

## BACKGROUND



This report is an appendix to the Economic Development Strategy of the City of Portland (Summer 2002). The original draft of the appendix was prepared by ECONorthwest for the Portland Development Commission. The purpose of that draft was to inform the discussions of the Industry Panel for Creative Services, which met three times in May and June, 2002. The deliberations of that Panel led to several recommendations for modifications to the draft report. The recommended modifications have been incorporated into this appendix.<sup>1</sup> The appendix is organized as follows:

**Description of the sector.** What businesses does the sector comprise?

**National overview.** How big is the sector at the national level?

**Portland: the Metro area and the City.** What are the characteristics of the sector locally?

**Issues.** What are the obstacles and opportunities for the sector?

**Strategies.** What actions should be taken by the City to encourage the growth of the sector?

## DESCRIPTION OF THE SECTOR<sup>2</sup>

The Portland Development Commission and the Oregon Creative Services Alliance define the sector as “a cluster of highly specialized industries whose primary focus is to design, produce and deliver creative content in various forms of media and communication.”<sup>3</sup> It includes design, advertising, public relations, film and video, multimedia, and software firms. The definition is based on a group of industries that share “similar workforce and business development needs.”

This definition does not capture all firms engaged in creative endeavors. However, this definition encompasses industries that view themselves as having sufficient synergies and shared issues (primarily centered around the

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<sup>1</sup> Thus, this appendix represents the Panel’s consensus about this sector. While the original report was prepared by ECONorthwest, not every view expressed in this appendix is necessarily the view of ECONorthwest.

<sup>2</sup> For a discussion of data sources and analysis methods as applied to all the sector analyses that were part of this report, see Appendix 2-7, Sector Analyses: Summary.

<sup>3</sup> *Designing Portland’s Future: The Role of the Creative Services Industry*. Patricia Scruggs, Joseph Cortright, and Marcia Douglas. June 1999. Page 7.

creation and delivery of creative products/services through the application of technology) that they consider themselves as part of a common group. In order to capture multimedia, Internet web page design, and high creative-content software development businesses, the definition includes nationally recognized standard industry codes for software publishers and custom computer programming services. Thus, the sector definition includes types of computer services that are more analytical than creative content in nature.

As defined for this report, there are eight industries under NAICS that come under the creative services sector. Shown in Table 1, they are

- Independent artists, writers & performers,
- Motion picture & video production,
- Post production services for motion pictures and video,
- Graphic designers,
- Photographers,
- Software publishers,
- Customer computer programmers, and
- Advertising and related service businesses.

**Table 1: Industries in the Creative Services sector**

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**NAICS:**

7115 Independent artists, writers & performers  
51211 Motion picture & video production  
51219 Post production  
54143 Graphic design services  
54192 Photographic services  
5112 Software publishers  
541511 Custom computer programming services  
5418 Advertising & related services

**SIC:**

731 Advertising  
7331 Direct mail advertising services  
7335 Commercial photography  
7336 Commercial art & graphic design  
7371 Computer programming services  
7372 Software publishers  
781 Motion picture production & allied services  
8743 Public relations services

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Source: U.S. Economic Census.

Eight SIC codes, listed in Table 1, capture many of the same industries. Neither the NAICS nor SIC definitions distinguish between highly creative, entertainment-oriented computer services and more prosaic types of

computer work. The definition also fails to capture creative services work that is performed by staff located in the headquarters of large corporations.

## NATIONAL OVERVIEW

### EMPLOYMENT TRENDS

Nationally, in 1997 the creative services sector produced just more than \$300 billion in revenues and employed nearly 2.9 million people. From Table 2, we can see that as it is defined, more than 77% of the sector's revenues come from the computer services and advertising industries.

**Table 2: Creative Services sector in the United States, 1997**

U.S. Covered Payroll Employment by SIC Code	1990	2000	10- Year Annual Growth Rate
Covered payroll employment by SIC code:			
731 - Advertising	234,617	302,202	2.6%
7331 - Direct mail advertising services	82,724	105,003	2.4%
7335 - Commercial photography	16,226	13,784	-1.6%
7336 - Commercial art & graphic design	48,537	77,643	4.8%
7371 - Computer programming services	152,421	542,478	13.5%
7372 - Software publishers	111,312	296,705	10.3%
781 - Motion picture production	144,461	272,589	6.6%
8743 - Public relations services	33,311	52,814	4.7%
Sector total	823,609	1,663,218	7.3%
Industry demand indicators:			
Total advertising expenditures (MN 2000 \$)	170,738	236,332	3.3%
Domestic spending on movies & videos (MN 2000 \$)	12,141	22,182	6.2%

Sources: U.S. Economic Census, advertising data from the historical "underlying detail" files; personal consumption expenditures from the U.S. Bureau of Economic Analysis website [www.bea.doc.gov/bea/dn1.htm](http://www.bea.doc.gov/bea/dn1.htm). Movie and video spending data are from the 2001 Statistical Abstract of the United States.

During 1990-2000, employment in the computer fields of creative services grew sharply. Falling hardware and Internet access costs combined with seemingly remarkable improvements in performance have fueled the ongoing penetration of computers into homes, schools, and small businesses. Consumers demand and are getting more and better performing software. Because productivity gains in programming are harder to come by than in hardware production and the array of products offered, because of better hardware, has grown dramatically, we have seen double-digit employment growth in computer services.

Motion picture and video production also showed very strong growth with employment rising 6.6% a year. This has occurred in spite of strong competition from Canada.

### DRIVERS OF SECTOR GROWTH

Two drivers of creative services, which we track on Table 2, are advertising expenditures and consumer spending on movies and videos. Both grew much faster in the 1990s than the one percent population growth rate.

This is reasonable given that they are expenditure categories that benefit from economic growth.

Advertising normally does best when the economy is strong, which is what characterized the 1990s. Since 2000, the market has fallen. Box office receipts at movies and sales of recorded movies, which flourished in the 1990s, however, have continued to do well even in the current recession<sup>4</sup>.

The advertising industry enjoyed a long period of strong growth in the 1990s, and the market grew substantially when Internet companies pumped huge amounts of investor cash into marketing and advertising services. Ad firms around the world and in Portland were major beneficiaries of this largess. In the last two years the concurrence of a recession causing traditional advertisers to reduce their marketing budgets and the disappearance of dot-coms has led to the “ad market dropping faster than at anytime in memory.”<sup>5</sup>

An important trend in the advertising industry over the past 15 years is consolidation. Large holding companies have been buying up smaller advertising firms, building large debt loads in the process but also increasing their regional and international exposure. The acquisitions, fueled in large part by Wall Street money, have allowed firms to offer clients a wider array of services. A nearly identical trend has been seen in film and video.

The consolidation trend, which Portland has largely escaped, doesn't necessarily place Portland firms at a disadvantage. The film, video, advertising, and marketing businesses are fundamentally creative activities. The quality of their products depends mainly on the intellectual capital of the firm, which comes from the work of individuals and not so much from the organization of the firm. However, the trend does expose Portland to certain vulnerabilities. Most notably, large out-of-state firms are potential acquirers of Portland companies and, if they do so, would move some creative and management talent out of the City. Secondly, there are career pressures on local talent seeking opportunities to advance to move out of Portland.

Because of the focus on individual talent, unlike with most industries, creative services do not benefit greatly from economies of scale.<sup>6</sup> So, for example, while large factories usually make products in large quantities for less money to the benefit of consumers, large advertising firms and film production companies do not necessarily make better ads or movies. Therefore, the creative industries are characterized by a few large conglomerates, which coexist with thousands of smaller businesses ranging in size from a few hundred employees to boutique firms and successful one and two person shops. This structural characteristic works in favor of Portland as a location for the industry.

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<sup>4</sup> Smith, Lynn. *Valenti Says Healthy Film Industry*. Los Angeles Times. March 6, 2002. Page 2.

<sup>5</sup> *Financial Report*, Alan Gottesman, Adweek. February 25, 2002.

<sup>6</sup> *Holding Companies: Size is Not a Strategy*. Advertising Age. Mitchell Kurz. November 26, 2001, page 22.

# PORTLAND: THE METRO AREA AND THE CITY

## EMPLOYMENT TRENDS

The creative services industry in the PMSA is made up of many small businesses.<sup>7</sup> In the first quarter of 1997 there were 26,731 workers in 10,059 establishments. More than 10,000 people in creative services were either self-employed or were co-owners in non-employer firms, which produced more than \$194 million in sales. The whole sector in the PMSA had \$2,248,248,000 in revenues in 1997.

**Table 3: Creative Services sector in the PMSA, 1997**

Description of Creative Services Component	NAICS	Establishments	1997 Revenues (Thous. \$)	Employees & Self Employed 1st Quarter	Annual Employee Payroll (Thous \$)
<b>Establishments with employees:</b>					
Independent artists, writers & performers	7115	61	\$11,939	119	\$2,485
Motion picture & video post production	51211, 19	79	51,539	605	20,882
Software publishers	5112	194	947,439	5,302	281,986
Graphic design services	54143	172	60,787	574	18,692
Photographic services	54192	171	50,642	755	13,330
Computer systems design & related services	5415	645	579,343	5,433	288,077
Advertising & related services	5418	358	352,808	3,468	140,270
<b>Establishments without employees:</b>					
Independent artists, writers & performers	7115	3,963	\$51,025	4,954	
Motion picture & video post production	51211, 19	325	7,337	406	
Software publishers*	5112	199	6,016	249	
Graphic design services*	54143	307	7,093	384	
Photographic services	54192	651	18,079	814	
Computer systems design & related services*	5415	2,096	65,395	2,620	
Advertising & related services	5418	838	38,806	1,048	
<b>Creative Services Sector Total</b>		<b>10,059</b>	<b>\$2,248,248</b>	<b>26,731</b>	<b>\$765,722</b>

\* Estimated from higher-level data.

Source: U.S. Economic Census.

The City of Portland was home to 45% of the establishments in creative services. In Table 4 we see that the sector generated more than \$800 million in revenues and \$293 million in annual payroll during 1997.

<sup>7</sup> *Designing Portland's Future: The Role of the Creative Services Industry*. Patricia Scruggs, Joseph Cortright, and Marcia Douglas. June 1999. Page 8.

**Table 4: Creative Services sector in the City of Portland, 1997**

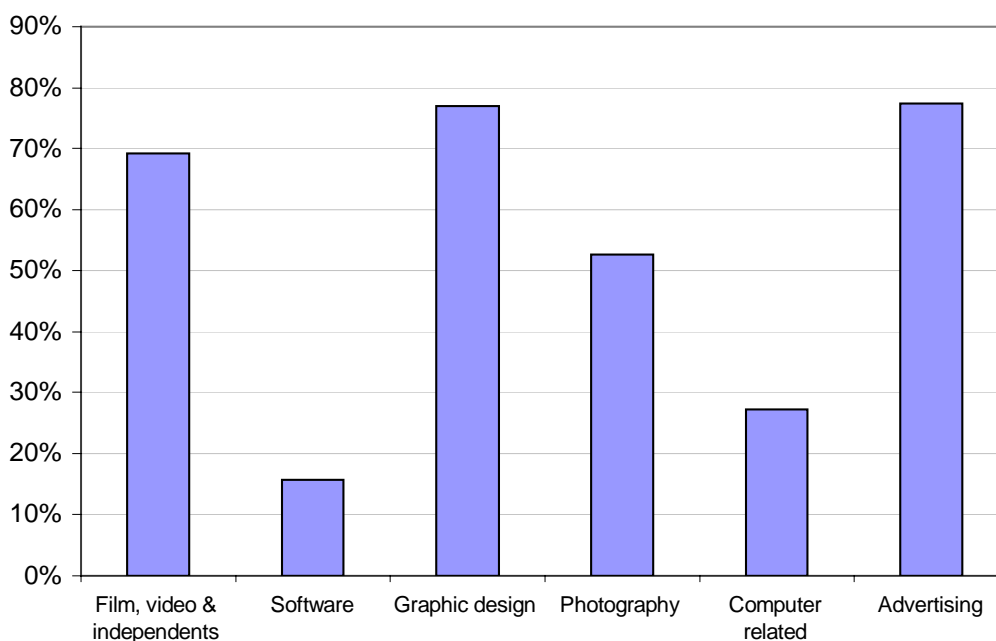
Description of Creative Services Component	NAICS	Establishments	1997 Revenues (Thous. \$)	Employees & Self Employed 1st Quarter	Annual Employee Payroll (Thous \$)
<b>Establishments with employees:</b>					
Independent artists, writers & performers*	7115	24	D	D	D
Motion picture & video post production*	51211. 19	56	D	D	D
Software publishers	5112	47	\$147,262	1,188	\$52,863
Graphic design services	54143	111	48,464	411	15,282
Photographic services	54192	84	26,960	292	7,261
Computer systems design & related services	5415	196	155,693	1,619	76,730
Advertising & related services	5418	205	282,755	2,651	121,676
<b>Establishments without employees:*</b>					
Independent artists, writers & performers	7115	2,094	\$27,733	2,513	
Motion picture & video post production	51211, 19	200	4,307	250	
Software publishers	5112	95	2,786	119	
Graphic design services	54143	114	3,789	143	
Photographic services	54192	273	9,168	341	
Computer systems design & related services	5415	618	19,931	773	
Advertising & related services	5418	359	20,225	448	
<b>Creative Services Sector Total</b>		<b>4,476</b>	<b>\$801,345</b>	<b>11,252</b>	<b>\$293,500</b>

\* Estimated using data for Multnomah County.

Source: U.S. Economic Census and the Oregon Employment Department ES-202 data.

There were sharp differences in the distribution of revenues between the various components. In Figure 1, we plotted the revenue shares of each component. It shows, for example, that more than 70% of the revenues earned by firms that do graphic design and advertising were in Portland. Also, nearly 70% of all the revenues by film, video, and independent artists occurred in the City as well—but that percentage was uncharacteristically low in 1997. The movie and video industry, albeit modest, is highly concentrated in the City.

**Figure 1: Share of PMSA component revenues in Portland, 1997**



Source: U.S. Economic Census.

The portions of this sector oriented towards entertainment, marketing, and advertising are highly concentrated within the City. Software publishing,

and computer systems and programming activities are more prevalent elsewhere in the PMSA. However a review of ES-202 data suggests that companies that produce computer-based products and services with a high level of creative content are more likely to be based in the City. Employees of firms specializing in web design and multimedia work mostly in Portland. Their counterparts, who provide software and programming services for business operations and accounting functions, are much greater in number and are overwhelmingly located in Washington County—proximate to their clients, the area’s high tech manufacturers.

Table 5 shows 10-year trends in creative services employment. Three sectors, direct mail, commercial photography, and commercial art and graphic design saw declining employment, with commercial photography experiencing the largest decline. Employment levels in the latter two are being adversely affected by the growing use of labor saving and digital image technologies. Software publishing had the highest employment growth in the creative services sector, at 17.4% a year, reflecting strong demand for computer applications and the development of about a dozen significant homegrown businesses in the PMSA.

**Table 5: Creative Services sector trends in the Oregon portion of the PMSA**

Portland PMSA (Oregon Portion) Covered Payroll Employment by SIC Code	1990	2000	10- Year Annual Growth Rate
Covered payroll employment by SIC code:			
731 - Advertising	1,789	2,597	3.8%
7331 - Direct mail advertising services	562	544	-0.3%
7335 - Commercial photography	209	111	-6.1%
7336 - Commercial art & graphic design	984	663	-3.9%
7371 - Computer programming services	1,966	2,762	3.5%
7372 - Software publishers	1,256	6,241	17.4%
781 - Motion picture production	373	999	10.4%
8743 - Public relations services	224	673	11.6%
<b>Sector total</b>	<b>7,363</b>	<b>14,590</b>	<b>7.1%</b>

Source: Oregon Employment Department.

Employment in SIC 781 (motion picture and video production) grew at a 10.4% rate—far faster than the national growth rate of 6.6%. The unusually strong performance can be traced to a concerted effort by the State and the local industry to attract out-of-state productions to film motion picture and television movies in Oregon. This led to the development of a critical mass of post production facilities, production crews, and freelancers, particularly inside Portland. However, the industry is being threatened by competition from British Columbia and superior government incentive programs offered by other states.

Using the SIC definition of the sector, we see in Table 6 that on an annualized basis there were 15,224 paid employees in creative services in the PMSA in 2000. They earned an average of \$59,019 each. The City of Portland had 6,852 paid employees who earned an average annual wage of \$61,151. As

noted earlier, on top of these workers there were many self-employed and co-owners of non-employer businesses in the sector as well.

**Table 6: Creative Services sector employment and wages, PMSA and Portland**

<b>Payroll in SIC Defined Sector</b>	<b>2000</b>
Average Employment:	
PMSA	15,224
City of Portland*	6,852
Average Annual Wage:	
PMSA	\$59,019
City of Portland*	\$61,151

Sources: Oregon Employment Department and Washington Economic Security Department ES 202 tapes for 2000.

\* Estimated by ECONorthwest.

In the current economic downturn, the creative services sector has been hurt both nationally and in Portland. The fortunes of the local sector have been exacerbated by the sharp decline in Internet advertising and web design spending. Portland captured a substantial amount of business from those creative service buyers, in part, because of the high quality local talent and also because of its proximity to Internet companies based in California and Washington. Business has dropped dramatically. An unfortunate victim of timing, the Creative Services Center—a City-supported incubator on Fifth Avenue—opened in September 2001 and is still awaiting private tenants.<sup>8</sup>

According to the Economic Census there were 16,256 paid employees in the creative services sector in the PMSA in the first quarter of 1997. That places the Portland-Vancouver PMSA 21<sup>st</sup> highest among the metropolitan areas for which total creative services employment could be calculated. Areas ranking higher than Portland were mostly larger cities and major media centers. In Table 7, we see that Los Angeles, New York, and Chicago are among the four largest employers. Washington D.C. ranks a surprising second, but this is due to 85% of that region's workers being in the computer programming and systems fields.

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<sup>8</sup> McCarthy, Nancy. *Hub of Creativity*. Oregon Business. September 1, 2001, page 32.

**Table 7: Metropolitan areas ranked according to number of paid employees in Creative Services, 1997**

<b>Rank</b>	<b>Metropolitan Area</b>	<b>Employees</b>
1	Los Angeles-Long Beach, CA	127,286
2	Washington, DC-MD-VA-WV	114,716
3	New York, NY	103,677
4	Chicago, IL	85,693
5	Boston, MA-NH	66,014
6	San Jose, CA	47,711
7	Dallas, TX	46,449
8	Philadelphia, PA-NJ	46,334
9	San Francisco, CA	46,138
10	Atlanta, GA	44,930
11	Minneapolis-St. Paul, MN-WI	36,232
12	Detroit, MI	31,242
13	Seattle-Bellevue-Everett, WA	30,136
14	Orange County, CA	29,235
15	Oakland, CA	26,858
16	Denver, CO	24,450
17	St. Louis, MO-IL	23,028
18	San Diego, CA	19,622
19	Newark, NJ	18,788
20	Tampa-St. Petersburg-Clearwater, FL	16,900
<b>21</b>	<b>Portland-Vancouver, OR-WA</b>	<b>16,256</b>
22	Cincinnati, OH-KY-IN	15,773
23	Phoenix-Mesa, AZ	15,670
24	Pittsburgh, PA	15,279
25	Kansas City, MO-KS	14,065
26	Bergen-Passaic, NJ	13,049
27	Austin-San Marcos, TX	12,728
28	Orlando, FL	12,218
29	Charlotte-Gastonia-Rock Hill, NC-SC	11,740
30	Raleigh-Durham-Chapel Hill, NC	10,997

Sources:

ECONorthwest analysis of Bureau of Labor Statistics and 1997 Economic Census.

Note: The U.S. Census, due to individual establishment confidentiality, did not disclose data for the entire sector for certain metropolitan areas. Among the larger ones not fully disclosed are Houston, Baltimore, and Cleveland.

In Table 8, the Portland-Vancouver PMSA ranked 27<sup>th</sup> highest in terms of its location quotient. Several smaller areas have a higher percentage of workers in the creative services and, thus, have higher location quotients than Portland. Most of the 328 metropolitan areas analyzed in the Census data were smaller than the Portland-Vancouver PMSA (which ranked 25<sup>th</sup> in terms of total employment).

**Table 8: Metropolitan areas ranked by location quotients based on paid employees, 1997**

<b>Rank</b>	<b>Metropolitan Area</b>	<b>Location Quotient</b>
1	San Jose, CA	3.91
2	San Francisco, CA	3.82
3	Washington, DC-MD-VA-WV	3.53
4	Boston, MA-NH	2.82
5	Los Angeles-Long Beach, CA	2.27
6	New York, NY	2.09
7	Dallas, TX	1.99
8	Oakland, CA	1.79
9	Seattle-Bellevue-Everett, WA	1.74
10	Denver, CO	1.73
11	Minneapolis-St. Paul, MN-WI	1.69
12	Cedar Rapids, IA	1.69
13	Atlanta, GA	1.69
14	Orange County, CA	1.63
15	Chicago, IL	1.62
16	Bergen-Passaic, NJ	1.52
17	Austin-San Marcos, TX	1.51
18	Cincinnati, OH-KY-IN	1.46
19	Nashua, NH	1.45
20	Philadelphia, PA-NJ	1.45
21	Newark, NJ	1.45
22	Raleigh-Durham-Chapel Hill, NC	1.38
23	Melbourne-Titusville-Palm Bay, FL	1.36
24	St. Louis, MO-IL	1.34
25	Colorado Springs, CO	1.32
26	Lawrence, MA-NH	1.25
<b>27</b>	<b>Portland-Vancouver, OR-WA</b>	<b>1.24</b>
28	Charlotte-Gastonia-Rock Hill, NC-SC	1.21
29	San Diego, CA	1.19
30	Orlando, FL	1.16

Sources: ECONorthwest analysis of Bureau of Labor Statistics and 1997 Economic Census.

In Table 9, we see that the PMSA ranked 21<sup>st</sup> in total revenues. Portland ranked 46<sup>th</sup> in revenues per employee. This suggests lower worker productivity in the PMSA in comparison to most of the 159 metropolitan areas studied. However, this could be misleading because employee count data are for the first quarter and are not annual averages. Employment in some components is project dependent and can fluctuate greatly from quarter to quarter.

**Table 9: National ranking of the PMSA Creative Services sector, 1997**

Sector Measure	Rank Out of 159 Metro Areas
Number of paid employees	21
Annual revenues	21
Location quotient versus nation	27
Revenues per paid employee	46

Sources: ECONorthwest analysis of Bureau of Labor Statistics and 1997 Economic Census data.

Table 10 shows that sector revenues per worker, including self-employed, were lower in Portland than in the country and PMSA. About 41% of the City's workers in this sector are in non-employee firms (mostly self-employed freelancers).

**Table 10: Sector statistics**

	1997
<b>1997 Sector revenues per worker:</b>	
United States	\$104,017
Portland-Vancouver PMSA	\$84,106
City of Portland	\$71,218
<b>Portland's share of:</b>	
The sector's employees in the PMSA	41%
The sector's payroll in the PMSA	38%
The sector's revenues in the PMSA	36%
<b>Location quotients:</b>	
PMSA versus the US (paid employees)	1.24
Portland versus the PMSA (all workers)	0.99
<b>% of sector workers in non-employee firms:</b>	
City of Portland	41%
Rest of the PMSA	38%
United States	40%
<b>National sector accounting ratios:</b>	
Pre-tax profit to sales	4.6%
Net fixed assets to total assets	21.1%
Sales to total assets	1.80

Sources: U.S. Bureau of Labor Statistics, U.S. Economic Census, Robert Morris & Associates, and ECONorthwest.

The film and video component of the creative services industry is highly concentrated within the City of Portland. In Table 11 we totaled the paid employees in NAICS 51211 (film and video production) and workers in non-employer establishments. The Portland PMSA has the 20<sup>th</sup> largest film and video industry in the nation in terms of total employment, although its

location quotient is less than one. That is because the industry is so highly concentrated in Los Angeles.

**Table 11: Film & video production industry, metropolitan areas ranked by total workers including self-employed, 1997**

Rank	Metropolitan Area	Workers Including the Self-Employed	Total Revenues	Worker Location Quotient
1	Los Angeles-Long Beach, CA	60,205	\$14,057,795,000	13.62
2	New York, NY	11,942	2,068,632,000	3.05
3	Chicago, IL	3,487	638,063,000	0.84
4	Washington, DC-MD-VA-WV	2,729	269,071,000	1.07
5	San Francisco, CA	2,722	442,245,000	2.86
6	Dallas, TX	2,366	203,631,000	1.29
7	Cincinnati, OH-KY-IN	2,310	180,241,000	2.72
8	Philadelphia, PA-NJ	2,068	196,946,000	0.82
9	Boston, MA-NH	2,064	136,341,000	1.12
10	Atlanta, GA	1,448	188,066,000	0.69
11	Orange County, CA	1,342	98,666,000	0.95
12	Orlando, FL	1,313	49,607,000	1.58
13	San Diego, CA	1,177	105,436,000	0.91
14	Minneapolis-St. Paul, MN-WI	1,131	102,220,000	0.67
15	Seattle-Bellevue-Everett, WA	1,086	74,136,000	0.79
16	Miami, FL	1,047	192,756,000	1.02
17	Nashville, TN	1,023	75,451,000	1.62
18	Detroit, MI	1,004	107,205,000	0.45
19	Oakland, CA	942	78,513,000	0.80
<b>20</b>	<b>Portland-Vancouver, OR-WA</b>	<b>901</b>	<b>49,881,000</b>	<b>0.87</b>
21	Jersey City, NJ	853	99,279,000	3.07
22	Fort Lauderdale, FL	820	80,487,000	1.09
23	Phoenix-Mesa, AZ	808	73,617,000	0.55
24	San Jose, CA	797	73,433,000	0.83
25	Denver, CO	759	64,661,000	0.68
	Rest of the United States	30,494	2,177,798,000	0.32
	<b>National Total</b>	<b>136,838</b>	<b>\$21,884,177,000</b>	<b>1.00</b>

Sources: U.S. Economic Census and ECONorthwest.

Note: Total of firms with paid employees in NAICS industry 51211 (film and video production) and non-employer firms in NAICS industry 5121, which has both film and video production and post production workers, but also includes a small number of distributors and exhibitors. Data on post production firms with paid employees was not included because of the large number of non-disclosures.

Film and video production in 1997 was a \$21.9 billion industry with 136,838 workers—and that does not include closely related components, such as post-production and independent artists,

Portland's industry developed because of its varied and easily accessible filming locations, proximity to California, competitive wage rates, and an absence of a sales tax. Several years ago out-of-state production groups routinely came to the City to produce movies, and a few shows, for television. This fueled the expansion of post production facilities and helped secure more

stable employment for locals, who now can provide everything from lighting and camera work to animation and costuming. Technically, Portland has the crews and facilities to handle most production needs, which is why it ranked 20<sup>th</sup> nationally in 1997.

But the positive trend has turned downward in Portland. The last television movie was filmed in the City in 1999. One reason is that British Columbia has actively pursued productions by offering financial incentives and proactively helping out-of-area companies with permits and other needs.

In 1978, direct spending by film and video productions in British Columbia totaled \$10.7 million (in U.S. \$). Local crews did only 40% of the work on productions in 1978. By 1994 incentives drove it up to \$290.5 million. New incentives were put in place in the mid 90's. In 2000 British Columbia had 35,000 workers in film and video production and nearly \$789 million in direct revenues. Local hires accounted for 97% of the industry's employment. In just out-of-province (mostly from California) productions, British Columbia reported \$563.6 million in direct spending. Portland, during that same period, captured only \$16.8 million in out-of-state productions in spite of the fact that it has a proximity advantage, comparable wage rates, and a good base of local talent and facilities.<sup>9</sup> If Portland had captured just three percent of the productions that drove through Oregon on their way to film in British Columbia, the Portland film and video industry's out-of-state revenues would have doubled.

Summarizing our findings we note that:

- The creative service sector has three subcategories: film & video production, advertising & related services, and multimedia/software.
- The businesses and workers in the advertising and film & video subcategories strongly tend to be in the City of Portland. The multimedia/software end appears to be mostly located outside the City—but the data are misleading because such large numbers of computer programming, data processing, and computer systems firms (companies that provide “processing” services), which tend to locate in the suburbs, are part of the same industry classification as the companies that produce the “creative” content, which tend to prefer locations within the City.
- Because Portland attracts people interested in outdoor recreational pursuits and is a gateway city to Asia, it is a good location for sportswear, outerwear, and recreational equipment companies to locate their design and marketing offices. This historical advantage is apt to remain.
- Individuals whose career growth depends on superior creative problem solving skills and producing product with a high level of creative

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<sup>9</sup> Annual Report 2000/2001. British Columbia Film.

content prefer living and working in the City. They rely on networking, face-to-face interaction with other creative services people and firms, and derive a great deal of professional value from being close to the arts community.

- The film and video industry in Portland grew over the past 20 years into a significant player, but its future is in jeopardy because of competitive threats from British Columbia, which resorted to heavy government subsidies in order to build the second largest film industry in North America.
- Even though there is a critical mass of local creative talent in Portland, it is nonetheless a relatively young sector.

## REGIONAL DRIVERS OF SECTOR GROWTH

In our research, we found that the sportswear and outdoor recreation clothing businesses are major customers of the creative services sector in Portland. Historically, Portland has had a large sportswear, outerwear, and outdoor recreation goods industries. Firms such as Pendleton, Jantzen, and White Stag were among the large players with local manufacturing.

The industry has evolved as manufacturing has largely moved overseas while design, marketing, and distribution activities have flourished locally. These activities depend on the large pool of creative talent in Portland, which have a strong personal interest in outdoor recreation. LaCrosse Footwear, which designs and markets Danner footwear for women among other lines, attributed its company headquarters move to Portland as a result of a “change from a manufacturing driven operation to a product development and marketing driven brand.”<sup>10</sup>

Certainly a characteristic in which the PMSA excels in is its close proximity to a wide variety of outdoor recreation activities—a quality of life advantage few other places approach in diversity and accessibility. Portland has a well-established culture of outdoor recreation. It attracts people who are outdoor sports enthusiasts, which explain the concentration of knife manufacturers and other camping and outdoor recreation firms here.<sup>11</sup> Portland is known as a real center for outdoor cutlery, which is why firms like Benchmade moved here from California back in 1990. The outdoor recreation lifestyle of the Portland areas has an equally strong appeal to young, well-educated, creative talent interested in working in and with the sportswear and outerwear businesses.

Portland also is close to Asia, which has captured much of the manufacturing work that used to take place domestically. LaCrosse pointed to the proximity to outdoor footwear brands (and the pool of creative talent

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<sup>10</sup> McNulty, Mike. LaCrosse to Close Plant. Rubber & Plastics News. December 3, 2001. Page 8.

<sup>11</sup> Marks, Anita. Good Sports. Portland Business Journal. February 14, 1997.

such a concentration fosters) as well as Portland's proximity to manufacturers in Asia as significant advantages.<sup>12</sup>

Today the PMSA is home to many firms that are leaders in their individual areas and niches. Included among them are firms such as Nike, Adidas, Columbia Sportswear, Jantzen, Pendleton, LaCrosse, Toklat Originals (maker of equestrian products), and Benchmade.

Sportswear companies are particularly dependent upon marketing and advertising. The only local firms on the 200 leading national advertisers list published by Ad Age<sup>13</sup> are Nike and Adidas. Local advertising firm and major creative services sector employer Wieden & Kennedy is Nike's agency (although they often shoot commercials in Los Angeles).

## ISSUES

Through their discussions, as well as research completed prior to the meetings, Panelists identified a number of obstacles and opportunities that face the creative services sector in Portland. We organize these issues under six headings that cover the location factors that are important to businesses: building space, workforce, access to markets, business environment, business formation and acceleration, and quality of life. Not all of these factors are key issues for this sector, so we do not discuss them all. For details on the importance of these factors to businesses in general, see Appendices 2-3, 2-3A, 2-3B, and 2-3C.

### Location Factors for the Advertising Industry

#### Top Five

- Quality executive/managerial workforce
- Quality sales and administrative support workforce
- Effective cost of skilled/unskilled labor
- Telecommunications services
- Geographic proximity to markets

#### Bottom Five

- Land availability and cost
- Construction costs
- Seed capital
- Business incentives
- Water/wastewater systems

Source: Applied Economics

To summarize the key issues for the sector, we note the following:

- Local schools fall short on creative education.
- City fails to attract and retain strong growth industries
- City government is considered difficult to work with, and the slow permitting process makes Portland uncompetitive.

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<sup>12</sup> McNulty, Mike. Rubber & Plastics News. *La Crosse Sells Rubber Production Facility; Firm to Move Headquarters to Portland by Year-End*. August 13, 2001. Page 8.

<sup>13</sup> AdAge.com: [www.adage.com/pageid=639](http://www.adage.com/pageid=639).

## WORKFORCE

The primary input for the creative services industries is a skilled workforce. By definition, the sector relies on human innovation. Quality of life, including recreational and cultural opportunities, plays an important role in attracting and retaining a skilled and innovative workforce.

While Portland scores reasonably well on general measures of educational attainment, industry observers view the development of creative skills in local schools as sub par. Simply put, local schools are not teaching enough skills for creative services occupations.

Key findings in this category are:

- **K-12 education declining in general.** When kids become school age, families look at other parts of the country with stronger educational systems. Twenty years ago it was Portland's goal to have the longest school year in the nation, now we have the shortest.
- **Local schools fall short on creative education.** Creative people are problem-solving people. The arts were cut from K-8 schools so the children are not getting this training early on. The City and PMSA need better school programs for creative and performing arts education. Interviews with creative content multimedia and software firms show that they too have had problems finding well prepared workers from Portland area schools. Advertising and architectural firms, probably because of the size of these markets, have had fewer problems.
- **Portland loses talent to neighboring areas.** The area loses high school graduates to universities in California and British Columbia, which have strong programs and more opportunities for local work in the field.

## ACCESS TO MARKETS

Parking and telecommunications utilities are sore points in this sector. Firms and freelancers in downtown and the Pearl District value the ability to walk to clients, suppliers, and associates. Creative services, after all, is a business where you are not making money if you are sitting in your car. However, the lack of parking is a problem. One contact moved out of downtown because clients continually complained that they were frustrated wasting too much time trying to find parking. Another said it was regretfully considering moving out because of the lack of parking for employees. Also surprising were expressions of frustration and anger towards the phone company by several of those interviewed, since the interviews did not include questions specifically about utilities.

## BUSINESS ENVIRONMENT

Portland's creative services sector is made of many small firms that may lack the resources to navigate bureaucratic procedures. A streamlined permit procedure can have a big impact in industries in which trends and technology change at a rapid pace, such as the creative service industries. The two key issues are as follows:

- **Portland government is difficult to work with.** A common complaint of businesses and freelancers is that it is unreasonably difficult to work with the City. Interviewees remarked that the City needs to treat its constituents more like customers and less like annoyances. As a sector dominated by small firms and the self-employed, creative service businesses are less adept at dealing with planning, permitting, and other government relations issues than larger firms with experienced staffs. Portland has developed a reputation for delaying or putting procedural obstacles in the way of business.<sup>14</sup> Creative service workers—from freelancers to large businesses—need to be treated as valued contributors to the Portland economy.
- **Portland's slow permitting process makes it uncompetitive for film and video.** The film industry wants (and can get elsewhere) low-cost or free permits and location fees that are administratively easy to obtain.<sup>15</sup> Other cities offer faster, easier, and less expensive permitting and fee processing. In the view of the industry, Portland dissuades, rather than facilitates, film and video productions by treating their requests as annoyances to be dealt with methodically, rather than as opportunities to stimulate new business for the City. Other cities recognize that the economic benefits of productions greatly out-weigh revenues from fees and permits they could try and levy on companies, which the firms view as nuisances. Because film and video production consists of a series of unrelated short-term projects that often can be shot any number of places, crews usually decide on where to shoot in days not weeks or months. Cities that are inflexible, require lots of steps and approvals, and charge fees for things that other cities do not, lose business—and Portland has lost business. If conditions do not improve, further erosion is likely as local firms move to friendlier cities and fewer out-of-state productions film here.

## BUSINESS FORMATION AND ACCELERATION

Firms tend to locate in areas where there is already a concentration of firms like their own. The theory works in practice because firms realize operational savings and have access to a large pool of skilled labor when they

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<sup>14</sup> Reinhard, David. *Let's Play Connect the (Portland) Dots*. The Sunday Oregonian. March 10, 2002. Page E-4.

<sup>15</sup> Bernard Weinstein and Terry Clower. "Filmed Entertainment and Local Economic Development: Texas as a Case Study" in *Economic Development Quarterly*. 14(4): 384-394.

congregate in a single location. Following are the key issues with respect to attaining critical mass in this sector.

- **Loss of strong growth companies in the 1990s weakens advertising.** Proximity to clients is important in advertising. Portland's loss of large corporations is cited as a problem for the advertising industry and, therefore, also the cadre of freelancers, graphic designers, and photographers who work with ad agencies. When Portland loses big companies, it sends the message that we are not thriving. There are simply too few businesses in Portland that are willing and financially able to pay for high quality national advertising. In addition, those that can mostly fall into one of two types—high tech and apparel. The lack of diversity is troubling.
- **Portland inferiority complex.** Many Oregon-based customers of creative services, including state and local governments, buy into the aura of high quality cast by bigger city advertising, film, and multimedia firms. As another person interviewed said, there is an “if they're local, they can't be good” attitude out there.

## QUALITY OF LIFE

While most sector Panelists saw the City's quality of life as a positive, they also believed that City leaders relied too much on our environment, outdoor recreational activities, and mild climate to attract businesses. One Panelist stressed that the quality of life issue had become a form of “civic arrogance” and, in ways, hindered other economic development strategies. Other key points under this topic included:

- **Portland too small for some young recruits.** Panelists report people from outside Oregon arrive thinking they can have a good job and a life too. However, they quickly become bored. The lifestyle is not what they want, so they leave. Put simply, Portland is considered the minor leagues. If given the opportunity, most people would work in Los Angeles or New York.
- **Portland's urban environment and density provides a comparative advantage over area suburbs.** The creative services sector has qualities that make it very attractive for the City: The sector has been growing faster than the economy, it does not rely heavily on infrastructure (it is not land intensive, nor does it use a lot of trucking), and the workers in the sector have a preference for living and working in dense urban environments. It is a decidedly urban, not suburban sector.

## STRATEGIES

To address the issues identified above, the Creative Services Panel identified, evaluated, and ranked strategies that the public sector (primarily, but not exclusively, the City of Portland) and the private sector could adopt and implement. It first made a *long list* of desirable strategies, and then

reduce that list to a *short list of priorities*: the strategies that needed to be accomplished first because of their importance, the importance of other strategies that require their completion first, or both.

## THE LONG LIST

Panelists considered the following three issues as most critical to the growth of the creative services sector and developed strategies to address each issue.

- Buy Oregon
- Attract and retain strong growth companies
- K-12 education/Community Colleges/Universities

In the following sections, we detail the full list of strategies recommended by Panelists.

### BUY OREGON

Panelists believed the City could bolster growth in the creative services sector, both directly and indirectly, by “selling Oregon.” The Mayor and other key officials across the state need to actively promote Oregon-produced products inside and outside of the state. By doing so, Oregon businesses in general will thrive and so will the creative services sector. More directly, officials need to ensure, that where appropriate, the City is purchasing creative talent locally. Following on these general points, Panelist recommended a number of specific strategies designed to improve sales of local firms generally and local creative service firms in particular.

- **Mayor and other elected officials should actively sell Oregon.** The Mayor should increase calls and interactions with local businesses to understand their concerns, discuss City policies, and learn how better to sell Oregon products to others outside the state. As part of the strategy, PDC would elect one business leader a month who would have breakfast with the Mayor. The Mayor would also be on-call for time-sensitive recruiting calls to businesses interested in locating in Portland.
- **Assess purchasing patterns of the public and private sector.** The creative services trade association should collaborate with state and local governments to study the purchase habits of local governments and businesses. The study would estimate the share of creative services purchased from Oregon and non-Oregon creative-service firms. Public-sector purchasing behavior should be relatively easy to track through analyses of procurement documents. A companion analysis of the private sector would likely be limited to firms that voluntarily participate in a confidential survey. The study should identify the specific reasons given by procurement officers for purchasing creative services outside the state.

- **Require government agencies to follow “buy local” regulations.** State law requires state and local governments to give preference to local firms under certain circumstances. State and local governments should review their “buy local” regulations and report their current levels of compliance. Governments should develop plans to fully comply with the regulations.
- **Develop a “Buy Oregon” automated matching system.** Regional partners should create a database program that matches local buyers and sellers (both public and private).
- **Develop “Buy Oregon” advertising campaign and promote local industry.** The City should collaborate with local creative services businesses to develop a ‘Buy Oregon’ promotional campaign. Local advertising agencies would take turns producing spots that would be aired free of charge by local media outlets.

## ATTRACT AND RETAIN STRONG GROWTH INDUSTRIES

The sector, by its nature, serves other industries located in the region, and therefore, is dependent on the overall economic health of the area. As noted previously, the loss of several corporate headquarters and other large companies in the 1990s hurt the sector. Panelists prescribed the following strategies to attract and retain strong growth industries in the future.

- **Broaden film and video portfolio in City Council to include entire creative services sector.** (Priority strategy, see full description below).
- **Create a one-stop service center for technical, financial, and regulatory assistance for start-ups and small businesses.** (Priority strategy, see full description below).
- **Assess reasons for business departures and recruiting failures.** PDC should analyze the factors that businesses cite for leaving the City of Portland, or never locating here to begin with.
- **Recognize regional growth fosters City vitality.** The City of Portland needs to realize that they are not competing with the suburbs. When a suburb gains a new company, the City of Portland is also winning. City leaders need to play a more active role in regional public policy decisions and negotiations.

## K-12 EDUCATION/COMMUNITY COLLEGES/UNIVERSITIES

Panelists pointed to the declining quality of creative services education at all levels of education as a key impediment to the sector’s growth. To address the weakness, they proposed the following two strategies:

- **Propose and advocate for a dedicated tax to fund primary, secondary, and higher education.** (Priority strategy, see full description below).

- **Create tax credit for businesses with employees who teach in public schools.** The City should develop a tax credit for businesses that allow employees to take paid time off to teach in local schools.

## **THE SHORT LIST (PRIORITIES)**

After the Creative Services Panel identified the full list of strategies, Panelists ranked the strategies to identify the most important. The following strategies were identified as their priorities:

### **PROPOSE AND ADVOCATE FOR A DEDICATED TAX TO FUND PRIMARY, SECONDARY, AND HIGHER EDUCATION**

The City should advocate the creation of a dedicated tax for education. A dedicated tax would stabilize K-12 and higher education funding in Oregon and would signal the City and State's commitment to the development of a quality workforce and knowledge-based economy. Once the tax is established, priority would be given to interdisciplinary creativity arts and technology-based education. The City would collaborate with local businesses and governments to generate public support for the tax. Upon adoption of the strategy, the City and its partners will develop a model proposal for consideration during the 2003 state legislative session.

**Who:** City Council  
**When:** In advance of 2003 State Legislative Session  
**Resources:** Staff time

### **CREATE A ONE-STOP SERVICE CENTER FOR TECHNICAL, FINANCIAL, AND REGULATORY ASSISTANCE FOR START-UPS AND SMALL BUSINESSES.**

The City should create a service center to point new and small businesses to available technical, financial, and regulatory-assistance resources. Center staff would serve as facilitators, assisting businesses in identifying necessary permits and expediting the regulatory approval process. Staff would also serve as a nexus between the business community and venture capitalists seeking to invest in Portland companies. The Center could be reached via a toll free telephone number. Within six months of adopting the strategy, the City should appropriate funds to staff the center with one full-time equivalent employee. Center staff would receive customer-service training.

**Who:** City Council, PDC  
**When:** Within 6 months of adoption of strategy  
**Resources:** General fund for one full-time-equivalent staff member

### **BROADEN THE FILM AND VIDEO PORTFOLIO TO INCLUDE CREATIVE SERVICES**

The City currently assigns oversight of the film and video industry to a City commissioner. Under this strategy, the City would expand the portfolio industry to include the entire creative services sector, as defined by the Oregon Creative Services Alliance (OCSA). The City commissioner with

responsibility for the portfolio would personally attend and participate in CSA's quarterly meetings. The City Council would pass a resolution, assigning the creative services portfolio to a commissioner, within 90 days of adoption of this strategy.

**Who:** City and business leaders

**When:** Within 90 days of strategy adoption.

**Resources:** Additional time from City Commissioner and staff