Paper to be presented at
DRUID15, Rome, June 15-17, 2015
(Coorganized with LUISS)

Business Models from the Business End

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Abstract
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Jelcodes:M10,M10
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Introduction: Themes of the Literature and its Limitations

The concept of business models has been linked tightly to the emergence of the Internet and those start-ups trying to pick the locks to its value. Indeed much of the literature asserts that it is the diffusion of digital technologies since the 1990s that has driven the growth of the business model concept (Amit and Zott, 2001; Zott, Amit and Massa, 2011). Part of this work is the interest in e-business or systems of transactions that are done on the Internet, and those that depend on mobile devices and cellular telephony services. In a sense sectors like digital marketing, search, and social media are the heartland of business models thinking. Zott, Amit and Massa's (2011) review indicates a whole sub-literature of descriptive typologies of e-business models, their operational logics and modes of generating revenues. Importantly these are typologies, and not taxonomies, that is they are conceptual, rather than empirically derived classifications.

An important part of the literature is on design of business models (BMs). The thinking here is that entrepreneurs and managers may devise clever configurations of partner relations and revenue generation prior to testing in the market. The impression from this literature is that competition is essentially cerebral. There are offerings of “road maps” like Chatterjee’s (2013) that offer managers a choice of four BM types and a process of design choices and “decision protocols” that suggest the highest probability of success. Huizingh (2002) similarly offers three models aimed at optimising success probabilities through design choices. Zott and Amit (2007) test designs for performance empirically and find that novelty-centred BMs lead to better stock market valuations, rather than efficiency-oriented ones, or a mix of the two. Design here however is assessed based upon a reading of public relations communications from the companies selected in their sample. The limitations of this study are that there is no primary data about the design process in these companies, and that it is perhaps to be expected that IPO documents, annual reports and websites are likely to stress the novelty of BMs for entrepreneurial firms, floating on high-tech-oriented stock exchanges like AIM, and that those markets would value such novelty highly (this was at the height of the dot.com boom, prior to the 2000 crash). We do not know the actual financial performances in terms of revenues of these firms, and the actual role of ‘design’ in realising these
performances.

Other empirical studies of BMs have focused on the monetisation of e-business. Content sector studies show that firms still wrestle with the user expectation that Internet content is free content, and they face trade-offs in revenue streams when shifting between BMs, such as ‘free’ to ‘free and fee’ (Pauwels and Weiss, 2008) a transition attempted by many online content providers. Such shifts for some shows a lack of imagination as new BMs appear to be "natural extensions of traditional media or traditional retailing" (Clemons, 2009: 15). Clemons' criticism here is that many firms see consumer-oriented advertising or subscription as the sole driver of revenues, which does not take advantage of the full capabilities of digital technology. For Clemons there are further revenue opportunities beyond advertising including selling things, selling virtual things and access to information. Baden-Fuller and Haefliger (forthcoming) discuss two-sided BMs, where users enjoy value while advertisers pay, such as online search. There is a great range of monetisation models in the literature, yet few deep empirical studies of their effectiveness.

Scholars typically characterise BMs of this type as depending on activity systems of value creation, involving exchange relationships among numerous agents. In many cases this follows from the networked nature of the technologies that BMs in these sectors utilise. The literature tends to consider the position of a 'focal firm' or platform leader, but the value is generated within value networks, often in non-proprietary postures with regard to ownership of competitive resources. Chesbrough’s (2003) open innovation concept, for example, has developed along with that of BMs, which argues that the basis for innovation in the new era is external search and sourcing of ideas and technologies, which necessitates sharing of rewards with commercialisation partners. For Zott, Amit and Massa (2011) BMs literature’s core concerns are distinct from those of the strategy literature such as competitive advantage and value capture, because it stresses more cooperation and partnership in value creation. Compared to the traditional value chain "Value creation through business models involves a more complex, interconnected set of exchange relationships and activities among multiple players."(1031-32). The literature stresses the focal firm’s ability to orchestrate a collaborative network of external innovators (Boudreau and Lakhani, 2009; Baldwin and von Hippel, 2011).
What is often missing however is the viewpoint of the non-focal firms, the "exchange partners" who align with the leaders at the centre of the network web. We know little about the reality of these relationships, how they are formed and managed, and whether these models of cooperation confer proportionate advantages to those enjoyed by the leaders with which they share value creation and capture.

**The Study and its Methods**

This paper reports on a study of Creative-Digital-IT (CDIT) businesses in a cluster in Brighton in South England. With regard to BMs and innovation we asked the following overarching research questions, mainly through a quantitative survey:

- How are these businesses making revenues?
- What are their innovation activities?

Extending these interests and to understand context and experience, we used qualitative interviews to ask the following overarching research questions:

- How do the firms relate to other firms with whom they are implicated, through their business models?
- How do these business models affect the ability of the firm to innovate?

**The Survey**

The survey sample was created with a local digital business promotion agency called Wired Sussex, which holds a membership of companies operating in the digital, media and technology sectors in the region. 783 Wired Sussex members were included in the sampling frame. To increase our coverage, we searched a commercial firm database (Bureau Van Dijk's FAME) for Brighton & Hove firms that shared SIC codes with Wired Sussex members, as well as firms with SIC codes included in the government’s 2010 creative industries definition.
After data cleaning we ended with a sampling frame of 1,495 local firms in the CDIT industries (783 members of Wired Sussex, and 712 non members). The final dataset consists of 501 responses (33.5% response rate), with 485 valid observations (32.4% response rate). The sectoral distribution of respondents to the survey (by SIC code) is broadly in line with the sectoral distribution in our sampling frame.

The Qualitative Research

The qualitative research pursued entry points into the context in more depth than was possible in the survey. Some of these themes were tightly integrated with categories in the survey questionnaire, while others were more exploratory questions that required interviewing and observation. A key theme was innovation strategy and business models. We completed 77 interviews with respondents ranging from managing directors of firms, key event co-ordinators, artists, programmers, freelancers, and academics. These interviews were conducted face to face and were between 1 and 2 hours in duration. They were recorded and transcribed and then the researchers highlighted representative quotes that reflected the emerging categories of the data.

Results

Headline Business Performance Findings

Overall, the firms in our sample employed 3,162 people in 2011 and generated just over a fifth of a billion pounds in sales (£204 million). On average, firms in the sample grew 14.7% between 2010 and 2011. The median is still a respectable 3.8%. These figures are very high, considering that GDP in volume terms in the UK increased by 0.7% in the same period\(^1\).

This is essentially a business-to-business service economy. 60% of firms in our sample identify face-to-face services as an important source of revenue. This is followed by online services (43%), and e-commerce (selling products online: 22%). The low

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\(^1\) http://www.ons.gov.uk/ons/rel/naa2/quarterly-national-accounts/q4-2011/stb---quarterly-national-accounts-gdp-q4-2011.html
importance of royalties is notable – only 8% of respondents identify royalties as an important source of revenue.

There is variation in sources of revenue across sectors. Technology licenses are much more important for digital technology companies, while marketing services use advertising more. Online services and e-commerce are dominant for web portals. Creative goods and crafts use retail (60% identify this channel as important). Although royalties are more important in content companies (22% identify it as important), these are still below online and face-to-face services as a source of income for them.

Figure 1: Sources of Revenues in the Sample

![Graph showing sources of revenue](image)

Table 1 shows the average figures for employees, turnover, and growth for firms across the various types of revenue. In the context of the recession of the time these are all impressive. We note that the growth rates for royalties and technology licenses are somewhat higher, which perhaps reflects the less work-intensive nature of this revenue generation.
Table 1: Descriptive Statistics on employees, turnover and growth

<table>
<thead>
<tr>
<th></th>
<th>Average number of employees</th>
<th>Average turnover</th>
<th>Average growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising</td>
<td>7.7</td>
<td>1,034,781</td>
<td>10.6</td>
</tr>
<tr>
<td>Royalties</td>
<td>7.7</td>
<td>876,785</td>
<td>19.3</td>
</tr>
<tr>
<td>Technology licenses</td>
<td>13.9</td>
<td>1,320,975</td>
<td>24.3</td>
</tr>
<tr>
<td>Services provided online</td>
<td>8.5</td>
<td>790,260</td>
<td>19.1</td>
</tr>
<tr>
<td>Services provided offline</td>
<td>6.7</td>
<td>607,217</td>
<td>14.7</td>
</tr>
<tr>
<td>Products sold online</td>
<td>7.8</td>
<td>722,592</td>
<td>16.8</td>
</tr>
<tr>
<td>Products sold offline</td>
<td>5.6</td>
<td>578,876</td>
<td>11.2</td>
</tr>
<tr>
<td>Donations</td>
<td>7.7</td>
<td>533,159</td>
<td>12.7</td>
</tr>
<tr>
<td>Average</td>
<td>6.7</td>
<td>623,000</td>
<td>14.7</td>
</tr>
</tbody>
</table>

As regards innovation, 99% of firms engaged in at least one form of innovation. These are the standard innovation forms featured in surveys such as the Community Innovation Survey, which typically have innovating firms as a much lower part of the population. As Figure 2 shows the forms of innovation most prevalent are process, service or business model oriented, while innovation in terms of formal IP with trademarks, patents and registered designs are insignificant. We can also note the 55% of firms producing material eligible for copyright, in spite of the 8% in revenues generated through royalties.
Figure 2: Percentage of firms engaging in innovation between 2010 and 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>New processes</td>
<td>71.1%</td>
</tr>
<tr>
<td>New services</td>
<td>63.7%</td>
</tr>
<tr>
<td>Staff training</td>
<td>60.4%</td>
</tr>
<tr>
<td>New business models</td>
<td>59.9%</td>
</tr>
<tr>
<td>New goods</td>
<td>55.7%</td>
</tr>
<tr>
<td>Materials eligible for copyright</td>
<td>55.5%</td>
</tr>
<tr>
<td>New software</td>
<td>37.2%</td>
</tr>
<tr>
<td>Register a trademark</td>
<td>11.9%</td>
</tr>
<tr>
<td>Apply for a patent</td>
<td>1.1%</td>
</tr>
<tr>
<td>Register a design</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Figure 3 shows the level of firm innovation for types of revenue, which are fairly consistent across the various types.

Figure 3: Average level of innovation (on a scale of 1-4)

Perhaps the appeal of Brighton as a supplier for high profile London clients in media, technology and broadcasting stems from the high levels of innovation we see in the cluster. When we look at the levels of innovation by sector, we find that a number of
industries including digital technologies, digital agencies, marketing services and web portals display a significant number of firms (between 15% and 20%) that engage in all modes of innovation. The same is true for a full third of larger firms in the sample. When we look at the types of innovation taking place in the sample, we find that most firms modified their production processes and ways of running the business (71%), introduced new services (61%), trained their staff and changed their business models.

**Business Model Classes**

Beyond the survey results, which showed the types of revenues generated we wanted to understand the ways in which revenues were generated- business models- and how this affects the ability of the firm to innovate and grow. Our qualitative research has shown that in this service economy there are nevertheless variations of work-for-hire and other business models that firms deploy in the cluster.

**Retainer Models**

The retainer model is a typical service model where the client will pay a set amount every month for a specified period of time, often a year. Servicing firms prefer this arrangement because it allows for innovation to be budgeted for as a legitimate cost of the service provided. There are variants in how these retainer contracts are configured, and firms are ingenious in how they manage the need for innovation, or as one entrepreneur describes it ‘thinking and tinkering’ (Interview, 29/02/2012).

The CEO of a leading digital marketing company, iCrossing, explained one case where the retainer model allowed for counterintuitive thinking and working. The company had bought search terms for their client, national sex shop chain Ann Summers, around the Government budget announcement of 2010, which were very low cost and not typically search terms that would be associated with paid advertising results. The adverts as a result got very high visibility with appropriately cheeky copy like “There is no recession in desire”. The website received over 4000 more visits that afternoon and the national newspaper and social networks picked up the story, raising awareness. Retainer models allow the time for this type of lateral thinking and willingness to risk unconventional strategies.
We raise this example because the CEO had identified the retainer contract as instrumental in providing the flexible resources to experiment with ideas that would not be possible in a project with strictly defined deliverables and requirements: “We had full control and a bit of flexibility, an empowerment really to do anything we liked in media, and that usually comes from a long-term relationship, frankly...you almost get pre-agreement that there’s my R&D budget, in a way, out of my media. I’m still going to deliver everything you want overall, but I’m pretty confident I can do that and still save £50,000 throughout the year to try a few things in mobile channels, to try some augmented reality, to try some location based marketing, to try a little bit of craziness off-piste, sort of keyword bidding in media, and you start to do other things.” (Interview 31/8/13)

The regularity of payments and implied trust seem to have an effect of releasing creativity that may be constrained with a more conventional deadline. This may appear as ‘slack’ in the contract, but of course typically the agency will agree with the client what their media strategy will be over the year, and this may account for this type of space for innovation. Firms prefer the retainer model for this reason, yet much of the “R&D” cost as understood by firms is not passed on by the client:

“Yes, I would say we would do a lot of stuff that isn’t paid for by the client. There’s the scanning, reading, learning, absorbing stuff that we do, so going to events, reading stuff. There’s tinkering and thinking.” (Interview, 29/02/2012).

Project Models

The project form is used in all sectors and typically in those producing digital content, for media such as video games, animation, television, and smartphone/tablet apps. The classical problem is that projects are generally contracted to deliver specific outcomes with an end date and the competitive process means usually means that there is little slack for ‘thinking and tinkering’. This is partly because of the increasing complexity of digital projects and the numbers of parties involved. For example a website serving a single event or campaign can typically involve multiple partners and advertisers whose brand and content are all integral. Each partner may ask for iterative rework,
generating unforeseen hours and escalating costs that may not be visible to the lead contractor until late in the project. These are classical problems for Project-Based Enterprises or Organisations (DeFillippi and Arthur, 1998; Hobday, 2000) but digital technology exacerbates them because of the increasing complexity of digital media artefacts.

There are of course numerous variants of the project form, some of the more interesting are performance-related variants. For example, digital marketing companies may be given a sales target by a client and will receive a percentage of each sale with a large incentive if they meet the target. Performance-related models may also exist in pure form, such as 3% of basket value of online micro transactions for a client, with no other fees or retainer. Firms relish these contracts as there is no apparent upper limit to revenues.

**Online Business Models**

The online domain is a highly contested space where business models are not yet established but firms are finding their way to revenues. One of the highest growth sectors in the sample is that of web portals. This is closest to the conception of online business models in the literature where a firm will position as a gateway to a market and invite collaborators to conduct business through their platform. The platform leader will then take a derivative fee as part of each micro payment through their system. Skoosh.com is one of the most successful in Brighton. The founder had been working with a wholesaler in the hotel industry and saw the potential to set up a price comparison and booking site with a BM of buying directly from the wholesalers. This meant Skoosh had flexibility in prices and rapidly was turning over £1.5 m per month as an international business. However the larger online booking companies, which typically buy directly from the hotels, pressured the international chains to set fixed prices, with the effect that Skoosh lost 70% of its revenues almost overnight. This is now an antitrust case in several countries. The case illustrates how online business models are fiercely contested and how smaller companies may need to contend with larger and more powerful concerns.
Online business model experimentation is partly enforced due to competitive pressures and circumstances and this is also typical in content sectors. Second Impact is a start-up developing online games that are generally played through aggregator portals: intermediaries that have sprung up in the online space between the content developers and the final user-consumers. Second Impact’s experience has been trial-and-error as they try varying BMs that configure the sequence and logic of payments differently. For example a game may be sold as an app, or offered free but monetized through online advertising banners, or through micro-payments for digital items bought during the game, or from a freemium model where players reach a certain stage and must pay a fee before continuing, for example to step up a level in the game. All these business models have differing implications for revenues for the developer like Second Impact. The aggregators know all the implications and various options will be offered to the small developer, but without access to this privileged working knowledge. The developer therefore needs to learn the hard way which of these models pays best for them.

Another important type of online model is a subscription to use content or tools developed by the firm. One of the most successful is Brandwatch, a way of clients to monitor what social media is saying about their brand. Clients pay a fee to access the system and extra charges will apply depending on their specific usage of the content and tools available. This license subscription model shares some characteristics of the retainer, but implies that much of the work is already done and that the firm is generating revenues simply by leasing access to multiple users. There is support and customized service available, but rather like the classical toolmakers in the gold rush metaphor, technology licensers like Brandwatch help their clients to find their own value from digital content and social media and to make sense of what it means to them. This model scales well as indicated by the descriptive statistics above for technology licenses.

**Discussion: Themes arising from the Study**

**Work for hire and value capture**

The survey results show that the cluster is largely a business-to-business service
economy of small and very small firms. This type of commerce is often characterised as disadvantageous for small firms doing work-for-hire for bigger and more powerful clients, while those clients enjoy the lions’ share of the rewards as owners of the IP. The challenge for the small firm, so the argument goes, is to move from being a service provider to developing its own products and IP from which it can generate revenues from sales and licensing without effort. To a large extent this view inherits many of the assumptions of the older business models of the creative industries before digitisation and the Internet. The perceived problem is that while the firms are certainly generating value, they are not capturing enough of it themselves. They work for hire and generate value for their clients, they are paid for their hours of work but not a proportionate part of the overall value, which goes to the ‘focal firm’ in all of these activity systems. Particularly in the content sectors, many of the firms aspire to produce ‘hit’ products that will generate royalties through sales subsequent to development. This is of course entirely a BM issue.

In the content sectors self-publishing and the dream of generating IP revenues still remains, and the App Store presents opportunities in principle for any developer from the legendary ‘bedroom coder’ to established studios. However our research interviewees have suggested that while it was there appeared to be an open field for virally generated hits three-four years ago the level of competition in apps is now daunting.

“So, I think two years ago you could publish on iOS and you did have an opportunity of a ten-man team having a breakout hit. I think now, because it’s so noisy, partly because any new group of people could do that, then you have 500,000 Apps on the App Store, it’s very hard to get heard. So, now you’re back to: right, I need somebody else’s help to get heard.” (Interview, 27/5/12)

The irony of this for games developers is that for years a frequent source of complaint was the dominance of publishers of console games keeping IP of games in exchange for financing, promoting and arranging distribution and retail. Digital distribution promised to change the rules of engagement so that developers could sell direct to consumers, bypassing the publishers in a new era of disintermediation.
However what has happened is that new intermediaries have emerged because of the continued need for promotion and profile. The business model of ceding 30% of sales to Apple, and another potential 30% to a publisher/promoter in the vast majority of cases leaves little profit for the developer. There are reports of start-up developers spending man-years of work developing an excellent app only to make meager sales because of a lack of marketing muscle. The quality of the product seems of little importance:

“No, there’s no meritocracy in the App Store or in Facebook. I’ve seen some incredible games sink without trace on both. The monetisation is a little wonky. I’m happy that I’m not creating games that you have to part with $60 to play – which was the old model; however $60 is a nice sum of money to take, and then you don’t have to worry about monetising further. And now although there are proven monetisation strategies, such as market transactions and subscriptions or ad funding, but it’s still finding its feet a little more. It still doesn’t get to the point where you can comfortably say: well, we’re going to take $60 out of each user. That’s unlikely in most cases, or probably all cases.” (Interview, 27/5/12)

Given all the uncertainty over self-publishing many business owners conclude that the relative predictability of work-for-hire is preferential to investing in IP that may not be successful. This explains the predominant service-orientation of the cluster and the low level of revenues from royalties. But another factor is finding the resource to develop the IP in the first place. Those that had developed IP often had major injections of external finance, while the day-to-day grind of work-for-hire leaves little resource or energy for major internal projects:

“Well, obviously we would really like to be making apps and making money off them, but at the moment we’re doing work for hire apps for two of our clients. We desperately want to do an app for our own IP, but, again, we can’t free up the funds in order to get that done at the moment, so…” (Interview, 24/7/13)
Dealing with Larger Clients and Competitors

Both the Skoosh and Second Impact cases show how smaller firms are having to engage with bigger players, learn, defend their position, and be agile and adaptive in moving from one business model to another. Now there is greater variation in the work-for-hire contract for developers to negotiate as an effect of the new technology platforms. Yet still SMEs struggle to maneuver favorable business terms with their clients. In content sectors many of the same relations from old BMs persist. There are new intermediaries required for marketing and access to reach the final audience. The picture that emerges in these creative digital sectors does not resemble the shared rewards and mutually cooperative enterprise presented in the literature. Rather from the viewpoint of the ‘exchange partners’ we find intense competition from larger and more powerful firms, and the kinds of business relationship with clients more akin to transactions costs economics and concepts like ‘self-seeking with guile’. As the Skoosh CEO related:

“It nearly destroyed the business. I knew that I was going out on a limb and our biggest supplier stopped working with us almost certainly as a result of that in 2010 and we lost 70% of our business overnight in terms of our turnover and in terms of our team as well. Yes, and we were really growing strong. We were... It’s not huge numbers, but we up to £1.5 million per month in sales and I could easily have seen us being a £100 million company by now.

My problem was I only had a defunct business model. It wasn’t that it was defunct, it was that I didn’t know how long this case was going to go on for, if I lost it, I’m stuffed.” (Interview, 23/7/13)

Larger ‘focal firms’ in the online environment have no qualms about using their market influence to crush often more subtle business models introduced by smaller firms. While these cases are contested in anti-competition law we find that small firms struggle to regain revenues as the platform leaders often assert their positions not through clever design of business models and collaborative systems, but through use of bargaining power.
It was ever thus. However what has changed with the Internet is that price information and strategic behaviour is so readily accessible that the process of competition is intensified. This is compounded by an anxiety to establish early-mover advantages partly because of the inchoate phase of the Internet but also the primordial soup theory pushed by business model theorists that competition on the Internet must be established through systemic domination.

“It’s one of the unfortunate impacts of the transparency on the Internet, everyone can see what everyone’s doing, and some companies use that to everyone’s advantage and some companies use that to close down their competition.” (Interview, 23/7/13)

The other side of the conniving skulduggery coin is ignorance and incompetence. Many of the cluster firms’ find a naivety with their clients about the costs and activities associated with these technologies and applications. This is particularly emphasised with the least commercially-minded of clients: arts organisations:

“I think the biggest challenge with arts organisations is trying to match the value of the project with the budget. And I think it’s true for all organisations really that senior management find it very difficult to get a sense of the scale of investment that should be made in digital media, or projects. I think it’s a huge challenge, particularly to this generation of managers, who are not familiar with this world. Still risky, still difficult, do they trust the suppliers, do they trust the projects to deliver? Do they know how to measure the projects? You know, most organisations don’t measure their projects, or their operations, very well. And I love the arts organisations dearly, but they do not measure their operations hardly at all, so... or if they do, they don’t necessarily do it in a very clever way.” (Interview, 8/3/12)
**Forms of Value and Innovation**

In spite of the challenges in the business environment we have found intensive innovation within the cluster. This is not innovation in the traditional technological instrumental sense but is more often service-oriented, attending to user experience and design, modifying and improving. The value that this innovation produces is not new to the world technology but about its application. Nevertheless it does gain recognition. Plug-In Media won a BAFTA (British Academy of Film and Television Arts Award) for one product, but as the CEO explains the value and priority was not technical edge but the experience of its consumption:

“Yes, I mean, Big and Small, which we won our first BAFTA for, was technically really ground-breaking, and it was a kind of a game changer in terms of what interactive content it could be... the end audience and our clients and people we spoke to, they weren’t really interested in the technology behind it. But it was groundbreaking in terms of what we were trying to do with real time, 3D and Flash, for 2008, I think it was, it was quite, quite different. But, I think, really, people really concentrated on the way we were telling the story and the way we kind of translated a linear brand into an interactive experience; and it kind of paved the way for all our future work really, and, also, a few imitators as well.”

(Interview, 24/7/13)

Technical competence and ability to innovate is important yet somewhat secondary to the value offered. This was a case in a content sector, but also with developers of tools and technology design, experience, look and feel are all concerns with advancing products and services, rather than technology itself. In some cases the urge to innovate becomes a greater motivation for firms than the recommended prescriptions of scaling-up successful formulas and replicating.

“We led the UK market for a while and I think we’re leading again now in what we do. We’re good at the path finding and the pioneering, other people are good at the assimilating and scaling. So for a while we were out in front and we were the benchmark and then other people came in and executed better or had a
clearer business model and scaled quicker. So yes, I think we are quite good at the innovative stuff.

The life cycle is crucial. I think what Nixon McInnes is good at is we move on once what we do starts to become commoditised, which is why I was talking about other companies who are better at scaling and assimilating. We hate doing the same thing over and over again... But there are other companies who kind of do what we do who are better at just rinse and repeating. ” (Interview, 29/2/12)

We have found that novelty in BMs is not always rewarded, in spite of the literature, and may be stamped out by dominant competition. Retainer modes allow for innovation in ongoing work-for-hire services, and more so than the project model. Small firms without external finance struggle to find the time and space to innovate outside of what is required for delivery of their projects for clients. Some manage this through allowing staff time for ‘thinking and tinkering’, some designate ‘R&D’ staff, some have ‘down tools’ weeks to experiment, but the nature of much project-based work means that breaking the cycle of generating value for other businesses and failing to capture value is a struggle.

One interesting effect of the firms’ willingness to allow staff time to pursue personal research projects is that the pay-off may not occur within the life of the company, but it may nevertheless lead to spin-offs that succeed later. This was the case with the closure of a large games studio, Black Rock, which was acquired by Disney and closed after disappointing results in the market. The enlightened management had encouraged employees to experiment with a new toolset, called Unity, which enabled easier design and execution of smaller games, especially on the iOS system. Subsequent to the closure of Black Rock, former employees created fifteen small startups. Many of these were introducing games apps to the market based upon Unity. The knowledge produced by investments in innovation is often realised at the cluster level, even if individual businesses cannot capture their value.
Business Model Design is Not the Norm

Contrary to the literature’s fixation with design of BMs, for the vast majority of firms BMs are not devised rationally or selected and configured from a notional menu. Instead they are usually given by clients, sometimes negotiated and modified, and frequently experimented with and subsequently revised. Most firms engaged in the creative-digital-IT sectors are not in control of their BM options, they are instead in the less vaunted position of trying to win work to retain a critical mass of a workforce, in which talent is scarce, even within a cluster. They generate value and innovations, but typically do not capture enough to promote investment in tools and IP that will elevate them to the focal firm status in the centre of a value network. This may also be a function of the quality of value propositions (Osterwalder and Pigneur, 2010) and certainly not all firms can be focal firms. Most rely on more emergent strategies. When asked about future plans, one of the most successful CEOs responded:

“Sell a bunch of work. Hire some people. You know, well, a more sophisticated answer to that question is, ‘continue to develop our systems and methods to make sustainable models for business growth’. I think, [the company] has done brilliantly at delivering projects, it’s done less well at creating robust models for growth. We’ve won these incredible projects, and I have to pinch myself sometimes to remind ...we’ve done the Met, it’s like, as I say, it’s the biggest project of its kind, and the National Gallery, going back. Microsoft. You know, we’ve done amazing things. And work that we’re incredibly proud of....so how do you make that regular and sustainable? You can’t.”  (Interview, 8/3/12)

This company had won and delivered massive projects for several world-leading clients and continues to do so, but this is not through a recipe for devising a constellation of forces that will maximize effortless value creation and capture. Rather it is through the painstaking delivery of excellent work, building reputation, judicious recruitment and organic growth. One can take the view that it should have designed a better business model, but such a view seems churlish, given the range of factors at play.
Conclusions

In conclusion we have offered an empirical contribution to the BM literature, which we find is strong on conception and less so on the collection and analysis of real world data. In this paper we have presented largely descriptive results from a survey of over 500 firms operating in the Creative-Digital-IT sectors, which we argue are the heartland of BMs thinking. The results show impressive rates of revenue generation and growth for these largely small firms in a cluster in a medium-sized city in the UK.

We also find that virtually all the firms are innovators. They develop new products and services, improve processes, train their staff and experiment with new business models, very few attempt to register forms of IP. This explains the low rate of revenue generation from royalties in the sample and raises the question whether work-for-hire in this largely service-based economy is a weakness in BM thinking.

Related to this point we have found through the qualitative research that firms typically struggle with dealing with larger clients and competitors. The online space in particular appears a ruthless competitive landscape as firms that build scale vie to establish dominant positions as platform leaders in the various value streams offered by the Internet. The Amazons, Apples, Facebooks and Googles typically feature as cases in the BM literature but we find less thought and prescription on the options open to the vast majority of firms who hover around these focal firms as suppliers or “exchange partners”. Not all can be focal firms and so we encourage attention on empirically validated analyses of BMs that show the implications of the variations, not from a design perspective, but for contractors seeking to capture sufficient value from their innovations to develop their own more sustainable revenue streams.
References


