

The acquired content market in Europe

An analysis of the industry in 2010

EXECUTIVE SUMMARY

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About Content Economics Research

Content Economics Research is a European market research and consulting company, specialising in analysis of the television content production and distribution sector. Its market research reports are crafted by a small, dynamic team, who have over a decade's experience analysing the European television industry and who possess global contacts and exceptional strategic insight and analytical intelligence.

Content Economics Research publishes a free, weekly email newsletter, which provides insight into the latest news, developments and trends in the business of TV content. If you wish to stay up-to-date with the sector, please sign-up for this email at: www.ContentEconomics.com.

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CHAPTER 1: EXECUTIVE SUMMARY

The acquired content industry is essentially based upon the buying and selling of completed programmes by distribution companies to television broadcasters. It is estimated that European broadcasters spent \$4.7bn acquiring television programmes and format licences in 2009. With the tightening of production budgets, distribution revenues are becoming an increasingly important aspect of the business plan proposal for a new production. Disney and Warner Bros are estimated to be the largest distributors in Europe, while BBC Worldwide is the largest European distributor. American drama is the most expensive form of acquired content.

INTRODUCTION

In simplified terms, a broadcaster transmits two types of programmes: one that it has originally commissioned and produced and, the other a programme that it has bought as a finished product from a distributor – and which has already been broadcast by the original commissioner. The buying and selling of finished, or completed, programming, as well as the trading of format licensing rights, is known as the acquired content industry or the distribution industry. This report analyses the market in Europe.

With the exception of foreign imports, the broadcasting of an acquired programme will be a repeat transmission. And because the programme is generally a repeat, it is far cheaper to buy an acquired programme than to commission an original one.

In American terms, the acquired content industry is, in many respects synonymous with the content syndication market.

This report does not analyse the acquisition of feature films, nor sports' rights.

MARKET CONTEXT

Acquired content plays an important part in any schedule

A broadcaster generally transmits five different types of programming: acquired, feature films, news, original commissions and sports. For public service broadcasters, original commissions are the largest constituent of the programming schedule, with acquired programming the second largest. But for small, multi-channel broadcasters it is typical that the entire schedule will be composed of acquired programming.

From commissioned to acquired

The process involved in creating acquired content is typically about 18-24 months in duration. To begin the process, a broadcaster will commission a production company to produce an original programme for it to broadcast. Once the broadcaster transmits the programme or series, typically 18 months later, and has utilised any repeat rights that may have come with it, the rights owner of the programme can then distribute or sell it on the acquired content market to other broadcasters.

Not just about finished programmes, also formats

In addition to the distribution of completed programmes, the acquired content industry also deals with the sale of programme ideas or templates, known as formats. A format is the branding, guidelines and copyright to produce a programme that has already been broadcast elsewhere but as an original programme using local talent.

American content is universally popular

American imports are the most expensive type of acquired programming in the world. High production budgets combined with international Hollywood stars create the glamour and cinematic gloss that audiences across Europe appreciate and, thus broadcasters have to pay highly for them. Premium American dramas, such as *24* or *Desperate Housewives* are typically as popular in Italy as they are in the Netherlands or Austria. European acquired content is not as widely received.

Europeans have output deals with Hollywood

Across Europe, many broadcasters have output deals with the major Hollywood studios. An output deal sees the broadcaster pay a certain amount over a number of years to have exclusive, 'first-look' access to a studio's new productions and its library of content.

Of the larger European markets, the UK is somewhat unique in having few Hollywood output deals.

Popularity not solely due to price

For the most part, acquired content is bought because it is cheap to broadcast. As with most industries, a programme that is 'used' does not cost the same as an original. But price is not the sole determinant; broadcasters are, at times acquiring creativity and production values that they are not able to commission themselves, mostly for budgetary reasons.

Trade shows in Cannes and LA

Despite the increasing ease of distributing and watching clips or entire series online and, thus reducing the need for a distributor to visit the physical premises of a potential client, trade shows continue to play an important part in the sales process. The buying and selling of acquired content for the European market is facilitated by three key trade shows:

- LA Screenings (May): the key trade show for American content;
- MIPTV (April): without parallel for European distributors;
- MIPCOM (October): a smaller version of MIPTV but with the new season of American programmes.

Arguably, the most important trade show is one that European broadcasters and distributors are not invited to – the Upfront presentations of the new series to the American advertising community in early May.

MARKET DYNAMICS

Distribution revenues are moving beyond a ‘nice-to-have’

Distribution revenues have, for much of the history of television production, almost been an after-thought, a ‘nice-to-have’. But, with broadcasters now seeking to reduce production budgets, producers are seeking to expand their revenue opportunities via the secondary rights window of distribution. There is a general trend towards new production business plans requiring an estimate of the secondary revenues before they are signed off.

American producers have long sought to sell their programming internationally but this long-standing perspective is somewhat unique. And, that said, it is only recently that international distribution revenues have moved from ‘nice-to-have’ into the ‘must-have’ territory for American producers because of the rising production costs of premium dramas.

Some distributors provide production capital

With broadcasters tightening their budgets, producers are often forced to find 20-90% of the financing for a project themselves. By a process known as deficit-funding, producers finance projects by pre-selling secondary rights. Distributors are key participants in this process and either directly invest in the production, or promise to acquire the distribution rights for a set price, once the project is delivered.

Warner Bros and Disney are the leading distributors

Hollywood studios are the largest distributors of acquired programming in Europe, based on revenue. While market share fortunes can fluctuate quickly from one season to the next, it is estimated that Warner Bros (*Gossip Girl*, *The Mentalist*) and Disney (*Desperate Housewives*, *Lost*) lead the market in 2009. Warner Bros, with its rumoured \$500m annual pilot budget fund, typically has almost twice the number of new programmes to sell each season than any other studio.

BBC Worldwide is Europe's largest distributor

The league table for the leading European distributors is dominated by companies based in the UK, with BBC Worldwide at the head of the table. The UK's dominance is, among other factors, because most of the large European producer-distributors have their distribution operations based in London.

American programming is *the* acquired content

American acquired programming is the most popular of all acquired content. It is also the most expensive to produce. As a consequence of these two factors, it is also the most expensive programming to acquire. For many European broadcasters, purchasing American content is the single largest expenditure of their acquisition budget.

Free programme publicity and positive for a channel's brand

American content is attractive to broadcasters because most programmes have international stars, who bring with them free hype and publicity in the local media – often long before the programme is even aired in the local territory. Given the general high awareness of American content by consumers, as viewers browse an electronic programme guide (EPG) for a programme to watch, American programmes are generally titles that they will instantly identify with and they are more likely to decide to stop at, than a name that they do not recall.

In addition, the higher production values of American drama in particular, reflect positively on a channel's brand. In many markets, audiences perceive American programmes to be superior to locally produced content. Consequently, those channels with popular American content are perceived as having a stronger brand.

Long-running series help fill schedules

American content is typically produced in series which run for between 13 and 25 episodes, far longer than most European series, some of which might run for only six episodes. Long-running series are popular with broadcasters because they require

less management of the programming schedule and, additionally the marketing spend for one long series is lower than for three or four shorter series. Long-running series are also appealing to viewers, who like the comfort of knowing that a certain programme is 'always on' at a certain time on a particular channel.

Commercial broadcasters are the key clients

Europe's public broadcasters do acquire American content but, for the most part the largest investors are the commercial channels. The public broadcasters generally put most of their programming budget into commissioning locally produced content.

European public broadcasters to reduce their budgets?

One impact of the recession has been the growing demand that public broadcasters focus on commissioning original content from the local production community, rather than investing in American content. The BBC has been particularly public in its planned decision to slash its American acquisition budget by 20%. Some of its publicly-funded European counterparts are likely to make similar decisions.

American cable now producing near-premium content

The premium tier of American drama is produced by and for the key terrestrial network broadcasters ABC, CBS, Fox and NBC. However, in recent years the American cable operators have begun to invest more heavily in commissioning original content, e.g. *Mad Men* (AMC) and *Damages* (FX). The production budgets of these dramas are approaching those of the network broadcasters', as are the prices commanded.

Supply reduced as broadcasters cut original commissions

The distribution industry is based on the production of original programming by broadcasters. But as a consequence of collapsing advertising revenues, many broadcasters have reduced their investment in original commissions, in order to save money. The impact of this decision is now being felt by the distributors, which are finding that there are far fewer new programmes available for sale on the secondary market – particularly expensive, high-end dramas.

Independent distributors: challenging economics

The business model of the independent distributor has come under substantial pressure because it has been squeezed at both ends by a decline in the supply of new content and downward pressure on prices by broadcasters. In the face of a decline in the supply of original commissions, competition for new content has forced prices higher. But distributors have been unable to pass this price increase on to their

customers because broadcasters have refused to pay higher rates, or even the same rates as two years ago.

The outcome of this economic reality is likely to be further consolidation amongst independent distributors, particularly on the Continent, and also the coming together of more integrated producer-distributors ventures.

The rise of the format industry

With the decline in programming budgets during the recession, broadcasters became more conservative in their programming investments. The one type of content that truly benefited from this shift was formats. A format enables a producer to acquire the intellectual property behind a programme that has been successful in other markets and to produce it, using local talent. If a programme has been successful in one market, then the chances are that it will be successful in others. Therefore, acquiring the rights to a format de-risks the programming investment decision.

Children's content – a unique genre

Unlike other acquired content, children's content is unique. Not only is American content not the most expensive but, also, producers have long assessed the value of secondary rights before approving new projects. Additionally, in stark contrast to the rest of the industry, distributors of European children's content are in general the largest players, in part because Europe is a creative hub for children's programming.

A more developed view of secondary revenues

Producers of children's content have long sought to exploit secondary revenues, including those from international distribution. New projects are typically deficit-funded to a far higher degree than other programmes, due to the potential of the secondary revenues market. As an example, Entertainment One's *Peppa Pig* brand has now generated over \$150m in retail sales from licensing and merchandising agreements in the UK alone.

Given the potential for secondary revenues, some rights' holders offer their content to broadcasters for free.

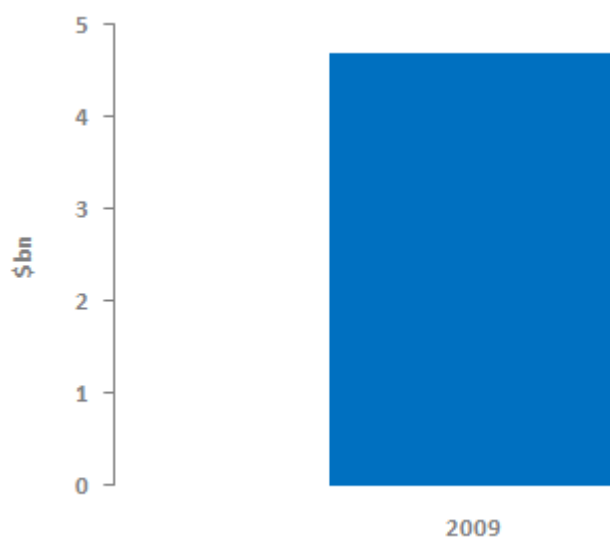
The digital opportunity – still not here

Negotiating the inclusion of digital rights in an acquisition deal remains a complex affair, predominantly as both sides are concerned about agreeing to terms which inadvertently provide the other side with an unanticipated fortune. All parties in the distribution industry are keen to exploit the growth opportunity represented by digital networks but, to-date the actual revenues are broadly immaterial.

MARKET SIZE

It is estimated that European broadcasters spent \$4.7bn on acquired content (finished programmes and format licences) in 2009 – with the UK the largest market. The overall market should have grown substantially during the downturn, as broadcasters sought to acquire content, rather than produce it, in order to keep costs low. However, in addition to demanding higher volumes of acquired hours, broadcasters also insisted that the prices be reduced as programming budgets were being tightened. The net impact was negative.

Figure 1: Estimated expenditure on acquired content in Europe, 2009



Source: Content Economics Research

US content is dominant

Given that American acquired content is the most expensive, it is of little surprise that more money was spent acquiring American content, than on acquisitions from any other country.

Growth to come from Eastern Europe

The acquired content market in Western Europe is relatively mature. Over the longer-term, growth for distributors will come from Central and Eastern European markets.

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APPENDIX

The data used to produce the figures in the report are detailed below.

Figure 1 (page 9):

Table 1: Estimated expenditure on acquired content in Europe, 2009

(\$bn)	2009
Total	

Source: Content Economics Research

Figure 8 (page 55):

Table 2: Estimated expenditure on acquired content in Europe, 2009-10

(\$bn)	2009	2010	Growth
American acquisitions			
European acquisitions			
'Other' acquisitions			
Total acquisitions			
Format licences			
Total formats and acquisitions			

Source: Content Economics Research

Figure 10 (page 57)

Table 3: Estimated expenditure on American acquisitions in Europe, 2009-10

(\$bn)	2009	2010	Growth
Total			

Source: Content Economics Research

Figure 11 (page 58)

Table 4: Estimated expenditure on American acquisitions by country, 2009-10

(\$m)	2009	2010	Growth
Austria			
Belgium			
Denmark			
Finland			
France			
Germany			
Ireland			
Italy			
Netherlands			
Norway			
Portugal			
Spain			
Sweden			
Switzerland			
UK			

Source: Content Economics Research

Figure 12 (page 59)

Table 5: Estimated expenditure on European acquisitions in Europe, 2009-10

(\$bn)	2009	2010	Growth
Total			

Source: Content Economics Research

Figure 13 (page 60)

Table 6: Estimated expenditure on European acquisitions by country, 2009-10

(\$m)	2009	2010	Growth
Austria			
Belgium			
Denmark			
Finland			
France			
Germany			
Ireland			
Italy			
Netherlands			
Norway			
Portugal			
Spain			
Sweden			
Switzerland			
UK			

Source: Content Economics Research

Figure 14 (page 61)

Table 7: Estimated expenditure on 'other' acquisitions in Europe, 2009-10

(\$m)	2009	2010	Growth
Total			

Source: Content Economics Research

Figure 15 (page 61)

Table 8: Estimated expenditure on 'other' acquisitions by country, 2009-10

(\$m)	2009	2010	Growth
Austria			
Belgium			
Denmark			
Finland			
France			
Germany			
Ireland			
Italy			
Netherlands			
Norway			
Portugal			
Spain			
Sweden			
Switzerland			
UK			

Source: Content Economics Research

Figure 16 (page 62)**Table 9: Estimated expenditure on format licences in Europe, 2009-10**

(\$m)	2009	2010	Growth
Total			

Source: Content Economics Research

Figure 17 (page 63)**Table 10: Estimated expenditure on acquired digital rights in Europe, 2009-10**

(\$m)	2009	2010	Growth
Total			

Source: Content Economics Research

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- Content Economics Research is part of the Valued Insight Limited group of companies. Its head office is based in the UK:

24 Abdale Road, London. W12 7ET. England.

Telephone: +44 (0) 203 287 7432

Email: sales@ContentEconomics.com
- Further information about the company can be found on its website: www.ContentEconomics.com.