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The Difference Principal? Shaping competitive advantage in the cultural product industries

This is Working Paper
No 78 (June 2008)

The Intellectual Property Rights (IPR) elements of the DIME Network currently focus on research in the area of patents, copyrights and related rights. DIME’s IPR research is at the forefront as it addresses and debates current political and controversial IPR issues that affect businesses, nations and societies today. These issues challenge state of the art thinking and the existing analytical frameworks that dominate theoretical IPR literature in the fields of economics, management, politics, law and regulation-theory.
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“The Difference Principal”

Paper originally prepared for:
DIME-CIO-Birkbeck conference
The Creative Industries and Intellectual Property
London May 22-23 2008
Abstract

This paper argues that due to the endless substitution possibilities open to consumers of cultural products, firms’ competitive advantage rests as much upon positionality and differentiation as upon traditional forms of intellectual property such as copyrights and trademarks. However, the construction of positionality and differentiation may entail geographies and milieus other than those best suited to the origination and creation of cultural industry artefacts. The paper suggests that existing models of regional growth and innovation systems must be adapted to fit firms and sectors where competitiveness is not only based on traditional types of intellectual property (such as copyrights or patents) but also differential property (such as marketplace positionality). If providing a regional system supportive of differentiation (and market positionality) is important to these firms/industries then we must reappraise our notions of supportive regional conditions. To this end a revised version of the cluster model of regional competitive advantage is presented: one which attempts to be more tailored to industries where intellectual property and differentiation are the core products.
Introduction

Intellectual property (IP) is at the absolute core of the cultural and content industries. For many years, industries such as music, film, and publishing have fought hard to protect and profit from the intellectual property that defines their businesses. Most of these efforts have focused upon different methods of protecting and policing intellectual property embedded in various types of media formats: such as cassettes, CDs, DVDs, books, etc. Activities such as intense lobbying of lawmakers, high profile legal actions against file sharers, and the introduction of all manner of embedded rights management technologies have dominated these industries’ approaches to intellectual property.

In this paper it is argued that approaches to intellectual property such as the ones mentioned above fail to fully understand the dynamic underpinnings of intellectual property in the contemporary cultural-products industries. The cultural industries, it is suggested, operate under the structural condition of limitless substitution. In other words, for consumers a vast range of substitutes exist for all cultural industries’ products. Substitutes exist in the form of readily available pirated IP, close copies, similar alternatives, and indeed completely other product segments. In choosing product offerings (goods or services), consumers are faced with endless substitutes in each product category whilst their expectations - for quality, service, symbolic status, aesthetics, etc. - are just as likely set by actors and experiences outside of the particular category in question. Products that cannot deliver at least the vestige of difference will ultimately get involved in a race to the bottom or fade from fashion and view. Against this background it is suggested that an offering’s ability to be seen as different from the rest of the field(s) is crucially important to why consumers choose one product over another. If marketplace differentiation is central to how firms in the cultural industries compete and survive it is also the first and last step in securing intellectual property and opening up revenue streams. As such it is impossible to separate firms’ efforts to differentiate their products from their efforts to establish control over their intellectual property. Thus in this article differentiation and the construction of intellectual property are suggested to be two sides of the same coin.

However, the ways in which differentiation is established will have profound effects on the actors involved in and the results of constructing differential positions. The means by which differentiation occurs has a key role in deciding which actors can exercise control over intellectual property and its attendant revenue possibilities: and are likely to have very particular supporting geographies. The rest of this paper takes it starting point in the idea that such processes are far from aspatial and that differentiation has a very particular economic geography. The central questions are: If cultural industry firms strive for product differentiation do they benefit from
particular types of economic spaces and places? Can we talk about localised ‘difference engines’ in similar ways to how we talk about localised industrial clusters or innovation systems?

The paper starts by discussing the idea of limitless substitution and how consumers incorporate this into their consumption patterns. Attention is then turned to how firms can be seen to react to this and how they could use differentiation as central to their business focus and intellectual property. The article then proceeds to ask what, if any, structural knowledge bases and spaces for differentiation could exist at regional levels. In other words the paper is centrally concerned with the questions: If differentiation is central to intellectual property and competitiveness in the cultural industry then what sort of regional or industrial systems are likely to support firms’ development of difference?

1. Structural conditions: limitless substitution

Cultural industry products such as film, games, books, fashion, art and design have been shown to account for a significant part of contemporary economies and trade. In many advanced countries the industries that produce such products are significant employers in their own right as well as being vitally important for all manner of social, political and cultural processes (Pratt 1997; Scott 1997; Department Culture Media and Sport 1998; Hesmondhalgh 2002; Power 2002; Power 2003). However, policy and academia alike seem deeply confused and divided on the issue of what defines their core product and what types of localised factors these industries seem reliant upon (Caves 2000; O’Connor 2000; Hesmondhalgh 2002; Power and Scott 2004). For the purposes of this article Scott’s definition is most useable:

“Whatever the physico-economic constitution of such products, the sectors that make them are all engaged in the creation of marketable outputs whose competitive qualities depend on the fact that they function at least in part as personal ornaments, modes of social display, aestheticized objects, forms of entertainment and distraction, or sources of information and self-awareness, i.e. as artifacts whose psychic gratification to the consumer is high relative to utilitarian purpose.” (Scott 1997)323

Cultural industry products are thus valued for immaterial attributes that are the product of creativity and innovation. They are products characterised by and valued for their creators’ intellectual output. Focus has thus been placed upon proprietorial intellectual outputs of the types amenable to copyright and trademark (and to a lesser extent patent). Whilst this focus is important to profiting from creative assets it is not a sufficient focus for understanding the commercial possibilities and problems contemporary cultural industries face. The key issue for the commercial success of such outputs is to found in the structural conditions that underpin the market for such artefacts.

For consumers of cultural industry products – be it music or fashion buyers – the structural
condition they face is the existence of a seemingly endless number of substitutes for all products. The vast range of alternative cultural products available to consumers separates the cultural industries from many other industries which also rest upon intellectual property. Substitutes exist in the form of products within the same product genre (the thousands of other rap CDs simultaneously available in the one music store) or within competing genres in the same format (the thousands of soul, jazz, rock, classical or R&B CDs in the same store). Equally the same product (such as your favourite rap artist) can be consumed in many different formats sourced in many different places: as a CD, a limited edition LP, a ring signal, a digital download, listen to the song on the radio, or buy a concert ticket. Added to this are the numerous ways in which consumers can find, without paying the rights holder, substitutes for the same product: e.g. pirated copies or illegal downloads (Cooper and Harrison 2001; Leyshon 2001; Pfahl 2001; Shirky 2001; Alderman 2002; Alexander 2002; Jones 2002; Leyshon 2003; Power and Jansson 2004; Leyshon et al. 2005; Currah 2006).

The existence of endless substitution possibilities applies equally to private consumers and to business consumers: to the woman-on-the-street choosing what music to consume in what format and in what place; to the corporation insourcing graphic design. Indeed when sourcing cultural/creative services (such as public relations or graphic design) where intellectual outputs are primarily in the form of service inputs to wider value chains consumers are faced not only with a range of competing offerings but also with substantial difficulties in assessing the value of possible outcomes (Kotler and Rath 1984; Ainamo and Pantzar 2000).

However, consumers’ exercise of substitution can be limited by various factors. Firstly all this choice has negative aspects - consumer stress and paralysis, dissatisfaction over opportunity costs (Schwartz 2005) – that might convince the consumer to retreat from deciding. Secondly, consumers will likely face a trade-off between how much substitution is worth to them and how much it will cost in time, effort, money, etc. The fact that individuals make many consumption choices on a daily basis means that they might not always be bothered searching for specially tailored solutions to all their needs or desires. Alternatively they will prioritize and sort decisions needing more care: e.g. they will consider it worthwhile spending time choosing the right romantic music but not necessarily the right candles. Thirdly, for many decisions consumers might look to trusted frames of reference that minimise the options available to them: this might take the form of extreme brand loyalty (e.g. Armani takes care of my clothing needs) or a frequently used portfolio of information sources (Caves and Williamson 1985). Lastly, some decisions once made will become routinised or difficult to go back on: such as the choice of cigarette brand, tattoo, or funeral home.

It would be wrong, however, to reduce consumer choices to carefully worked out strategies to minimise the substitution costs. The fact that there are some many substitutes available in cultural product categories reflects the fact that consumers are highly interested in the choices they make and the in the possibility of continually changing and swapping the cultural artefacts that surround them. The act of substitution is deeply rooted our tastes. Individual tastes change and develop over time, and tastes themselves are highly linked into ever changing social, cultural
and political desires and processes (Bourdieu 1992). Consumers are thus both faced with and seek out an endless stream of substitution options for the cultural choices their lives are founded upon.

2. The difference principal: difference as firm strategy

“Think different” (Apple Computers advertising slogan introduced 1997 developed by TBWA\Chiat\Day).

If structural conditions in cultural product marketplaces tend towards limitless substitution then firms must adjust their strategy accordingly. In particular, firms cannot build strategies on the assumption that their IP’s level of inventiveness, creativity or innovation will be enough to secure commercial success or create value. They cannot assume that the IP-based outputs they have spent time researching and developing will be either: found in crowded marketplaces by consumers; or that consumers will always accept the price, or exact format, firms are offering the IP at.

Faced with this situation firms can take two main approaches. First, firms can attempt to limit consumers’ ability to find substitutes for the firms’ IP. In the case of cultural industries like music and film the principal method employed has been legal action against alternative (or illegal) providers of substitute formats or near copies. However, with rapid advances in copying, distribution and sharing technologies such actions can be limited in their impact on firms’ ability to control access to substitutes for their IP.

The second approach firms commonly take is the subject of the rest of this paper: attempts to establish differentiated positions in the marketplace with the aim of convincing consumers that substitutes do not exist. As Levitt suggests firms that fail to differentiate their offerings from substitutes will end up being involved in a race to the bottom (Levitt 1975 [1960]). Firms need to understand and position themselves against substitutes: substitutes that may be found within their ‘own’ industry or indeed outside it.

Differentiation is essentially about establishing a unique position and relational status for both the product (and the firm) in saturated and consumer-driven market places. In many areas such a position may be based entirely on product specific characteristics – for instance being the only drug available that cures a particular type of cancer. However, in culture and creative fields uniqueness is rare or at the very best fleeting. Difference in cultural product categories is a complex mix of factors. Difference may be defined by product specific and firm managed characteristics: such as price, product design, packaging, functionality, performance or technological sophistication. Equally difference is based on highly subjective and value-based judgements about immaterial product characteristics - such as products’ beauty, desirability, usability, or sophistication - that are superimposed upon products by consumers, users, fans, critics and others.
For cultural industries products it is hard to untangle the relative importance of these various dimensions. For instance, consumers’ choices about musical products might rely upon product specific characteristics (such as its composition, production quality, price, format, artwork) as well as how various actors (such as fans, radio DJs, critics) perceive and construct the products’ relative value or positionality. What is important, however, is that the combined effect is one that marks a cultural product out against a crowded marketplace and helps define a particular (hopefully desirable) position for the product. For both firms trying to sell cultural products and for consumers trying to match products with their tastes and lifestyles, differentiation becomes a central motive in cultural product markets. The objective of differentiation (for both sellers and buyers) is to develop a position that potential observers see as unique. Differentiation is therefore an attempt to make consumers evaluate products not simply on the basis of price as well as an attempt to make them less sensitive of competing substitutes. It is therefore not just about the ability to charge premium prices (Sharp and Dawes 2001).

Since differentiation is about positioning a product it will involve a range of actors: on both the supply and demand sides. In the example of music a variety of actors will help define a musical act’s position in the field – their sound, their look, their appeal to certain consumers, their unique aspects, their competitors and collaborators. The potential mix of actors involved in a product’s market position is complicated by the fact that consumers’ expectations (for quality, service, symbolic status, aesthetics, etc.) are just as likely set by actors outside of the particular category in question. For cultural products actors and dynamics in many fields – with relatively separate industrial and innovation systems - are likely to be important to positions within particular product categories. Thus trends and expectations founded in industrial fields as diverse as fashion, gaming, film, literature and art can be of equal importance to musical products’ positionality as trends and expectations set within the musical field.

All the above indicates that in cultural industries where firms are faced with many possible substitutes and a difficulty in enforcing property rights the norm is competition based on differentiation or monopolistic competition à la Chamberlin (Chamberlin 1933; Robinson 1933; Power and Scott 2004). Chamberlinian competition is based on the notion that distinctive market distortions appear when producers have strongly-developed firm-specific characteristics. Under a regime of monopolistic competition there may be many individual firms all making a particular class of products, but each firm’s output also has unique attributes (design, place-specific associations, brand, consumer anchoring, etc.) that can only be imitated by other firms in the form of inferior reproductions, or can at best be copied only after a significant time lag.

As such one can see the core product of many firms in the cultural industries to be a ‘differentiated position’. Differentiation is a vital step towards appropriating knowledge and profiting from creativity based IP in the cultural industries since it is upon the basis of a differentiated position that firms/actors can then build instruments/vehicles to exploit the position and generate revenue streams.

Once a differentiated position is established a series of vehicles can be built to capitalise on the
position. For musical acts the principal vehicle has traditionally been a recorded piece of music – that can be copyrighted and then packaged and embedded in a wide variety of media such as CDs, ringtones, MP3s, etc. However, the position can also be used for a wide variety of other vehicles: these might include merchandise, sponsorship, concerts, etc. Indeed one can argue that the music industry has for a long time made the mistake of assuming that it was the musical artefact – composition and mechanical rights embedded in recorded music – that was the key commercial offering. Therein the industry, in particular record companies, missed out on leveraging the commercial possibilities of the differentiated positions – the reputations, brands, iconic status, etc. – they created. Such positional goods can be monetarised through a wide variety of commercial vehicles and resulting revenue streams.

Differentiation involves a variety of actors and processes beyond those typically seen as central to IP origination and creation. Focusing on differentiation means that firms will, for example, focus attention on marketing as well as consumer relations. Differentiation also entails a far greater role for consumers and other interested parties (such as critics, media, and cultural groups). The particularities of the construction of differentiated positions will entail different IP outcomes for firms and therefore entail different collection possibilities on the basis of these ‘rights’. It is therefore important for us to pay critical attention to the types of processes and actors involved; and to pay attention to the possibility that systems for differentiation will have very particular spatial aspects and fixes.

3. Difference engines: clusters, structural knowledge bases and spaces for differentiation

“Our inability to control for differences among industries in their structural bases for differentiation has arguably been the source of important shortcomings of inter-industry research in industrial organization” (Caves and Williamson 1985: 113)

Studies of the economic geography of cultural industries have shown that there is considerable evidence that localised systems of innovation and creativity support the production of various types of IP (Peterson and Berger 1996; Scott 1996; Caves 2000; Hutton 2000; Scott 2000; Gibson et al. 2002; Grabher 2002; Hesmondhalgh 2002; Power and Hallencreutz 2002; Rantisi 2002; Power and Scott 2004; Scott 2005; Hauge 2007). In recent years, economic geography’s general questioning of the competitiveness of different localised industrial systems has often been based on an engagement with Porter’s cluster model (Porter 1990; Porter 1994; Enright 1998; Porter 1998; Porter 2000). The cluster concept has been far from uncontroversial in economic geography and has been suggested to suffer from a variety of conceptual limitations and confusions (Markusen 1999; Martin and Sunley 2003; Power and Mamberg 2005). Nonetheless the cluster concept, and associated models and lines of argument, offers a neat approach to conceptualizing and analyzing the localized factors that support knowledge creation and innovation.

In particular, the cluster promises to produce innovation and competitiveness via a series of
interactive processes within systems of actors assembled in a milieu defined through some form of spatial proximity (cf. (Malmberg and Power 2005; Malmberg and Power 2006)). The cluster approach provides a way to describe the systemic nature of an economy: i.e. how various types of industrial activity are related. Beginning with the firms in the industry where we find the main producers of the primary goods, the cluster also embraces supplier firms and industries providing various types of specialized inputs, technology and associated services, as well as certain important customers and more indirectly related industries. There is much to be said in favour of this way of approaching the systemic nature of economic activity. It opens up a scope for analysing interactions and interdependencies between firms and industries across a wide spectrum of economic activity. In addition it contributes to the bridging of a number of more or less artificial and chaotic conceptual divides that characterize so much work in economic geography and related disciplines. These include, for example, manufacturing vs. services, high-tech vs. low-tech, large companies vs. SMEs, public vs. private activities, etc. A single cluster, defined as a functional industrial system, may embrace firms, actors and activities on both sides of these divides (see also (Dicken and Malmberg 2001)).

Furthermore, Porter’s model of the determinants of competitiveness in clusters, the ‘diamond model’, identifies a number of mechanisms proposed to foster industrial dynamism, innovations and long-term growth. Essentially, the model is built around four sets of intertwined forces related to factor conditions, demand conditions, related and supporting industries, and firm structure, strategy and rivalry, respectively. On these points, at least, it should be acknowledged that the cluster approach has contributed to genuine progress: the role of specialised production factors and selective factor disadvantages, sophisticated customer demand, and local rivalry are novel and innovative proposals that have enriched our understanding of why conditions in a local milieu, in general, and agglomerations of similar and related firms, in particular, might promote superior firm performance.

However, little of the research inspired by the cluster approach has explicitly focused on the types of localized and structural conditions that might help nurture and support firms’ differentiation strategies. Whilst other disciplines have been concerned with the idea that industries might have structural bases for differentiation, economic geography has largely ignored the idea that specific geographic or spatial systems might exist to support industrial differentiation. Focusing on differentiation from a spatial perspective raises a series of interesting questions: What sort of regional or industrial systems might be likely to support the development of competitiveness through differentiation? If traditional modes of IP (such as copyrighted material or attributes) become harder to profit from then will firms be drawn to locate to places where differential property (such as brands or marketplace positionality) can be better constructed and maintained? There is no reason that the cluster approach cannot be adapted to analysing the types of localised systems that might best underpin firms that see differentiation as their core product (rather than IP artefacts). To this end a revised version of the cluster model of regional competitive advantage is presented below: one which attempts to be more tailored to industries where intellectual property combined with differentiation is the core product for most firms.
A central element of Porter’s work is a broad brush model of factors key to a cluster’s competitiveness: the diamond model. It is clear from Porter’s work that the diamond framework can be adjusted to more specifically match the needs of certain strategic priorities and core products (Porter and Kramer 2006). In the figure below a rough attempt to adapt the cluster model to emphasize the sorts of conditions that may be important to cultural industries is made.

<table>
<thead>
<tr>
<th>Factor conditions</th>
<th>Related and supporting actors</th>
<th>Context for strategy and rivalry</th>
<th>Local demand conditions</th>
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<tr>
<td>Presence of high quality specialty inputs available to actors</td>
<td>The local availability of supporting actors</td>
<td>The rules and incentives that govern competition</td>
<td>The nature and condition of local consumer needs/desires</td>
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<tr>
<td>Availability of local suppliers of specialty inputs</td>
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<td>Presence of clusters instead of isolated actors</td>
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<td>Exhibition and broadcast channels – media etc.</td>
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<tr>
<td>Specialized Labour</td>
<td>Technical infrastructure</td>
<td>Access to money and capital</td>
<td>Positive local image/brand</td>
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<tr>
<td>IPR regime</td>
<td>Range of substitutes</td>
<td>Fair and open competition (tolerance for individualism and diversity)</td>
<td>Transparency (ease by which positions can be monitored and assessed)</td>
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<tr>
<td>Sophistication of local consumers</td>
<td>Density of niche customers</td>
<td>Demanding regulatory standards</td>
<td>Unusual local needs</td>
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<td>Social relations and systems</td>
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The cluster approach identifies four main conditions important to cluster competitiveness and dynamics: factor conditions; the context for strategy and rivalry; proximity to related and...
supporting actors; and interaction with the specificities of local demand.

**Factor conditions**

Factor conditions are a range of inputs that firms pursuing differentiation in a particular sector need. In cluster thinking factor conditions are not natural inheritances (such as the condition of land or location) but instead created factors and therefore shaped by policy initiatives, chance, technological progress and socio-cultural changes. In the standard versions of the Diamond model factor conditions are principally the local availability of specialised labour, capital, and infrastructure. For cultural industries firms interested in differentiation strategies these factor conditions include:

- Specialized labour: e.g. staff specialised in consumer interfaces, advertising or public relations.
- Technical infrastructure: the availability of technical and technological infrastructure and the ability to utilise these in particular ways.
- Access to money and capital: in industries such as fashion (Agins 1999), music (Power and Hallencreatz 2007) or video games (Aoyama 2000) financing differentiation and launch marketing is a major area of capital expenditure.
- Positive local image/brand: place-based brands and associations are important to the construction of the origins and authenticity of cultural products (Molotch 1996; Molotch 2002; Breward and Gilbert 2006; Power and Hague 2008)

Different places will be endowed with, and actively work to upgrade, factor conditions in different ways and to different extents. For particular industries different mixes of these conditions will be important and have an effect on the types of firms that are established in an area. This means that not all places will have equal potential to give rise to strong sectoral clusters in all areas and that created factor conditions can have lasting effects on the potential of areas for development in certain sectors.

**Context for strategy and rivalry**

Cluster theorists claim that firms’ competitiveness is crucially underpinned the local context for strategy and rivalry: (i) by the existence of multiple competitors in the same field, and (ii) by the rules and incentives that govern competition. Since differentiation is essentially about defining yourself against your supposed competition then the competitive environments in which firms and their products are shaped local rules and the number of local competitors are likely to lasting effects that will affect how firms compete in other markets and with other firms. There are a range of factors that affect the dynamics of competition in local areas. In particular the following factors are important to differentiation in the cultural industries:

- IPR regime
- Fair and open competition (tolerance for individualism and diversity)
- Range of substitutes (and competitors)
- Transparency (ease by which positions can be monitored and assessed)
Socio-cultural rules and incentives deeply held by economic actors: e.g. in the form of local norms and traditions regarding entrepreneurial behaviour, or in culturally embedded expectations about trust and network reciprocity. At a very basic operational level the nature of the competitive environment firms are shaped in will have an effect on how companies are started and how they are organized and run. Moreover the rules and incentives conditioning economic actors will have an effect on how they learn of and react to other substitutes and competitors. Proximity tends to reinforce learning processes both at the level of the organization (Lampel et al. 2000) and at the regional level (Lorenzen 1998; Amin and Cohendet 1999; Maskell and Malmberg 1999; Rantisi 2002; Gertler 2003; Gertler 2004) through making processes and differences more visible and transparent, as well as making incentives and sanctions more immediate. Moreover local rivalry adds an intensity and emotional aspect to competition that can be a powerful motivating factor (Lawless and Anderson 1996; Grabher 1997; Boari et al. 2003). The governance of competition will also be structured by more formalised structures - in particular IPR regimes, and corporate competition and trust regulations – that are also liable to considerable regional and local difference.

Direct competition in open and diverse product markets impels firms to innovate and differentiate to a greater extent than they might elsewhere. Thus the nature and characteristics of local rivalry and firms’ search for competitive advantage within one marketplace can help provide firms with experiences and knowledge bases for achieving such advantage in other places.

**Related and supporting actors**

Firms in a local area are affected by factor conditions and their strategies are conditioned by the context within which competition and rivalry occurs, but they also need a range of related and supporting actors to effectively pursue their differentiation strategies. Proximity to upstream or downstream industries helps firms position and place their products. In particular three aspects may be especially useful:

- Availability of local suppliers of specialty inputs
- Presence of clusters instead of isolated actors
- Exhibition and broadcast channels – media etc.

For many cultural products the ability to source from third parties promotional services is important. Since many cultural industries use project-based working as a central organising principle (Grabher 2001; Grabher 2002; Grabher 2002; Vinodrai 2006) the presence of clusters of related and supporting actors may be attractive feature since proximity to a wide group of specialist suppliers of services and institutions enables more effective networking and may lower transaction costs (Scott 1986) involved with insourcing. As Sassen notes of the location in global cities of TNC headquarters, it may be an attraction to clusters of related and supporting actors and specialists that underpins locational choices (Sassen 1991). A third type of related and supporting actors important to differentiation are exhibition, branding, media and broadcast channels. In cultural industries such as fine art exhibition possibilities may be vital to actors’ differentiation possibilities. On a wider level the type of exhibition opportunities that exist are vital to differentiation. Since differentiation is all about positioning a product/firm in relation to others access to communication and exhibition channels is key. There are, of course, enormous localised differences in the types of exhibition and broadcast channels that exist, their
conditions of use, and the breath of their reach. Places where firms can access a range of exhibition and distribution channels (preferably ones that combine both status and reach) may well attract actors from a variety of industries: the diverse exhibition spaces and galleries in cities such as London and New York undoubtedly attract artists of all types.

**Demand conditions**

By treating the demand side as a primarily qualitative factor the cluster approach is relatively unusual in economic geography and of especial importance to research on cultural industries. Though the idea of demand’s role in localized industrial systems is also present in, for instance, notions of the competence bloc (Eliasson 2000) the ‘competent customer’ (Malmberg and Power 2005) most previous models have merely emphasized access to a large market as an important locational advantage. However, the cluster approach alerts us to the fact that it is the sophistication of demand that matters if we are interested in innovation and competitiveness. According to this view, the locationally advantaged firm is the one that is in a position to receive and react to signals from sophisticated demand, rather than simply the one that is blessed with ‘many customers’ in the local market.

A range of demand conditions should be considered as important to the ways in which firms can differentiate:

- Sophistication of local consumers
- Density of niche customers
- Demanding regulatory standards
- Unusual local needs
- Social relations and systems that affect incentives and disincentives related to the consumption of cultural products: in particular, a place’s class system, the nature of gender relations, race and ethnic relations, and the role of religious systems in consumption practices.

Whilst the role of customers is generally recognised in Porterian frameworks it should be noted that in this article the term consumer is used:

“… a consumer is not just a customer or a user, because it is also a potential customer, or a former customer you’ve already lost. Only using the terms customer or user immediately eliminates your potential growth areas.”

(Paul McEnany, June 2006^1)

The role of demanding consumers (and not just customers) may be considered to be twofold. Firstly demanding consumers will pressure firms and related industries to innovate and provide new offerings. Secondly they may also have a direct role in many of these processes and be active participants in shaping offerings.

The second point is arguably increasingly important in the cultural industries. Consumers have a very tangible role in the creation and shaping of differentiation. Consumers can play an active role

[^1]: http://heehawmarketing.typepad.com/hee_haw_marketing/2006/06/brewing_debate_.html
in shaping products in a number of ways: sophisticated consumers; lead-users/first movers; bottom-up user-led innovators; consumer developers\(^2\). In the fashion industry, for example, sophisticated consumers that have highly demanding standards for the exclusivity and differentiation of their garments may be couture customers or high profile celebrities whilst leader-users and first movers include stylists, magazine editors and trendsetters. In fashion, bottom-up user-led innovators can include trends originating in street fashion or sub-cultures that can give rise to new positions as well as appropriate existing brands and products thereby having profound effects on firm’s attempts to position themselves: US hip-hop and UK football hooligans appropriation and rewriting of Burberry’s symbolic meaning are examples of these types of active consumers (Power and Hague 2008). In music, bottom-up user-led innovators’ development and adaption of new peer-to-peer distribution channels have significantly affected labels control over their IP. Equally hobbyists and consumer developers of music have found that networks such as Myspace have given them the possibility to enter into the music arena and in some cases effectively compete with industrial musical products.

On a more general level social relations and systems that affect incentives and disincentives are subject to a variety of influences. Since cultural products are highly related to individuals’ and groups’ expression of identity and position (Bourdieu 1984; Lash and Urry 1994; Zukin 1995), social, cultural and political aspects of a place’s class system, gender relations, race and ethnic relations, and religious beliefs will have profound effects on the practices and trajectories by which firms’ products find shape and meaning. The centrality of consumers’ construction of meaning is never simply a matter of the use or purchase of a purely material utility or product and consumption will always involve actors’ varied spatialized and networked negotiation of meaning and value.

If demand conditions are important to cluster dynamics then the catch for firms is that the industrial base for differentiation is often secondary to and dependent upon consumer differentiation bases which are largely beyond the reach of individual firms. The importance of active consumers and far demand conditions that are far from open to firms control presents firms attempting to exercise proprietorial control over a differentiated position with both problems and opportunities. In particular, as they copy and appropriate the meanings of cultural IP in ways firms might not intend consumers often fail to respect the proprietorial claims firms and creators make, whilst at the same time consumers own constructive and active roles can create value and meaning of the type and scale that firms could not foresee or engineer themselves. Demand conditions will therefore have profound effects for the ways in which firms differentiate their products and equally profound effects for the types of actors involved in constructing and controlling positional intellectual property.

A diamond model, such as the one sketched above, draws attention to the idea that each point is

\(^2\) Note: this typology of active consumers comes from ongoing work with Yuko Aoyama on the issue of consumption and consumers in economic geography. Contact the author for copies of this work.
linked to the others. For instance firms will be less likely to continually differentiate themselves from competing products if consumers do not constantly demand and compare new products. Such systems are thus, to a large extent, self-reinforcing in that upgrading in one point helps the formation of the others and vice versa. For firms this means that localisation - at the very least of core strategic, design and consumer interface units - within areas where a cluster of conditions and competing actors will be an advantage to how quickly and competitively they can create and sustain differentiated positions. Different combinations of factors and conditions will have important effects on the resulting positions. No two places are likely to afford firms the same opportunities and combination of conditions, and various places will drive differentiation in various directions.

4. Conclusion

This paper started out with the idea that in the cultural industries substitution is now a structural condition that affects all firms. Against this background, monopolistic competition - where cultural industries firms’ competitiveness ultimately rests upon their ability to differentiate - becomes a dominant strategy taken by firms. If this is so competitive advantage and therein commercial development in the cultural product industries cannot be explained by innovation or science push theories alone. Unlike sectors such as pharmaceuticals or advanced software architecture, cultural industry products cannot rely on scientific innovation and technology for their success. Successful products may indeed be based on cutting edge technologies (for instance video games) or equally on age-old craft traditions (such as jewellery). Nonetheless what is important is that product offerings differentiate themselves from available substitutes.

In the cultural industries business models are moving, or have effectively already moved, away from models based on the production, protection and exploitation of intellectual property embedded in product attributes. Rather a model is developing that stresses instead the production, protection and exploitation of market positionality. The active motive in this model is a concern for differentiation from competitors. This is something that can be achieved through excluding direct competition by virtue of copyright, etc protection but is much more than this. It must be an active policy of engagement with the consumer that goes far beyond limiting consumers’ access to comparable products/copies.

The central question the paper wrestles with is: If differentiation is central to intellectual property and competitiveness in the cultural industry then what sort of regional or industrial systems are likely to support firms’ development of difference? It has been suggested that as traditional modes of intellectual property (such as copyrighted material or attributes) become harder to maintain/profit from then firms will be drawn to places where difference (a marketplace positionality that can through various methods be protected and reproduced) can be constructed and maintained. Just as innovation is supported by localized industrial systems then differentiation may also benefit from localized industrial systems.
There are many dimensions to differentiation and this paper does not through them all. Rather it has concentrated on sketching a cluster inspired model for outlining the types of localized and structural conditions that might help nurture and support firms’ differentiation strategies: strategies that once developed in a local setting can be taken to other markets. It was suggested that a Porterian diamond model helps focus attention on the actors and conditions that help stimulate creativity and innovation in knowledge intensive processes such as differentiation and ultimately affect firms’ ability to appropriate such knowledge and value.

The key aspect of industrial system thinking, such as the one sketched above, is that the suggestion that localized systems rely on the involvement of multiple actors for their dynamism and innovation. The conditions firms’ face in localized clusters will condition the ways in which differentiation is established and in particular the types of actors involved in constructing such intellectual property. The involvement of multiple actors creates a series of problems for control over the resulting IP. Firm-centric strategic differentiation is complicated by the multiplicity of actors and sectors potentially involved in IP products which are essentially positions in the market. Two aspects of this are important: first that positions are always shared goods (in this case contained in the reciprocal relationship between the supply side and consumers); second since positions are constantly changing new actors and interests will be constantly reinterpreting and remaking the position. For firms focused on appropriating and profiting from positional IP one difficulty with the ideas expressed above is that whilst difference does have systemic localised aspects that firms can monitor and avail of, these systems are populated by actors that seldom play entirely by the sorts of corporate rules and governance that actors in particular sectors (or on the supply side of the economy in general) may be used to. Thus the ways in which specific places condition the means by which differentiation occurs has a key role in deciding which actors can exercise control over intellectual property and its attendant revenue possibilities.

If providing a regional system supportive of differentiation (and market positionality) is important to cultural product firms/industries then we need to look again at traditional notions of supportive regional factor and demand conditions. Existing models of regional growth and innovation systems must be adapted to fit firms and sectors where competitiveness is not only based on the production of finished products or traditional types of intellectual property (such as copyrights or patents) but also differential property (such as brands or marketplace positionality).

In an era of increasingly footloose and disaggregated business functions the demise of once competitive manufacturing clusters, the idea of localised difference engines or clusters should be read with a note of caution. Firms’ attraction and relocation to clusters endowed with factors encouraging and supporting localised agglomerations of knowledge- and image-intensive firms can be read as an encouraging story for those interested in economic development. Indeed around the world policymakers have become increasingly excited about attracting culture and image producing industries. However, equally such firms’ actions can be read as an example of how entrepreneurs and firms of all sizes can easily manage and take advantage of disaggregated
activities and factors wherever they may be found. Further theoretical and empirical research is therefore needed on the measures that need to be taken and the extent to which localised clusters can indeed support and maintain a set of conditions for cultural industries firms’ differentiation which can support long-term economic development.
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