

# Research on the Formation and Development of Value Chain of Creative Industry

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**Abstract.** The thesis aims to get an understanding of the contents and characteristics of the creative industry through researches on creativity and creative industry, and to analyze the market values of the creative industry, the factors affecting the market economic values of the creative industry, as well as the establishment of the value chain model of the creative industry and its role and significance by applying the theories of value and value chain.

## Introduction

With the social development and progress, and the continuous improvement of science and technology, great changes have taken place in people's social life. From the high-rise buildings generated by the first Industrial Revolution to the concept of suburban development resulting from the second Industrial Revolution, the human beings are committed to making active preparations for the third industrial revolution. The overall planning of the third industrial revolution is a new revolutionary concept based on the living space. When energy mechanisms and new communication media coexist with each other, fundamental changes would be taken place to space guidance, which has been called as Gestalt Conversion by German psychologists [1]. Creativity is a kind of inborn ability, which plays a key role in our understanding and transforming the world, for every one of us. From the perspective of economics, the role of the creative economy in the national economy will become increasingly important as well. Therefore, we will go into the social and economic value of the creative industry from the perspective of creative economy.

## PROPOSAL AND CONCEPT DEFINITION OF “CREATIVE INDUSTRY”

### Origin and contents of creative industry

The word “creativity” is colloquially known as ideas or proposals with innovative connotations. Creativity will affect people's behaviors and influence people's lifestyle consciously or unconsciously. We have ushered in an era that we must firmly believe personal ability, in which it will become increasingly important that whether people could give sufficient confidence in the few individuals having giant capacities. In this day and age, we must admit few genius' intuitive judgments, which are likely to be far better than the organizational objective judgments made by a group of ordinary people [2].

The influence of creativity keeps expanding continuously with the development of society, resulting in the huge impact to the traditional primary and secondary industries. The German economic thinker Schumpeter has first proposed the term creative industry as early as 1912, he believes that the foundation for the development of modern economy is innovation, but not the capital and labor force. In 1994, Australia first proposed the concept of “Creative Nation” in a cultural policy report, which attracted the attention of the British government. Soon afterwards, the British

government set up a Creative Industries Task Force in 1997 and released CITF's "Creative Industries Mapping Documents" (1998, 2001, 2004) as well.

Generally speaking, the issue that needs to be addressed is how the individuals and the society to meet their own demands. Demands are ever changing, but resources are quite limited, therefore, the economics would focus on how to allocate the scarce resources. Creativity may not be the economic behavior, but creativity may be economic behavior once it has economic significance or generates the products available for exchange [3]. Opinions vary on the theories of economics and continue to develop as well, and the concept of creative economy is a newborn concept generated with the continuous development of the economy. The positioning of the creative economy made by the economist Hawkins, known as "father of creative industry", has been recognized by a great number of people. The concepts of the creativity's value, creative products and creative industry have been known systematically and began to apply to the practices. As a branch of the economics scope, the values and significances generated by the creative economy are closely related to the economics. John Hawkins has provided a fairly broad but refreshing definition for creative industry. He believes that four departments, namely the industry of copyright, patent, trademark and design, would construct the creative industry and creative economy together. The copyright industry includes all the industries taking creative copyrights or related works as the main products; patent industry includes all the industries concerning the creation and operation of patents; trademarks refers to the registered marks or logo representing an organization or industry and their products; design is the shape or symbol having applied copyright qualification or certain special design right qualification, which boasts distinctive and extraordinary features [4]. The four industries above have constituted the creative industry, which can be called as creative economy. Creative economy is subject to the level of economics thinking angle, while the creative industry belongs to the level of economic activity, and the economic activities or economic values brought about by the creative industry belong to the category of creative economy. The two boasts both the inter-connected and overlapping parts and independence.

### **Origin and contents of creative industry**

Creative economy emerged when the main driving force of economic development depends on various creative elements, including the individual's creativity, culture and art, etc. Creative industry boasts the following characteristics based on the aforesaid theoretical studies: (1) Creative industry takes creativity as its core. The value of creativity shall be the top priority of the industry value in the course of creative industry development undoubtedly. Human beings have enriched their material and spiritual life remarkably through exerting their creativity, and have gathered the cultural creativity, technological innovation and economic benefits together and gave full play to the economic values of the cultural creativity and technological innovation subjectively and initiatively by taking the cultural creativity as the content and the driving force, the technological innovation as the means and support of realization and generating economic benefits as the ultimate goal. (2) Intellectual property rights hold an important position in the creative industry. The intellectual property rights should be protected by laws as fixed assets and be treated fairly in international contracts. The creatives should be entitled to choose the right to protect their own intellectual property rights freely and make transactions or trades of intellectual property rights on a voluntary basis. Intellectual property right is a contract between the creatives and the public. The creatives expect to have and use good ideas, and to make them privatized as well. Artists want to make use of others' works on the one hand, but on the other hand, they intend to register their own works. Their arguments are partly moral and partly economic [5]. Intellectual property rights must consider the impacts of intellectual property privatization on the public interests. From the perspective of the creators, the creators should be rewarded while conducting creative work. While from the perspective of the society, the whole society should enjoy benefits from the creators' work. Creative Economy (CE) equals to the product of creative products (CP)' values and the number of transactions (T), in short,  $CE=CP\times T$  [3]. If you attempt to expand the scope and influence of the creative industry, it is required to expand the

property right contract's contents of intellectual property rights to some extent and to reproduce the values of creative works unlimitedly, so as to produce more benefits of creative economy.

## **CONCEPT OF SOCIAL VALUE AND ECONOMIC VALUE**

### **Two kinds of theories of value**

Define abbreviations and acronyms the first time they are used in the text, even after they have been defined in the abstract. Abbreviations such as IEEE, SI, MKS, CGS, sc, dc, and rms do not have to be defined. Do not use abbreviations in the title or heads unless they are unavoidable.

There's been some debates concerning the decision of values over the years since the establishment of economics, and such debates can be roughly boiled down to two primary kinds of viewpoints: Labor theory of value and Marginal utility theory of value. The differences between the two theories of value have once led to the establishment of two types of social systems, namely: market economic system based on free competition and planned economic system with all economic activities directly controlled by the government power, which are commonly known as "Capitalism" and "Socialism" [6]. Various countries have different opinions on the concept of value in economics with the continuous development of economy, but the marginal utility theory of value enjoys higher approval and more applications in the society. Utility is often defined as the satisfaction of desires. The theory has indicated the law that the marginal utility (the newly added utility brought in by the consumption of each increased useful thing) is surely diminishing although the total utility is increasing along with the increase of such kind of useful things within a certain period of time [6]. (See Figure 1).

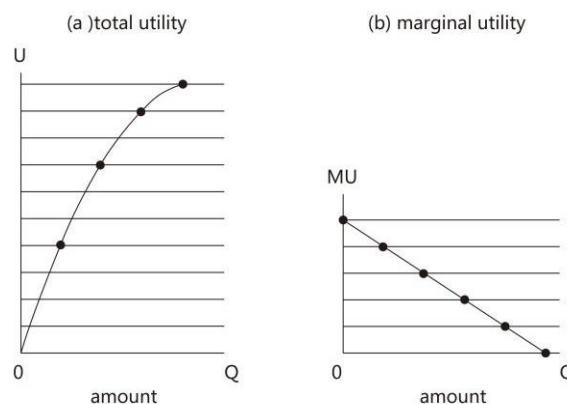


Fig. 1. Model of the marginal utility theory of value

The theory has quantified the value and expanded its scope to a certain extent from the perspective of economics. It has been mentioned in Marx's economic theory that commodities have the value of commodity, use value and exchange value, but they are relatively confined to the application of manufacturing industry. For example, the production costs of the commodity, the price of labor power, as well as the total value of commodities are predictable in the process of producing buttons, but they often affiliated directly to the concrete substances. Moreover, the production costs of commodity and the price of labor power have become increasingly difficult to be predicted directly with the development of science and technology communications and information technology, but the marginal utility theory of value has offered a new approach to assess industry value.

### **Definition of economic value**

"Economic value" refers to the significance of anything in terms of economic concerns for humans and the society, while the "value of commodity" and its laws as stated in the economics are the realistic and inevitable form to realize economic value.

## Theory of Equilibrium Price

The theory, also known as the Theory of Balance-price, believes that the prices of commodities depend on the consistent price, namely the price represented by the intersection point of the demand curve and supply curve of this commodity [7] (see Figure 2), between the supply price (i.e. the commercial value required by the producers) and the demand price (i.e. the price that the consumer is willing to accept).

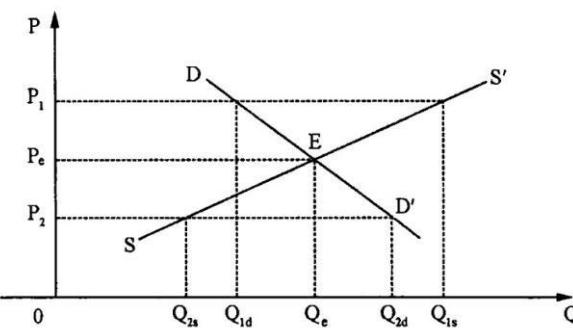


Fig. 2. Model of the Theory of Equilibrium Price

In addition to the supply and demand theory and cost of production theory, this theory has integrated the marginal utility theory of value into one, which reflects that it is required to consider a number of factors including the relationship of market supply and demand, etc. in the exchange process of commodities in addition to the price factor, so as to make significant contribution to the measurement of industry value. Therefore, the one should not only increase the quantity and variety of the goods blindly, but also need to seek product opportunities based on customers' demand. Whether they are substantial creative products or virtual creative products, they would be subject to the influence of the supply and demand of market economy to some extent.

## ASSESSMENT OF THE CREATIVE INDUSTRY'S ECONOMIC VALUE

### Concept and model of value chain

The concept of the value chain has been first proposed by Michael Porter, who is from the Harvard Business School, in 1985 in his book Competitive Advantage: "Every firm is a collection of activities that are performed to design, produce, market, deliver, and support its product. All these activities can be represented using a value chain." (See Figure 3) Porter's theory takes different economy, different strangeness and effects on costs as different segments of company activities' value chain and three decomposition standards. He divided the value activities into two broad types, primary activities and support activities. Primary activities are the activities involved in the creation of values directly and transfer such values to the buyers, including inbound logistics, operations, outbound logistics, marketing & sales, and service; the other type called support activities, which provide conditions to support the primary activities, but not create values directly, including firm infrastructure, human resources, technology development and procurement.

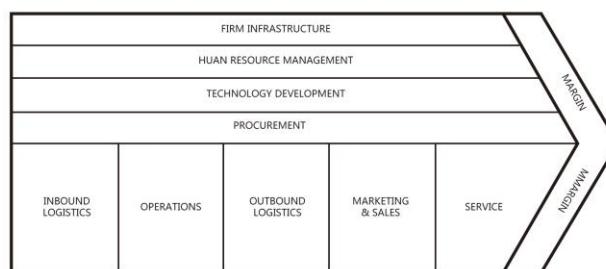


Fig. 3. The Generic Value Chain Model proposed by Michael Porter

Recently, the concept of the value chain is more focused on the network chain relations of core enterprises, such as core enterprises and suppliers, relations of suppliers and suppliers, even all the forward relationships, and the relations of users and users, as well as all the backward relationships (Yin Meiqun, 2005b). And now the concept of the value chain has become a network chain as shown in the following figure [8]. (See Figure 4)

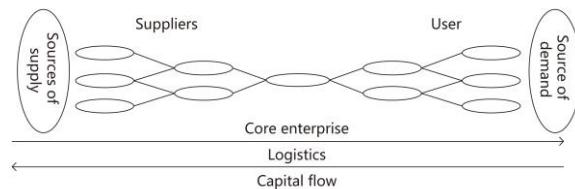


Fig. 4. The value chain model proposed by Meiqun Yin

You can estimate the significance of certain activity through analyzing the cost configuration of each activity in the value chain, and then compare it with the organizational structure of the competitors to find out the differences, and thus to enhance the competitiveness of the industry on that basis.

### **Composition of creative industry's value chain**

Values of the creative industries depend on the utility of the creative industries. Creative industries have scaled up and industrialized the original culture creativities and enabled them to generate economic benefits. The creative abilities of the practitioners in this industry group would convert the abstract cultures into products and industries with high economic values directly. The value chain of creative industry includes the following aspects: (1) Content creation, i.e. the formation of creative content. (2) Manufacturing & production. (3) Marketing promotion. (4) Sales and distribution. (5) Exchange consumption [9]. In this process, the human capital and cultural capital, as well as the industrial capital and technology capital have important roles to play in it. The human capital, as an important part of the creative industry, has been highly valued. As for the part of human capital, the values of customers and the methods assessing customers' lifetime values are the worthy parts to be reckoned with. Customers' lifetime value refers to the present value of current and future profits generated throughout their entire life contacting with enterprises [10]. If customers' lifetime values have certain liability, retention of such kind of intangible value would affect the values of the enterprises, even the industry chain, indirectly. We found that from the perspective of enhancing customer value, the impact of an increase of 1% in customer retention rate is 5 times the impact of an increase of 1% in profit, 50 times the impact of an improvement of 1% in customer acquisition costs [10]. The obtaining of this conclusion has proved that the one should focus on the measurement of human resources, including the value of customers, in the estimation of the value of creative industry. The values of the enterprises in the creative industry have direct impacts on the assessment of the industry, meanwhile, from the perspective of value chain, the values of the customers of the enterprises have direct impacts on the creative enterprises as well, and therefore, talents' value is an important factor affecting the measurement of industry chains' value.

### **Factors affecting the economic value of creative industry's value chain**

The core law of creative industry,  $CE=CP\times T$ , suggests that though it is impossible to estimate the value of creative works, but the more times used or copied, the greater economic values generated. All aspects, including human capital, cultural capital, industrial capital and technology capital, etc. involved in the value chain of creative industry have contributed to the growth in the value of creative economy. From the perspective of marginal utility, people's demand for products has a positive impact on the economic value of the creative industry's value chain as well. Greater demands and desire to the industry by people would generate greater value of the creative industry. Thus, it can be

seen that the market value of creative industry is affected by a number of factors, including the number of lifetime customers, the utility of products, as well as the talents of creative industry, etc. as shown in the model of value chain. Human resources play a significant role in the supply sources and demand sources of creative industry and have a great influence on the estimation of production value. From the perspective of origin, the value of creativity itself is impossible to measure, therefore, thought the estimation of creative industry's value is subject to the influence of various factors, including industrial capital, the utility of product value, customers' lifetime value and the value of creativity, etc., but as the elements like creativity and utility, etc. consist of a lot of subjective factors, they should constitute the core elements of the formation of creative industry's value. (See Figure 5)

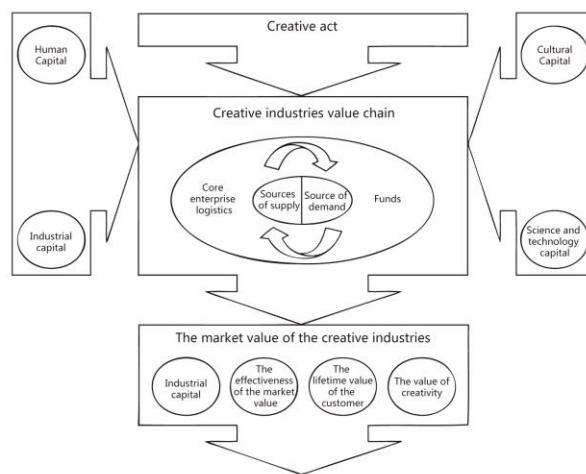


Fig. 5. Model of creative industry's value chain

### **The guiding role of creative industry on the market**

Creative industry is an innovative development model, the extension of the development traditional industries, as well as the inevitable outcome of social development. Based on the fully understanding of the development of traditional industries, it can be summed up that the creative industries are mainly embodied in the following aspects: First, the weights of creative value keep rising rapidly. Traditional industrial development model is quantifiable and estimable in the exploitation and utilization of tangible resources and object resources. Capital has an ingrained position in traditional industries, which mainly affected by the factors including natural resources, lands, funds and machineries, etc. but creative industry emphasizes the exploitation and utilization of intangible resources and subject resources, and various soft capitals, including human capital, intellectual property and technology capital, etc. have become its core driving factors, of which, people's creativity has been attached with particular attention. Second, the utilities of products have played an increasingly important role in the creative industries. Traditional industries would make progresses through the development of the value of the product itself, but the creative industry would focus on the development of products favored by consumers by centering on the consumers' needs, which is the key feature of the development of creative industry. Third, promote the economic growth. Creative industry is the driving force for the sustainable urban development as it could upgrade the industrial structures, promote foreign trades and effectively expand the employment. We believe that as the approaching of the third industrial revolution, the development of creative industry and its integration with other industries would have a great impact on the future economic development and break through the traditional way of thinking, and form a new paradigm as well.

The output value of the creative economy complying with the definition above around the world is approximately \$2.7 million in 2005 and keeps rising at an average annual growth rate of 6%. According to statistics from the World Bank, the gross domestic product worldwide in 2005 is \$44 million, wherein the creative economy has accounted for 6.1% of the global economy [11].

The rapid economic development has enriched the materials significantly and has changed people's lifestyle, and consumer demands have been converted from material to spirit. The concept of

limited resources and infinite creativities has become popular around the world, and certain countries and regions even have pinned the “next” prosperity on the development of creative industries.

## Acknowledgements

This paper has showed the unlimited potential of creativity through the analysis of creativity and creative industry. The creative industries, centering on creativities, have become increasingly important in the market economy as well. The continuous development of creative industries has changed the value chains of traditional industries. The inestimable nature of the value of creativity is directly concern to the excellent development prospects of creative industries. As can be known according to the law of conservation of the creative industries,  $CE=CP\times T$ , and its subsequent development that the factors having direct impacts on the value of creative industries are: industrial capital, the utility of product value, customers' lifetime utility, value of creativities, etc. The positive impacts of creative industry on the market economy will surely have a huge promotion effect for the economic development of future society.

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