

Oliver & Ohlbaum

The contribution of the UK-based film, TV and TV- related industries to the UK economy, and growth prospects to 2025

by Oliver & Ohlbaum Associates Ltd

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O&O

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Summary

The UK-based film, TV and TV-related industries (the “audio-visual” sector) already make a substantial and growing contribution to the UK economy in terms of Gross Value Added (GVA).

It is the largest audio-visual sector in Europe with GVA of £15 billion a year, and GVA per employee significantly higher than the UK average, for all industries. As of 2014, the UK’s AV sector is 20 per cent larger than Germany’s and 50 per cent larger than France’s, and has the greatest lead over the rest of Europe compared with the other creative industries.

UK audio-visual sector GVA has been growing by 3.1 per cent a year since 2010, and the sector makes a £1.9 billion a year trade surplus, including a £1.3 billion a year surplus with Europe.

In recent years, a highly developed but maturing UK domestic TV and film market has been complemented by the establishment of the UK as global hub for audio-visual content, high-end skills, locations and support services, which has helped drive recent growth rates.

This puts the UK in an enviable position to benefit from the likely transformation of the global audio-visual sector over the next ten years, from a largely nationally based sector, with a few notable trade flows (e.g. high-end scripted content from the USA to the rest of the world), to a truly global sector with important global hubs accounting for a rising proportion of global value.

So while domestic sales of the audio-visual sector might grow by only 2 to 3 per cent a year, the value added contribution of the sector to the UK economy could well grow by more than double that rate from 5 to 8 per cent a year, with employment growing by similar levels.

Furthermore, industries closely related to, but outside, the audio-visual sector, such as visual effects (Vfx), video-based marketing and advertising, games development and story-telling (fiction publishing) are likely to be both very high growth and dependent on the health and dynamics of the UK’s core audio-visual activities.

By 2025, the UK has a very real opportunity to become the major global hub for the audio-visual and related sectors, most notably becoming:

- a major source of global IP across scripted and non-scripted output;
- the leading co-ordinator and financier of (and a leading location for) global content projects across TV drama, feature films, high end factual and entertainment output;
- the international base for leading global channels, platforms and on-demand aggregators with all the support infrastructure and services that entails (management, marketing, professional services etc.); and,
- a major source of the high-end creative and technical skills needed by the sector.

While London and the South East may well be at the forefront of these developments, recent moves within the TV and film industries to develop mini hubs in the North West, Scotland, South West and Wales should help spread the benefits throughout the UK.

While the private sector will lead developments, government and public policy has an important part to play, most notably in: developing flexible immigration and planning rules, encouraging training and skills development, sustaining public support to PSB in the UK, sustaining and potentially improving targeted fiscal incentives, encouraging investment in broadband infrastructure (especially for SMEs), and encouraging fair global trade rules to support all trade flows (including those with Europe) and respect for copyright both in bilateral negotiations and through world bodies such as the WTO and WIPO.

1 Introduction

Measuring the size and economic contribution of the creative industries, and the broader creative economy, has become a bit of an industry in itself recently. This work has been led by the UK in recognition of the importance of the sector to the UK economy, with the DCMS, BFI and Nesta all working on definitions and measurement. As such, there is now quite a bit of UK data, and as importantly, the consistency of that data over time is now more robust and tends to focus on meaningful subsectors. The relatively recent inclusion of all software development activities in the sector definition – not just entertainment software development – in recognition of greater convergence of all IP focused activities, has tended to obscure the performance of the more traditional creative sectors.

There is also a lot of information on the economic impact of these sectors as measured by direct GVA, indirect GVA and spill-over effects.

For the purposes of this report we have focused on two major sub-sectors within the creative industries measurement – (1) TV and radio, (2) film, video and photography – to approximate the audio-visual sector in the UK. In doing so we recognise that, first, radio and photography, while relatively small sectors are not in most people's definition of what would be termed the audio-visual sector. And, second, that other sub-sectors such as video marketing and advertising, visual effects for the games and wider IT sector, and even the development of plays and novels later transferred to the small or big screen are closely linked to the core audio-visual sector.

In addition to the top down creative industry sector statistics on GVA, employment and trade we have also used (1) available sector revenue data (2) O&O's own analysis of the flow of funds across the sector value chain between activities conducted for Ofcom and others (3) aggregated trade figures on copyright, and (4) case studies and one off pieces of analysis conducted by O&O and/or the sponsors of this report.

There is almost an embarrassment of riches in terms of UK data, with the main task being to be clear about definitions and not drown in a host of different trends, but meaningful international comparisons are harder to come by. We therefore use one off studies and proxy measures to give a feel for the issues beyond the basic GVA and employment numbers which are available across Europe through Eurostat on a largely consistent basis.

Beyond the task of measuring where the UK audio-visual sector stands today and what the recent growth record has been, the main focus of this report is to identify the likely forces for change and trends in the global audio-visual sectors over the next ten years, and the opportunities and challenges for the UK-based sector. To do that we have utilised O&O's global TV and film scenarios and projections work conducted for major investors, regulators and international media players over the last two to three years as well as the forward-looking policy work of the Creative Industries Council and the BFI.

We hope we have provided a view of the state of the sector today, how we got here, and where we might broadly be heading, with the continued support of appropriate outward looking interventions and policies.

2 The UK-based film, TV and TV-related sectors today

Taken together and eliminating overlaps, the global TV and film sectors account for about \$540 billion of annual revenue, with about \$140 billion going to new content production across TV and film each year. The rest of the revenue ends up with delivery networks, broadcasters/on-demand service providers, rights agents/distributors and sports bodies/agencies.

The UK is the largest audio-visual market in Europe both in terms of revenue and Gross Value Added (GVA), the latter being 20 per cent larger than Germany and 50 per cent larger than France. The UK audio-visual sector's GVA contribution has been growing by an average of 3.1 per cent a year since 2010.

The sector employs over 170,000 people in the UK and generates GVA per employee significantly higher than the national UK average. It runs a trade surplus in services and IP of £1.9 billion a year with the rest of world, including a trade surplus with the rest of Europe of about £1.3 billion.

The UK has the largest AV sector in Europe, 20 per cent larger than the next biggest, Germany

Total exports are well over £4 billion a year with content production the largest source of exports (including inward investment) accounting for about 36 per cent of the total, rights distribution 33 per cent, broadcasting and broadcast services about 19 per cent, post-production services about 4 per cent, and other sources such as EU funding accounting for the remaining 8 per cent.

The UK's strong performance seems to be continuing and accelerating in the new internet age of TV with both the major global OTT/SVoD services making significant use of UK-based content production and performing talent in their push to fund high-end TV content, encouraged by the UK's globally-focused production industry, its skills base and its new targeted tax credit regime.

2.1 Defining the audio-visual sector

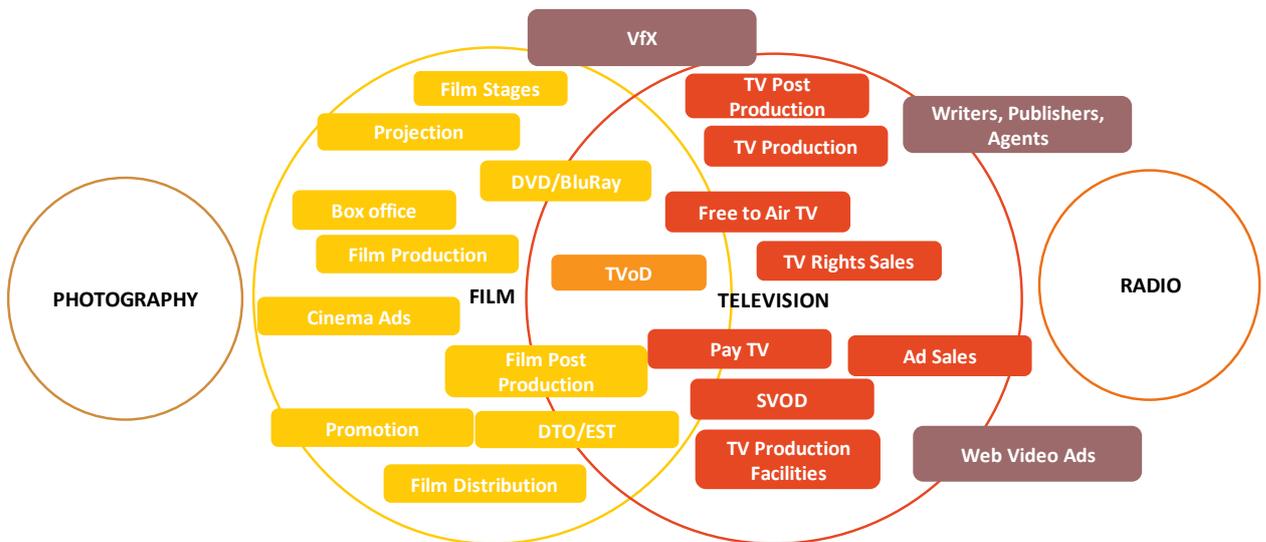
The core film and TV sectors cover a range of activities and overlap each other

The core TV sector includes free to air and pay TV broadcasting, OTT/SVoD services, and the supply chain that delivers these to consumers and advertisers. This includes TV production and production facilities – (from news to drama, from entertainment to documentaries); the acquisition and sale of TV rights to sports events, films for TV and imported/archive TV programming; broadcasting and broadcast support activities such as transmission, marketing, play out, advertising sales, administration; and TV delivery platforms such as DSAT, cable TV, DTT and OTT/IPTV streaming to the TV, mobile or PC.

The core film sector clearly overlaps with the TV sector in terms of the films supplied to free to air TV, pay TV and OTT/SVoD services in the UK. Added to that is the home entertainment market, which is migrating from DVD retail and rental towards HD Blue Ray retail and rental and digital delivery as download to own (DTO) or electronic sell through (EST). On-demand film rental, often called TVoD, then sits somewhere between the TV and film sectors.

Film also includes the theatrical/cinema market in the UK – both admission spending and advertising, and the whole value chain that supports the consumption of film such as: film production and production facilities, film distribution and marketing, film versioning and digital/print delivery to cinemas, running cinemas etc. The coverage of these sectors by official statistics is fairly straight forward but there are some grey areas. For instance, film imports by the TV sector are covered in the trade statistics for the TV industry, while exports and inward investment are treated as a film sector export. This is because official statistics tend to code a sector by the company surveyed, not by the form of content supplied.

Figure 2.1: Mapping the audio-visual sector



Other parts of the creative industries increasingly overlap with, and interrelate to, the audio-visual sector

Increasingly the core film- and TV-related sectors are overlapping with some important and fast growing adjacent areas of the creative industries such as video advertising and marketing – which has expanded beyond the creation of broadcast TV advertising and the buying of advertising spots on TV, to the provision of video advertising on the web – now the fastest growing online advertising format.

The visual effects skills and assets used in high-end TV and film output are also supplied to the advertising sector and the games sector by the same companies. The world of publishing – fiction and non-fiction – is increasingly interrelated to film and TV production – not just the book of the TV programme, but the increasing tendency of TV and film production companies to tie up with published writers and their agents for small and large screen adaptations.

In this report the figures focus on the core film and TV-related markets but there are also references to the adjacent markets where relevant. In so far as official statistics confuse the TV and film sectors or add on other less relevant sectors for historic reasons (such as radio broadcasting/production and photography) this will be noted – although even here it could be argued the increased visualisation of radio brands and services on the web and the move of major picture libraries into video library provision makes the historic linkages between the sectors more relevant again.

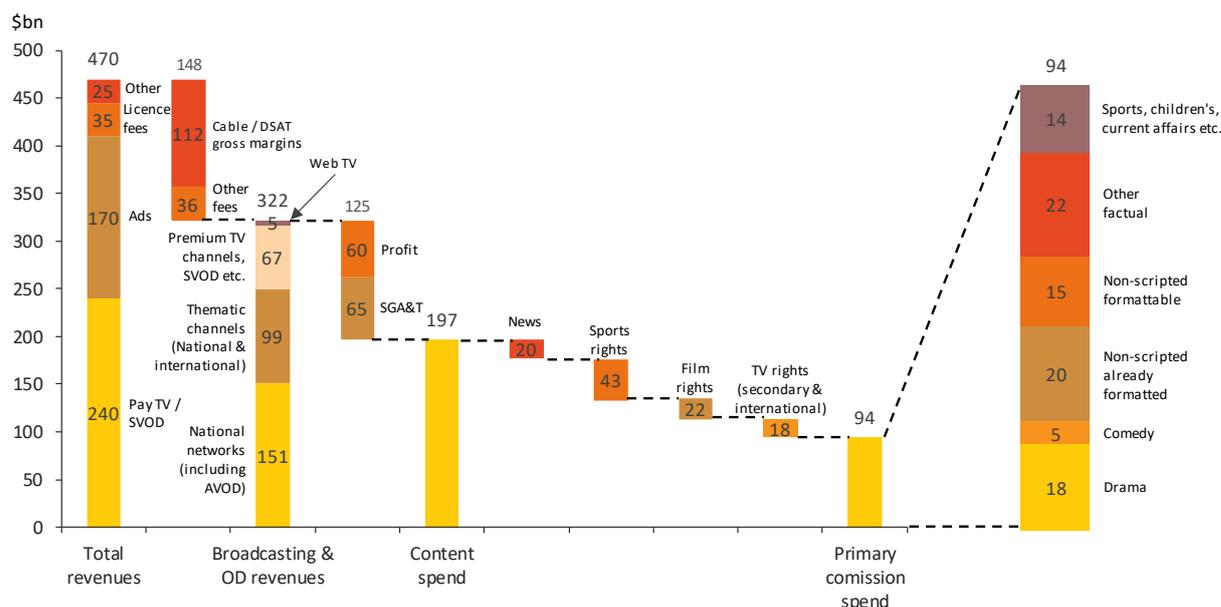
2.2 The global context

The global TV sector is a \$470 billion revenue market, still largely based around national TV markets and a limited, but growing, amount of trade flows between them

The global TV sector generates about \$470 billion in revenue, with about 30 per cent of income being retained by delivery networks and retailers, 30 per cent by the broadcasters/online service providers and the remaining 40 per cent invested in content and content creation – sports rights, film rights, news, ready-made TV programme acquisitions and originations (drama, factual, entertainment etc.).

The sector remains dominated by national delivery systems, national network broadcasters and nationally focused content producers.

Figure 2.2: The global TV value chain, 2016



Source: PWC, Zenith, Kagan, OBS, Oliver & Ohlbaum analysis

National TV networks still account for just under half of all channel/online service revenue and over a half of all TV content spend, but as the sector develops a more global focus, multi-country platforms are likely to take an expanding role. The largest multi-country TV delivery system owners in Europe (e.g. Sky Europe and Liberty Global) currently reach 70 million people – around 15 per cent of Europe’s population. While large international US Studio groups and the global “super indies” tend to focus on localised content for each country rather than global commissions, they also have global production networks and already collectively account for nearly 40 per cent of the supply of global TV content despite being a relatively new phenomenon.

However, there are a significant number of increasingly important international trade flows – most notably:

- the international flow of ready-made programming, dominated by US-made scripted programming being sold to the rest of the world;
- the exploitation of existing non-scripted formats through local production across the globe (where Europe is a more important source than the USA);
- the overseas production of programming, mainly high-end scripted, in countries that can provide the right skills, locations, production facilities and tax incentives;
- global commissions and co-production – where global broadcasters/online services or a group of national broadcasters commission a programme for transmission across a number of territories;
- global/international channel brands and online services (most notably US cable channels expanding globally, or OTT/SVoD platforms rolling out globally); and,
- increasing levels of international ownership of delivery systems such as TV, mobile and broadband delivery converge.

There are a significant number of increasingly important international trade flows

The global film sector is a \$115 billion revenue market (with a c\$45 billion overlap with the TV sector) with a dominant trade flow between the US and the rest of the world

The global film sector generates \$115 billion of revenue from cinema release, TV outlets and home entertainment release (DVD, Blue Ray, DTO/EST), of this about 50 per cent is taken by delivery networks

and broadcasters/online services. Of the remaining \$57 billion, a further \$30 billion is taken by film distributors who promote and market the films for theatrical release, sell rights to TV-related outlets, and often act as DVD labels/publishers in national markets.

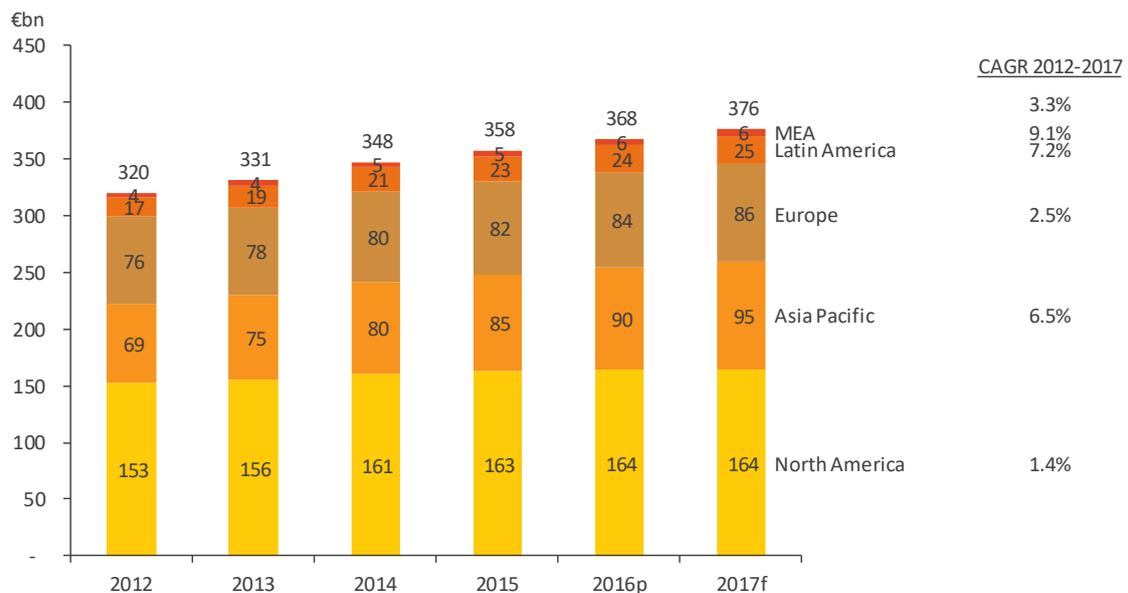
This leaves about \$27 billion invested in new film production globally, of which US led film projects (not always made in the US) account for about two thirds of all investment (even though it only accounts for about 20 per cent of all film titles released). Major trade flows are dominated by US films being distributed to the rest of the world, and the production of US led films overseas.

Top line domestic market revenue growth for the audio-visual sector has slowed recently, especially in the most developed markets of North America and Europe

Top line revenue growth for the sector has been slowing in the last ten years. The TV sector’s total core revenue growth rate slowed from 5 to 6 per cent per year in the 70s, 80s and 90s to nearer 3.3 per cent since 2012.

In contrast, feature film gross revenue growth rates of 5 to 6 per cent in the 1980s and 1990s fuelled by the growth of VHS and then DVD, have remained steady over the last five years, with most growth coming outside the US and Europe, and in new on-demand windows, with the DVD/BluRay market shrinking. Box office is still growing globally at around 5 per cent, with much of the growth outside the US and Europe.

Figure 2.3: Core TV market revenue growth by region, 2012 to 2017f



Note: Core revenues consists of licence fees, pay-TV subscriptions and TV advertising
 Source: PwC Global Entertainment and Media Outlook, 2017-2021, Oliver & Ohlbaum analysis

But significant shifts in value along the supply chain and trade flows between countries are already emerging and have led to much higher growth rates in activities that tap into both trends

While the top line national revenue growth story is one of slowing growth, especially in the developed markets, there are important areas of higher growth as the sectors and the supply chains supporting them become more global and more interrelated across national boundaries and power shifts along the supply chain.

Asia Pacific TV markets are still growing by over 6 per cent a year, TV content investment is also growing faster than TV revenue (at about 4.4. per cent a year versus revenue growth of 3.5 per cent a year since 2011), global TV entertainment format income is rising by about 5 per cent a year, and scripted TV spending by 9 per cent a year largely due to increasing demand for high budget titles with global appeal.

Hollywood blockbuster movies (production budgets over \$100m) and franchise movies, are taking a greater share of total film revenue (the top grossing one per cent of film titles now account for 25 per cent of box office versus just 10 per cent 20 years ago) and so are achieving revenue growth rates of 3 to 5 per cent versus a sector average of 1 to 2 per cent.

Last but not least, the arrival of global SVoD/OTT players such as Netflix and Amazon Prime and web TV players such as YouTube is shifting revenue towards global players and away from national channels and services. This in turn is forcing existing broadcasters and delivery systems to seek more global scale.

Global TV content investment is growing at about 4.4 per cent per year compared to TV revenue growth of 3.5 per cent

This all points to a potential shift in value towards more global projects and IP development where key players will be looking more internationally for their IP and talent sourcing, their production and post production skills and their delivery footprint, probably focusing on a small number of global hubs to support their operations.

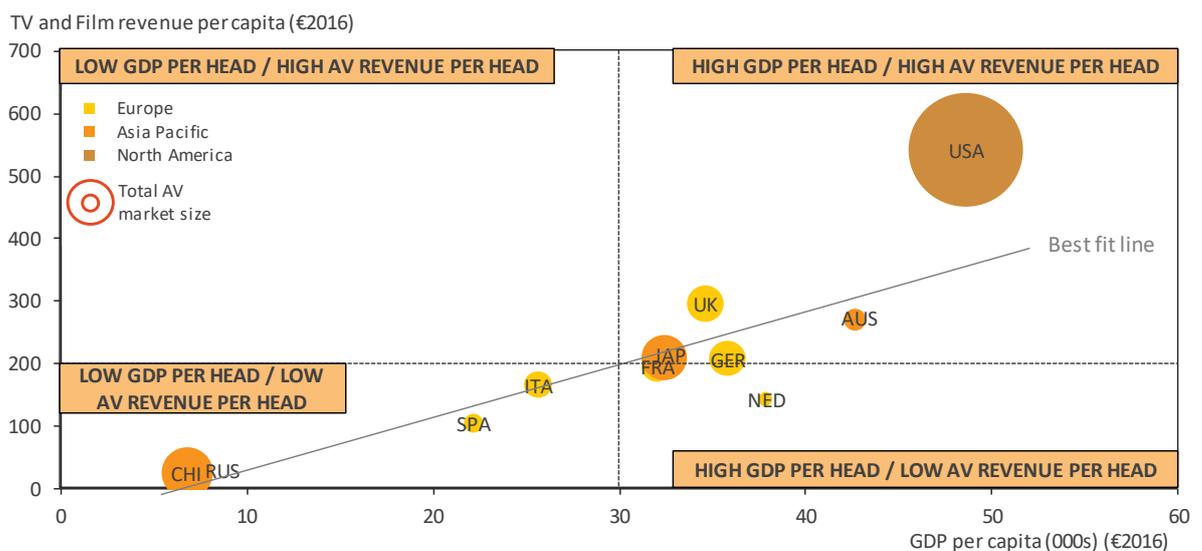
2.3 The UK audio-visual sector – performance and economic contribution

The domestic UK audio-visual market is amongst the most developed in the world with recent revenue growth in line with the European average

Domestic top line revenues for the UK TV and film sector from advertising, licence fees and pay TV were around €15.6 billion in 2016, representing about €245 per head, lower than the US level of around €500 per head, but higher than the €150 to €200 per head in other major western European markets with similar levels of GDP per head to the UK.

The UK TV market has also been growing by 2.4 per cent a year in recent years compared to a European growth rate (including the UK) of just over 2.5 per cent a year. UK domestic market film sector revenues have been largely flat, in line with the rest of the developed world, with some growth in cinema spending and advertising, and growth in demand from TV outlets countered by a decline in combined DVD/BluRay and EST/DTO spending – the latter having been eclipsed by SVoD – a TV market. (See Appendix, Figure 4.1, for detailed recent trends in UK film and TV revenue by source).

Figure 2.4: National film and TV market size versus population and GDP, 2016



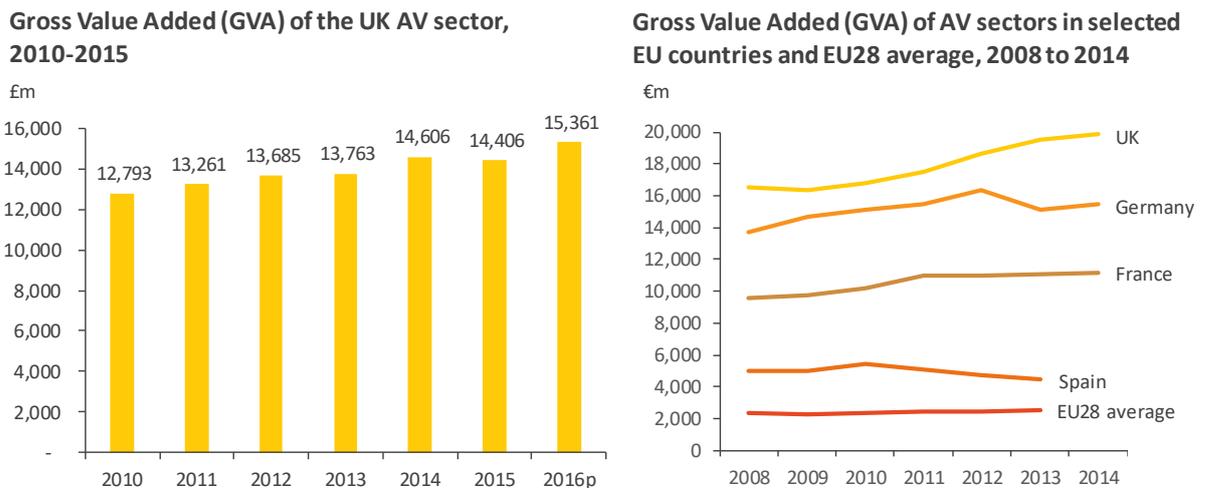
The UK film and TV sector supply chains are increasingly linked with the global markets, and these linkages drive an increasing amount of activity and value for the UK

While the UK has a strong and growing domestic TV and film market, it is also well integrated into the global audio-visual supply chain where a number of UK activities generate a significant amount of exports and inward investment. Increasing integration with the global audio-visual supply chain has three potentially beneficial effects. First, it gives the UK sector access to the higher demand growth markets of Asia Pacific, MENA and Latin America. Second, it potentially allows the UK to tap into shifts in the global flow of funds along the supply chain towards activities such as content production and IP investment, where the UK has a larger current position. Third, it can help the UK gain an even higher share of any activity along the supply chain as the industry moves from a largely national market-based sector to one centred around global hubs.

The UK’s film and TV sector generates a very high Gross Value Added (GVA) compared with total domestic revenue, and GVA has been growing twice as fast as domestic revenue and UK general GDP

The UK’s audio-visual sector direct GVA was around £15 billion in 2016, about the same level as the level of domestic revenue. This is a high ratio of GVA to gross revenue which has two separate causes. First, many UK TV and film activities are highly value adding rather than using many inputs from other sectors and services. Second, the sector earns a trade surplus once trade in goods, services and IP along the supply chain and inward investment in production and distribution are taken into account. UK audio-visual sector GVA has also been growing by 3.1 per cent a year since 2010.

Figure 2.5: UK AV sector GVA 2010 to 2016p, and comparison with Europe



Note: LHC uses ONS data, at current prices, and defines AV as film, TV, radio and photography. RHC uses OECD data for all markets. UK values converted from GBP to EUR using average 2015 exchange rate of 1.38. AV GVA defined using ISIC codes 59 and 60
 Source: OECD, ONS, Oanda, Oliver & Ohlbaum analysis

The UK’s TV and film sector is the second largest UK creative sector in terms of GVA and is the creative sector where the UK leads the rest of Europe by the largest margin – a major source of comparative strength

Across the UK creative industries, only the IT/software sector is a larger generator of GVA than the £15.4 billion audio-visual sector, with publishing and advertising/marketing coming in at around £12 billion each and music, performing and visual arts combined being around £8 billion.

The UK audio-visual sector is the largest in Europe in terms of GVA, being about 20 per cent larger than Germany’s and 50 per cent larger than France’s. Audio-visual sector GVA has also been growing more rapidly in the UK than in other European markets. While the UK is one of the leading European centres for many of the creative industries, Germany’s publishing sector rivals that of the UK’s in terms of GVA, and France’s marketing and advertising sector rivals that of the UK in GVA terms. (See Appendix, Figure 4.2, for relative size of different creative sectors across Europe).

The UK audio-visual sector’s strong GVA performance is driven in significant part by its strong trading performance

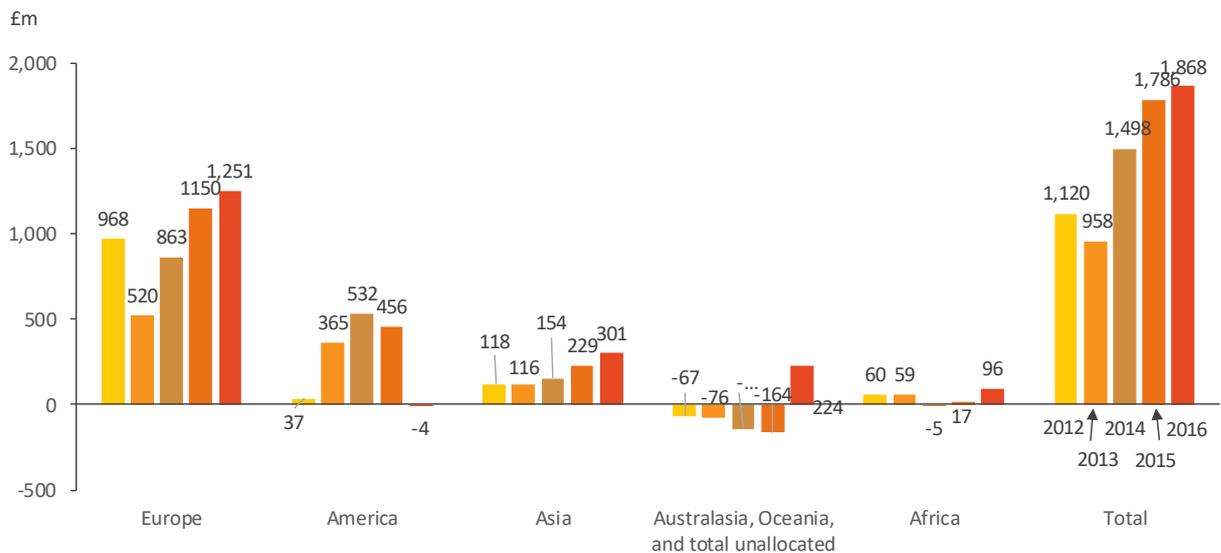
Audio-visual exports were worth over £4.7 billion in 2014 and have been growing by 4.3 per cent a year since 2009. Production is the largest export category within this, at about £1.7 billion which includes overseas commissions from UK-based companies and inward investment in films and TV productions made in the UK by UK and overseas companies. Rights distribution accounts for around £1.5 billion in exports.

UK AV exports have been growing at 4.3 per cent per year since 2009

Broadcasting is the third largest category at almost £900 million, which includes channels based in the UK earning advertising and carriage fees from overseas and the provision of channel playout and support services in the UK to channels owned overseas. Distribution is the third category, only slightly smaller than broadcast and includes rights sales to overseas buyers and distribution services to overseas TV and film companies. Post production services for film and TV bring in most of the remaining exports. (See Appendix, Figure 4.3, for overall export trends and latest year breakdown by segment).

A strong export performance and a strong and largely self-reliant domestic sector have helped the UK film and TV sectors run a rising balance of trade surplus (although with significant annual fluctuations). The trade surplus has increased from £1.1 billion in 2012 to £1.9 billion in 2016. The largest trade surplus is with Europe, at over £1.3 billion in 2016. Asia Pacific has more than doubled, albeit from a small base, from 2012 to 2016.

Figure 2.6 Balance of exports and imports for UK film and television industries, 2012 to 2016



Source: ONS, Oliver & Ohlbaum analysis

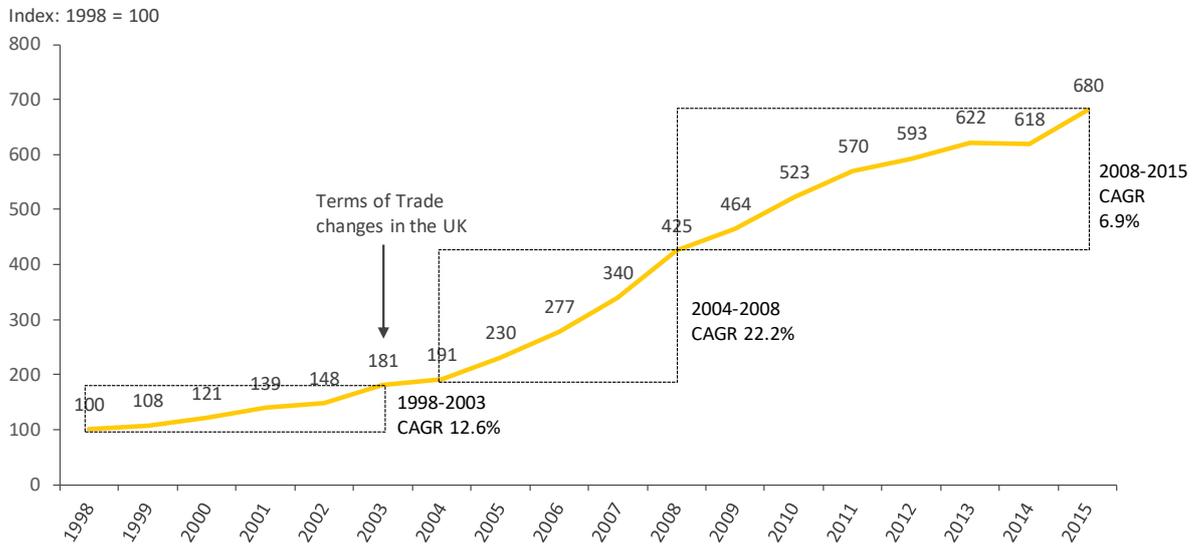
Within the overall export trend, exports of TV IP and content have grown particularly rapidly over an extended period

One area of particularly high growth over an extended period has been the TV sector’s ability to export programme rights, format rights, new commissions and licensing. The value of such exports has grown by 12 per cent a year on average since 1998 and is now 6 times the size it was back in 1998. This contrasts with a country like France, with a strong and partly protected domestic TV content sector but where the same export categories have only grown by 40 per cent in total over the same period. (See Appendix, Figure 4.4, for long run comparison of UK and France).

UK TV IP-related exports had a particularly large growth spurt from 2004 to 2008, in the immediate aftermath of the changes in terms of trade between broadcasters and producers that gave the independent producers ownership of rights. Growth averaged 22 per cent a year in that period.

Over the last 6 years this segment of the audio-visual sector has managed to grow exports to North America by 40 per cent, Europe by 25 per cent and the rest of the world by 60 per cent. (See Appendix, Figure 4.5, for growth by market and by type of activity).

Figure 2.7: Growth in UK TV exports, 1998 to 2015



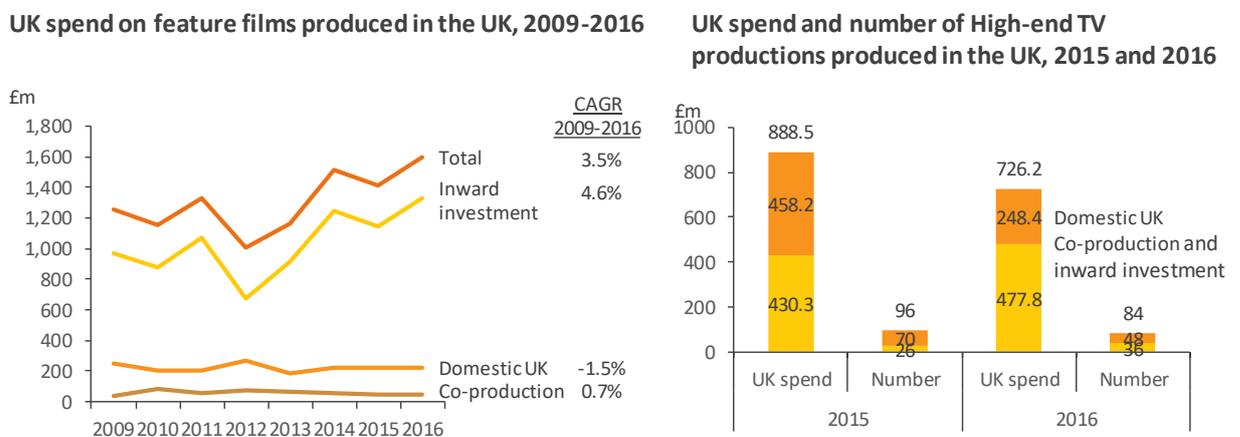
Note: TV rights and production exports only (this graph represents a component of total exports as shown in Figure 4.3)
Source: BTDA, Pact, Oliver & Ohlbaum Analysis

Inward investment in high-end TV and film content has been a key driver of recent export growth

In recent years, the UK’s high-quality craft and technical skills and beneficial tax credit environment have combined to attract the production and post-production of some of Hollywood’s largest budget feature films and some of TV’s largest budget global drama productions.

Inward investment for feature films made in the UK has risen from £973 million in 2009 to £1.3 billion in 2016. High-end TV production, which had been migrating overseas (especially for location work), grew rapidly recently after the introduction of a new tax credit – this has been both from domestic productions and overseas productions. Overseas inward investment in high-end TV (budgets of £1 million an hour or more) now totals £478 million a year.

Figure 2.8: UK spend on feature films and high-end TV production in the UK



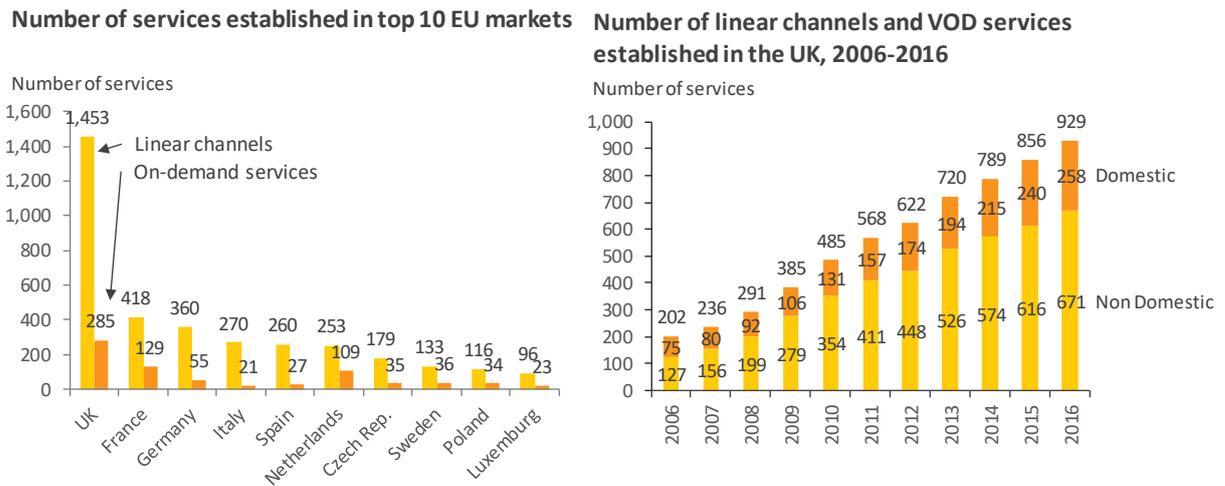
Note: Co-production and inward investment on RHS chart combined to prevent disclosure of budgets
Source: BFI Statistical Yearbook 2017, Oliver & Ohlbaum analysis

The provision of international TV channel and on-demand service transmission, play out and management services has been another important driver of export growth

The UK is a major international hub for channel and on-demand service operators. Both large global channel and on-demand providers and European commercial operators are attracted to the UK as an international and/or European base by the existing skills base, the strong support services and the flexible regulatory regime. There are more than three times the number of channels operating in the UK as the next largest market France, and 2.5 times as many on demand services.

More importantly there are 671 non-domestic TV channels and on-demand services established in the UK, often broadcasting from the UK internationally rather than just into the UK.

Figure 2.9: Growth in linear and on demand TV services established in the UK



Note: On-demand services includes free on-demand, SVOD and TVOD
 Source: LHC: OBS December 2016, RHC: Mavise Database October 2016, Oliver & Ohlbaum analysis

The UK is the leading global provider of international TV formats, and a major source of the global scripted commissions and production

Within different areas of TV programming the UK has particular strengths. The UK has proven remarkably successful at generating entertainment and factual entertainment/reality formats that can then be remade into local versions across the global. The UK currently has about 400 such titles originated in the UK, being made in at least three markets, some of them among the most successful and long-lived formats globally. The USA is the next most important source market with 230 titles, and the Netherlands the third most successful at 130.

Within the global scripted TV project market the UK is also well represented, not just as a base for production and post production, but also for the producing company and the talent used. Of the 33 original high-end scripted titles released on Netflix and Amazon combined in 2015-2016, 15 were non-US led, and of those 11 were UK led, with nine involving a UK production company, eight being filmed in the UK and 11 featuring UK talent in starring roles.

Figure 2.10: Summary of recent UK original dramas on SVOD

NUMBER OF 2015-2016 ORIGINAL TV DRAMAS								
	Released in total	US	Non US	UK	UK producer	Filmed in the UK	Featuring UK talent	Titles
NETFLIX	25	14	11	7	5	6	7	<ul style="list-style-type: none"> The Crown Black Mirror Spotless Paranoid Crazyhead Sense8 Frontier
amazon <small>instant video</small>	8	4	4	4	4	2	4	<ul style="list-style-type: none"> The Collection Ripper Street The Outlander The Man in the High Castle

Note: 'Talent' refers to actors and/or directors. 'UK producer' means that a UK production company was involved (normally as part of a co-production)
 Source: IMDB, ScreenDaily, Netflix, Amazon, Oliver & Ohlbaum analysis

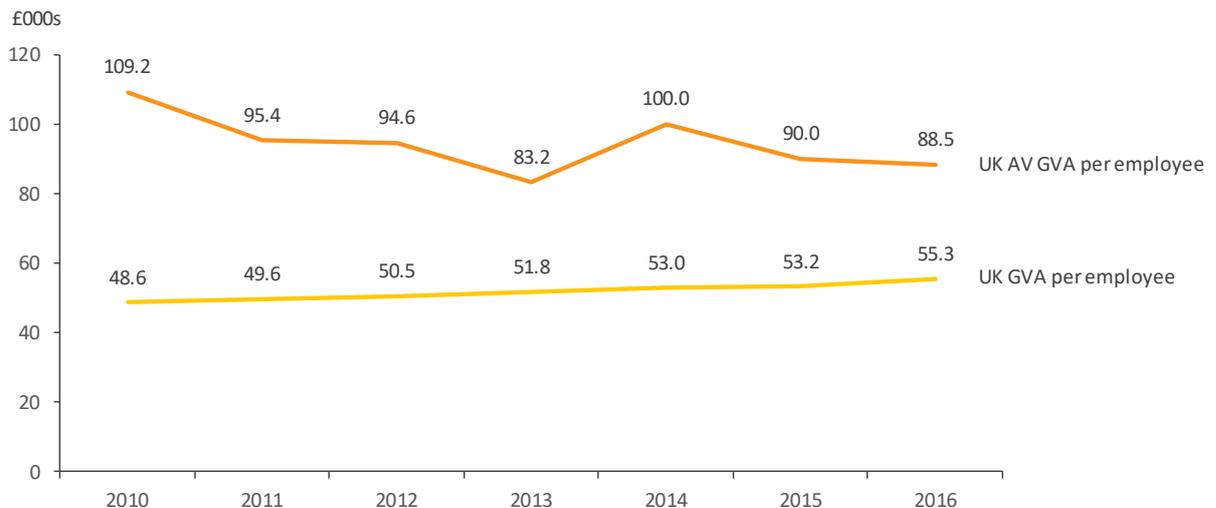
The audio-visual sector is generating growing levels of employment and high GVA per employee

Currently just over 170,000 people work in the audio-visual industry in the UK. This is an increase from 139,000 in 2011, with the greatest increase in broadcasting and programming.

Employment levels are much higher than other European countries where Germany has the next highest at about 76,000 employees and UK employment has grown much faster than in Europe.

GVA per employee in the AV sector is about significantly above the national average at £88,500 versus £54,900, and GVA per employee is higher in 2015 than it was in 2010. GVA per employee is actually higher in some European countries than the UK but this mostly reflects the large number of production employees in the UK compared with broadcasting and programming where the latter has larger economies of scale yielding more value added per employee.

Figure 2.11: UK audio-visual GVA per employee versus UK average



Source: Eurostat LFS, DCMS Economic Estimates (Nov 2017), OECD, Oliver & Ohlbaum analysis

The economic impact of the audio-visual sector is over double its GVA, mainly due to significant spill over effects

Indirect GVA economic impact comes from either the associated value chain activities or simply from the spending power and purchasing habits of those employed in the sector.

In the case of the value chain, the contribution of the support activities that provide inputs to the audio-visual sector is likely to be small given the film and TV sector's own high GVA to sales ratio. But the value chain contribution of those activities providing delivery to the consumer (some of the latter are likely to be counted in the communications and retail sectors rather than the audio-visual sector) is likely to be quite high given the margins and scale of some of these delivery and retail operations (broadband networks, call centres, advertising and promotion of pay TV services etc.). In the case of the general spending patterns of the audio-visual sector employees themselves, these are likely to be typical of the UK economy as a whole.

The total direct and indirect GVA of the UK AV sector could be around £32 billion

Overall then, it is probably appropriate to use the standard approach of doubling the direct GVA impact to derive the total direct and indirect impact – so probably around a £32 billion contribution a year. While standard GVA multiplier impacts are likely to be near the UK average, spill over impacts of the audio-visual sector are likely to be larger than other sectors. Global exposure of UK TV and film output and locations, and UK based stories and characters are likely to add significantly to UK tourism and the UK's general brand image overseas, helping to drive exports across sectors. Audio-visual activities are also likely to help the related UK creative sectors of publishing, music, advertising and the performing arts in so far as they act as a shop window globally for UK creativity and story-telling.

2.4 The UK audio-visual sector – competitive positioning for the future

The UK has a number of competitive advantages within the global TV and film supply chains

The strong performance of the UK audio-visual sector in recent years has been related to some innate characteristics of the UK, some very strong capabilities and the nature of its institutions and overall market structure.

The main positive characteristics include the English language, the time zone and the multicultural nature of the UK's cities, especially London. But the gains to the UK due to the English language being the default language of trade can be over exaggerated as many middle class educated people across the world speak English well. The UK time zone certainly allows it to more easily trade with both Asia and the Americas across the working day although this advantage can also be exaggerated and is no better than the rest of Western Europe.

The multicultural advantage of the UK is probably not so much to do with the number of foreign born or foreign ancestry people there are in the UK – other European countries have similar levels, but more to do with the range of different peoples that come to the UK – from North America, the Commonwealth and Europe – and the particular features of London where 35 per cent of the population is foreign born, and where most languages and cultures of the world are reflected. Beyond that, the UK has historically been good at integrating waves of migrants and combining their cultures with British cultures to help create new types of music, TV, theatre and film.

The UK enjoys several competitive advantages, with capability weaknesses the focus of government initiatives

The UK's capabilities are in education and skills, digital infrastructure and adoption, overall levels of innovation and creativity and access to finance and funding. These have all become the focus of policy initiatives in recent years. While the UK does fairly well in terms of its digital intensity scores (mostly due to uptake and usage rather than the quality of its infrastructure), and has some of the world's top universities and film and TV schools and some of the most talented craft and Vfx people in the world, it has been seen as lagging both in terms of ICT skills training and the funding of start-ups and growth phase companies.

The strength of the UK's institutions and market structure covers everything from: the funding, scale and creativity of its public service broadcaster, the BBC; to its intervention in the indie TV production market over rights retention and tax incentives to film and high end TV productions; to the size of the domestic economy and its links with the rest of the world which will drive how far its audio-visual businesses can achieve economies of scale; to how competitive its economy and audio-visual sector are which can drive innovation; and, to how effective rules in copyright protection are.

Overall the UK is seen as being strong on characteristics and institutions/structure when it comes to the audio-visual sector, but weaker on some of the capabilities, which have been the focus of various government initiatives since the turn of the century.

The UK has emerged as a major force within the global TV and film markets – second only to the US – focused on five specific activities/strengths

The UK audio-visual sector has taken its overall strong score card in terms of characteristics, capabilities and institutions/structure and become a major hub for the global audio-visual sector in five different ways.

First, it has become a major service hub for international channels and VoD services, especially in terms of covering the European and Middle East markets, and for European channels and on demand services seeking strong support services and a liberal regulatory regime.

Second, it has become a major engine – second only to the USA – for audio-visual content creation and IP exploitation. An innovative, competitive and experimental TV sector combined with strong traditions in storytelling and journalism have helped create a world leader in TV formats and a strong player in scripted film and TV.

Third, through a combination of strong TV and film craft skills – sustained by the domestic advertising and TV sectors originally, and a strong tradition in technological innovation and merging technology and creativity, it has become a major hub of high end craft, post production and VfX skills.

Fourth, tax incentives and regional development policy have helped make the UK a desirable location for making TV and films. When combined with the skills and craft base and new IP development, it has become the obvious primary location for content creation activities outside the USA.

Fifth, the UK's rapid embracing of the web, e-commerce and web advertising has made it an obvious location for major web aggregators to locate in Europe, this is likely to be reinforced as these groups move more heavily into audio-visual content.

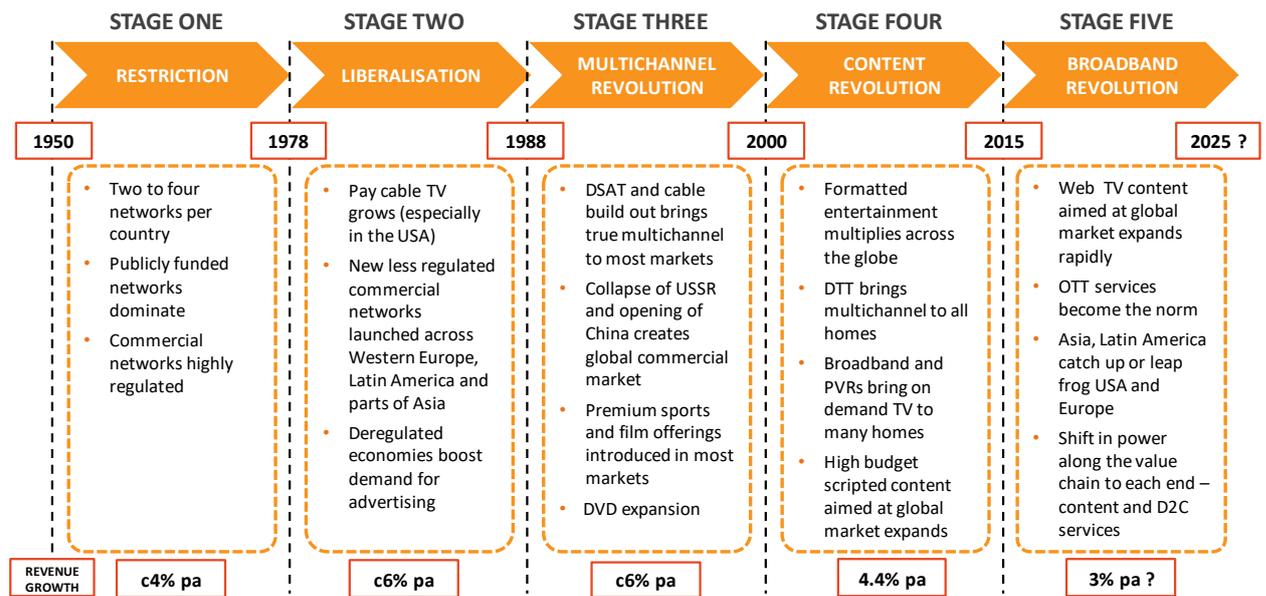
3 Likely trends in the global film and TV-related sectors to 2025, and opportunities for the UK

3.1 A new age of transformation

The global TV sector has been a relatively high growth industry since its establishment in the early 1950s as the leading media in the developed world. Over the next five decades it moved from offering very limited choice and, outside the USA, being a highly regulated and partly publicly owned monopolistic sector, to offering vastly expanded choice, and becoming a competitive, more international and mainly advertising and subscription funded sector, through the introduction of cable and satellite TV and then the switch of analogue terrestrial TV to digital transmission.

But over the last ten to 15 years the industry has undergone a new, probably more profound, phase of change. While previous developments were largely about increasing the number of channels and the ways they were paid for, the most recent developments have changed the way TV is consumed, and begun to shift the sector from largely about national services to one increasingly influenced by globally provided web delivered services and content.

Figure 3.1: Transformation – The five stages of global TV development



Source: Oliver & Ohlbaum analysis

The early years of the new century were characterised by the rapid growth of formatted entertainment and factual entertainment shows often coming from Europe and especially the UK, which were in part the response of leading national commercial networks to increased competitive pressure. This was followed by the growth of globally commissioned or co-produced high end dramas of £5 million to £10 million per episode budget, consumed on demand whenever and wherever people wanted to watch them.

This age of content transformation is now giving way to the true age of broadband, where very high penetration of high speed broadband and 4G/5G will enable most the population of the developed world, and an increasing proportion of the developing world, to enjoy unrivalled access to long and short form content from across the globe.

While this level of greater access and availability will create a “long tail” of content consumption reflecting niche tastes, it also is helping to make the global hits – across TV and film – even bigger. Moreover, many of the niche tastes that are not national in character will be better served by focused global providers.

This puts pressure on any organisation occupying the middle ground which is likely to include anyone producing for, or broadcasting to, just one national market or any organisation lacking scale either in one activity along the supply chain or through an aggregation of activities across the supply chain.

3.2 Likely growth along the supply chain to 2025

In terms of revenue growth, increasing consumer and advertiser choice combined with competition for connectivity and audiences across converging delivery platforms may well imply lower overall revenue growth for the TV and film sectors – more of the value may remain with the consumer and the advertiser.

Industry projections suggest that core TV revenues will continue to grow at their lower recent rate of 3.5 per cent a year up to 2020 and then slow again to 3 per cent in the five years up to 2025. Growth in the mature markets of North America and Europe is likely to be particularly slow perhaps as little as 2 to 2.4 per cent a year, while that in Asia Pacific is likely to remain at 5 per cent a year.

But beneath the headline sales figures there are likely to be drastic shifts along the supply chain and across geographies.

Figure 3.2: Global TV projected revenue growth by market, 2017 and 2021



Source: PWC, Oliver & Ohlbaum analysis

Developments in the flow of funds across the supply chain and power within it, may well bring more monies into content, more vertical integration along the supply chain and more consolidation in each stage of that same supply chain – either operational consolidation, or ownership consolidation.

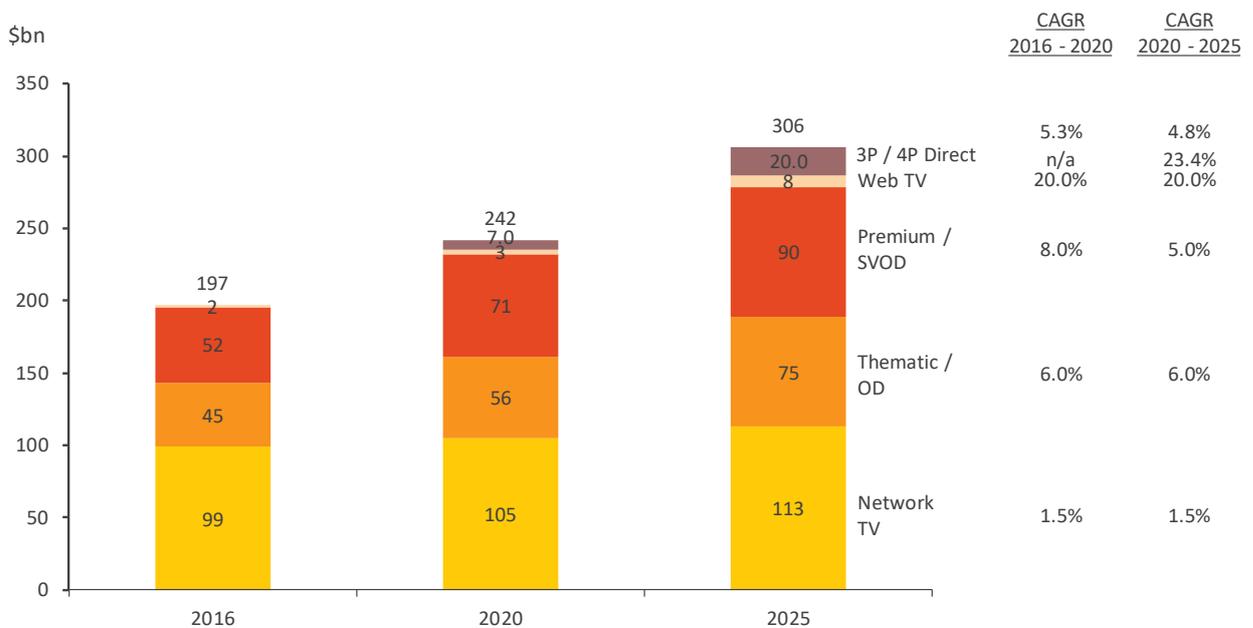
Content spending could keep rising by 5 to 6 per cent with the fastest growth among web TV, premium OTT/SVoD and premium TV channels (e.g. YouTube, Facebook Live, Netflix, Amazon, HBO, Disney) who will be increasingly operating as global or pan regional brands.

Within the thematic TV channel/on demand service segment of the market there is likely to be increased polarisation with more value and content spending growth across the truly global channels and category

leading brands (AMC, Discovery, Nickelodeon, Fox) and a squeeze on smaller national or sub-regional providers who are not linked to major domestic network groups.

National networks will remain important but will see low revenue and content spending growth, increasingly driving their corporate growth through diversification into production, e-commerce, premium pay TV, marketing services etc. as we have seen from the likes of ITV and ProsiebenSat1.

Figure 3.3: Projected TV content spending by type of service



Source: Oliver & Ohlbaum analysis

3.3 Likely geographic implications and opportunities for the UK

The geographic implications are likely to be a more global, less national market focused sector, and a consolidation of certain key supply chain activities into hubs of activity in nations, cities and regions that offer the best skills and expertise, the best infrastructure and resources, and the most favourable business environments.

TV delivery platforms and OTT platforms, while having consumer and advertiser focused operations in local markets, are likely to locate key technology, management, R&D, playout functions, and associated jobs, in regional hubs serving either the global market or specific regions.

International broadcasters are likely to adopt a similar hub based pattern with their management, technical, playout and marketing functions, and will locate their programming activities – scheduling, commissioning and in-house production where the creative community is strongest and has the most global outlook.

While producers will have networks of local market production companies to execute local versions of formats, they are likely to locate most of their staff and activity in markets where a significant amount of new IP with potential global appeal is commissioned each year – either formats or global commissions and co-productions.

The UK can build on its leading position within the European AV sector

Web based aggregators will locate where technology skills are strong, the business environment favourable and the marketing services activity well developed. They will increasingly also want access to creative IP skills as long form video content becomes a more important part of their business model.

All of the above activities will require any European hub – which may well end up as the hub for the Middle East and Africa as well – to be well integrated with major hubs in the Americas and Asia Pacific; these global players will then probably establish a hierarchy of regional hubs with the European base potentially being the lead global hub for the business.

With these trends and the UK's existing leading position within the European audio-visual sector, by 2025 the UK could be:

- a global TV channels and on demand services hub;
- a major source of global IP development – formats and global commissions;
- a global centre for high end creative skills;
- a top global production location; and,
- a leader in audio-visual ad tech/creativity

If this occurs then the UK audio-visual sector should grow at least as fast as the global content sector in terms of GVA – which is 5 to 6 per cent a year, and probably even faster as global scripted commissions and formats will probably grow a bit faster than this, and because channel operators, platforms and OTT/SVoD providers will want to consolidate their activities around regional or global hubs.

A growth rate of at least 5 per cent and up to 8 per cent a year in audio-visual GVA is therefore likely over the next ten years.

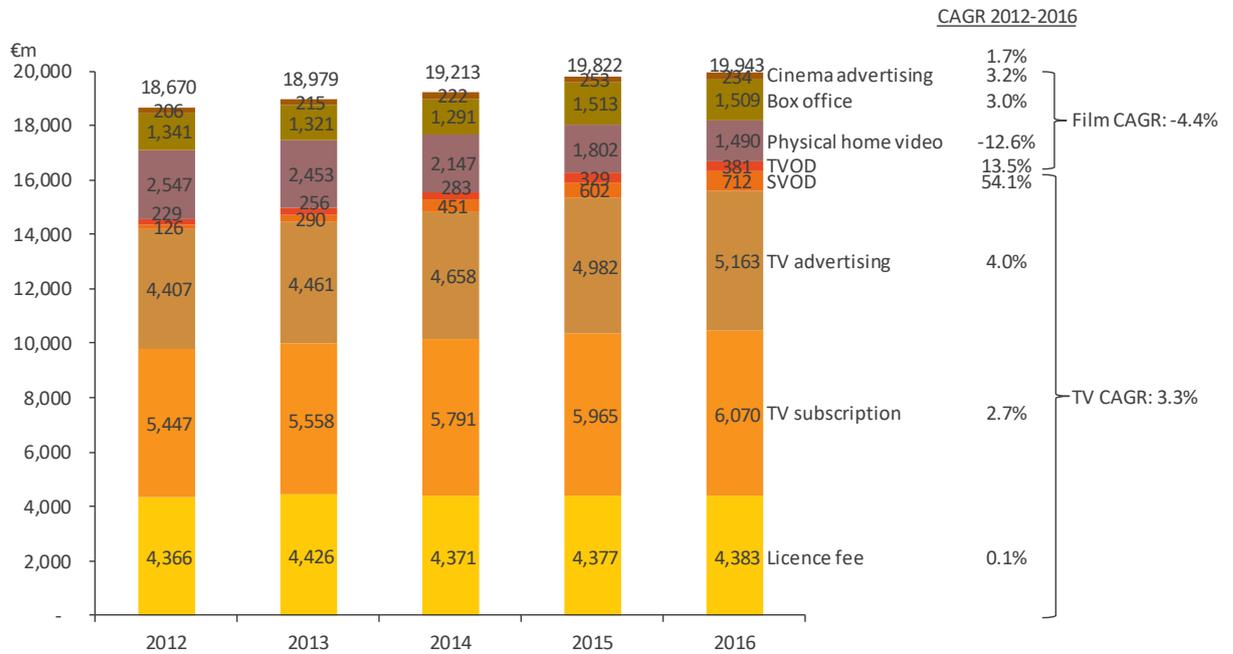
3.4 UK policy and encouraging trade and growth

The UK policy agenda to help ensure we get the 5 to 8 per cent GVA growth, and probably more towards the 8 per cent than the 5 per cent, is fairly clear:

1. Develop UK ICT, creative and language skills development
2. Maintain access to global skills and expertise
3. Maintain sensible interventions such as terms of trade for UK producers
4. An open and outward looking UK, which supports all trade flows, including those with Europe
5. Maintain or increase well targeted support – including BBC funding and tax credits for high end TV and films
6. Improve infrastructure – high speed broadband for SMEs, transport links within the UK and with the rest of the world, access to start up and growth funding
7. Push for fair broadcaster and content regulations/quotas and copyright protections globally

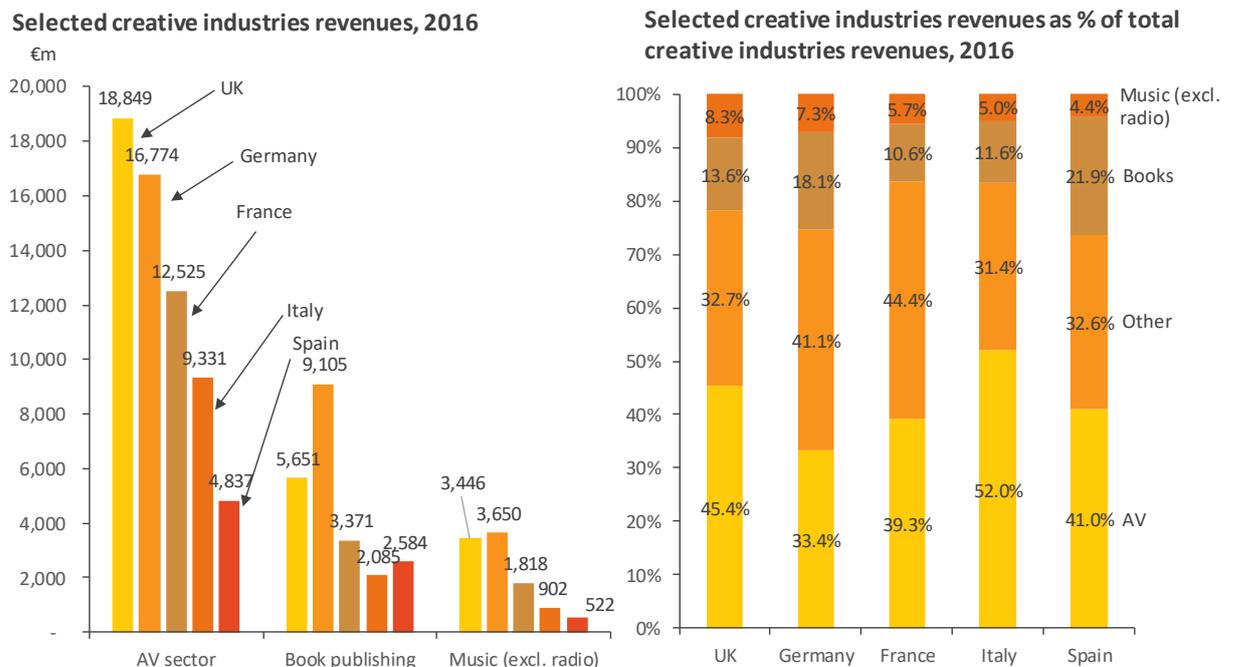
4 Appendix

Figure 4.1: Trends in UK film and TV revenue, by source, 2012 to 2016



Note: Although they include TV content, physical home entertainment and TVOD are included in the film CAGR
 Source: PwC Global Entertainment and Media Outlook 2017-2021, Oliver & Ohlbaum analysis

Figure 4.2: Comparison of European creative sector sizes, 2016



Note: Creative industries total revenue includes book publishing, magazine publishing, AV (cinema, TV advertising and TV/video), radio, music, news publishing, and video games
 Source: PwC Global entertainment and media outlook, Oliver & Ohlbaum analysis

Figure 4.3: UK creative industry exports, by segment, 2010 to 2015

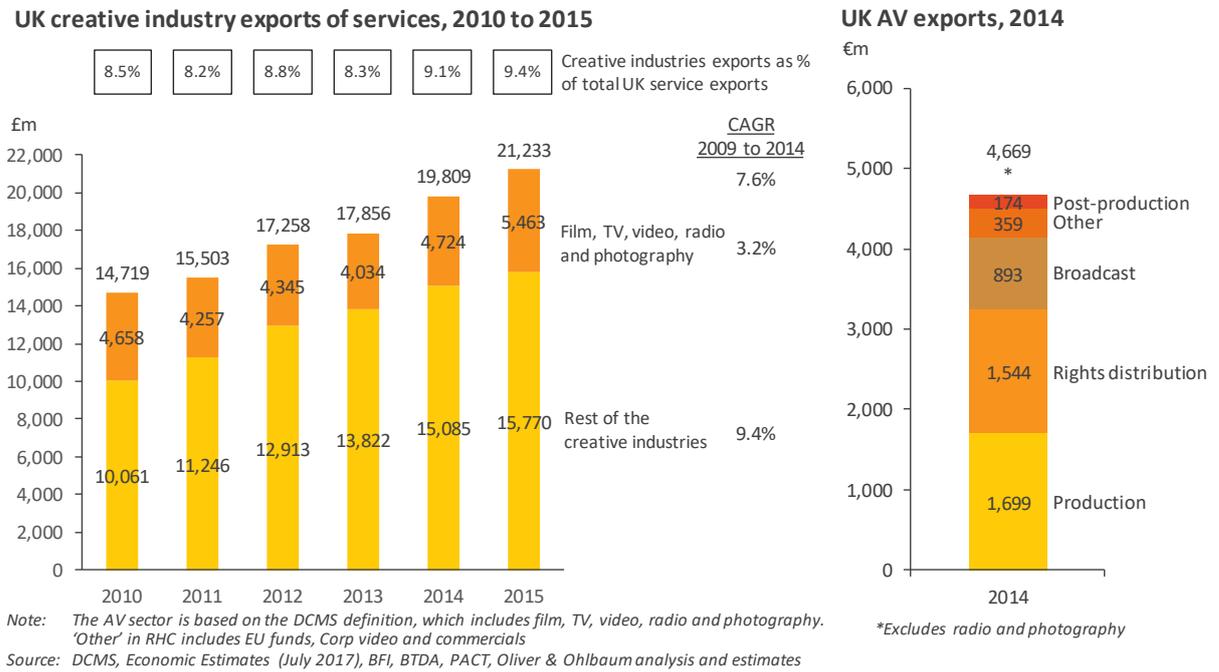


Figure 4.4: Comparison of UK and French TV rights and production exports, 1998 to 2014

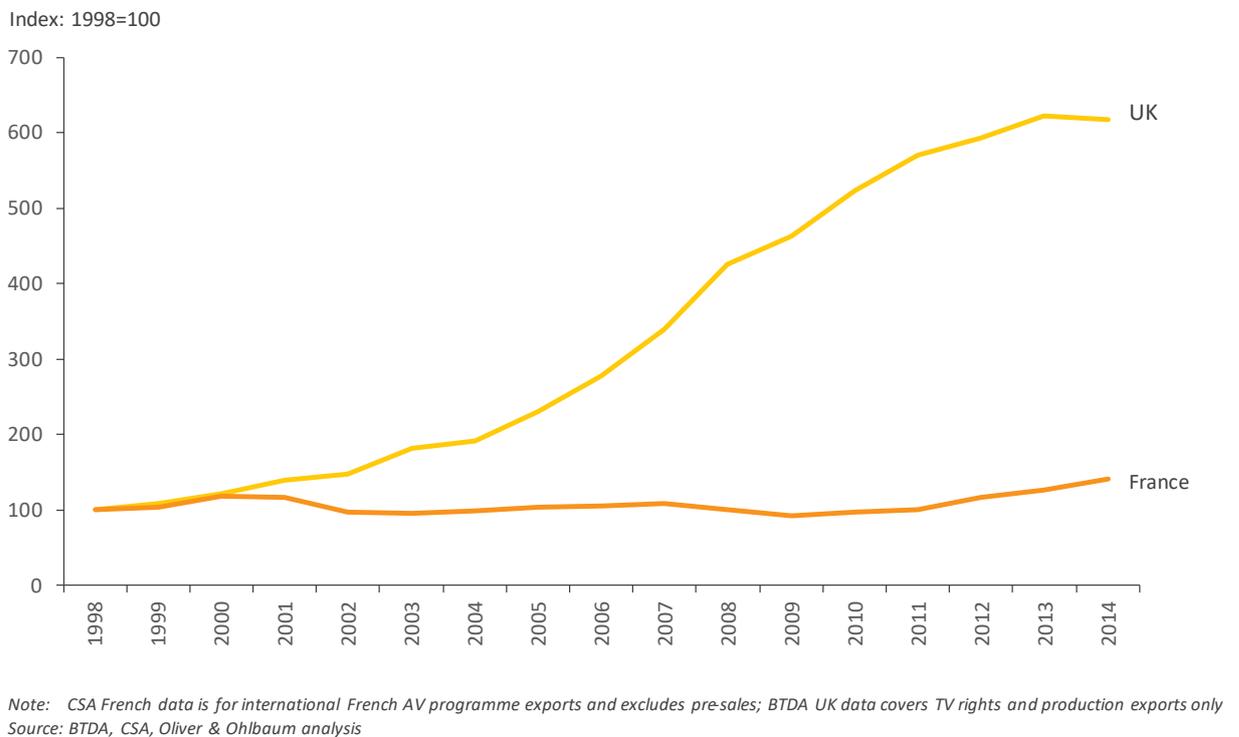
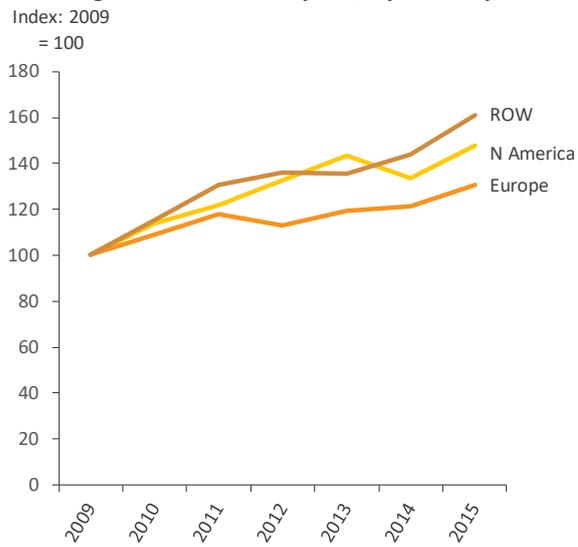
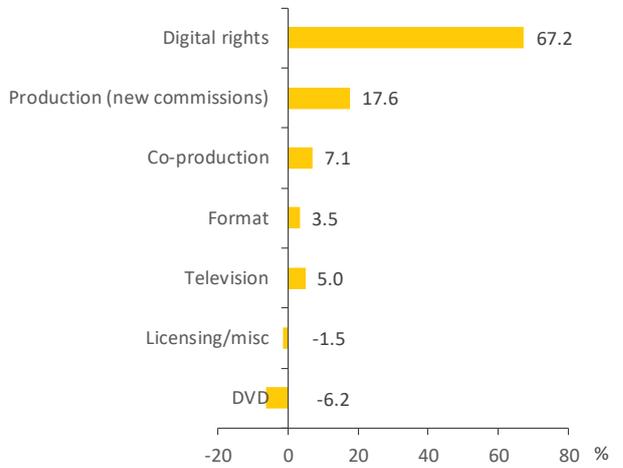


Figure 4.5: Growth in UK TV exports by territory and type, 2009 to 2015

Income growth in UK TV exports, by territory



CAGR 2009-2015, growth in UK export income, by type



Source: BTDA, Pact, Oliver & Ohlbaum Analysis