would enable the CIIC to get closer to the actual “creative” element of the creative industries – the content creators, who are often at the low end of turnover

5.2.2 Would the business review service be useful to businesses under \$1 million, or some other form of support?

Interviewees agreed that some sort of one-on-one contact would be the best way to support businesses under \$1 million. Interviewees felt that the personalised, tailored advice was the best way to help businesses, as it is difficult to structure workshops and seminars to work effectively across all sectors. Suggestions are outlined below.

A short, initial diagnostic, e.g. about two-hours long

This would be face-to-face or on the phone. The BA would talk to the business owner and find out their view on the pressure points, using the checklist of areas currently used in the BR< but without going into the detail. The BA would find out the business’ appetite and ability to grow, e.g. by finding out its history of demonstrable growth, and its aspirations and barriers. This is not possible from a template questionnaire.

BAs would have this conversation with anyone who applies for a BR. You could ask them to contribute some information via a template first, but that would not suffice as the diagnostic.

The services could be tiered – e.g. the initial diagnostic, through to significant “hand holding,” depending on the needs, potential and suitability of the business. E.g. if the business has substantial and achievable aspirations, you could take the service to the next level beyond the initial diagnostic, and channel efforts into specific areas, e.g. capital raising, strategy issues, export issues.

A business review equivalent

BAs could do a scaled down version of the BR, targeted at the issues that affect the smaller business and not spending too much time on irrelevant issues, such as HR management. The BA could then also tailor the subsequent support and recommendations to suit the business’ size and capacity.

A longer-term relationship might also be more appropriate, and BAs might be able to do things which are not core to business processes, e.g. connect the business to funders/investors, provide them with credit to spend on consultancies in needed areas. At the moment, the \$20,000 grant disadvantages businesses which may not have the cash flow to fund the services up front.

Several interviewees noted that greater flexibility to focus the BR on key areas would be good to have when dealing with businesses above \$1 million as well.

Scaled-down services

Interviewees also suggested the following, scaled down services:

- One-hour conversation
- Review of a business plan
- Hand-holding – allowing a business to call up for advice as it encounters key obstacles or opportunities on its pathway to growth

Interviewees suggested that these sorts of approaches would give the businesses the sort of occasional, well-timed advice that they actually need.

Other Enterprise Connect programs

One interviewee also recommended that the Researchers in Business and Technology Connect programs could be reviewed in terms of their relevance. The interviewee noted that the programs have had very low take-up. Researchers in Business, for example, had not been taken up by 98.5 percent of businesses that had been reviewed across Enterprise Connect. This could suggest that businesses may be interested in some other offering. The interviewee recommended that businesses be offered individualised support, such as coaching or mentoring, after the BR, to help act on the BR.

5.3.3 What are the gaps in the available data and information about the CIIC, if any, which you need to do your job better?

The interviewees suggested a number of areas where data and information could be collected and analysed to support the BAs and the sector as a whole. Suggestions fall roughly into three areas:

- Industry information and data, including benchmarking data
- Evaluation data to measure CIIC impact
- Professional and organisational development information

INDUSTRY INFORMATION AND DATA

Benchmarking data

The Enterprise Connect benchmarking tool does not have data about the creative industries. This tool, if populated, would be a great resource for businesses and BAs.

CIIC could populate the tool by:

- Making the tool a networked, perhaps online, system
- BAs could enter the data they collect about the business into the tool, and/or require businesses who receive services to contribute their data. In return the business could receive benchmark data for their sector, as soon as the tool is sufficiently populated, and possibly at regular intervals (e.g. once per year, so they can see how they are tracking)
- The system could generate median benchmark data based on previously entered data
- The tool could also be made available online to businesses who, if they enter their data, will receive the benchmark data for their sector (once it is available)
- CIIC could also consider running a business survey, at least with leading businesses setting the benchmark in their sector, to populate the tool quickly.

Industry analysis reports

There is no data about some of the creative sub-sectors, e.g. celebrity management, representation of artists, music promoters, events management. The IBISWorld reports do not drill down sufficiently into the sectors, e.g. groups web developers with graphic designers and advertising.

CIIC could commission a set of industry analysis reports that BAs could then draw on for their reports, rather than re-inventing the wheel each time rather than spending time on the business itself.

Industry factsheets

CIIC needs a factsheet on each creative industry that outlines its key facts, figures, success factors and issues/hot topics in each industry. This would be a simple but effective briefing document before going to meet a client. CIIC could produce this by

combining available data (IBIS, ABS) and talking to the membership bodies. An example can be seen on the Multimedia Victoria website. CIIC could be an industry leader in this, and put the factsheets on the CIIC website.

Industry information held by industry bodies

Industry membership bodies hold data about their sectors. CIIC could enter into arrangements with these groups to have access to the data, which would supplement the IBISWorld data currently available.

Bespoke market research

CIIC is about to develop bespoke market research reports for the clients. This information will cover information such as competitors and size of market domestically and internationally. IBIS World provides commentary on an industry's top players and its competitors, but these are not necessarily the clients' competitors, CIIC will tailor company intelligence at the next level down and target key competitors for the client.

Conversations with creative industries community

CIIC could have conversations with sector leaders – not necessarily the membership bodies, but the top five thought leaders in this space. This would help CIIC build its knowledge database, use these people for events, and leverage their thinking in the reviews.

Identifying key transformation points for creative businesses

The CIIC could research the points of transformation amongst creative businesses, and match these to turnover bands. This would help the CIIC to be more strategic about its support.

EVALUATION DATA

Evaluation framework

The CIIC needs to have a framework for measuring its success to satisfy funders, including Treasury, of a return on investment. This involves identifying indicators of success and then collecting data, both quantitative and qualitative, to measure. For example, this could include:

- *Impact on creative industries:* tracking the businesses which CIIC supports in terms of their own development, change compared to businesses which have not received CIIC support
- *Impact on other industries:* impact of creative businesses on other industries
- *Impact in sub-\$1 million sector:* how will CIIC track impact of the complementary services?

Longitudinal tracking

CIIC should at least, at a case study level, find out how CIIC contributes to job growth and GDP. For example, CIIC could take a baseline pre-BR, post-BR and then 12 and 24 months later of a business. Could use both data and qualitative measures – e.g.

actual data on bottom line, and perceptions of impact, and perceptions of the level of CIIC's contribution to the change. At the moment, the pre-BR baseline is in the BR document. CIIC would need to engage in an additional piece of work to extract this information and then track trends. However, it could be simplified in future if there was an xml system which generated reports based on single data entry.

This would be useful for marketing and messaging to pull out some headlines from this about growth, other success indicators in businesses as compared to industry as a whole.

Quality measurement of BR

A regular, post-review questionnaire of BR recipients would help to understand how the client values the BR and has used the BR. This could be used for dissemination and discussion about improving services, lessons learned or issues raised, rather than as a box ticking exercise. This would have a lot of potential to help CIIC improve the offering.

CIIC adding value to other, non creative industries sectors

CIIC has the potential to add value to other industries. CIIC could attempt to tease out from the BR learnings information on how to create creative cultures in non-creative businesses; e.g. working practices learned from the creative industries businesses, which might support innovation in other sectors.

PROFESSIONAL AND ORGANISATONAL DEVELOPMENT INFORMATION

Links with overseas like-bodies

It would also be useful to build information sharing links, at the sector level, with publicly supported professional advice services, with a similar remit to CIIC.

Qualified leads for BRs

While CIIC supplied BAs with a spreadsheet of Dunn & Bradstreet data, it was not clear how this was obtained, nor how up-to-date it was. It would be good to have the spreadsheet updated and simple analysis carried out, e.g. sorted by turnover, industry, length of time in business and other proxy indicators for readiness for a BR. This would support BRs with qualified leads.

Event information

The BAs were asked to identify and list all creative industry events in their State. CIIC could develop the draft of that information, and provide it to the BAs and put it on the CIIC website.

Knowledge management in consulting

BAs could benefit from being kept up-to-date about relevant articles *etc* about consulting in the creative / service industries. This would assist BAs' ongoing professional development with business consulting techniques, management theories, tools and knowledge.

Director reports

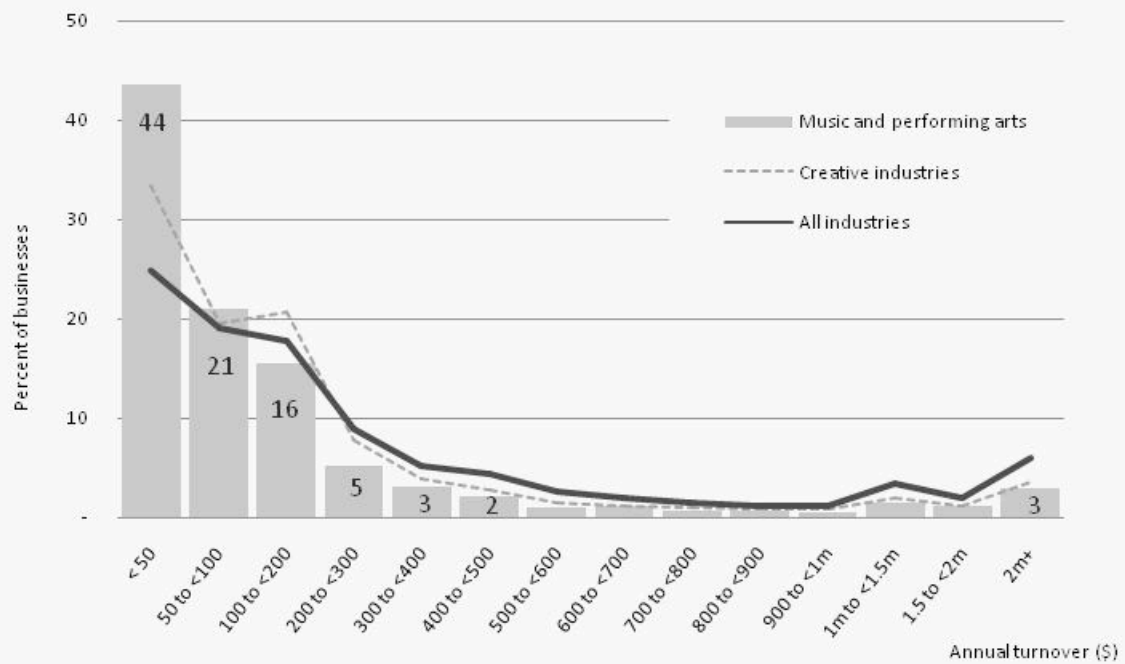
BAS may also benefit from receiving reports on the ideas and issues which the Centre Director/P&P Director hear about in their various meetings/speaking engagements. This would be valuable to the whole team and could be done as a verbal update at CIIC meetings, with a focus on the issues and ideas encountered, and then minuted so the team could access again if needed.

Customer relationship management (CRM) system

The existing Departmental CRM is not currently used as a CRM. CIIC BAs would benefit from a CRM that could be used in client and project management, e.g. automating follow-up reminders about BR recommendations.

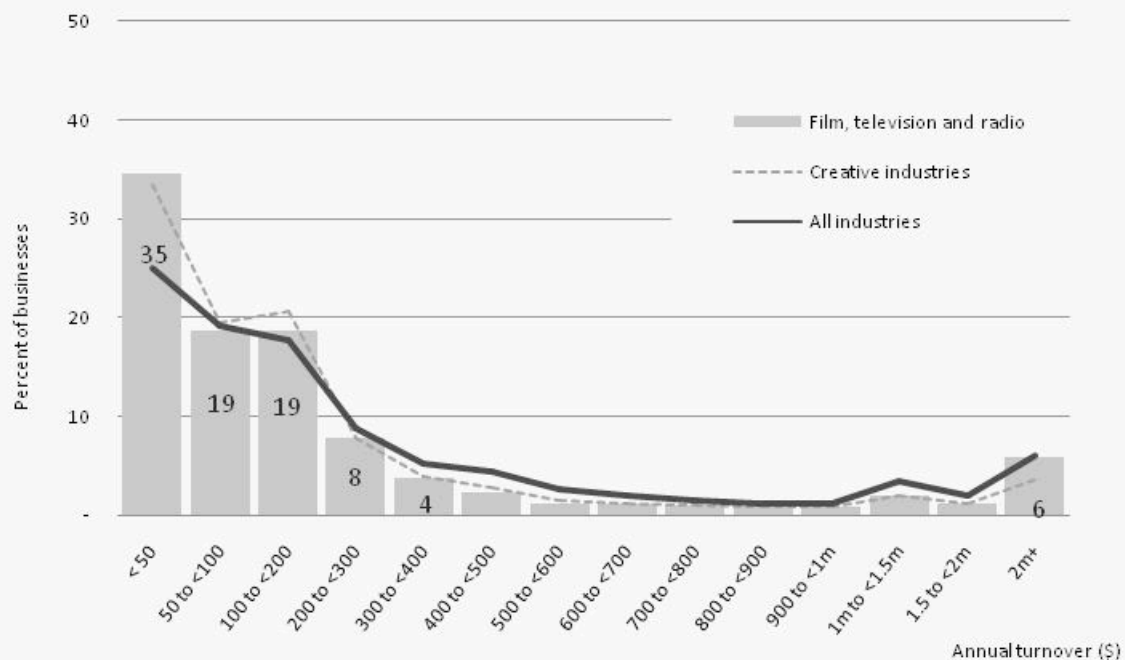
Appendix 1: distribution by turnover: graphs of each sector

Distribution of annual turnover: Music and performing arts, 2007



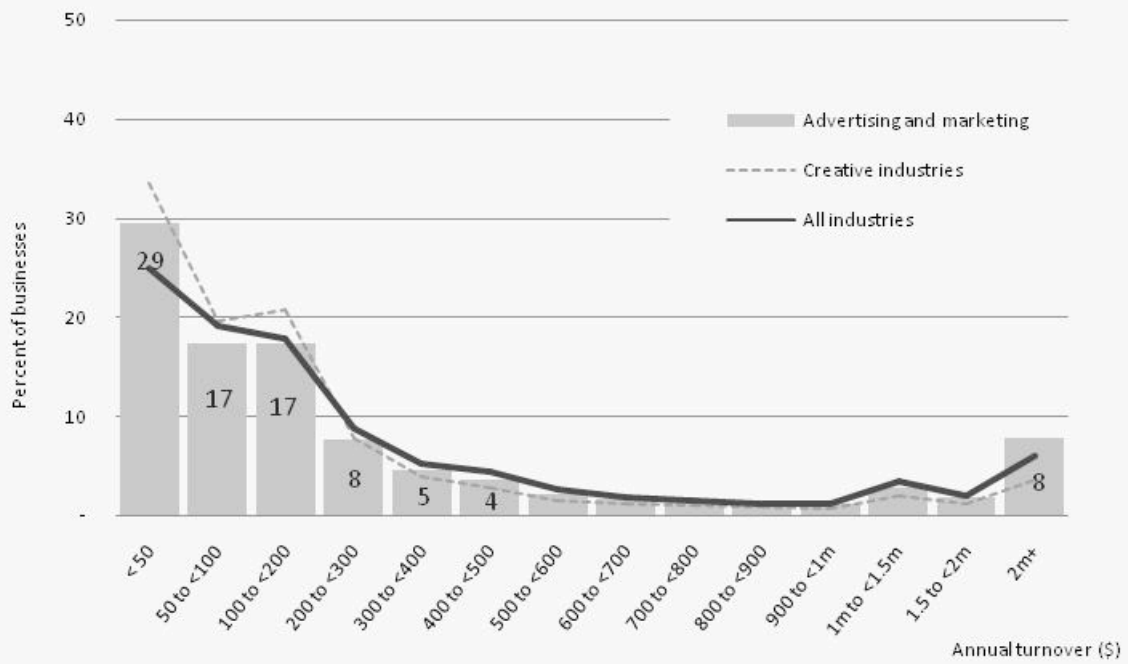
Source: ABS cat. 8165.0

Distribution of annual turnover: Film, television and radio, 2007



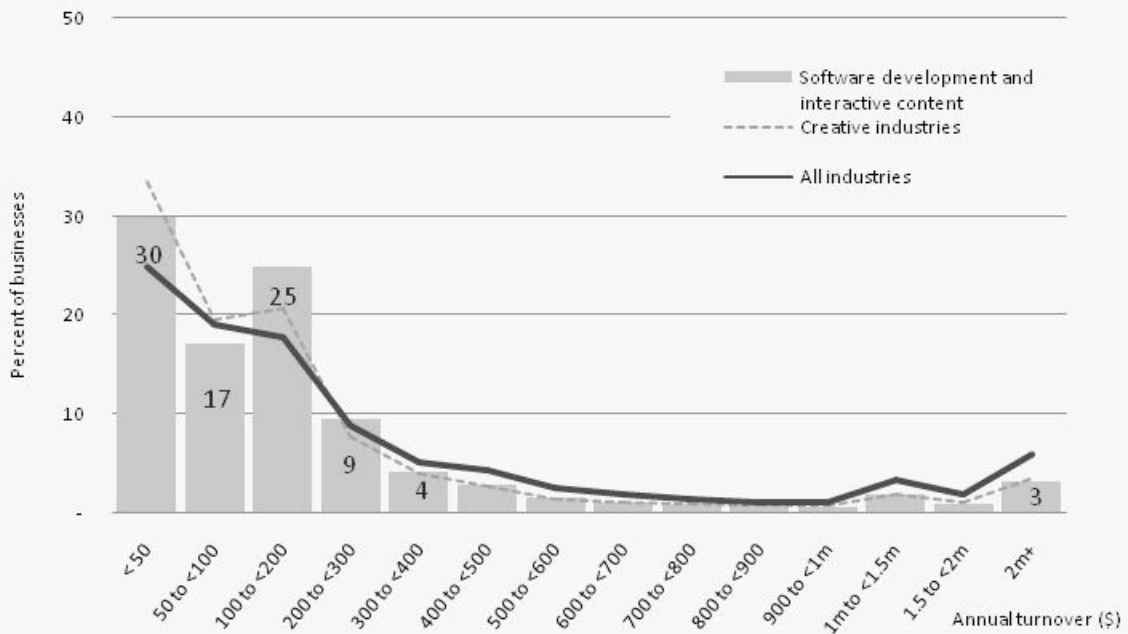
Source: ABS cat. 8165.0

Distribution of annual turnover: Advertising and marketing, 2007



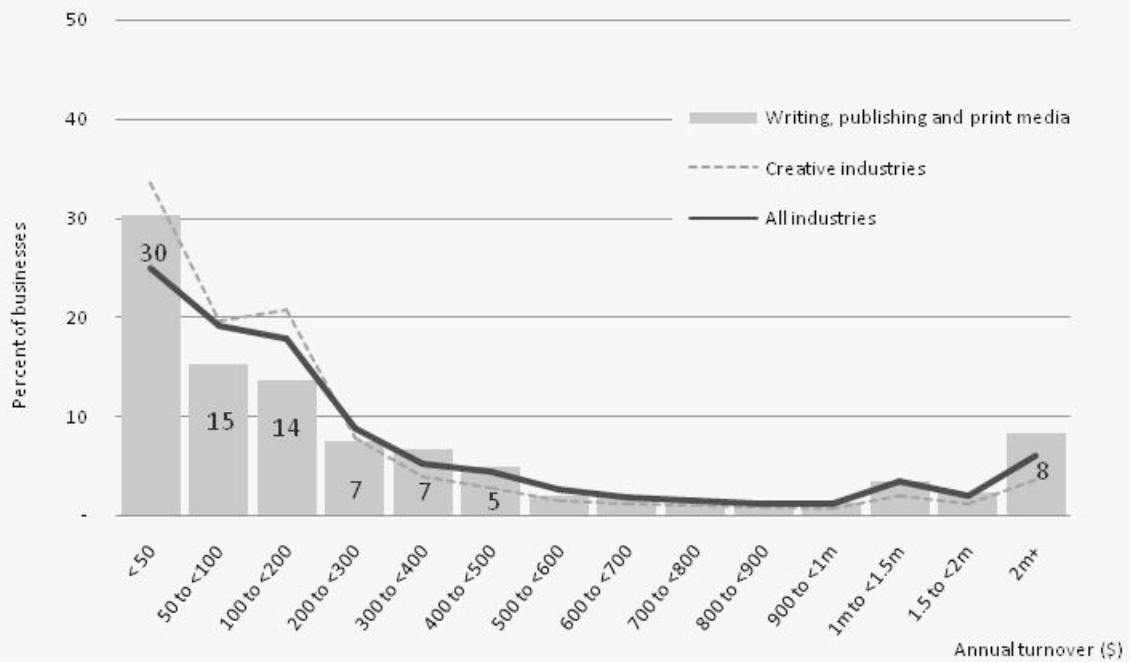
Source: ABS cat. 8165.0

Distribution of annual turnover: Software development and interactive content, 2007



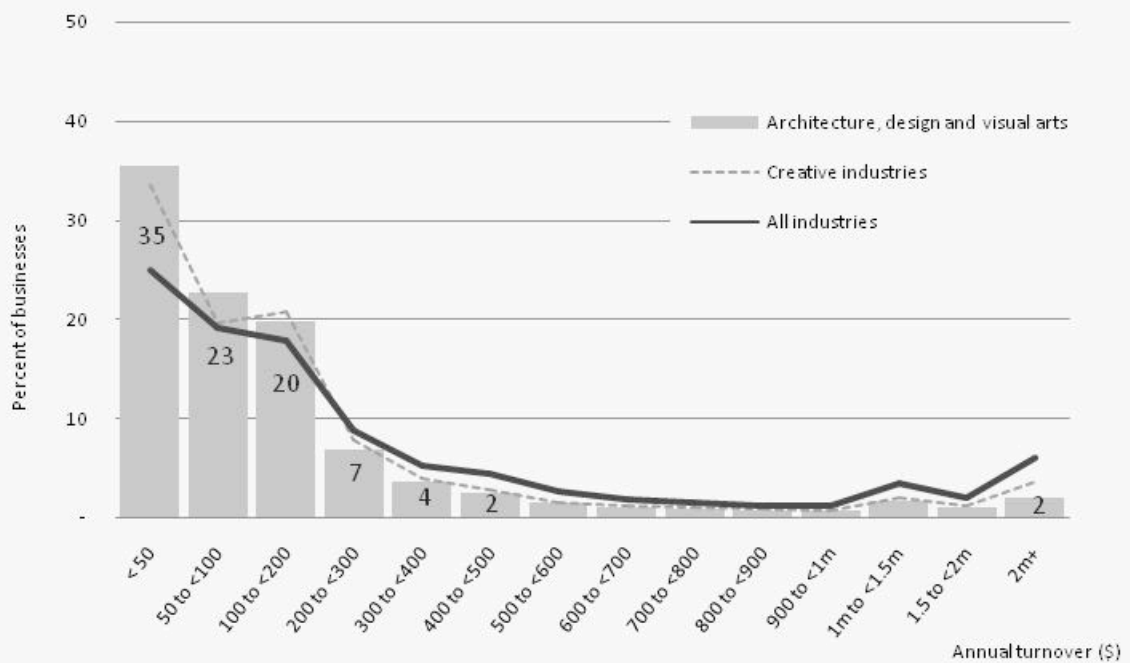
Source: ABS cat. 8165.0

Distribution of annual turnover: Writing, publishing and print media, 2007



Source: ABS cat. 8165.0

Distribution of annual turnover: Architecture, design and visual arts, 2007



Source: ABS cat. 8165.0