



A Report by Robin Foster  
& Tom Broughton

# CREATIVE UK

## The Audiovisual Sector & Economic Success

Commissioned by



### About the authors

---

**ROBIN FOSTER** is an expert in media and communications policy and strategy and founder of Communications Chambers. He was a member of the Steering Board for Digital Britain, and led the Global Communications Consortium at the London Business School. Robin was one of the founding partners at Ofcom, where he was responsible for strategy and markets. Previously he was director of strategy at the ITC and the BBC.

**TOM BROUGHTON** is an Associate at Communications Chambers, specialising in media strategy. He has worked widely with broadcasters, telecommunications companies, regulators, investors and content owners, including the BBC and Pact.

**COMMUNICATIONS CHAMBERS** is a growing association of leading experts in the fields of communications, media and technology. Its founders have all worked at senior levels in the industry or regulation, in addition to having many years of consulting experience.

# CONTENTS

- INTRODUCTION** .....3
- EXECUTIVE SUMMARY** .....4
- A UK SUCCESS STORY** .....7
  - Significant economic value.....7
  - A world leading exporter.....8
  - Satisfied consumers .....12
  - Wider impact.....13
  - Vital social and cultural role .....17
  - Success factors .....19
- INNOVATION AND GROWTH**.....20
  - Technology innovation.....20
  - Content innovation .....21
  - Prospects for growth .....22
- FUTURE CHALLENGES**.....26
  - Fragmentation of audiences.....26
  - The search for new revenue models .....26
  - New intermediaries .....28
  - Investing in the high end .....28
  - Threat of piracy .....29
  - A clear message .....30
- SECURING THE FUTURE** .....31
  - The IP trade-off .....31
  - Wider access to IP .....32
  - Preserving the jewel .....33
- APPENDICES** .....35
- REFERENCES**.....36



Clockwise from top left: *Jamie's School Dinner's*, Channel 4 / Fresh One Productions; *Got to Dance*, Sky / Princess Productions; *A Touch of Frost*, ITV / ITV Productions.



# INTRODUCTION

The UK audiovisual sector is a great economic and cultural success story. UK broadcasters and producers have created and commercialised content which has delighted audiences and generated income at home and abroad. This country now has a powerful community of creative, innovative and entrepreneurial firms, which increasingly operate across both television and the internet.

In this report, commissioned by BSkyB, Channel 4, ITV and Pact, we examine the sector's success so far and explain its potential for significant further growth. We look in particular at the importance of an

effective intellectual property (IP) regime in realising that future potential. Our conclusion: the sector's continued growth will depend on its ability to use IP to meet consumer demand across a much wider range of media platforms, consumer devices and formats than ever before.

We hope that our findings will contribute to a clearer understanding of the opportunities ahead, and the importance to the UK of securing the sector's continuing success.

*Robin Foster and Tom Broughton, April 2011*

# EXECUTIVE SUMMARY

## Overview

---

The UK's audiovisual sector delivers to this country a unique combination of economic and cultural value:

- It accounts for significant economic value in its own right, and is a major social and cultural influence.
- It supports a fast growing community of innovative and entrepreneurial UK businesses.
- It has played a leading role in creative and technology innovation.
- It is successful around the world and is poised for further growth.

To realise its full future potential, the sector must:

- Continue to successfully commercialise its content and services across many different new platforms, devices and in different formats and applications.
- Use those opportunities to develop new business models alongside existing revenue sources.

An effective intellectual property (IP) regime will be at the heart of any future success story for the sector, just as it has been a spur to growth over past decades.

## A vital economic contribution

---

Around £13bn flows directly into the UK audiovisual sector each year:

- This funds investment in content production of around £4bn a year, which delights audiences here and around the world.
- It is the lifeblood of a dynamic and diverse business community, with over 7,000 firms ranging from world-leading production companies to small garage-based start-ups.
- It supports a host of highly-skilled jobs in distribution, marketing, technical and support services. Estimates put direct employment in the sector at 132,000 jobs.

The sector's economic influence spreads far beyond this direct effect:

- It provides essential support for the wider creative industries, which account for some 6% of UK gross value-added. London's highly-skilled post-production companies, for example, rely on TV

alongside films and other media to build the critical mass they need for commercial success. TV helps fund many arts and cultural initiatives.

- It underpins a successful consumer goods economy: TV receivers and digital decoders accounted for over £2bn in sales last year, fuelled by demand for high quality content. Sales of tablets and smart-phones are in part driven by the high quality content produced by the sector.
- It helps stimulate consumer take-up of broadband services, hence improving the business case for investment in the UK's communications infrastructure. High quality audiovisual content helps drive demand for high-speed internet connections. It is no coincidence that the UK has one of the world's highest broadband take-up rates.

This is economic activity on a substantial scale, and an important building block for the UK's future economic growth.

## Unique cultural value

---

The UK audiovisual sector also plays a vital educational, social and cultural role. No other sector has quite such a significant influence on all our lives:

- Supporting democracy through its high quality and independent news and current affairs: 22m people watched the *Election Debates* in 2010; 66% of the UK public cite TV as their main source of news.
- Providing informative and entertaining factual programming – from major documentary series like Niall Ferguson's *Civilization: Is the West History?* to the many niche channels covering history, science, travel and lifestyle.
- Bringing the nation together for major events, from the *X Factor* finals to top sporting occasions.
- Supporting UK culture and the arts – for example Sky's dedicated arts channels which commission original drama and music and support a wide range of public arts initiatives.

## A world leader

---

Building on its strengths at home, the UK is a leading exporter of audiovisual content and formats:

- International sales of UK TV programmes and associated activities grew to £1,337m in 2009 – a 127% increase on 2006.
- Second only to the US in terms of international sales, some of the biggest global TV brands and talent are from the UK.
- In a typical month, audiences in the US will be enjoying the antics of Gordon Ramsay in *Hell's Kitchen*, while viewers in China will be voting for the winner of *China's Got Talent*. In Australia, they will be watching their version of *Come Dine With Me*, while Spanish drama fans will be glued to the latest episode of *Downton Abbey*.
- Overseas companies like Time Warner and NBC are investing in the UK to capitalise on our advantageous mix of expertise and opportunity.
- In parallel, UK broadcasters and producers have established successful overseas production bases in the US and elsewhere to take advantage of growing export markets.

The UK could rightly be described as the world's leading creative R&D laboratory for television:

- The UK's mix of public and commercial funding contributes to an appetite for experimentation and innovation in programming.
- The UK has some of the highest consumer take-up rates in the world for digital technologies, providing UK companies with an ideal environment in which to market test new products and services.
- On the back of these developments, the UK production sector has the chance to establish global centres of excellence – for example for 3D production.
- TV and film contracts have funded impressive developments by UK companies in advanced animation, computer graphics and special effects techniques.

## Key success factors

---

The sector's success is no accident. Two key factors are healthy competition and the intellectual property framework:

- The UK's commercial TV sector competes fiercely for audiences and revenues. As some 500 channels vie for audience attention, the successful players have had to show an impressive understanding of consumer tastes and trends.
- To attract viewers, the main UK broadcasters have invested significant amounts in high quality UK originations, and in the digital distribution networks to reach viewers across the country.
- From the launch of 3D TV to the creation of new global formats, the sector has shown the capacity to create new ideas, take risks, and successfully bring those ideas to market.
- Critically, ownership of intellectual property (IP) has played a key role in the sector's development. TV is all about creating and then commercially exploiting intellectual property. Ownership of IP provides the incentive for broadcasters and producers to create new content, fund innovative ideas, build new distribution platforms and re-invest profits in future growth.

## Major opportunities ahead

---

The audiovisual sector now faces an exciting new world:

- Digital media and the internet offer new ways of distributing and charging for content.
- Last year over 5bn videos were downloaded over the internet in the UK, and developments like YouView – a hybrid broadcast and online platform – offer scope for radical new ways of delivering content to consumers.
- Alongside broadcast release, content is being reformatted, diced and spliced for release on demand, via YouTube and in the form of new iPhone and Android apps.

- New world markets are opening up. In China and India, demand for audiovisual content and formats is rising fast. UK content producers are well-placed to take advantage of these new markets, drawing on the UK's comparative strengths and strong export track record.

These developments are part of a clear structural shift:

- The sector is moving from a relatively simple world in which the costs of content could be recovered on first broadcast, to one in which investments only make sense if revenues can be generated across multiple platforms and multiple release windows. Often, only 60% of the budget for a high-end drama will be covered by income from the broadcast window.
- At the same time, audiences are demanding high impact content, which requires big and increasingly risky investments. High-end dramas cost up to £1m per episode, while Sky's *Flying Monsters* single documentary had a budget of several millions.
- New revenue sources are as yet largely untested, piracy is a threat, and many more distribution deals will need to be done with successful new content aggregators like Apple.

In future, it will be essential for the audiovisual sector to realise the value of its content across many more media platforms, devices and formats than ever before.

### **The importance of IP for future growth**

A legitimate debate is underway in the UK and across Europe about how best to encourage investment and innovation through an effective IP regime, without unduly restricting user access to that IP.

The current IP regime in the UK has helped support the audiovisual success story so far. Our view is that the risks to future investment of relaxing IP protection are significant, while concerns about reasonable access to IP – by consumers and other users – are already being effectively addressed.

Without the certainty provided to the UK audiovisual sector by an effective IP regime, we could well see a vicious circle of falling revenue, leading to reduced investment in content and further reductions in revenue. This would hit not only established broadcasters and producers, but also the entire UK creative sector.

On the other hand, consumers increasingly have a wealth of choice when it comes to accessing content:

- UK content players from across the sector are already re-inventing themselves for the new “connected” world.
- They recognise the benefits of making their content available in a multiplicity of ways either free or at user-friendly prices, to the benefit of consumers at home and abroad. From *X Factor* to *Skins*, many of the major content hits of the recent past have had a strong online/mobile dimension to their audience proposition.
- They are comfortable in working with other partners to syndicate and package their content. From YouTube to iTunes, UK content has never been easier to find.
- Large and small firms are working well together to build new business opportunities, for their own benefit and for the benefit of the UK economy as a whole. At the point where TV and new digital media come together, a “creative explosion” is taking place.

The message is clear. The audiovisual sector is already a UK success. It faces exciting new opportunities, and the scope to build new revenue flows to supplement the old. With effective IP protection it will be more than capable of rising to those challenges. In so doing, it can not only secure its own growth, but also – through the companies it works with and supports – be a powerful springboard for wider UK success in digital media and the internet.



# A UK SUCCESS STORY

The UK audiovisual sector, with TV at its heart, is one of the most dynamic and competitive media markets in the world.<sup>1</sup> It makes a substantial contribution to the UK economy in terms of output and jobs, supports a growing export business, and has a huge influence on our social and cultural lives. As well as its own direct impact, it helps support a wider critical mass of technical, production and artistic expertise, which underpins the UK's thriving creative economy.

This success hasn't happened by accident. It is a result of a combination of a strong cultural tradition, exceptional creative talent, supportive government and regulatory policy and a healthy commercial sector.

The main commercial players have successfully exploited advertising and subscription revenue flows, enabling them to offer both mass appeal programming and more specialist content which caters for the passions and interests of many different audience groups. An influential public service broadcasting sector contributes to the range and diversity of content commissioned and broadcast, and helps secure high levels of original UK programming across the sector.

A supportive IP framework has encouraged investment and helped nurture an entrepreneurial production sector. And the sector has benefited from the UK's unique creative talent base – two of the last three Best Director Oscar winners, Danny Boyle and Tom Hooper, for example, were British directors who started out working in home grown TV.

In all senses, this is an industry of which the UK can be rightfully proud.

## Significant economic value

---

TV is of course an important cultural force. But with around £13bn a year of funds flowing through the audiovisual economy, supporting direct production to the value of over £4bn, and as many as 132,000 direct UK jobs, the audiovisual sector also generates significant economic value.<sup>2</sup> Sectors like this, which rely on the creation and exploitation of “intangibles”, are frequently cited as being critical to the future economic success of the UK.<sup>3</sup>

Figure 1 gives an overview of the scale and scope of the sector.

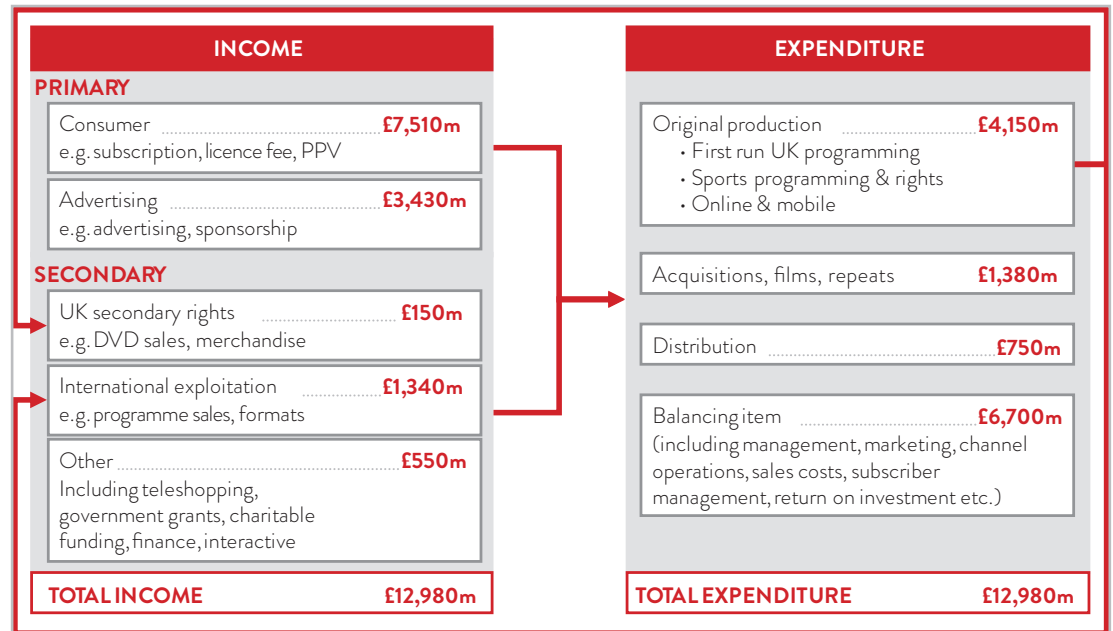
---

<sup>1</sup> In this report, we use the term audiovisual sector to refer to broadcasters and producers who are making TV and other long-form audiovisual content such as corporate and educational videos. TV is by far the largest part of the sector. Excluded are feature films and advertisements, but they clearly share many of the same inputs and draw on a similar skills base.

<sup>2</sup> Various estimates are available of the contribution of the creative sector as a whole to the UK economy. For example, DCMS (Creative Industries Economic Estimates published in 2010 but using 2008 ONS data) estimates creative industries' gross value added (GVA) to be 5.6% of total UK GVA. The TV, film and digital and electronic publishing sectors account for about half of this. The same study estimates that 132,000 jobs are supported by the sector across 7,700 firms. Others such as the Work Foundation have released similar estimates. The Work Foundation (Staying Ahead, 2007) attributes 100,000 jobs to the audiovisual sector.

<sup>3</sup> For example, CBI President, Helen Alexander says “The recalibration of the UK economy and the building of robust business growth in the years ahead need our creative industries to play an active and increasing role” March 2010 Livery Lecture.

Figure 1: A £13bn sector: the flow of funds through the UK audiovisual sector<sup>4</sup>



The BBC, ITV, Channel 4 and, increasingly, BSkyB are key drivers of TV production spend in the UK. The main broadcasters also invest significant amounts in programme support (e.g. for live outside broadcasts), marketing and technical services, as well as on rights. But others are active, too. In addition to the main networks, a wide range of channels invested around £250m on UK commissions in 2009. Independent production companies also contributed some £200m in funding back into the sector.

### A world leading exporter

This strong home base has helped support export success. Punching above its weight, the UK is the single largest exporter of TV formats in the world and the second largest (after the US) exporter of finished TV programming. Relative to the size of its television industry, the UK is the largest exporter of TV content (see Figure 2).

<sup>4</sup> Communications Chambers estimates based on Ofcom Communications Market Report 2010; Independent Production Sector Financial Census and Survey 2010, Oliver & Ohlbaum for PACT; Company Annual Reports including BSkyB, Virgin Media, BBC, ITVplc and Macquarie UK Broadcast Holdings Limited. Deloitte report for the Satellite and Cable Broadcasters' Association, 2011. Details are given in the appendix.

Despite a low number of episodes per run and a shortage of long term returning series, British TV continues to enjoy significant global appeal. UK companies are pioneering new ways of opening up overseas markets (through the establishment of local production companies for example) and are increasingly focused on formats and co-productions with overseas partners.<sup>6</sup>

As Figure 3 shows, the international sale of UK TV programmes and associated activities grew to £1,337m in 2009, a 127% increase on 2006.<sup>7</sup>

The US and Australasia, along with other European countries, are the UK's main existing markets. Even as quintessentially British a show as *Coronation Street* has sold in over 40 countries including Australia, Canada, Ireland, Taiwan, Somalia, Morocco, New Zealand, South Africa, Estonia and Poland.

UK companies have been especially successful in breaking into the highly competitive US market, which now accounts for around one third of all overseas commercial income. Their ability to compete successfully with US studios in their home market underlines the potential of the UK sector and its capacity to deliver quality, consistency and value to customers.

Particular success in the sale of formats – now worth almost £120m – means that the UK now accounts for more than half of all exported English-language format hours worldwide. Export success has encompassed services like *Sky News*, as well as individual programmes and formats.

Figure 2: Hours of TV exports per £m TV industry income<sup>5</sup>

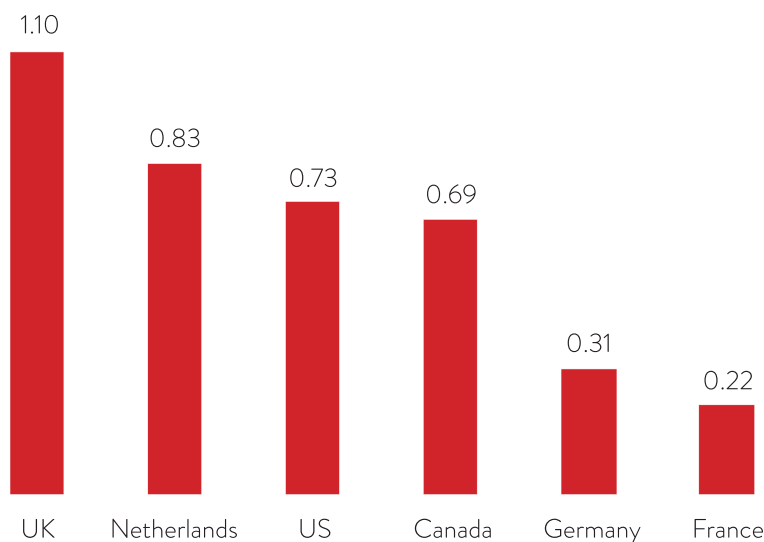
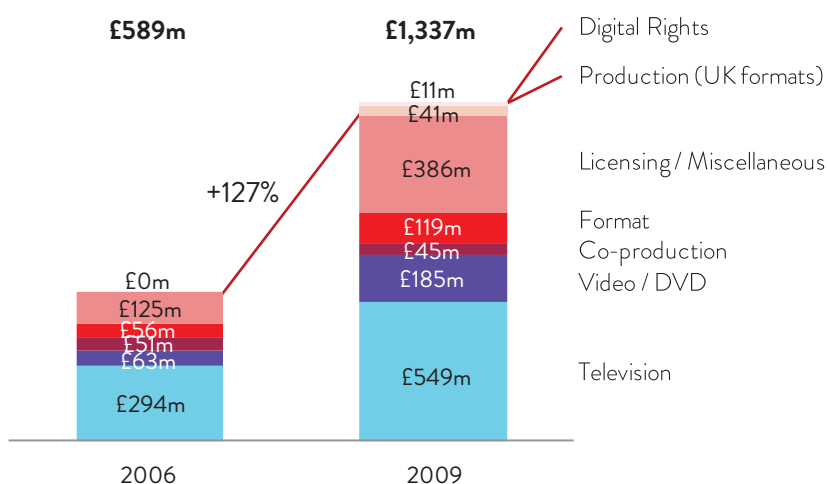


Figure 3: UK television exports, 2006 vs 2009<sup>8</sup>



<sup>5</sup> Source: Ofcom International Communications Market Report 2010, TRP Rights of Passage 2007

<sup>6</sup> As explained in Rights of Passage, TRP for Pact, 2008

<sup>7</sup> Source: UK Television Exports 2009, TRP for UKTI / PACT

<sup>8</sup> We note that from the Pact Independent Production Census that one of the most substantial revenue streams from export sales is from overseas commissions. Of the £439m total independent export revenues in 2009, £296m was from primary international commissions (more than 67%).



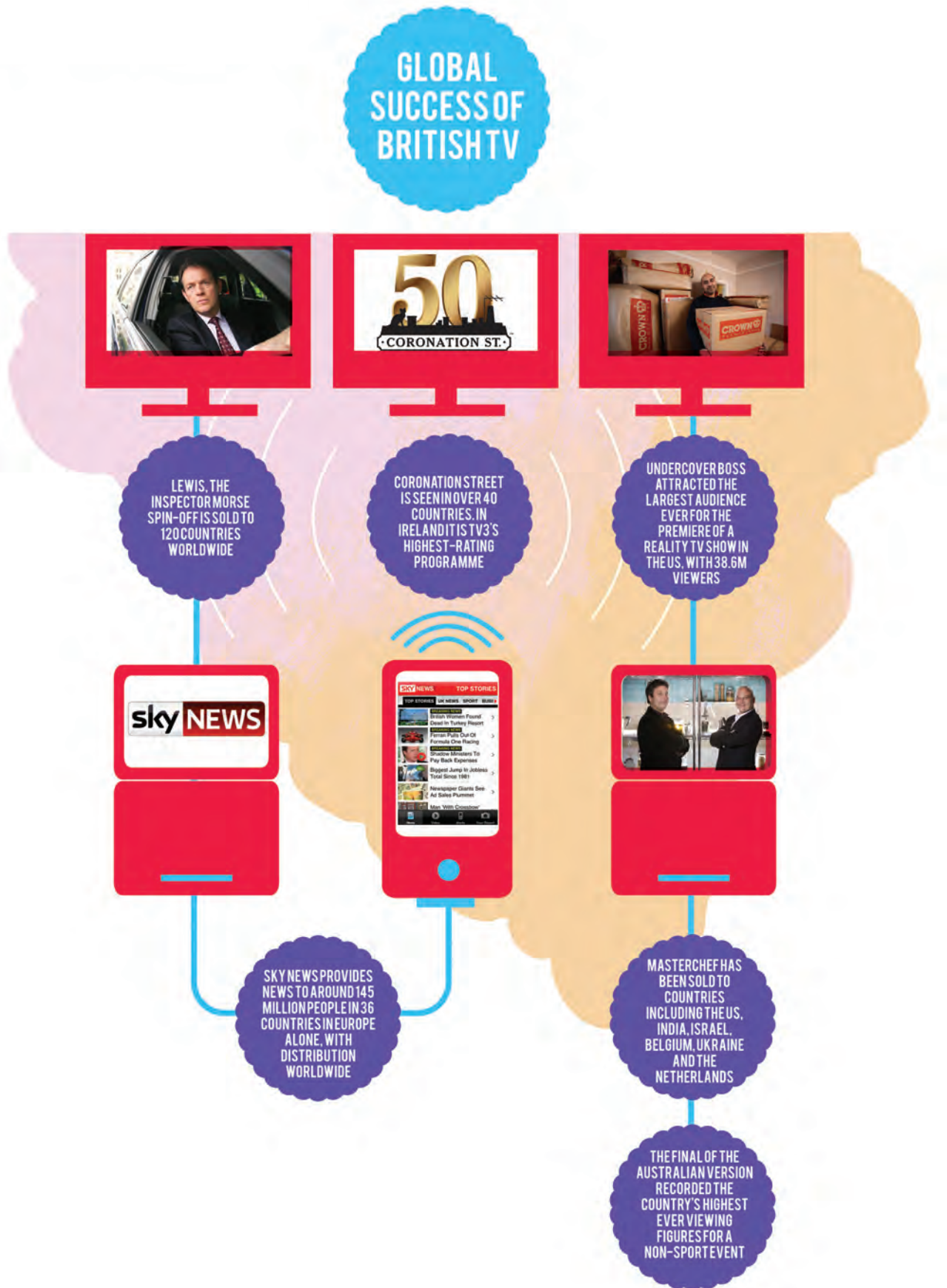
### Case Study: *Downton Abbey*

ITV's recent costume drama *Downton Abbey*, broadcast on ITV1 in autumn 2010, received huge critical and ratings success. Written and created by Oscar-winning writer Julian Fellowes, produced by Carnival Films and NBC Universal, it was the most successful drama launched on any channel in the UK since 2003. ITV has commissioned a second series to be broadcast in 2011.

On the back of its UK success, NBC Universal has licensed *Downton Abbey* to more than 100 international territories. These include Albania, Australia, Belgium, Croatia, Denmark, Finland, Germany, Iceland, Ireland, Israel, Japan, the Netherlands, New Zealand, Norway, Poland and Sweden and the United States.

*Downton Abbey's* launch in Spain in March 2011 delivered 3.2 million viewers, (a 17% audience share) for Antena 3, and it became the hottest trending topic on Twitter in Spain after it was broadcast.

Figure 4: Global success of British TV

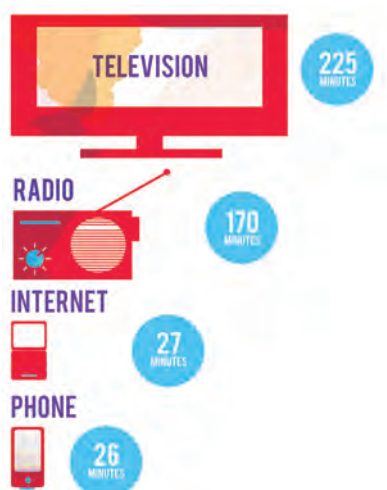














## Satisfied consumers

UK consumers can't get enough of broadcast TV. TV consumption remains high, even though more people are spending time with other media and communications activities as well. Ofcom data shows how average viewing per head per day has remained robust in recent years – being 3.75 hours in 2009 compared with 3.7 in 2004.<sup>9</sup> We are watching more TV than at any time in the last five years.

**Figure 5: The power of television in the UK: time spent on media by day (minutes)<sup>10</sup>**



**Figure 6: ITV1 programmes still bring the nation together<sup>11</sup>**

	Ave. audience (ms)	Share (%)		Ave. audience (ms)	Share (%)
 The X Factor	16.6	50.9	 Emmerdale	10.0	37.4
 Coronation Street	14.1	46.1	 A Touch of Frost	10.0	33.2
 World Cup 2010	13.2	51.8	 The Election – Leaders Debate	9.7	35.6
 Britain's Got Talent	12.8	52.6	 Dancing on Ice	9.6	31.9
 I'm a Celebrity...	12.4	43.1	 Downton Abbey	9.6	32.4

As Figure 6 shows, popular TV still has the power to bring large audiences together for important shared experiences. In turn, these programmes attract advertisers who need to reach large audiences as efficiently as possible. High quality content which attracts good ratings still offers advertisers an effective tool for building brands and communicating with large audiences. The 2010 series of *X Factor* on ITV, for example, was the most watched ever. Alongside this, pay TV adds an important extra dimension to consumer choice. Pay services have attracted a large subscriber base of those viewers who like the range and choice of channels offered, and who are happy to pay directly for content they especially value – from premium sports to high quality arts.

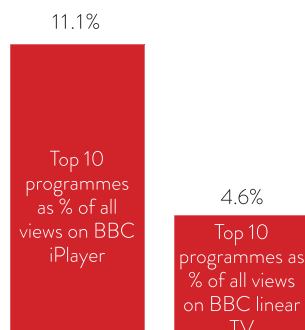
Entertaining and well made content is the key to this success. It is sometimes argued that in an online world, characterised by abundant choice and a plethora of new providers, high quality content from traditional providers becomes irrelevant. However, analysis of BBC iPlayer usage suggests that – even when viewers have access to a much wider range of content (the “long tail”) – the hit shows become even more important. For example, as shown in Figure 7, the top 10 programmes on the BBC's iPlayer in January 2011 accounted for around 11% of all views.

<sup>9</sup> Source: Ofcom Communications Market 2010

<sup>10</sup> Source: Ofcom Communications Market 2010

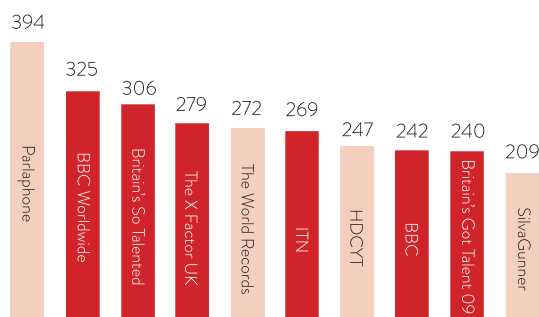
<sup>11</sup> Source: BARB, Communications Chambers analysis

**Figure 7a: Hit shows matter: Proportion of views accounted for by top 10 programmes on iPlayer vs. linear TV**



For the BBC’s linear TV channels, it was just 4.6%. Likewise, YouTube statistics show that the majority of the all-time most popular channels are run by well-established content providers. Six of the 10 most popular channels in June 2010 were associated with TV.

**Figure 7b: Top UK YouTube channels by number of views (ms) in June 2010<sup>12</sup>**



### Wider impact

Although difficult to quantify, TV’s economic influence is felt even more widely. We can see it all around us. High quality TV content plays a key role in driving the sales of TV sets, recorders and other consumer devices, contributing to a successful retail economy. The sale of TV sets and digital decoders alone is worth over £2.2bn a year.<sup>13</sup>

### Case study: supporting the growth of small independent producers

Broadcasters have a strong track record of supporting and growing independent production companies. On such company is Maverick, which began in 1994 as a small television production company based in Birmingham. Some of Maverick’s staff started out in the Birmingham Film and Video Workshop, a community based media organisation supported by Channel 4.

When Maverick was established, Channel 4 commissioned community films, including titles such as *Wingnut and the Sprog* from the nascent company. Maverick grew and diversified, working with Channel 4 to make single films and education projects, and Channel 4 also supported the company’s strategic diversification into features programmes and subsequently series-based production.

Now part of All3Media, they are one of Channel 4’s biggest suppliers, with hit series such as *How To Look Good Naked*, *10 Years Younger* and *Embarrassing Bodies*. Their formats have been sold internationally, they are a major media employer in the region and they have developed an award-winning digital division responsible for some of Channel 4’s most innovative digital content.

Maverick’s expertise in providing engaging health information on digital platforms, developed through series such as *Embarrassing Bodies*, has enabled them to expand beyond broadcast media, last year winning a £15m contract with the NHS to build a broadband medical service.

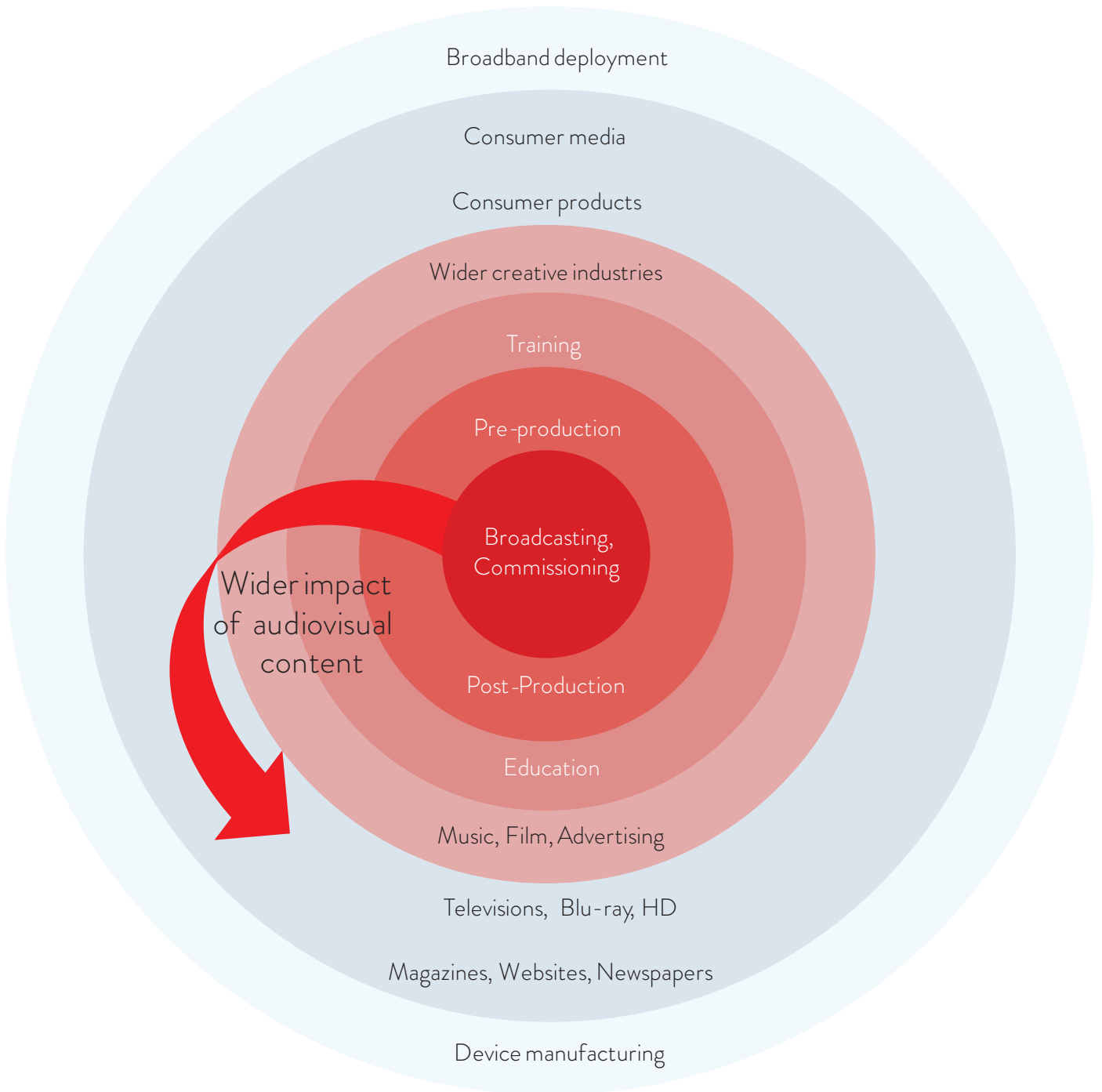
And TV of course helps support a large number of businesses engaged in all aspects of production, post-production and distribution – many of them SMEs. Broadcasters like Channel 4 have long cultivated strong relationships with a wide range of independent producers who often produce the most innovative programming ideas.<sup>14</sup> TV contracts help support a multitude of smaller firms who work across the UK creative sector. London is a world-leading hub for post-production skills used in TV, films, and other types of content, which could not survive on the same scale without TV commissions. The audiovisual sector helps support a large number of SMEs engaged in developing content applications for tablets and mobile phone devices.

<sup>12</sup> Source: BBC iPlayer stats; YouTube statistics June 2010, Ofcom Communication Market Report 2010

<sup>13</sup> Source: ONS Family Spending Survey, 2010

<sup>14</sup> In 2010, for example, Channel 4 worked with over 300 television and digital production companies across all parts of the UK, many of them SMEs

**Figure 8: The audiovisual sector sphere of influence**



### Case study: Sky support for Technical Resource Companies

Sky's investment has helped companies which supply the technical resources to TV like Telegenic which has worked closely with Sky in developing live 3D broadcasts, including the design and build of the world's first purpose-built multi-camera 3D unit.

Telegenic started with one scanner. They expanded their production technology by buying a VTR truck, two digital facility units and finally a HD capable scanner which in its first six months provided SD facilities for Rugby League, Rugby Union and Premiership Football. In 2005 Telegenic enhanced the capability of its latest scanner to provide HD live transmissions with Dolby Surround Sound. Since then they have added two further HD Units.

In November 2009 Telegenic worked with Sky exploring the concept of 3D High Definition Television. During six months of testing the world's first live 3D Television Broadcast was transmitted by Sky in January 2010 with Telegenic providing the facilities. This test phase culminated in the design and build of the world's first purpose built multi-camera 3D unit. Commissioned by Sky and managed by Telegenic, it was used to launch Sky's commercial 3D channel in April 2010. Another was rolled out in September at the Ryder Cup in Wales. Transmitted in HD and 3D this flagship event launched Sky's domestic 3D service and was the biggest single Outside Broadcast that Telegenic have been involved with to date, supplying facilities for Sky's output both in 3D and HD across three trucks manned by over 100 crew.

Other examples of companies benefitting from Sky's investment are:

- Aerial Camera Services: who provide remote cameras for rugby and football coverage
- Alston Elliott: which has become a world leader in on-screen graphics technology

### Case Study: Channel 4 support for the digital media sector

Demonstrating the role that broadcasters can play in supporting new digital companies, Channel 4 last August announced a £1m investment in Dundee's digital media sector. This has benefited a range of companies, including:

**DYNAMO GAMES** – who were commissioned to create a new Facebook game, “Beauty Town”, which promotes positive body image, a theme covered in many of Channel 4's TV shows.

**TAG GAMES** – who are working with Channel 4 to produce interactive games and apps around some of its most successful brands such as *Come Dine With Me* and *Peep Show*.

Both Dynamo and Tag have also received co-funding from the Digital IP Media Fund, managed by Creative Scotland on behalf of Scottish Enterprise, and they will also be able to develop their own IP alongside their work for Channel 4. Alongside this, Channel 4 also commissioned independent producer Headlight Scotland to make a TV series exploring the Dundee games sector, focusing on the DareToBeDigital game design competition.

In addition to the above, Channel 4's Convergent Formats Fund, worth £2m in 2011, will invest in ideas, apps, and creative concepts for the next generation of connected TV services, like YouView.

### Case study: ITV partners with Candyspace Media

Candyspace is a mobile and multi-channel digital agency. Started in its current form around four years ago with two people operating from a garage, it now employs around 20 people, and works for a range of clients in the media, games and marketing sectors. Candyspace provides the creative, production and technology expertise to support content and marketing strategies on mobile, tablet and website platforms. Clients have included Virgin and Momentum Pictures (producers of CSI).

For ITV, Candyspace has designed and developed a number of key mobile applications. The company has been responsible for all stages of the process from interface design and the look and feel of the application, through to technology, set up and testing.

Tom Thorne, CEO of Candyspace, recognises that, in his words, “it was a big leap of faith (for ITV) to go with a small business of only 20 people for help with new revenue streams”, and emphasises the importance for small firms of winning business from bigger blue chip firms like ITV: “It’s great to see the big blue chip companies supporting small innovative companies” In his view, this sort of relationship is crucial for smaller companies looking to build their businesses. He also credits ITV for treating their relationship with Candyspace very much as a partnership, and for helping the company to be in a position to win other contracts as new opportunities arise.

As noted by Ofcom and the Broadband Stakeholder Group among others, high quality content is a significant driver of demand for high speed broadband, hence contributing hugely to the success of the UK’s internet economy:<sup>15</sup> Global communications firm Cisco forecast last year that video would account for 40% of global internet traffic by the end of 2010 and increase fourfold between 2009 and 2014. They say that “video is quickly becoming the killer app of all IP networks”.<sup>16</sup> Our own analysis of usage data suggests that around 5% of UK fixed broadband and mobile network income could be attributed to video downloads and streaming – roughly £1bn last year.

TV also provides those topics of national conversation which are so important to the sales of newspapers and magazines – imagine the Sun newspaper or Heat magazine without TV news and gossip.

Companies which supply the technical resources to TV benefit, too, and this pattern is now being replicated in new digital media, as the longer established TV companies seek new expertise, fresh talent and the partnerships they need to help break into new markets.

---

<sup>15</sup> Sources: Ofcom, Future Broadband – Policy approach to next generation access, 2007, p62; BSG, Pipe Dreams? Prospects for Next Generation Broadband Deployment in the UK, 2007

<sup>16</sup> Cisco: Visual Networking Index Forecast, June 2010





## Vital social and cultural role

Alongside this important economic contribution, TV in the UK continues to play vital educational, social and cultural roles. Arguably, no other economic sector has such a significant impact on how we live our lives.

TV contributes to making the UK a more open and informed society, making this country a good place in which to live and work, and acting as an ambassador worldwide for British culture and values. UK viewers benefit from high quality news and political debate including the *Sky News* channel, the main news bulletins on ITV and Channel 4 and specials such as the televised *Election Debates* in 2010.

Wide-ranging factual programmes such as *Jamie's School Dinners* and *Hugh's Fish Fight* on Channel 4 attract audiences and challenge viewers to see the world differently. ITV's high quality dramas – encompassing a spectrum from contemporary soap to period drama – capture the nation's attention and reflect its culture. Sky's dedicated arts channels play a valuable role in commissioning original drama and music and supporting a wide range of public arts initiatives.

It is the sector's financial viability – driven by the variety of funding models and opportunities for commercial exploitation – which makes possible the range and diversity of content available.

And in an increasingly fragmented and competitive world, broadcast TV is one of the few media which has the scale and reach to break innovative new services.

## Case study: TV's role in breaking innovative digital services

Landshare, an innovative digital service launched by Keo Films, brings together people who have land to share with those who need it for cultivating food.

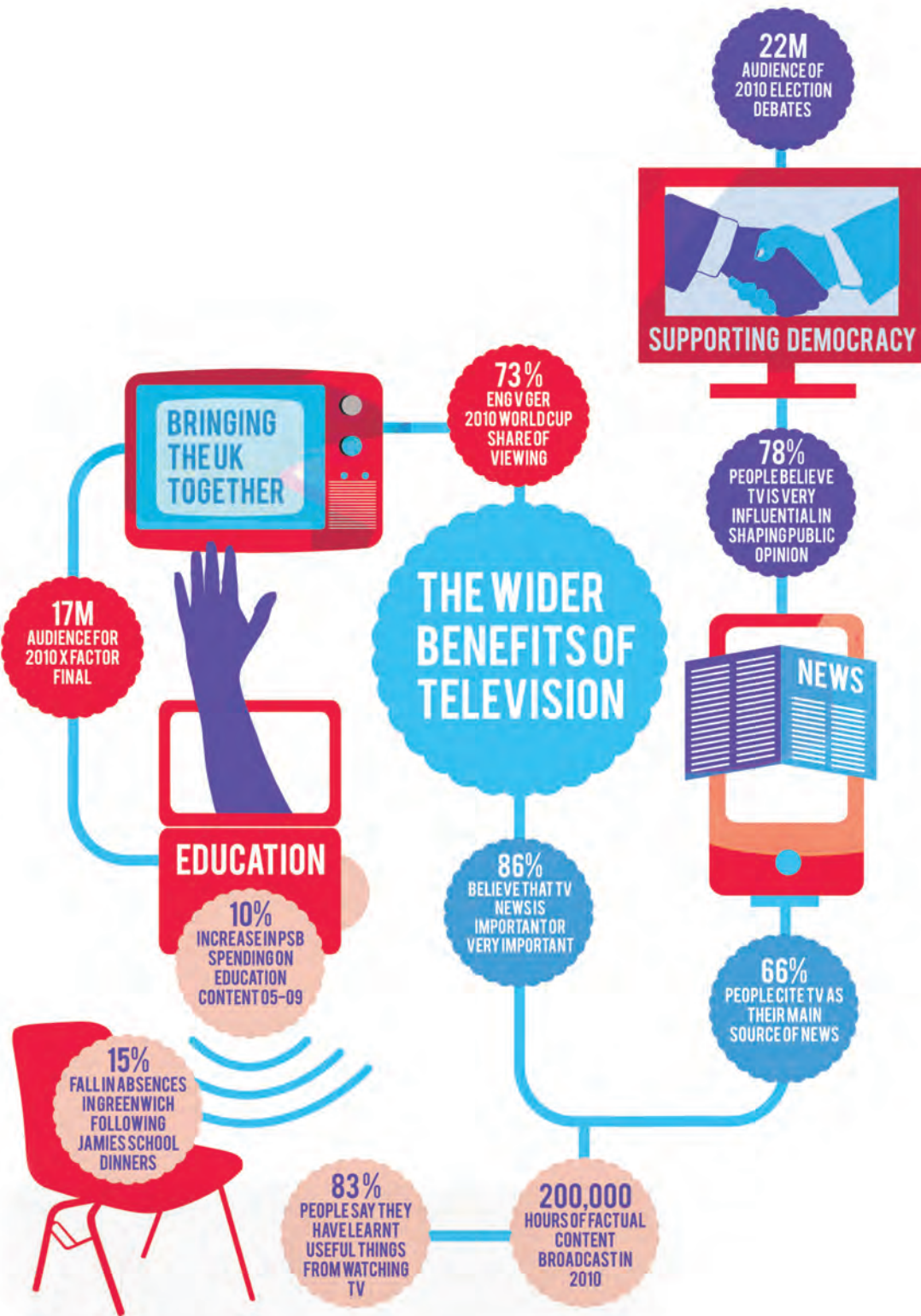
Since featuring in Keo's *River Cottage* TV show on Channel 4 in 2009, Landshare has grown into a thriving community of almost 60,000 growers, sharers and helpers. It has raised awareness of important issues relating to health, wellbeing and the environment, brought people together and provided a new way for the elderly to keep their gardens tidy.

Landshare has since won a number of awards, widespread praise in the mainstream media and was one of *Wired Magazine's* 25 "Big Ideas for 2011". An iPhone app has been launched which allows users to map vacant land across the UK, and Landshare continues to recruit new members including an increasing number of corporates, public bodies and hospitals.

The symbiotic relationship between TV and online was fundamental to Landshare's success – around 20,000 users signed up after its mention on *River Cottage*. Without the reach and impact of TV, it is unlikely that Landshare would have gained the audience it needed to engender publicity and wider support.

Since building its UK presence, Keo have begun to white label Landshare's technology for use internationally, with an Australian equivalent launching in December 2010, and discussions ongoing with five other countries. They have also partnered with *SharedEarth.com* in the US to increase home-growing around the world and contribute to reducing global carbon emissions.

Figure 9: The social and cultural value of television in the UK<sup>17</sup>



<sup>17</sup> Sources: BARB; The audience's view on the future of Public Service Broadcasting, Ipsos Mori; News News Future News, Ofcom; Guardian; Communications Chambers analysis

## Success factors

A combination of factors has helped drive this success story, but two key influences have been competition and the IP regime.

Competition, in the form of a battle between channels for viewing shares, between platforms, and (in the commercial sector) for revenue is intense. Over 90 per cent of households in the UK have access to more than the 5 terrestrial channels, and the 41 per cent which have chosen satellite can select from around 500 channels. By 2010, the UK's 5 main networks accounted for 58 per cent of viewing, down from 74 per cent five years earlier. This level of competition has helped fuel the search for new ideas and formats, as channels have tried to differentiate themselves from their rivals.

Against this background, the industry has learned to think hard about consumer tastes and preferences, and how to give consumers what they want at affordable prices. It has become a truly consumer-facing sector.

IP has also been a key and growing influence. In television's early days, broadcasters had few opportunities to exploit their content rights beyond the primary broadcast. As new distribution windows emerged, however, content rights became a more important part of the audiovisual economy, enabling new income sources to be developed. Over the last decade, the growth of UK independent TV producers has provided a prime example of how IP can help create a virtuous circle of investment, growth and re-investment in high quality content and formats. Ownership of IP has provided independents with the incentive to seek new ways of exploiting their content at home and abroad, and has helped them raise finance to grow their businesses in the UK and internationally. More widely, IP can fairly be described as the engine of growth for the whole sector.

As a result of these influences, the UK now has a unique mix of large and small companies, of integrated broadcaster/producers and independent production companies, and of creative and technical skills. Together these players are capable both of sparking new ideas and successfully bringing them to market.

## Case study: The success of the UK Independent Production Sector

Originally supported by the establishment of Channel 4 as a publisher/broadcaster, the independent sector was given a huge boost by the 2003 Communications Act, which ushered in a regulatory regime in which producers were able to own and re-use the IP rights to their programmes. Broadcasters would license certain rights from the producers, but the producer retained secondary and overseas rights.

These fuelled an IP market, enabling producers to sell these rights around the world as well as to new digital services in the UK.

They have been able to build globally successful business on the back of that exploitation. As growing businesses, they had an incentive to exploit these rights to the full, seeking new domestic and overseas opportunities to do so. Rights ownership also gave these companies a valuable asset they could use when seeking financial backing, making them truly independent from their main broadcaster customers.

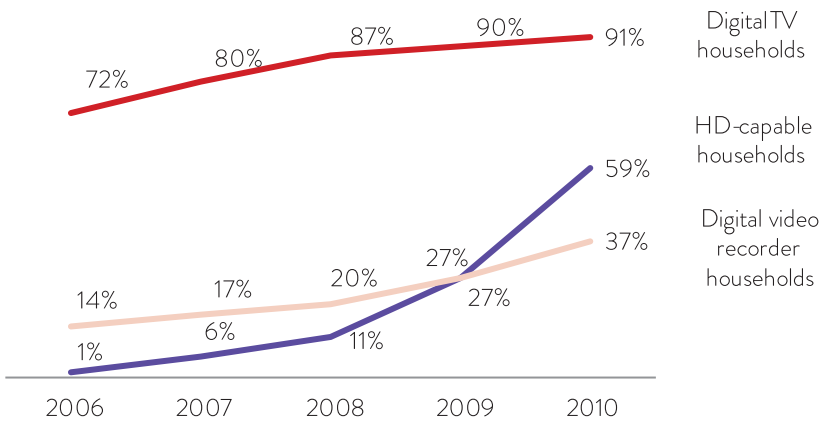
The result has been impressive. In 2008, independent production in the UK was worth over £2.2bn, a 169% increase on 10 years earlier. International revenues accounted for £439m, a 28% growth on the previous year. And in 2010, almost half of expenditure on originated content went to indies (up from 40% in 2005). Pact reports that for some UK-based independents, more revenues are now generated via their US offices working for US networks than from the UK.

Independent producers are also re-investing a substantial proportion of export revenues back into UK production, with income from rights exploitation and co-production representing a significant share of the £200m that the sector invests each year in UK content creation



# INNOVATION AND GROWTH

Figure 10: Take-up of emerging technologies in the UK over time<sup>18</sup>



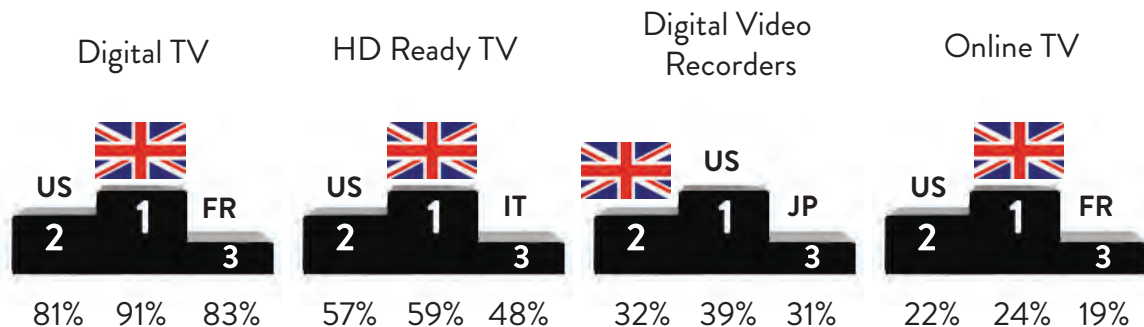
But is this “success story” of interest only to historians? After all, broadcast television has for some time been characterised as “old” media. Digital and internet-based technologies and services are the more glamorous “new”. In fact, steadily and largely successfully, the audiovisual sector in the UK has been re-inventing itself to bring technology and content together, serving both old and new media.

## Technology innovation

The UK has already been a leading innovator in the development and roll-out of a range of digital technologies. Companies like BSkyB and Virgin have invested heavily in new technologies and adapted them for mainstream use – ensuring that they work, are consumer-friendly, and expertly marketed. As a result, as shown in Figure 10, 91% of households now have digital television, and 37% own at least one digital video recorder. The first Sky high definition (HD) channels launched in 2006, and now there are around 60 HD channels across the sector. Sky now has over 3.5m HD subscribers – a third of its total customer base – and almost 60% of households in the UK have an HD ready television set.

In fact, as Figure 11 shows, the UK has some of the highest penetration rates of emerging technologies in the world, providing a test bed for new ideas to be taken to market, in turn ensuring content creators are able to design for the latest technologies. Channel 4 and BSkyB, for example, both led the way to making content available on an on-demand basis in the UK with the launch of 4oD and Sky Player as long ago as in 2006.

Figure 11: The UK and emerging technologies – Take-up in the UK vs. France, Germany, Italy, USA and Japan<sup>19</sup>



<sup>18</sup> Source: Ofcom International Communications Report 2010. HD-capable households refers to households with a HD-enabled set.

<sup>19</sup> Source: Ofcom International Communications Report 2010

Looking ahead, exciting new developments include hybrid broadcast and IPTV services such as YouView, an increasing variety of mobile apps, and full commercial development of 3D. YouView, a consortium including the BBC, Channel 4, Five and ITV, will seamlessly combine digital TV with catch-up, on-demand services and interactive applications. It will contain a range of content that could previously only be found via a PC, and will operate on an open platform basis, allowing all types of content providers to reach audiences via their TV set.

### Content innovation

The UK audiovisual sector is also a leading generator of new content ideas and formats. In 2009, for example, almost half (47%) of the UK's main network output was first run original UK commissions;<sup>20</sup> with only 6% of output hours being first run acquisitions from overseas – considerably lower than other European countries. In a typical year, around half of all programmes commissioned from independent producers are new rather than returning series.<sup>21</sup>

Audiences have benefitted from a series of innovations over the years. Sky, for example, brought innovative approaches to news and sport, Channel 4 opened its schedules to edgy and ground-breaking ideas from the independent production sector. The best of US drama and sitcoms have stimulated UK producers to compete on level terms with high-production-value material.

The UK could rightly be described as the world's R&D laboratory for audiovisual content, offering broadcasters and producers the scope to try out more new ideas across a wider range of genres than is possible in other similarly-sized markets. US networks are increasingly looking to UK formats – for both reality and scripted TV – to reduce their own investment risks.

Reflecting this, a number of US studios have invested significant sums in audiovisual content production in the UK –

#### Case study: The 3D story: innovation at work

BSkyB has been at the forefront of investment in technology and services which improve the viewing experience. Sky+ represented a step forward in personal video recorder technology, with easy to use interfaces and a market-leading EPG. HD has become a broadcast standard for high value content in the UK – with over 3.5m Sky HD subscribers. Now Sky is leading the way with 3D.

There were some 125,000 3D sets in the UK at the end of 2010, ahead of industry expectations, and around 70,000 subscribers. Sky is now producing around 2-3 live events in 3D each week, including Premier League matches but also outside broadcasts of opera, ballet and rock. Original 3D programme commissions are being increased, with last Christmas's *Flying Monsters* being the most lavish so far.

What Sky has done is take 3D for broadcasting from a concept to practical implementation in little over three years. This has involved working with the TV receiver manufacturers to ensure sets were capable of accommodating Sky's selected technical approach (they had previously been focused on Blu Ray) and with producers of the broadcast equipment, to simplify and adapt technology invented initially for big budget movies. All this had to be done within the constraints of Sky's existing set top box designs. Sky has also set up master classes for the industry in 3D production skills, and produced its own technical guidelines for the sector.

As a result, the UK is now among the world leaders in developing 3D for broadcast to the home. The UK has a chance to be a global centre of excellence in 3D production, and a number of production and post-production houses have already worked with Sky to produce 3D content, using a complex array of computer animation and visual effects. The experience gained will be transferrable to projects around the world as demand for 3D content grows.

for instance Time Warner's acquisition of Leavesden Studios in Hertfordshire, and the decisions by US networks to acquire leading UK production companies such as Shed (acquired by Time Warner) or Carnival (acquired by NBC Universal). In parallel, UK companies, such as ITV Studios' US operation, have successfully produced versions of UK programmes – such as *Hell's Kitchen* and *Four Weddings* – for US networks and cable channels.

<sup>20</sup> Source: Ofcom Communications Market Report 2010

<sup>21</sup> Pact: Financial Census and Survey, 2010



### Case study: New approaches to established genres

**MILLION POUND DROP** – The UK is a world leader in game show formats. This brand new entertainment format for Channel 4, from Endemol, was a live show stripped across several nights, and achieved a peak time audience of 3.4m for its second series. The live element, which included questions based on events that had taken place on each day of the show gave it a topical feel, and the title became a number one global trending topic on Twitter. An accompanying play-along game became one of Channel 4's most successful online projects ever, with the second series attracting more than 100,000 players a day and 7% of the programme's audience also following it online. Channel 4 broke new ground in combining television and online experiences in this way, and further two-screen experiments will be increasingly important in future.

**THE INBETWEENERS** – The UK has a great track record in developing new comedy, which then travels around the world. The third series of Channel 4's comedy show *The Inbetweeners*, from small indie Bwark Productions, had a record breaking audience on E4, with 4.1m viewers: the highest rated show ever on the channel. It also generated a lot of interest online, with over a thousand Facebook pages about the show, and achieved nearly 8m views on channel4.com alone across the year. Earlier, series 2 demonstrated the increasing importance of on-demand and repeat viewing. Each episode of series 2 was watched by another 2m viewings aggregated over repeats on E4 and Channel 4, and almost 1.5m on-demand streams of each episode were initiated on 4oD. The series won a string of awards and is now being developed into a feature film.

**TALENT SHOWS** – TV talent shows have also been re-invented for the 21st Century.

*Britain's Got Talent*, a variety talent competition, launched on ITV1 in 2007, has proved a huge hit with viewers. The winner of each series receives £100,000 and is given the opportunity to perform at the Royal Variety Performance. Susan Boyle's 2009 performance of "I Dreamed a Dream" sparked an Internet sensation and 19.2 million viewers went on to watch the final live on ITV1.

Launched on ITV1 in 2004, *The X Factor* is a singing competition contested by singers drawn from public auditions. The winner of the competition is awarded a recording contract with Syco in association with Sony Music Entertainment. The 2010 series was the most watched ever, with the final peaking at 19.5m and a 61% share. Video views for the series totalled 31.5m with catch-up viewing continuing to grow up 78% year on year.

Both *Britain's Got Talent* and *The X Factor* are produced by Talkback Thames and Syco and both have become successful global formats following their success on UK television.

## Prospects for growth

Prospects for future growth are encouraging, particularly in two key areas. Firstly, exploiting the opportunities presented by digital media and the internet. Secondly, continued export success.

### Digital media and the internet

Consumers now demand access to content across media and on new devices. This creates new markets for content and opens up additional revenue sources. In response, the audiovisual sector has been quick to experiment with new ways of making content available to consumers, examples include:

- Time-shift and thematic channels
- On-demand services which are trialling a mix of pay and advertiser-funded models
- Hybrid broadcast and internet services
- Mobile and smartphone services and applications
- Content available via the internet e.g. via search engines or aggregators such as YouTube.

No-one yet knows which of these approaches will appeal most to consumers or make commercial sense, but it is impossible to argue convincingly that content is now in some sense being held back from the market.

### Case Study: An explosion of access choices

Over the last couple of years, consumers have been able to find the TV content they want across a rapidly expanding range of media, and via new content packagers.

### ON-DEMAND

All the major broadcasters have their own VoD services: iPlayer, ITV Player, 4oD and Sky Anytime, offering streamed and downloaded content, free at the point of use to consumers. ITV has over 40,000 hours of its content (25% of its archive) already available or ready for exploitation on UK VoD platforms.

New content packagers, like LOVEFiLM and Blinkbox offer a growing range of UK and international TV programmes online for a small rental fee.

BT Vision and Virgin, as part of their wider TV services, feature their own on-demand programmes alongside access to existing broadcaster players. BT's top TV download in March 2011 was *The Inbetweeners*.

Broadcasters and content providers are making clips and whole programmes available via YouTube and other internet sites. According to Comscore, some 5.5bn videos were viewed online in the UK (Feb 09-10), of which about half were on Google sites.

Thanks to the syndication of 4oD, YouTube users have access to 3,000 hours of full length programming from Channel 4's catch-up and archive at any given time. Thousands more clips are available on YouTube including popular programmes from all broadcasters.

Apple iTunes – offers an expanding range of UK TV programming for download, for relatively modest prices.

### MOBILE AND OTHER MEDIA

All major UK content providers are already making content available or preparing to do so on smartphones, tablets and games consoles such as Xbox and Playstation 3.

All Sky news and sports feeds are carried through mobile TV applications on iPhone and by mobile network operators. Launched on March 17, Sky News in tablet format is a service which combines touch and video in new ways to tell news stories of the day.

ITV Player is available on PS3. Channel 4's 4oD catch-up has been launched on PS3 and, shortly, will be available via a 4oD app on the iPad.

Some of the most successful mobile apps are based on successful TV programmes – ranging from versions of popular game shows like *The Cube*, to voting in talent shows.





### Case study: *The Only Way is Cross-media (or Essex)*

The ITV2 hit series, *The Only Way is Essex*, produced by All3Media, is one of ITV's fastest growing brands online. Broadcast in autumn 2010, the first series was hugely successful online. For the second series, broadcast in spring 2011, ITV is tapping into the social media interest around the show in new and innovative ways.

A music video premiered on-air before the first full episode was broadcast. An interactive version of this video, which allowed viewers to click the video to find out more about characters and features, is available for download on ITV.com.

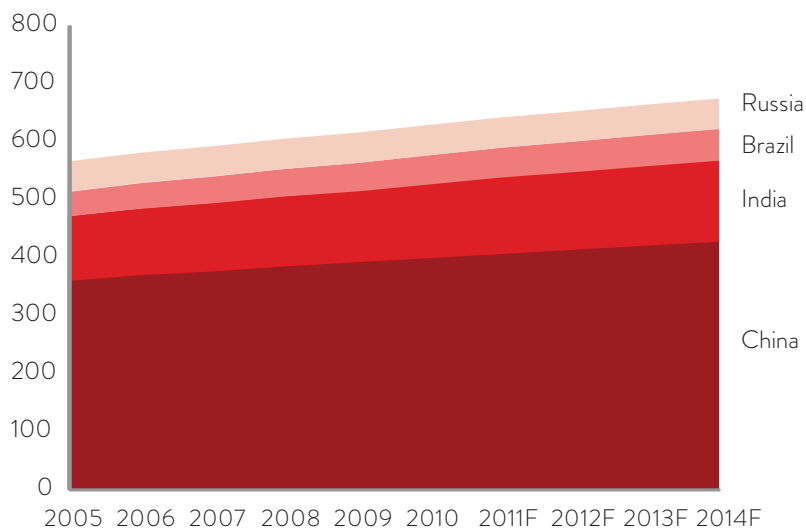
Also new for this series are "online only" episodes, available each Wednesday - the day after the main episode has aired. Users will be able to sign up to access these exclusive online episodes on ITV.com. These episodes will also be available to purchase on iTunes every Thursday.

Facebook fans will be able to place themselves in the show, using the "The Only Face is Essex" app. The app will use Facebook data to put fans in the centre of the action in a short-form episode.

The ITV.com/esssex site will also carry a wealth of additional material, including a continuously active social media feed via Twitter and Facebook.

The technology used to make the video fully interactive was provided by UK start up wireWAX, and digital creative agency Ralph worked with ITV to make the Essex Facebook application.

**Figure 12: Increasing importance of TV in BRIC countries (no. of households, ms)<sup>23</sup>**



## Export success

Looking to the future, television consumption continues to grow around the world. Viewers will watch 140bn more hours of television in 2011 (to 4.5 trillion hours), and 40m more viewers will be added (to a worldwide audience of 3.7bn).<sup>22</sup> Local broadcasters have a growing appetite for well-produced narrative and factual content, and successful formats. In particular, there is a growing demand for content in the BRIC countries and other expanding markets.

Television in China is growing rapidly and is rich in advertising revenues. Increased competition for viewers has led to a search for new shows, especially talent and reality shows. Although many formats have been “borrowed”, China’s larger broadcasters are beginning to import programme formats under licence – including the UK’s *Got Talent* format, and Japan’s *Hole in the Wall*. Television is also a key sales driver of retail sales, such as children’s toys. *Thomas the Tank Engine* is the number one Western pre-school toy in China and Japan.<sup>24</sup>

In parallel, digital media will enable UK content broadcasters and packagers to reach some audiences around the world directly. BBC Worldwide has led the way here, with BBC branded channels in Europe, North America, Asia and Australasia. The internet could support a further stage of this strategy with commercially funded on-demand services.

<sup>22</sup> Source: TMT Predictions 2011, Deloitte

<sup>23</sup> Source: PwC Global Entertainment Report: 2010 - 2014

<sup>24</sup> Source: <http://uk.finance.yahoo.com/news/Hit-Entertainment-circled-US-tele-1442879324.html?x=0&.v=3>



# FUTURE CHALLENGES

Despite these success stories, there are still some major challenges ahead. A major structural shift is taking place.

In the story so far, an effective IP regime has played a growing role in the sector's successful development. In the next stage of development, IP will assume even greater significance as the sector squares up to these new challenges.

## Fragmentation of audiences

The big shows still bring in big audiences. But although overall TV viewing has held up well, it is increasingly spread across more channels and new forms of distribution. This entails a radical shift in the audiovisual landscape and how costs of content production are recovered.

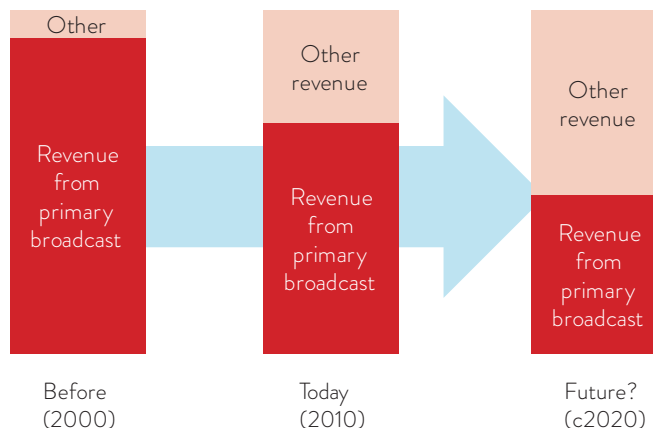
In the not too distant future, it is likely that we will see a marked shift in the pattern of consumption – and hence revenue generation. While live broadcast channels will retain their primary role, a much larger share of consumption will be accounted for by the many different ways in which audiences will have access to content: catch-up, archive on-demand, shared content via Facebook, downloads from iTunes and so on.

## The search for new revenue models

Future growth will therefore depend on finding new sources of revenue to supplement those which have funded the sector so far. As Figure 13 illustrates, while new sources of revenue will increase, primary broadcast income will almost certainly decline. This rebalancing of revenue sources has dramatic implications for the role of IP and its importance to content suppliers.

The business case for content investment will increasingly depend on expectations of revenue flows from this range of different sources – not just the initial broadcast. Figure 14 shows how the sector depends even now on a multiplicity of revenue streams. This inevitably brings more exposure to risk. Many of the potential new sources of income are still uncertain. Effective IP protection is vital to help develop these new revenue sources where they offer promise, and also to protect more conventional revenues while they remain important.

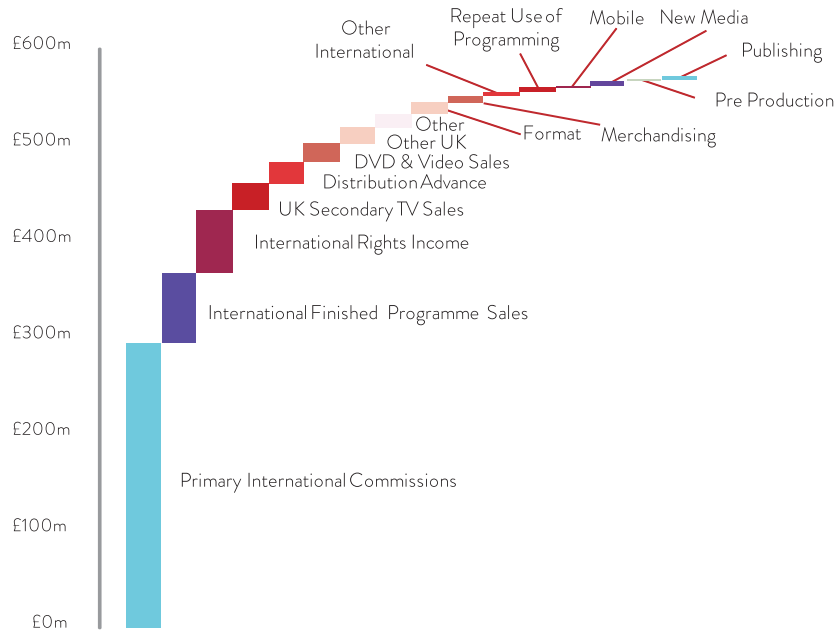
**Figure 13: The growing importance to the sector of secondary and new media income<sup>25</sup>**



<sup>25</sup> Communications Chambers estimates, illustration of possible future trends



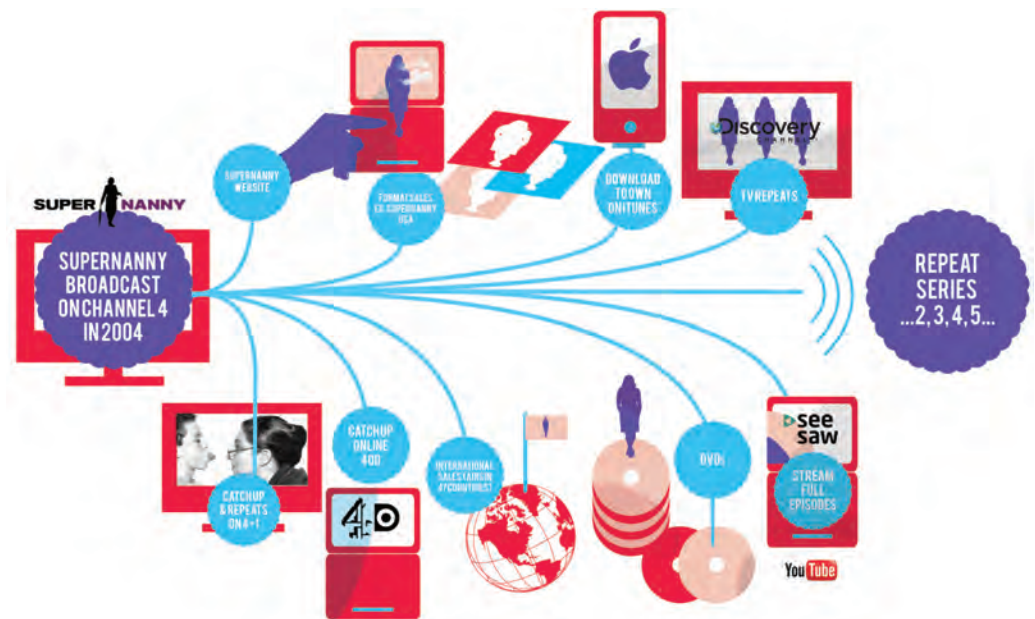
**Figure 14: Total income across multitude of revenue sources exploited by independent production<sup>26</sup>**



A good example of this is *Supernanny*, a reality TV show about parents struggling to cope with their unruly children. It was first commissioned by Channel 4 and produced by Ricochet, part of the Shed Media Group, who have successfully developed its income potential across many different markets.

As shown in Figure 15, *Supernanny* is now available on DVD, on digital download and to stream online, and has been broadcast in, and adapted for, countries including Brazil, Indonesia, Romania, China and Poland.

**Figure 15: Opportunities for content syndication following first broadcast**



<sup>26</sup> Pact: Financial Census and Survey, 2010

**Figure 16: Stylised economics of strong performing ITV UK drama (£000)<sup>27</sup>**

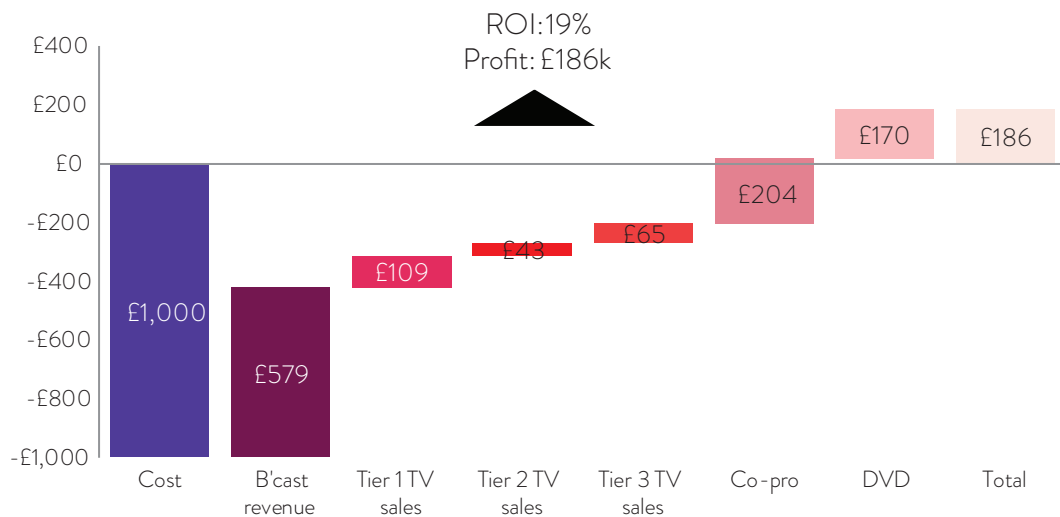


Figure 16 further demonstrates the challenge. It shows a stylised example from ITV of the potential return on investment on a well performing high quality UK drama. For this type of production, broadcast revenues typically account for 60% of the overall production budget. Without effective IP protection, making these big investment calls would become even more risky, and much less attractive. Against this background, the so-called “long tail” of content made available on the internet could play a vital role in making the difference to content providers between break-even and profits.

### New intermediaries

Broadcasters have long relied on controlling most stages of the value chain – from commissioning content to delivering directly to their viewers – via their own channels and distribution platforms. In the new world, however broadcasters and producers will increasingly need to deal with new intermediaries – content aggregators such as Apple or Google. These intermediaries will provide an alternative route for consumers to find the content they like, but in doing so will expect a share of the value generated by such content – either in the form of consumer payments (e.g. iTunes) or a share of advertising revenues (e.g. YouTube).

This poses new business challenges for the audiovisual sector. New deals can be done,

but where there are only a few powerful gatekeepers, scope for striking a fair deal may be compromised. If high value content cannot earn a fair return, then the long term supply of that content will be threatened.

IP can play a vital role here in influencing the competitive dynamics in this new market, helping ensure that content suppliers have sufficient leverage when doing deals with powerful gatekeepers to secure a fair return for their content.

### Investing in the high end

Rising competition for audience attention at home and abroad means that content providers must continually strive to produce something exciting, new and different to attract audiences. High value productions are an important means of differentiating TV content from the vast volumes of user generated content available on the internet.

Often this means investing more in content, not less. More lavish production budgets for dramas, costly location filming for natural history films and expensive talent for entertainment shows. It may mean that more programmes have to be piloted, at greater cost, to find those elusive successes. For every stand out hit, like *Downton Abbey*, there are several others no less expensive, which fail to make their mark with demanding audiences.

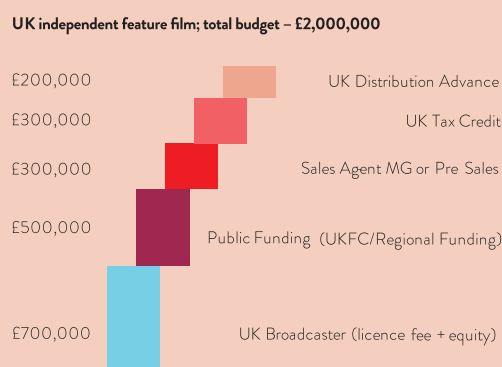
<sup>27</sup> Source: ITV Submission to the Hargreaves Review of IP and Growth

### Case study: The role of deficit funding

#### FILM4

In 2010, 6 feature films with £3.6m of Film4 investment were released theatrically in the UK, including the critically acclaimed *Four Lions* and Mike Leigh's *Another Year*. These films attracted a further £54m of co-production funding resulting in a total film production budget worth 16 times Film4's original investment. Co-financing partners included US studios, UK distributors and public funding bodies.

Illustration of financing of UK independent feature film:



As well as investing in production, Film4 currently spends between £1.5-2m a year on development finance. Only a small proportion of such projects convert into actual production, but successful films can bring both financial and creative rewards – Film4 backed productions have won 12 Oscars over the last five years.

#### PRODUCING FOR THE US

A typical scripted drama for the US networks would cost £4.5- £5m for the pilot episode and perhaps £2m an hour if commissioned. In both cases, the US network will pay around 50%. The producer will need to find around half of the costs itself or from other investors. Cost recovery and subsequent profits depends on how successfully the title can be syndicated in the US and sold around the world.

As budgets rise, so production funding increasingly needs to be found from a number of different investors rather than just one commissioner. TV funding, at the top end, now resembles film industry financing much more than ever before. Instead of a single passionate commissioner prepared to take an artistic risk and with access to funding internally, producers must now persuade one or more co-producers to come up with the funding. Their decisions will be made on the basis of a simple risk/reward calculation. IP underpins that assessment.

#### Threat of piracy

On top of these challenges is the threat of piracy, which will increase as broadband penetration and speeds grow. For obvious reasons, good data on the true extent of piracy are hard to come by. An Ipsos survey in 2007 found that 32 per cent of UK adults had engaged in some form of film or TV piracy, which, they estimated could be causing losses to the sector of around £500m. Even if this was at that time at the high end of possibilities, there is still clearly a potentially significant future problem. In South Korea, which has one of the world's highest take-ups of high speed broadband, the problem has already been recognised, but solutions are proving problematic.

<sup>28</sup> UK Piracy Study, Ipsos, 2007

The story of the impact of piracy on the UK music sector is well known. The immediate threat to audiovisual content may be less apparent – AV content is often made available free to audiences (funded by advertising) and so stands to lose less initially through pirated versions of content. As the revenue mix shifts more towards various forms of pay, however, and piracy reduces measurable audiences for advertiser funded content, then the pain becomes increasingly acute.

Piracy is not only a problem for domestic consumption, but is also an increasing international challenge. In China, for example, the internet is used to download pirated versions of the latest US TV shows often just a few hours after they are broadcast in the US. As noted earlier, formats are often simply borrowed or adapted by the main broadcasters there rather than licensed.

### **A clear message**

---

One clear message shines through all these developments. The content sector is in the early stages of a major rebalancing of revenues which will affect funding for content across traditional and new sources. While broadcast distribution will remain key to future success, it will no longer be enough on its own to guarantee the funds needed to support high production value investments. A range of new revenue-generating mechanisms will be needed as well. Success in developing these new sources will determine the long term future of content investment in the UK.

### **Case study: South Korea's experience with video piracy**

In many markets the music industry has suffered badly from online piracy. South Korea shows that the AV industry can face the same problems once high speed broadband is in place.

South Korea has aggressively pursued high speed broadband, and today approximately half of all households have connections offering speeds of 100Mbps or more.

Such speeds allow the rapid downloading of large video files. This, in combination with lax attitudes to intellectual property rights, has enabled an explosion of video piracy – 85% of those with high speed connections were believed to be illegally downloading movies.

DVD sales fell by 62% between 2002 and 2008 (vs. 86% growth in the US). As of 2008, Paramount, Universal, Buena Vista and 20th Century Fox had all closed domestic operations in South Korea.

Pirated versions of new movies are typically available for free or for KRW400 (22p, with fees charged to the user's mobile phone), compared to a typical DVD price of KRW20,000 (£11.17).

In recent years the South Korean government has been increasingly energetic in tackling the problem, via education, cutting off repeat downloaders, prosecuting pirate websites and even subsidising content acquisition costs for legitimate sites. Nonetheless, piracy remains a serious problem in Korea.

# SECURING THE FUTURE

At the heart of the response to all of these challenges is the need for an effective IP framework. The current IP regime has worked well so far in enabling the UK audiovisual sector to adapt to change and to build new revenue sources. It has underpinned the success story set out in this report. Nevertheless, there is a legitimate debate underway in the UK and across Europe about how best to secure continued investment in IP, while allowing consumers and other users reasonable access to that IP.

## The IP trade-off

IP policy ultimately must be informed by a trade-off between the long term benefits of copyright protection – in this case in the form of a greater supply to consumers of innovative and high quality content – and the potential short term costs – for example, reduced access to content, or access for a price. Our view is that the balance of benefits and costs in this case is clearly in favour of retaining the key features of the current framework.

Certainty about IP rights will allow producers to decide whether or not to take a risk in investing in content. It will allow broadcasters and distributors to determine whether or not they will make enough income across different media to cover their costs. Above all, it will provide incentives for continued investment in a wide range of high quality content which can be made available across many different media in different ways, to the benefit of both the industry and consumers and the economy as a whole. Moreover, its effectiveness will be even more important in the future. If the IP regime were to be weakened, the costs could be high, with the risk of a vicious circle of declining revenues, leading to declining investment, leading to further declines in audiences and revenues.

### Case study: IP and the UK audiovisual sector: benefits outweigh the costs

The economics of IP are relatively straightforward. Economist Christian Handke explained how it works in his paper for the UK Strategic Advisory Board for IP.<sup>30</sup> On the one hand, without IP, fewer creative works would be supplied than would be socially desirable. On the other hand, copyright entails costs, by restricting consumer access and use for follow-up creation. A trade-off has to be made.

Often, this entails a trade-off between short term costs (in terms of costs of access for consumers, and possibly monopoly profits for suppliers) and long term benefits (in terms of greater incentive for the production of creative works, more innovation among suppliers). The risk to follow-on innovation is often hardest to quantify.

How should this trade-off be made? In the case of the UK audiovisual sector, the answer seems reasonably clear: the long term benefits are likely to outweigh the short term costs.

The long term value to the UK of a healthy audiovisual sector is high. Huge consumer benefits flow from continuing investment in high quality audiovisual content. That much is evidenced by consumer willingness to pay for high value content and a healthy demand for all forms of TV. But there are also significant social, cultural and economic benefits associated with the availability of a diverse range of audiovisual content, which are well recognised in UK audiovisual policy.

On the other hand, the short term costs of effective IP protection for the audiovisual sector are likely to be pretty low. The competitive environment in the UK market means that monopoly rents for rights holders are unlikely to be sustainable. And content is increasingly being made widely available on the internet at or soon after its first release at a range of price-points. The signs are that the audiovisual sector is learning one big lesson from the music sector – that is, to develop models which do allow consumers wide access to content at affordable prices, so reducing incentives for use of pirated content. Much content is provided free to air (advertising and licence fee funded) or at relatively low prices via new internet on-demand models.<sup>31</sup>

<sup>30</sup> The Economics of Copyright and Digitisation, Handke, SABIP, 2010

<sup>31</sup> The practice of releasing content in different release windows, over different media and at different prices can bring significant consumer benefits. Consumers who value the content most will pay the highest price for immediate release; while others who attach less value to the content will be able to pay less if they are prepared to wait a little. Such price differentiation can be shown to be an efficient way of recovering fixed production costs while enabling more consumers to access the content than would be possible with a single price.



### **Case study: Action on piracy**

One obvious threat to the future success of the audiovisual sector is the impact of piracy. Here, there are two key areas in which government and industry need to work together to help ensure that potential growth can be realised.

#### **EFFECTIVE ACTION AT HOME**

The UK audiovisual sector is making great progress, as described in this report, in improving access to its content across multiple media with a range of “free” and “pay” models. This should go some way towards encouraging more legitimate use of content in the UK. Nevertheless, further action may be needed to deter those consumers who are still illegally downloading large amounts of high quality content. The Digital Economy Act sets out a staged process for rights holders to take action against those making unlawful use of IP protected material, especially where there is mass copying and distribution for commercial reward.

#### **ENCOURAGING RESPECT FOR IPR INTERNATIONALLY**

As we have explained, the UK audiovisual sector is a major exporter of TV formats and finished programmes around the world. Continued success here depends on an effective IP enforcement regime that can work well in important emerging markets. The UK government could help here by encouraging the relevant international copyright institutions such as WIPO to take a more robust approach to copyright challenges in major global markets.

On the other hand, consumers are already increasingly benefiting from high levels of access to the content they wish to consume, across many different media and platforms. As this report has shown, it would be hard to argue convincingly that UK content is not now widely available across old and new media. Avoiding the early mistakes of the music industry, UK television companies have set about exploiting new distribution channels and formats with a vengeance, to the benefit of millions of consumers.

There is scope for incremental improvement to the current IP regime, however. A sensible and informed debate should be had, for example, about enabling access to IP for appropriate private and educational use. In the end, the public legitimacy or credibility of any IP regime will depend not just on the content it encourages to be made, but also on the extent to which consumers feel they have fair access to that content. Such debate should be informed by a full understanding of the trade-offs described above, and should as far as possible be based on clearly identified fair dealing exceptions.

Piracy problems also warrant further focus, as set out in the accompanying case study.

### **Wider access to IP**

---

A residual concern arises around the question of “follow-on innovation” and in particular access to audiovisual IP by a whole new generation of hopeful internet entrepreneurs. Should they have easier access to content so that they can use it to help create new businesses? Can their needs be accommodated while securing the continued success of our unique audiovisual sector?

The answer, we contend, is partly to be found in recent history: the independent production success story.

The dynamic growth of the UK independent TV production sector was immensely helped in its early days by the funding, business advice and support for development provided by their main customers – the broadcast networks. The independents then used IP to build their businesses at home and abroad.

Looking forward, it seems to us that the appetite and incentive is there for the key broadcasters and producers to work with SMEs and new internet entrepreneurs in the UK along the lines of the successful case studies described earlier in this report.

Our final case study is another good example of how this is already working in practice.



## Preserving the jewel

The UK audiovisual sector is a jewel in our economic crown. Although not on the scale of oil or finance, its influence throughout the economy is more significant than direct financial data alone would suggest. It is delivering real and growing value now, not the distant prospect of development in the future. It is a field in which the UK excels internationally and which has the potential to grow further. It generates important social and cultural benefits for the whole UK. It can help support a new generation of entrepreneurial small firms to prosper and grow.

### Case study: *Flying Monsters: a network of creative innovation*

Sky commissioned *Flying Monsters* for broadcast in 2010, as a flagship 3D factual programme. The film, about the life of pterosaurs, was written and presented by Sir David Attenborough, and produced by London-based factual production company, Atlantic Productions. It uses an amazing mix of 3D, computer animation and special effects to create the world in which these long gone creatures lived. *Flying Monsters* illustrates many of the points made in this paper. It cost several millions of pounds to make, a prime example of the growing importance of high value, high impact programming. Sky jointly financed the production with National Geographic Entertainment, sharing the IP, and the finished film has been shown in Imax cinemas as well as on TV, hence tapping into new revenue sources.

Atlantic, who made the show, employs around 50 people in the UK, and has made programmes for audiences in over 40 countries. It specialises in bringing history, science and other factual programming to life with imaginative and innovative visual approaches. As well as its work for television, Atlantic has successfully developed multiplatform and web-based content – for example its Ueverest.com site which allowed a global audience to follow the progress of an expedition to the summit of Everest moment by moment, through video feeds, photos, biometric data, online diaries and blogs. Content from the expedition was also seen on a specially branded channel on YouTube.

In the course of its production of *Flying Monsters*, Atlantic worked with a wide range of dynamic young companies in the London post-production sector, all of whom are working internationally as well as in the UK. They included Zoo and CVFX (computer animation and special effects), On Sight (latest HD and 3D production and post production techniques), Vision (3D specialists) and Molinare, (one of the longest established UK post-production specialists). Collectively these are as good an example as any of the strengths of the UK audiovisual content sector, and its scope for innovation and growth.

A combination of funding, profile and business expertise provided by successful UK audiovisual companies, alongside the skills and ideas of new internet-based companies, will position the UK to take advantage of the opportunities presented by both. For this to work, we need an IP framework in which all participants – broadcaster/producers and internet entrepreneurs – can be certain they will be properly rewarded for their efforts.

If we get the balance right, this will benefit both the sector itself and the UK as a whole.

## **Acknowledgements**

---

The authors would like to thank all those at BSkyB, Channel 4, ITV and Pact who provided support and information for this report. We would also like to thank all those from the sector who provided information for our case studies, and also our colleagues from Communications Chambers, Rob Kenny and Aileen Dennis, for their input and advice. The interpretations and opinions in this report are, however, entirely our own.

## **For further information**

---

If you would like to discuss any of the issues raised in this report, please contact Robin Foster or Tom Broughton at:

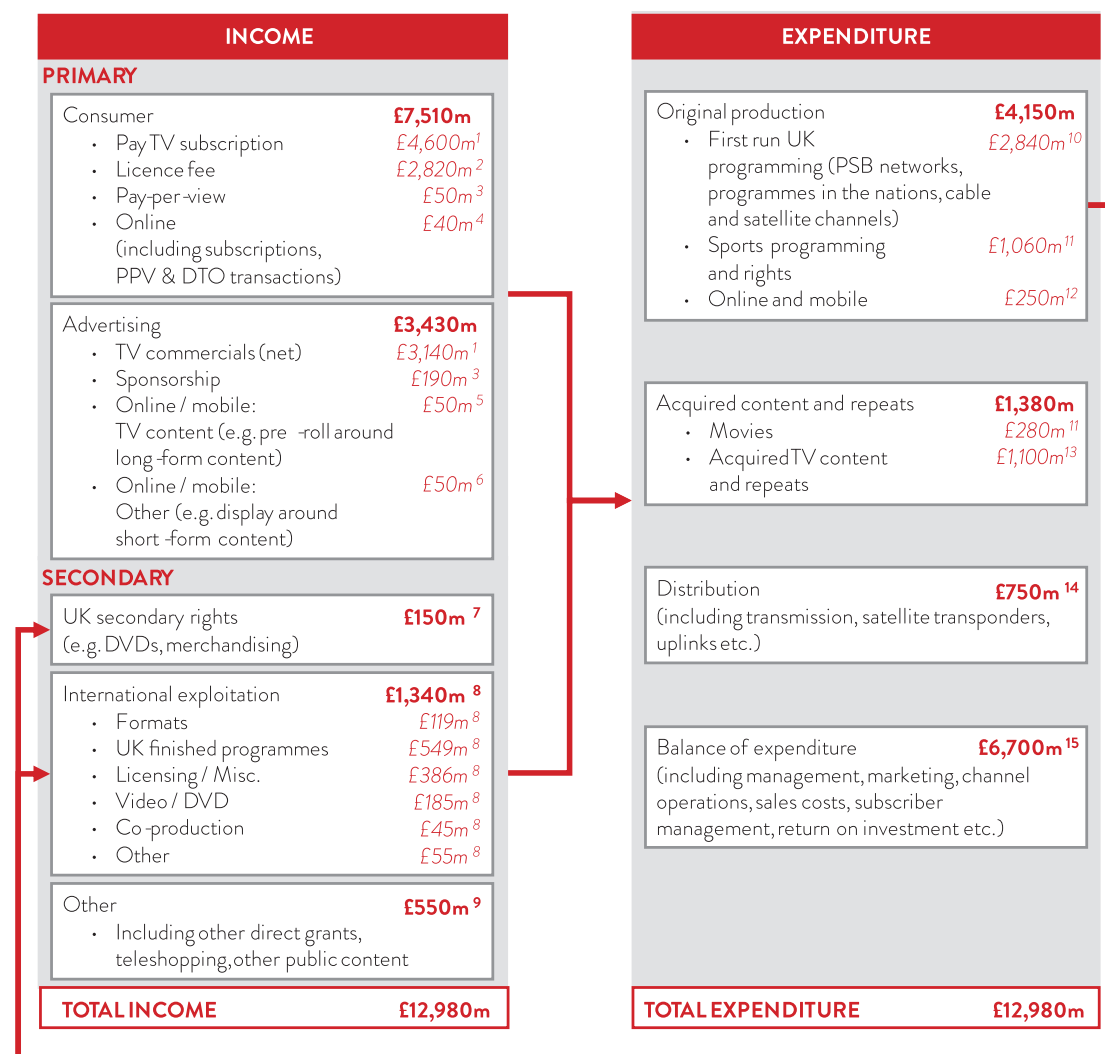
**[robin@commcham.com](mailto:robin@commcham.com)**

**[tom@commcham.com](mailto:tom@commcham.com)**

The report is available at the Communications Chambers website: **[www.commcham.com](http://www.commcham.com)**

# APPENDICES

## Flow of funds



## Sources

1. Ofcom CMR 2010, Fig 2.28
2. Ofcom CMR 2010, Fig 2.28, Ofcom PSB Annual Reports
3. Ofcom CMR 2010, Fig 2.33
4. Screen Digest
5. IAB, PwC, CC estimates
6. CC estimates, based on press reports etc
7. Pact 2010 Census, BBC Annual Report, CC estimates
8. TRP/Pact UK TV exports survey
9. Ofcom Comms Market 2010, Fig 2.33, CC estimates
10. Ofcom Comms Market 2010, Figs 2.36, 2.41, 2.46; Deloitte report for the Satellite and Cable Broadcasters' Association
11. Ofcom CMR 2010, Fig 2.46
12. CC estimates, drawing on press reports and surveys
13. CC estimates based on Ofcom and UK import statistics
14. CC estimates based on BBC, Sky, Channel 4 annual reports and press reports
15. Balancing item

# REFERENCES

- A Creative Block: The Future of the Creative Industries, Work Foundation, Dec 2010
- Annual Report of PSB, Ofcom, 2010
- BBC iPlayer Statistics: Online Monthly Press Pack, BBC, Various
- Biannual Advertising Spend Study, Internet Advertising Bureau, PwC, March 2011
- Broadcast, Indies 2008: The Annual Survey of the UK's Independent TV Producers', pp1-34, supplement of Broadcast, March 14 2008
- Communications Market Report, Ofcom, 2010
- Company Annual Reports including BSkyB, Virgin Media, BBC and ITVplc
- Creative Industries Economic Estimates, DCMS, 2010
- Creative Industries Technology Strategy, Technology Strategy Board, 2009
- Deloitte report for the Satellite and Cable Broadcasters' Association, Deloitte for COBA, 2011
- Exploiting Ideas: Creating Growth through IP, CBI, March 2011
- Family Spending Survey, ONS, 2010
- Fostering Creative Ambition in the Digital Economy, Analysys Mason for DCMS, May 2009
- Independent Production Sector Financial Census and Survey 2010, Oliver & Ohlbaum for Pact
- International Communications Market Report, Ofcom, 2010 Macquarie UK Broadcast Holdings Limited Network Access and Managed Transmission Services Financial Statements, year end June 2010
- New News, Future News: The challenges for television news after Digital Switch-over, Ofcom, 2007
- Pew Research Centre, 2011
- Pipe Dreams? Prospects for Next Generation Broadband Deployment in the UK, BSG, 2007
- PwC Global Entertainment Report: 2010-2014, PwC, 2010
- Rebalancing the Economy: Evidence to the BIS Select Committee, Pact, Jan 2011
- Rights of Passage, UK Trade and Investment, 2009
- Staying Ahead: The Economic Importance of the UK's Creative Industries, The Work Foundation, 2007
- Submission to Hargreaves Review, ITV 2011
- The Audience's View on the Future of Public Service Broadcasting, Ipsos Mori, 2008
- The Economics of Copyright and Digitisation, Handke, SABIP, 2010
- The Economist, November 18 2010
- The Independent Production Sector: A Market Update, Mediathique, August 2009
- TMT Prediction 2011, Deloitte, February 2011
- TV on Alternative Platforms, Ipsos TouchPoints3 data, 2010
- UK Piracy Study, Ipsos, 2007
- UK Television Exports 2009, TRP for UKTI / Pact, 2009
- UK TV exports buck recession trend, UKTI news release, 5 October 2010
- Visual Networking Index Forecast, Cisco, June 2010



