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The sustainability of funding for original TV content in Europe is at risk

20 January 2015Content type: Article

National TV content is mainly funded by public and commercial free-to-air (FTA) TV channels in Europe; their potential financial weakness could have a serious impact on European TV production.

Roughly half of the approximately EUR35 billion spent on TV programming in the EU is devoted to original national content (including news), with the balance between in-house and independent production varying from one EU Member State to another. The remaining 50% is spent on sports rights and imports of finished programmes.[1] The creation of national dramas, documentaries or children programmes in Europe is therefore crucially dependent on broadcasters taking the risk of investing in these genres.

Investment in original audiovisual content implies a pre-financing model: the investor (usually the broadcaster) provides a significant amount of money but has less visibility over the content than when acquiring finished (often international) programmes or sports rights. As a result, obligations such as quotas for investment in European independent production have been imposed on broadcasters in the European Union (EU) to help prevent legitimate commercial incentives leading to underinvestment in original national production.

National TV content is mainly funded by public and commercial free-to-air (FTA) TV channels in Europe; their potential financial weakness could have a serious impact on European TV production

FTA still attracts a viewing share of around 80% in Europe, even in countries with pay-TV penetration of more than 50% (like the UK), or even over 80% (like the Netherlands or Denmark). The majority of programmes broadcast on the main FTA channels are original productions,[2] which may be commissioned as independent productions: the main FTA groups[3] in the UK account for 80% of the value of independent UK production commissioning.[4] The situation is similar elsewhere in the EU, arguably as a result of comparable audiovisual histories and policies imposing content obligations on FTA channels. In France, for example, the FTA channels (mainly France Televisions, TF1 and M6 groups) account for more than 85% of the investment in original French production, as shown in Figure 1 below.

Figure 1: Split of investments in French original audiovisual production [Source: Analysys Mason from CSA, 2009–2013]

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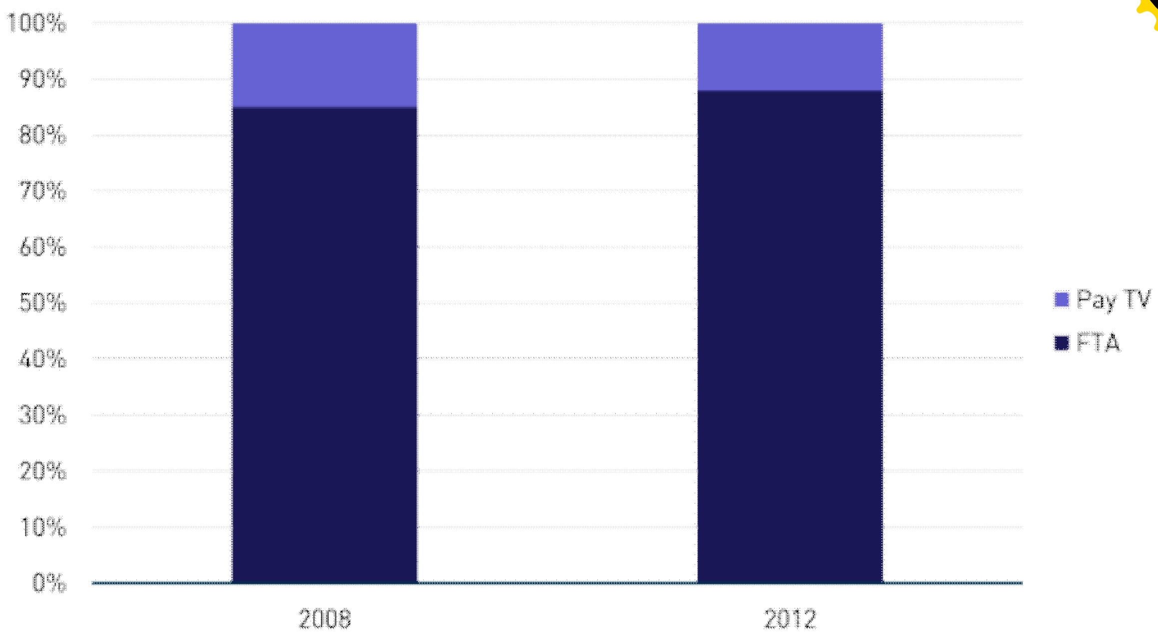
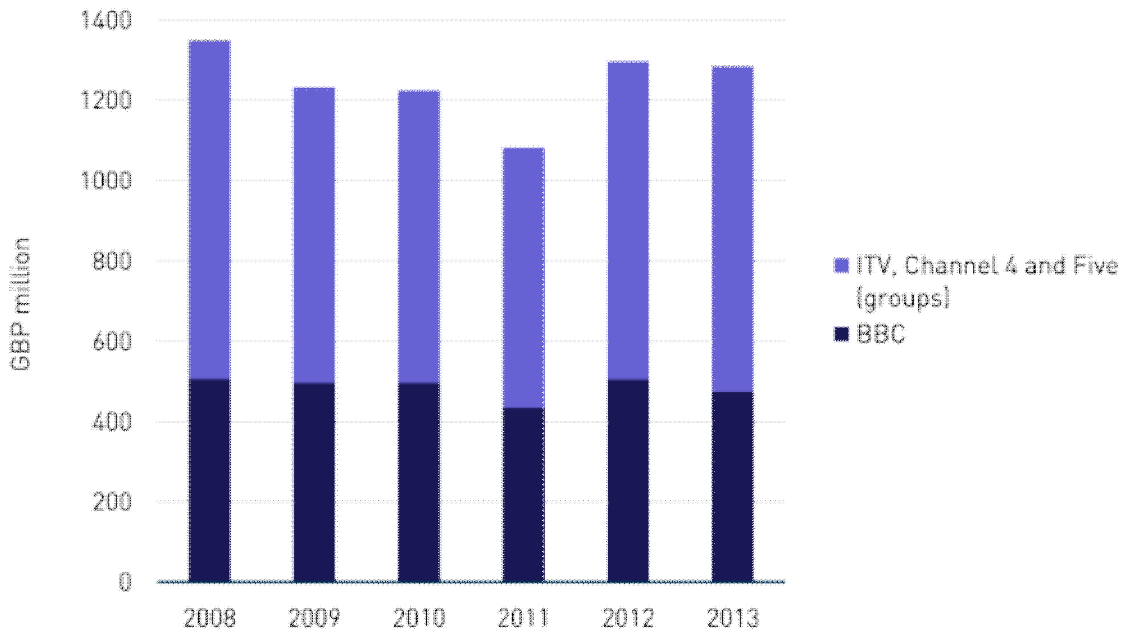


FTA channels in the EU are facing revenue stagnation: licence fees and public funding of public broadcasters are under political pressure, while TV advertising revenue has stalled. This has had a negative effect on original content creation, even in dynamic markets like the UK, as shown in Figure 2 below.

Figure 2: Independent production commissioning by the UK's main FTA groups (GBP million) [Source: Pact, 2014]



Complementary investment in original content by pay-TV channels would not fully compensate for the potential decline in investment by FTA channels

Some pay-TV retailers in Europe contribute to national content funding. For example, Canal+ in France is required to invest almost 10% of its annual turnover

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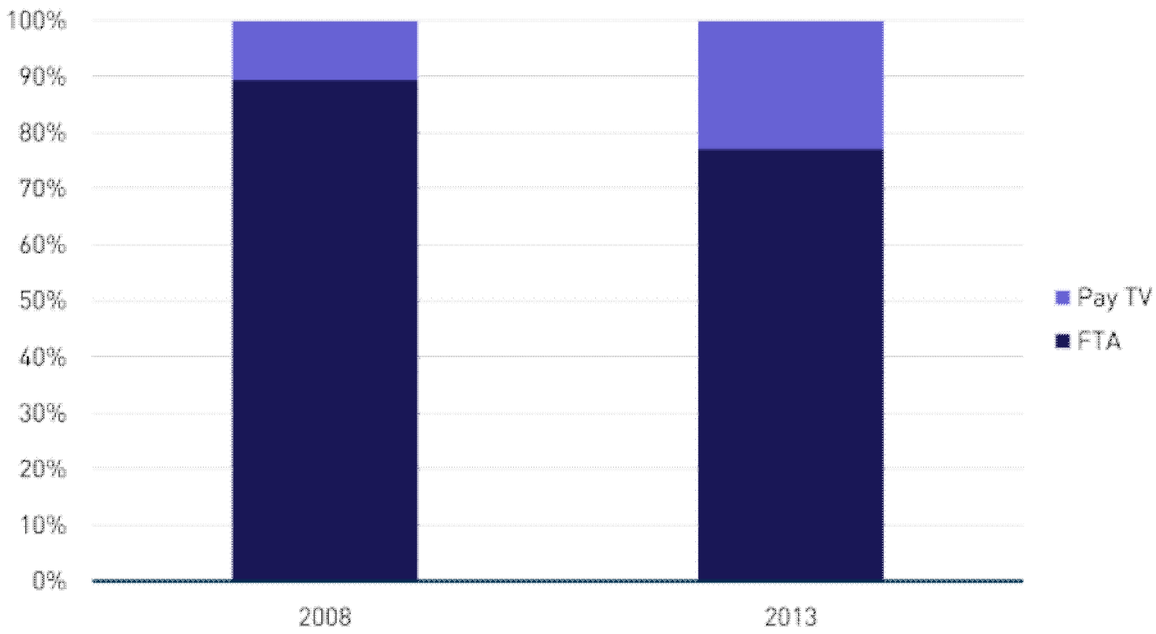
(EUR160 million in 20135) in the production of French movies shown on its channels. Canal+ has also adopted a strategy of producing exclusive French TV series, and increased its investment in this genre from EUR12 million in 2004 to an average of around EUR40 million per year during the last five years.

After Sky was criticised for its lack of investment in British content, in 2012 it announced "an increase of more than 50% over three years".6 Investment in first-run UK programming by pay-TV channels rose from GBP387 million in 2009 to GBP597 million in 2013.7 Sky's investment in original UK TV drama is similar to the approach taken by Canal+. Despite pay-TV channels having increased their share of UK independent production commissioning to 23%, FTA's investments still account for the remaining 77%, as shown in Figure 3 below.

Figure 3: Split of commissioning of original UK independent production [Source: Pact, 2014]



In fact, the pay-TV model in Europe remains focused on sport8 and cinema movies acquisition. In the absence of regulatory incentives only 2% of films screened on Sky Movies in 2012 were of UK origin,9 and UK films made up just over 14% of films shown on all pay-TV film channels in 2013.10 Investments in original content production by pay-TV channels are focused on high-end series, and so will provide significantly lower volumes of content than the original national audiovisual production by the main FTA channels.

In a forthcoming article we will outline our views on potential new sources of funding for original European TV content.

Analysys Mason has worked with various governments, regulators and media players to understand these developments and the implications for TV content funding and frameworks. To discuss our experience and capabilities in these areas, please contact Roland Husson (roland.husson@analysysmason.com) or Lluís Borrell (lluis.borrell@analysysmason.com).

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1 European Commission Green Paper "Preparing for a Fully Converged Audiovisual World: Growth, Creation and Values" (2013) and First Report on the

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Application of Articles 13, 16 and 17 of Directive 2010/13/EU for the period 2009 –2010 (COM/2012/0522).

2 For the main public service broadcasters (PSBs) in the UK the proportions of original productions during peak-time hours are 99% for BBC1, 93% for ITV, 77% for Channel 4 and 53% for Five (Source: Ofcom, 2014).

3 That is, the PSBs and their portfolio channels.

4 See the 'Independent Production Sector Financial Census and Survey 2014', prepared by the Producers Alliance for Cinema and Television (Pact), the UK association of independent producers.

5 CNC (2013), "La production cinématographique en 2013", available at http://www.cnc.fr/web/fr/ressources/-/ressources/4872964.

6 Sky (2014), available at http://corporate.sky.com/documents/publications-and-reports/2014/sky-bigger-picture-2014-report.pdf.

7 "COBA 2014 Census: Multichannel Investment in TV Production", June 2014, available at http://coba.org.uk/positions-and-reports/positions-and-reports/coba-2014-census. As of June 2014, members of the Commercial Broadcasters Association (COBA) included: A+E Networks; BSkyB; Chinese Channel; Discovery Networks; Fox International Channels; NBCUniversal International; QVC; Scripps Networks International; Sony Pictures Television; The Walt Disney Company; Turner Broadcasting Systems and Viacom.

8 For example, 56% of Canal+'s programming budget is spent on sports rights, and Sky spends around GBP770 million per year on Premier League football rights.

9 The British Film Institute, Statistical Yearbook 2013.

10 The British Film Institute, Statistical Yearbook 2014.

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