

Recipe VIII: The Hollywood Model

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On Strategy
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10 RECIPES FOR ANALYTICAL SUCCESS

VIII The Hollywood Model

Ingredients

- ✓ *Global markets and value chains*
- ✓ *Local clusters*
- ✓ *Global attraction and reach*

Globalization has become a reality in economic life, so much so that it is oftentimes difficult to discern any national or other boundaries. Information, ideas, financial capital and human resources are interconnected and mobile. Pollution and environmental movements are global. Political conflicts, raw materials and arms trades are global phenomena. Viruses unleashed on the Internet are global. Financial crises are global. Multinational firms are often accused of being foot-loose and without a home (see Recipe IX), and many organizations schedule their businesses in three shifts around the globe; the Tokyo stock exchange just opened, now London is open – and when trading there is about to close, Nasdaq is opening for business (however, also quoting pre-market trade when Europe was awake). Globalization covers every aspect of economic, political and social activity in our society. The list of books on globalization is seemingly endless, and in 1997 Frances Cairncross published the influential *The Death of Distance*.⁴²

Global movements and interconnectedness are of course not new phenomena. The world has been connected through trade and migration for centuries, from the times of the Silk Road, the slave trade, and the more-or-less voluntary mass migration to the U.S. Migration has shifted winemaking skills in Europe to South Africa and Australia, clock-making skills from France to Switzerland, and paper-making skills from Holland to Sweden.

Economic globalization took a new turn in the mid-1800s when mercantilism was replaced by a trading regime in which the U.K. took the lead with the repeal of the Corn Laws in 1846.⁴³ The world was increasingly connected through telegraph and later telephone lines, and international capital supported infrastructural investments across Europe and elsewhere.

Technological innovations (steam, refrigeration, etc.) and better infrastructure (such as canals) rapidly reduced transportation costs and allowed for global trade of fresh and frozen food products. By the 1880s, large quantities of fresh butter from New Zealand and beef from South America were featured on the fine dining tables of London. The Nobel brothers, running one of the world's largest oil companies (until the Russian revolution) were drilling in Baku, and they ordered the first purpose-built oil tanker, *Zoroaster*, in 1877.

Through market integration, volatile world prices came to be felt in every village town square across large swaths of the world. And ever since, market integration movements (and anti-movements) have filled the front pages of our newspapers as the pendulum has swung back and forth.

The examples of economic globalization are endless. In addition, institutions travel; Japan imported German law in the 19th century, and the U.S. Constitution borrows from French ideas. Today, Anglo-Saxon models of ranking and accreditation have spread around the world. Europe has looked to the U.S. when it comes to food and drug regulation, securities trading, antitrust legislation and so forth. The metric system in mainland Europe is slowly making its way across the channel to the U.K., but has not yet made its way to the U.S. Overall, physical capital, and everything that can be digitized,

moves at low cost and with high speed, whereas human capital has elements of both high mobility and low mobility, and social capital is anchored in local networks of trust-based relationships built up over long periods of time.

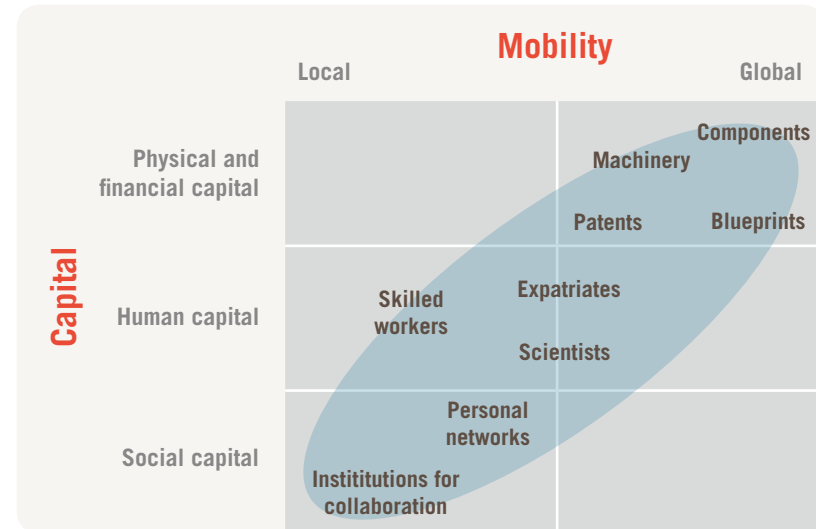


Figure 1. Mobility of Three Types of Capital

In spite of the Internet being a global, frictionless transmitter of data, voice, viruses, etc., not every place it reaches is part of the creation of the products, services and business models evolving around this infrastructure. We only have to mention Silicon Valley. Thus, we now turn to the other side of the coin: increased localization. Some flows are global, while others are more local, but maybe even more important, as mobility and interconnectedness have increased various resources – risk capital, direct investments controlled by multinational corporations, entrepreneurs, students, patents, etc. – can more and more choose its location. And depending on the resource some locations are more attractive than others; for which conductor do you want to work? In which city do you want to study? In which cluster do you want to invest your capital?

The Hollywood Model

To capture the forces of globalization and localization, I began to use the Hollywood metaphor some 20 years ago. Instead of globalization crowding out localization, we argued that they go hand in hand, and my students could easily pick up the concept by thinking about modern Hollywood⁴⁴. The more global the film industry has become, the more important the role played by Hollywood.

If we go back in history, film production in the U.S. came out of New York, but due to the pervasive presence of organized crime and cartel behavior, some firms migrated out of the city. Some went to sunny places like Cuba (a period of the industry's development that many have now forgotten), Florida and the beaches around Los Angeles. Sunlight was a natural factor driving the emergence of clusters in those days. As shooting began to be moved inside studio walls, Hollywood managed the transition and retained its position of leadership (the same thing happened later on with television shows, digitalization and other major shifts in technology). Over the decades, Hollywood took leadership of the whole value chain, even reaching into the movie theater business, up to a point where antitrust authorities had to put an end to it. However, in spite of this leadership, there has always been a degree of healthy rivalry with New York, not the least in the area of TV shows.

So on the one hand, the feature film market is highly global, and through subtitles and dubbing, American movies such as *The Godfather* starring Marlon Brando can easily be viewed around the world. Hollywood companies are also deeply involved in global markets and value chains through in-house distribution companies. Furthermore, low-cost studios, advantageous locations and unique scenery in places like New Zealand also became part of Hollywood's global networks. Recently, I visited Belfast with my friend Mats, and though it's not a place one would tend to connect to entertainment and film, I discovered this is one of the shooting locations for *Game of Thrones* (and yes, I sat on the Iron Throne!), an extremely costly TV production made by HBO (see there, for once a New York-based

firm is in the lead!). HBO has its roots dating back to the first U.S. cable TV system, which was established in lower Manhattan already in 1965. So, *Game of Thrones* is a U.S. product with production chains linking into Iceland, Malta, Croatia, Northern Ireland and Morocco. It's akin to Nike shoes being made in China and Romania or H&M clothes being made in Turkey or Pakistan.



Figure 2. Hollywood: A Local Cluster in a Global Market



Figure 3. Hollywood: A Place Attracting Resources



Figure 4. Hollywood: A Place With Global Reach

So now we have a view of the importance of local cluster dynamism in global markets. Let us turn to the third main ingredient in the recipe: attraction and reach. The attraction part I often refer to as “the Greta Garbo effect”, because in order for the cluster to prosper, it needs a constant inflow of “oxygen” through new capital, new ideas, new talent and so on. Greta Gustafsson was a young actress in Stockholm with mighty ambitions. In 1925, she and director Mauritz Stiller were invited to Hollywood by Metro-Goldwyn-Mayer, and the rest is history. Hollywood is a powerful attractor of people and capital, and conversely, if you want to become a world-renowned actress, stuntman or scriptwriter, you’d better get over there. You can easily follow Hollywood from afar, but if you are not invited to the Academy Awards and other parties and clubs, you are simply not part of the action. However, don’t expect a soft ride when getting there; competition is fierce and costs in leading clusters are always extremely high.

Finally we have “global reach”. Any cluster wishing to gain world leadership must be linked to world markets and value chains in many different ways. Linkages involve hard and soft infrastructure such as widespread Internet access and Wi-Fi throughout the locality. Do you have access to an international airport? How many direct flights are offered? What is the quality of the airport(s), etc.? Also, firms and organizations in the cluster need networks of subsidiaries and partners throughout the world to connect to markets.

In summary, the Hollywood Model consists of three linked phenomena:

1. Global markets.
2. A local cluster representing a hub for strategy, financing and other related services, as well as core networks.
3. Attraction of resources such as capital, human resources, technologies, etc. from outside the cluster and a global reach with the products created inside the cluster.

Your own notes:

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