



**Oliver & Ohlbaum**

# **UK Television Production Survey Financial Census 2016**

September 2016

A report by Oliver & Ohlbaum Associates Ltd for Pact

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2. Revenue growth

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## Increased diversification leads to a return to growth for the TV production sector

**The UK television production sector continues to see a gradual shift in revenue mix, reacting to low growth in the core UK market by diversifying into more overseas production and international rights trading**

The UK television production sector grew by 3.5% in 2015 recovering to almost £3 billion in total revenues. This is based on actual and estimated producer returns excluding wholly PSB owned production companies.

International rights income and primary commissions from overseas broadcasters have been the main drivers of growth. International rights income rose from £93m in 2014 to £152m in 2015 while overseas primary commissions grew from £599m to £697m. This growth offsets declines in the reported value of UK finished programmes sold overseas and a slight year-on-year decline in UK primary commissioning income.

The reported mix of non-TV revenues continues to be volatile from one census year to the next, with no clear pattern emerging yet.

This year, for the first time, we also present findings on the regional spread of production activity. Spend and employment within television production mirror each other reasonably closely. Over 35% of spend and employment occurs outside of London. Scotland and the North West are the most prominent regional areas in the industry.

### Overall revenues up year-on-year

Up £100m on 2015 census figures; suggests that the 2014 decline is not a trend

### International commissions and rights drive growth

Overseas revenues grew by 18.3% year-on-year

### Income derived in the UK broadly flat in nominal terms

Producers continue to be competitive despite broadcaster consolidation

### In the UK, over a third of activity now outside London

The North-West and Scotland are the main hubs

## Approach and Methodology

### The Census report is based on financial returns from a broad cross-section of active UK production companies

The Pact Census is an annual report detailing the characteristics and evolution of the television production landscape within the UK. The Census is now in its eleventh year having been conducted throughout the past decade.

By collating yearly market data, the Census provides a unique opportunity to understand the underlying trends shaping the UK television production industry.

Benefits of the Pact Census:

- The survey is completed by a large cross-section of the UK production sector.
- The data collected during the survey is very granular, enabling a more detailed picture of trading trends to be developed.
- A consistent approach over the last decade enables the identification of long term industry trends.

The Pact Census defines the 'UK production sector' as all production companies in the UK excluding those companies wholly owned by PSBs. All references to producers and the production sector within this report follows this definition.

The Pact Census is conducted through a detailed financial survey of Pact members. Pact currently represents the majority of production companies active in the UK market.

The survey captures detailed information about the past two financial years. This data is then aggregated and used as the basis to estimate the overall size of the market and specific sub-segments of activity.

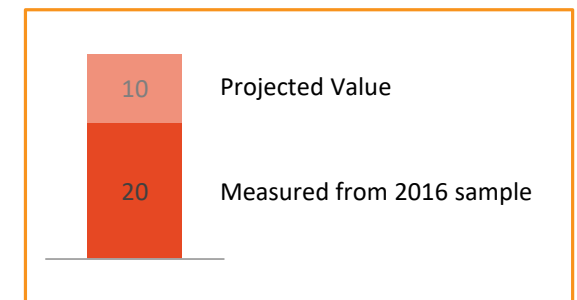
This year 88 completed responses were received. Respondents within the 2016 sample accounted for £2.07bn of industry turnover within the 2015/16 financial year, this is greater than the 2015 Census sample which totalled £1.75bn.

For the 2016 Census, the turnover band ranges (used in grossing up the sample responses to provide an estimate for the overall industry) have been kept consistent with the revised methodology introduced in 2009.

Due to different company reporting periods, the annual census returns include financial information spanning 2014 and 2015.

Changes in how consolidated groups reported their international revenues have resulted in a change to our estimation methodology this year. Where a detailed breakdown of income is unobtainable we have captured the likely value of sales based on year-on-year growth rates to accurately reflect the market. For the 2016 census, this change mainly relates to international income.

Projected values are marked with a lighter shade of colour where appropriate in the following figures. This has been done to clearly separate projected values from the reported values measured within this year's sample.



The total of these two components is equivalent to the actual size of the market.

## 1. Summary

## 2. Revenue growth

- After a fall in 2014, total industry revenue recovered back to 2013 levels
- Growth in TV revenues was primarily driven by international income
- New media income grew but non-TV revenues are still only a minor part of the industry

## 3. UK commissioning trends

## 4. International and rights revenues

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# Revenue growth - Overview

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**The sector experienced a return to growth in 2015, with total sector revenues increasing both across TV and non-TV**

The UK production sector regained momentum in 2015. Following last year's decline in reported revenues, the production sector experienced some recovery both across TV and non-TV activities bouncing back to 2013 levels.

Primary UK commissions remained broadly stable over the last year while there was some growth in UK rights income. International sales of UK finished programmes were down, but overall international revenues increased due to higher overseas primary commissioning and rights sales activity.

Non-TV revenues, particularly new media commissioning within large TV production companies in the UK, remain volatile. Growth in the last year was driven by another step up in new media income, but a clear long-term trend is yet to emerge.

### **The UK production sector bounced back in 2015**

- The overall size of the industry in 2015 was just below £3.0bn. The proportion of revenues derived from TV contributed 94% of all sector income, similar to last year.
- The increase in revenues was mainly driven by international TV revenues which grew by 13.4% in 2015, in comparison UK TV revenues shrunk slightly by 1.6%.

### **Income from UK primary commissions remained stable in 2015**

- Primary commissioning spend remained stable in 2015 at £1.6bn.

### **International activities showed an increase in revenues and overseas income remains important**

- International sales of finished programmes saw a slight decline, but overall international revenues increased.

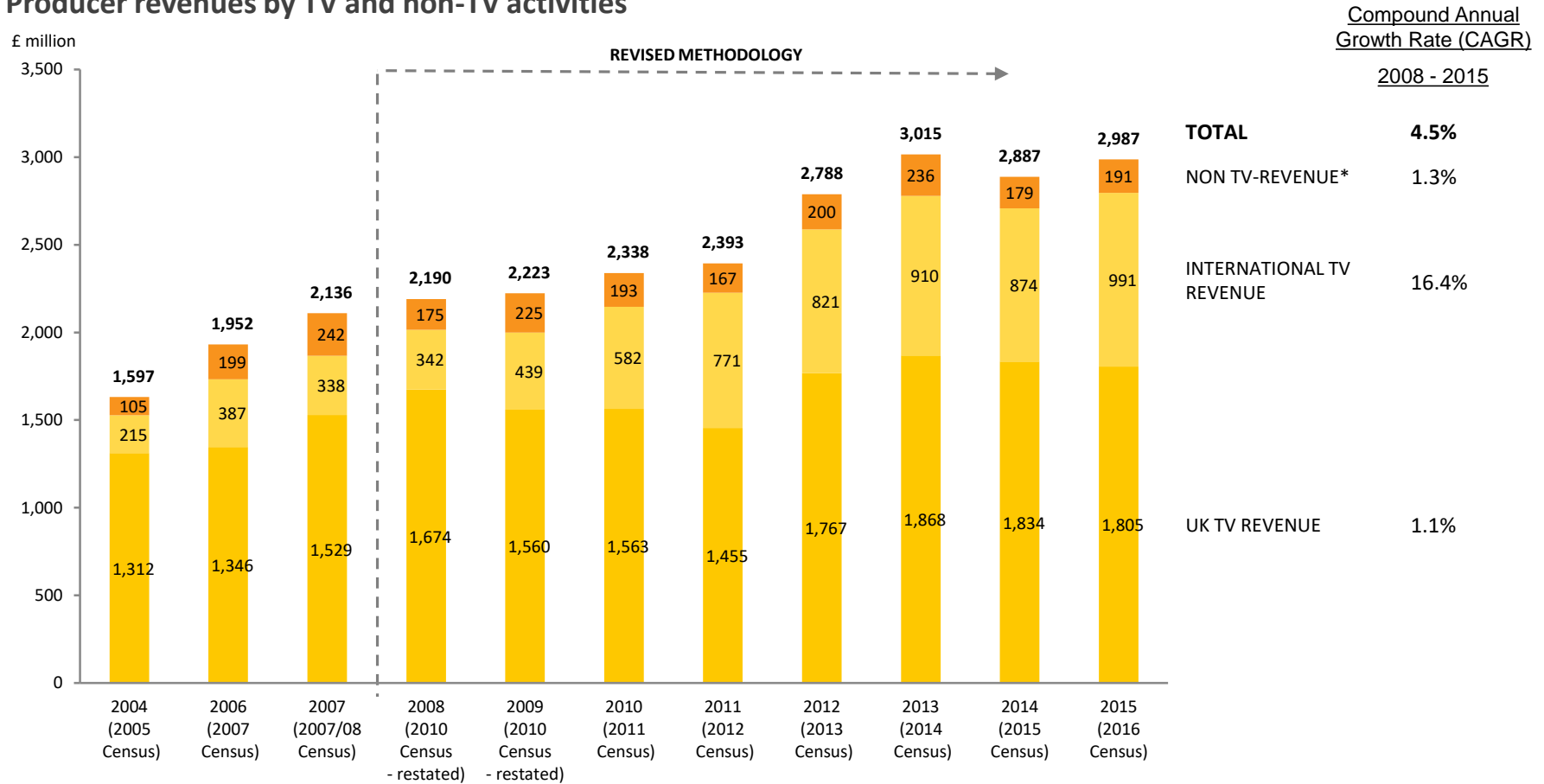
### **Non-TV revenues increased**

- There was a small increase in non-TV revenues. Within this, new media revenues saw significant growth while corporate and other non-TV revenues declined.

# Total revenues remained stable at just under £3 billion

A recovery in headline revenues in 2015 (2016 census) suggests that the reported decline in 2014 is not the start of a wider industry trend

## Producer revenues by TV and non-TV activities



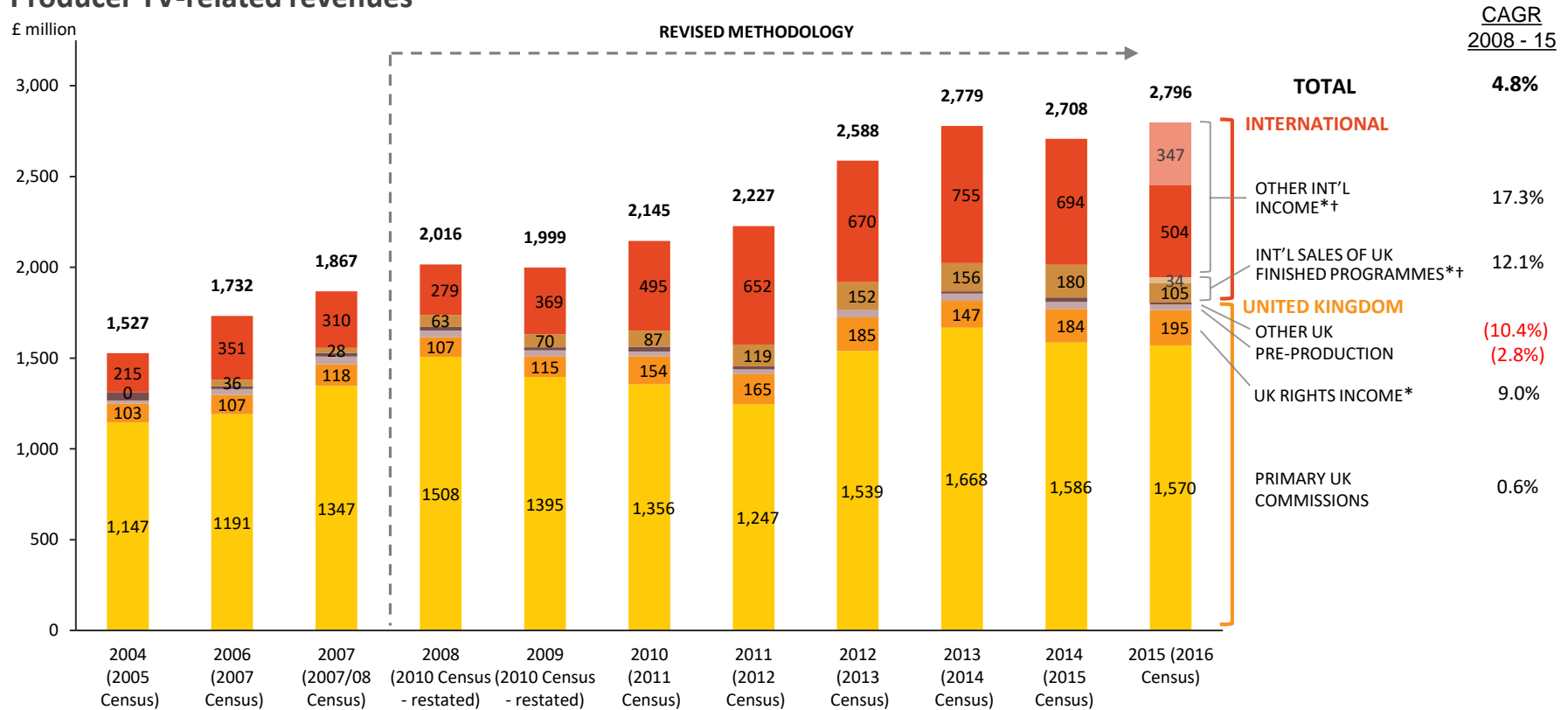
\*Non-TV revenues includes corporate production, new media and other non-TV activities such as online publishing, talent management, promotions, public relations and feature films.

Source: Oliver & Ohlbaum analysis, Pact census

# International revenues remain the key driver of growth

Beneath the headline figures, the mix of industry revenues continues to evolve and diversify internationally

## Producer TV-related revenues



\*Definitions: 'Other international income' - revenue from companies' overseas operations and any primary commissions received from non-UK broadcasters; 'Int'l sales of UK finished programmes' - sales of first run UK programming sold as finished product abroad; 'UK rights income' – UK secondary sales, publishing, formats, DVD sales etc.

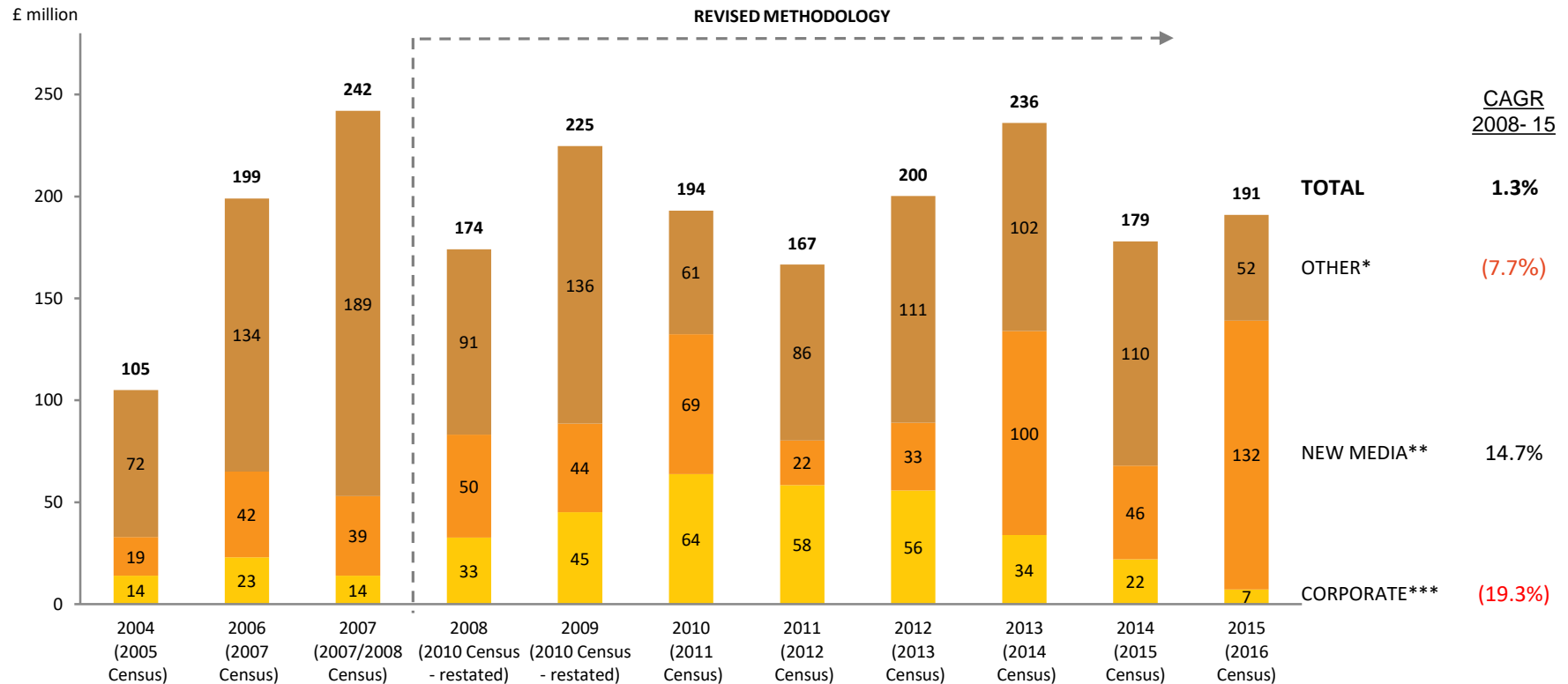
†There was a change in the reporting methodology of some of the sampled companies in 2015. To help reflect the market, reported average year-on-year growth figures have been used to forecast international sales on a like-for-like basis from the previous year. Forecast sales were £347m for 'other international income' and £34m for 'international sales of UK finished programmes', both of which are represented by lighter shade in the above charts (see the Approach & Methodology section for more information).



## New media revenues showing some growth but non-TV still small overall

New Media income showed strong year-on-year growth, but the overall trend remains volatile. Pure New Media commissioning remains a small part of the revenue mix for UK TV production companies

### Non-TV Revenues broken down



\* 'Other' includes online publishing, talent management, promotions, public relations and feature films. Figures are particularly sensitive to specific company performance and M&A activity. \*\* 'New Media' includes websites, apps and additional content for online services. \*\*\* 'Corporate' includes B2B, promotional and educational material and similar not produced for public television.

## 1. Summary

## 2. Revenue growth

## 3. UK commissioning trends

- UK commissioning spend reported by producers remained stable
- Channel 4 and multichannel groups spend a greater share on small producers compared to the other PSBs
- Commissioning spend moved out of entertainment and into factual entertainment

## 4. International and rights revenues

## 5. Out of London

## UK commissioning trends - Overview

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**Reported revenue from UK commissioning remained broadly flat in nominal terms in 2015, representing a strong performance in a low growth and consolidating commissioning market**

UK commissioning spend remained stable in 2015 in nominal terms. PSBs remain the main source of commissioning spend and their share of total spend was largely unchanged at 82% of total producer revenues.

Multichannel groups and C4 place a greater proportion of their spend with smaller producers. By contrast, the prominence of prime-time entertainment formats on ITV and C5 output leads to them working proportionately more with large producers.

Taken together, the multichannel groups place the highest proportion of their spend into new commissions – however, due to their bigger overall commissioning budgets, the BBC and C4 still lead in overall spend on new commissions (together accounting for 61% of total spend on new commissions).

Entertainment's share of total reported programming spend was down year-on-year by 23% whereas factual entertainment experienced the biggest single year gains among the genres with its share of spend increasing by 49% year-on-year.

### **Commissioning spend reported by producers remained stable**

- The four main terrestrial network groups (the BBC, ITV, C4 and C5 plus their spin offs) accounted for an estimated 82% of UK primary commissions within the production sector, similar to last year.
- There was no significant shift in the proportion of UK commissioning spend by multichannel groups versus PSBs.

### **Multichannel groups and C4 commission the highest proportion from smaller producers**

- Multichannel groups and C4 were reported to commission the largest proportion from producers with less than £10m turnover (36% and 33% of their spend respectively compared to 25% for the BBC and 8% for ITV).
- ITV and C5 commission the highest proportions, both over 50% of their total spend, from the largest producers (those with turnovers over £70m).

### **The proportion of new commissions is highest on multichannel groups**

- Over 60% of commissions on multichannel were reported as new commissions.
- BBC and C4 still lead in overall spend on new commissions.

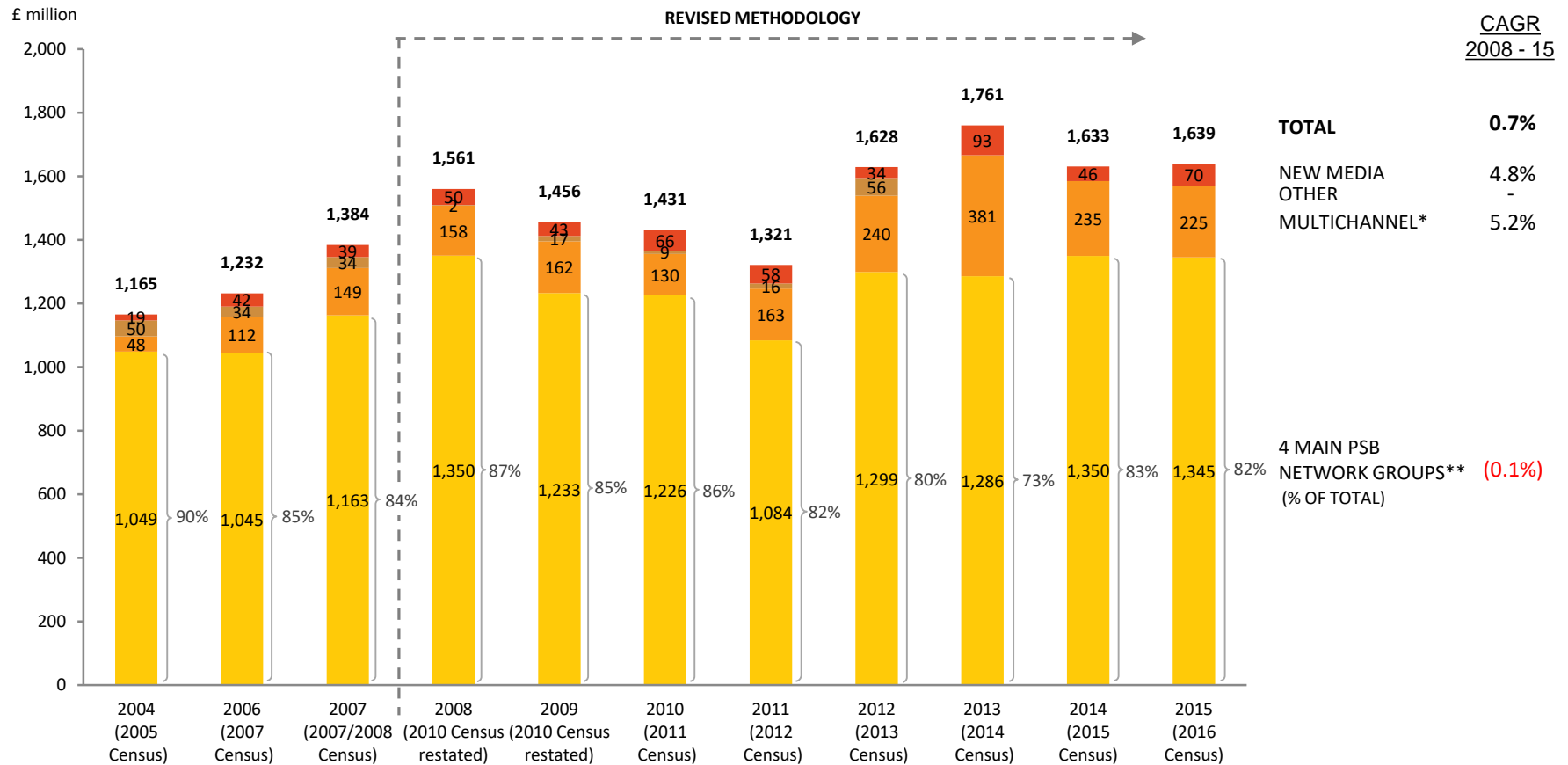
### **There was a shift back out of entertainment**

- After a number of years of increased focus on entertainment programming there was a shift back to other genres including factual, factual entertainment and other smaller genres.

# No significant change in the make up of the UK commissioning market

Revenue from UK commissioning remains broadly flat in nominal terms (a real terms decline). The four PSB groups still represent around 82% of total UK commissioning income for producers

## Value of UK Commissions by Broadcaster (including new media)\*\*\*



\*2013 Census estimates for multichannel commissioning may be high due to the sample skewing towards more large budget multichannel commissioning projects and low in 2014 due to the shift of spend into international production projects; \*\* Includes the main and spin-off channels for the BBC, ITV, C4 and C5 network groups;

\*\*\*Total value of commissions derived from 'Primary UK commissions' on slide 9 combined with 'New media' and 'other' revenues

Source: Oliver & Ohlbaum analysis, Pact census

## UK commissioning still supports small producers

ITV and C5's output of prime-time entertainment formats skews their spend towards producers with a turnover of £70m+; C4 and multichannel groups tend to work with smaller producers

### Commissions by UK broadcaster split by company turnover band, 2015

% of spend on producers included in census

ESTIMATED PRIMARY RIGHTS SPEND

Less than £1m

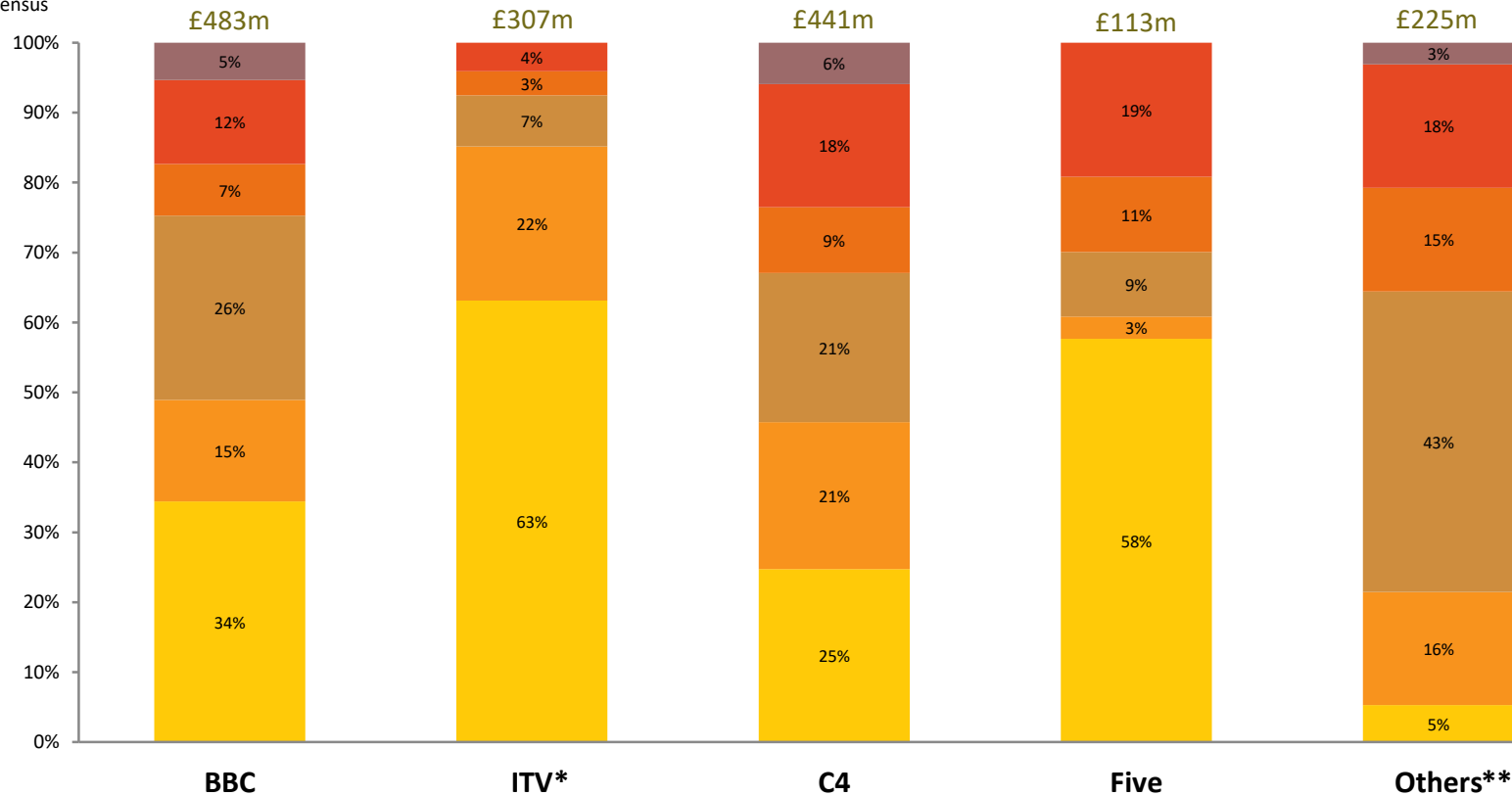
£1 - £5m

£5 - £10m

£10 - 25m

£25 - £70m

£70m+



\* ITV includes STV/UTV

\*\* Includes Sky and other multichannel groups

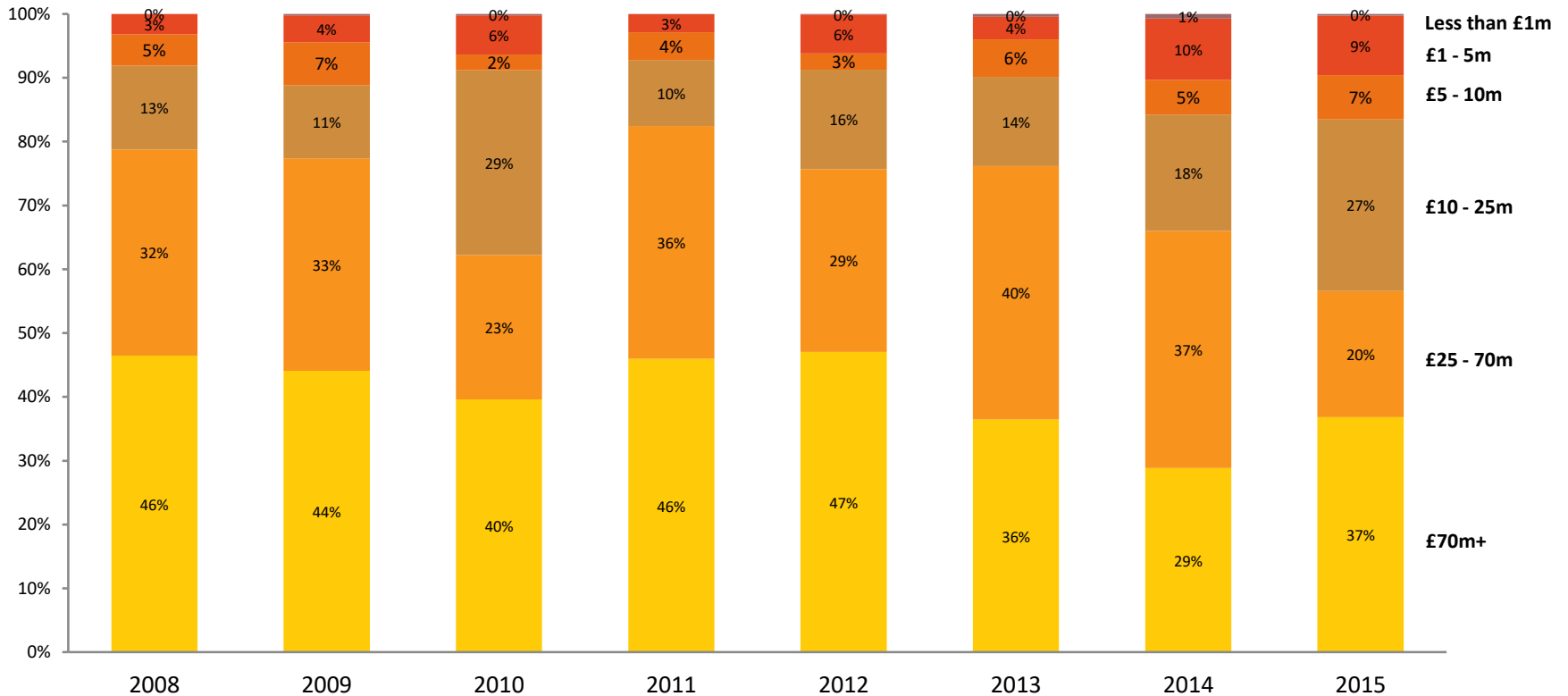
Source: Oliver & Ohlbaum Analysis, Pact census

## The biggest and smallest producers have gained share

The biggest and smallest producers have gained share in 2015 on the back of market consolidation – the squeeze is in the £25-70m bracket. However, the full picture is complicated by sample / industry changes

Share of spend on UK produced primary commissions segmented by turnover band of producer, 2008 – 2015

Percent

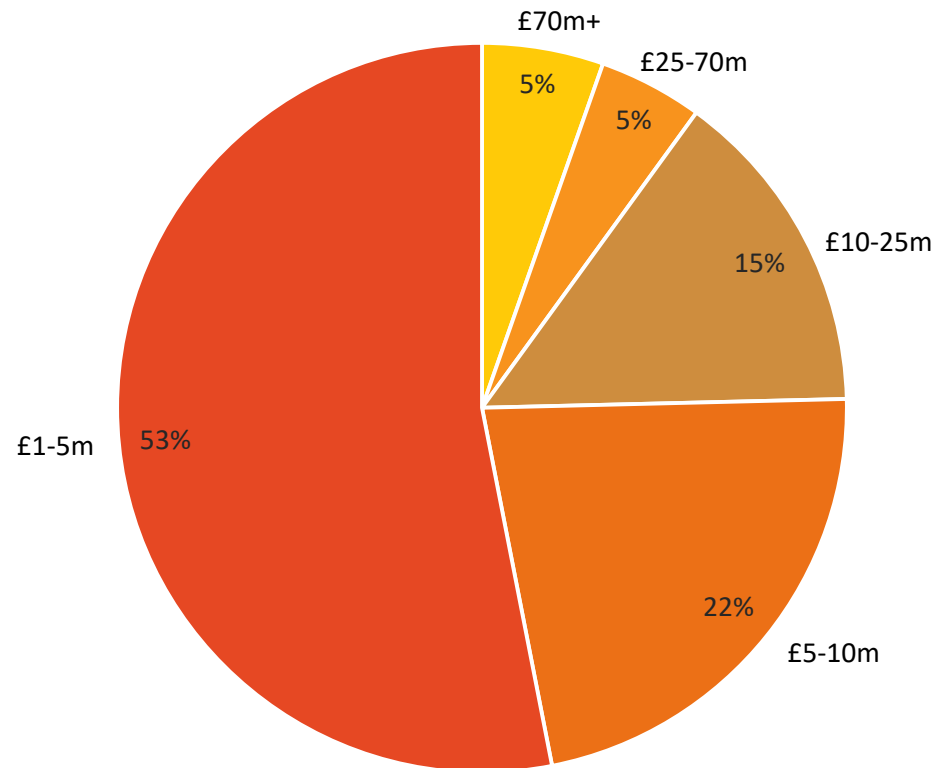


Source: Oliver & Ohlbaum Analysis, Pact census  
Results are based on census returns and are subject to sample change effects in each year

## The production sector remains diverse

Although the sector has experienced consolidation over the years the industry still remains diverse, representing a wide choice of companies across turnover size brackets

Distribution of number of indie companies by turnover brackets – 2015

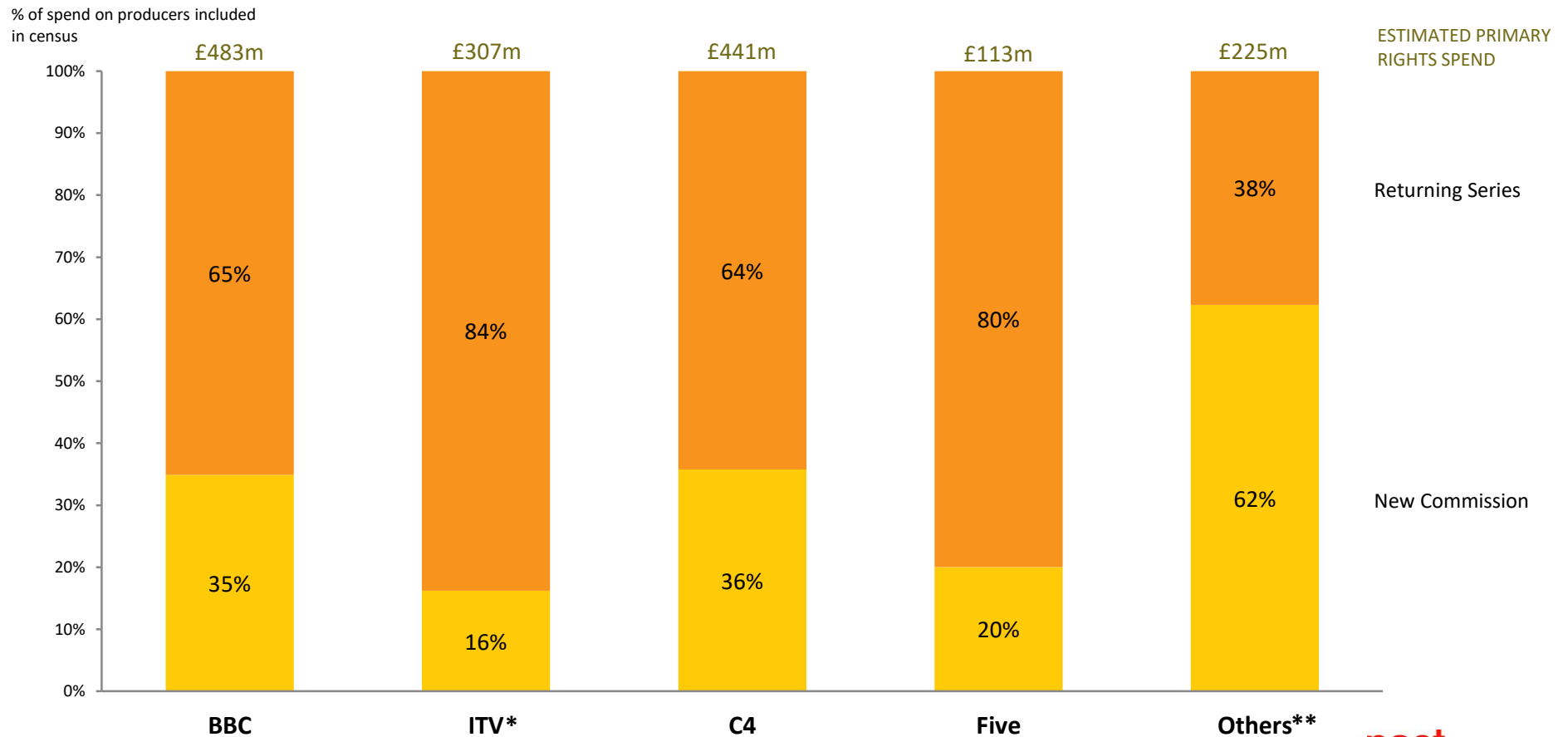


Note: Based on 130 groups and individual companies. Individual companies belonging to a larger group are only counted as part of the group. In addition to the companies above, based on analysis from Broadcast we estimate there are circa 300 small producers with a turnover of less than £1m. Source: Broadcast Magazine, Oliver & Ohlbaum Analysis, Pact census

## Just over one-third of UK commissioning spend is on new IP

Multichannel groups place the highest proportion of spend on new commissions; however, due to their larger overall commissioning budgets, the BBC and C4 still spend more on new IP overall

### UK Commissions Value by Broadcaster - New Commissions and Returning Series



\*ITV includes STV/UTV

\*\* Includes Sky and other multichannel groups

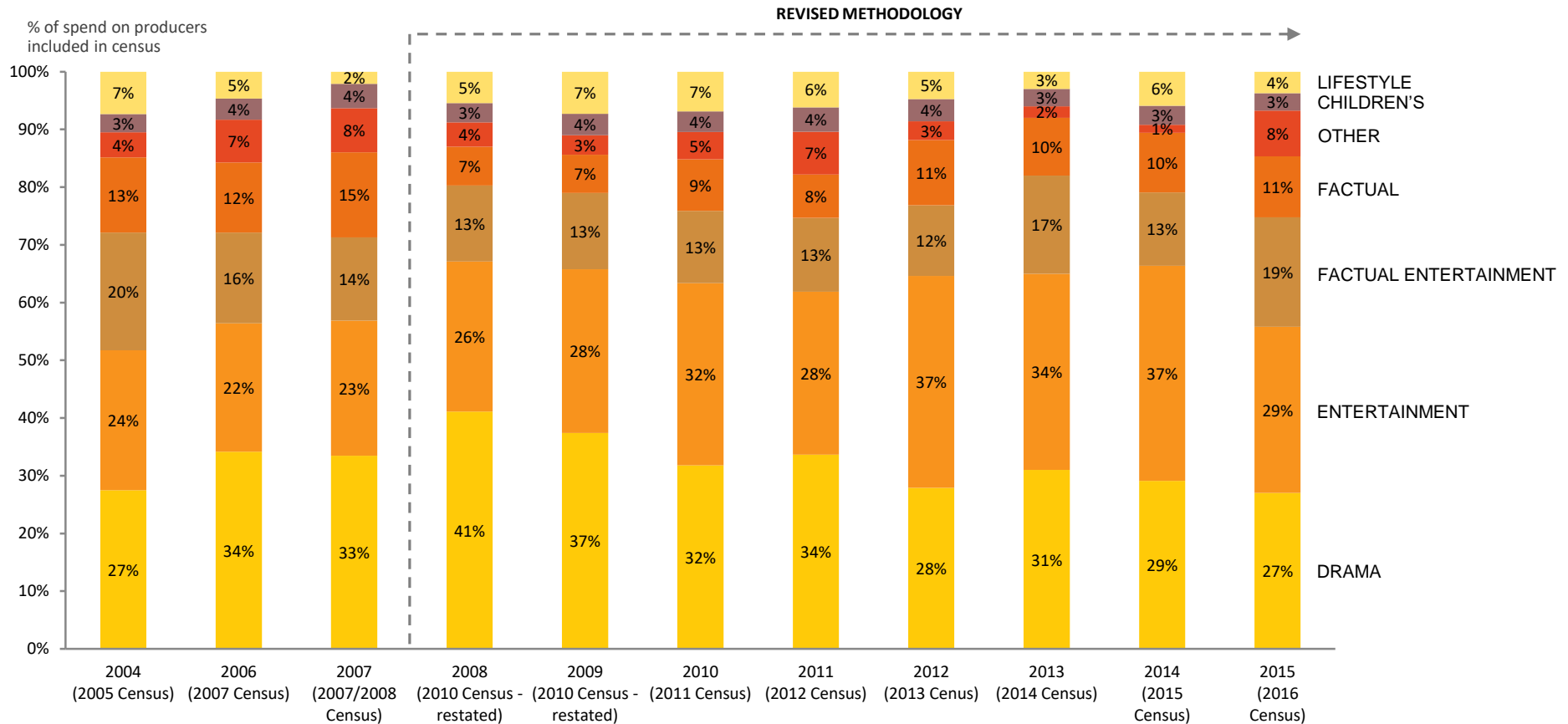
Source: Oliver & Ohlbaum Analysis, Pact census



## Signs of a shift out of entertainment and into factual entertainment spending

Over the last year there has been a reported shift of spend out of entertainment in favour of factual entertainment, factual and other smaller genres, including sport

### Value of UK Commissions by Genre



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- Total revenue from international activities grew to its highest ever reported value
- Income from overseas primary commissions and rights increased in 2015
- Revenue from UK content rights experienced a small contraction in 2015

## 5. Out of London

# International and rights revenues - Overview

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## International activities continue to be an important source of revenue for UK producers

Reported international revenues from overseas commissions and sales of international IP returned to growth in 2015. Total international revenue grew by 18.3% year-on-year after a decline of -5.1% in 2014. Diversification outside the UK market continues to be an important source of revenue.

At an aggregate level, reported rights income was down slightly in 2015. This was mainly due to a decline in international sales of UK finished programmes and UK secondary TV sales.

### **Total revenue from international activities returned to its long-term growth trajectory**

- Finished programme sales saw a small decline but all other segments experienced growth thus causing total international revenues to grow by 18.3% to £1054m in 2015.

### **International rights sales were up while overseas sales of UK finished programmes were down**

- 2015 is the first year where we have observed a reported decline in revenues in the sale of UK finished programmes into international markets; 2014's high of £180m dropped to £139m in 2015.
- Offsetting this, other international rights sales experienced significant growth.

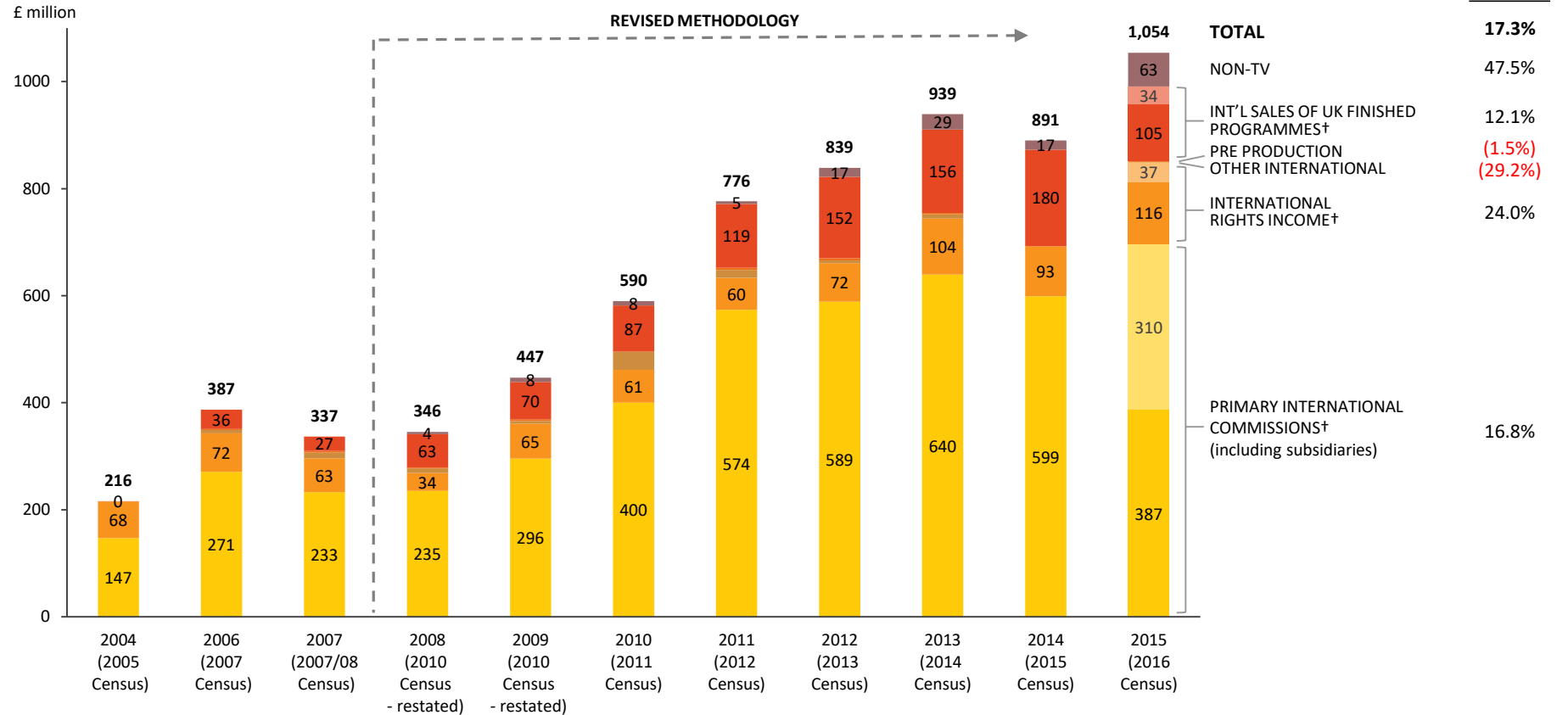
### **In aggregate, revenue experienced a small contraction in 2015**

- UK content rights were down from £364m in 2014 to £334m.
- Overall, rights income remained largely stable, with the decline largely attributable to the fall in international sales of UK finished programmes.

# International TV revenues return to high growth following 2014 slow down

International revenues returned to growth in 2015. Diversification outside the UK market continues to be an important source of revenue and producers continue to embrace this opportunity

## Breakdown of International TV Revenue



†There was a change in reporting methodology of some of the sampled companies in 2015. To help reflect the market reported average year-on-year growth figures have been used to forecast international sales on a like-for-like basis from the previous year. The forecasted revenue is £310m for Primary International Commissions, £37m for International Rights Income and £34m for International Sales of UK Finished Programmes (see the Approach & Methodology section for more information).

Source: Oliver & Ohlbaum analysis, Pact census

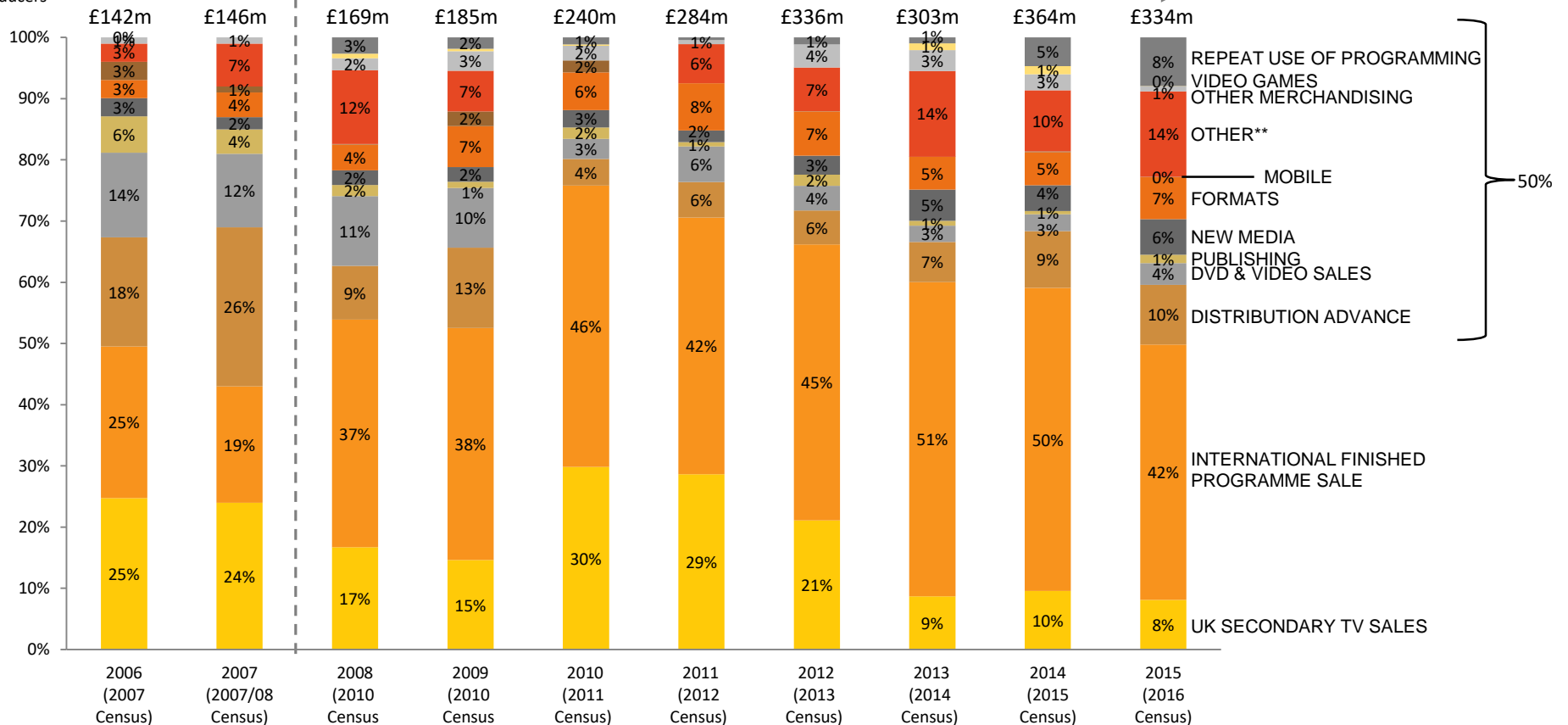
# Signs of some slow down in finished programme sales; other areas remain strong

Rights income was down slightly in 2015. This was mainly due to a decline in international sales of UK finished programmes and in UK secondary TV sales

## Revenues from UK content rights by category between 2007 Census and 2016 Census\*

% of total UK rights revenue among producers

REVISED METHODOLOGY



\*This section refers to the following combined figures as detailed on slide 9 – ‘UK rights income’ and ‘Int’l sales of UK finished programmes sales’. \*\*‘Other’ includes advertising, PRTS, and other activities such as music publishing, live events, gambling, product integration and ancillary & digital rights  
 Source: Oliver & Ohlbaum Analysis, Pact census

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- Over a third of spend on UK production is spent on activities outside of London
- The BBC, C4 and new media commissioners make significant use of Out of London production
- Over a third of the workforce in the sector is based Out of London

## Out of London - Overview

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**Over a third of UK commission spend reported within the census sample was placed outside London. This is also in line with the proportion of employment taking place in the UK nations and regions**

Activity in the London area accounts for a large share (61%) of reported revenue from UK commissions and number of people employed in the sector.

However, the UK nations and regions play an important role in the UK production sector, capturing a reported 39% of the production activity reported in this year's census.

This proportion of production activity out of London is broadly reflective of reported employment with 37% of reported direct, full-time employment from the production sector being outside the capital.

### **Out of London accounts for over a third of spend on UK production**

- The nations and regions play an important role in UK production. Over a third of spend by broadcasters and new media commissioners is Out of London.
- The continued need for location shoots and the introduction of regional tax credits are likely to have had a positive impact on regional production.

### **The BBC, C4 and new media commissioners make significant use of Out of London production**

- The BBC and C4 spend a greater proportion of their production budgets on productions outside of London than ITV, C5 and multichannels.

### **Out of London accounts for over a third of the workforce in the sector**

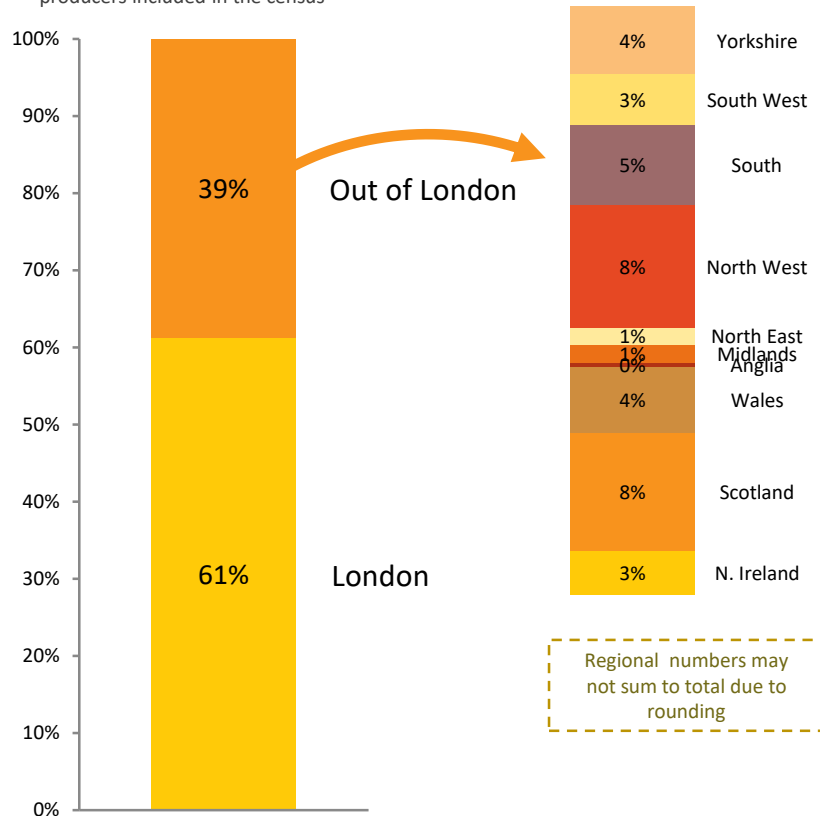
- Over a third of the workforce employed by producers are located outside London.
- The biggest regional employment hubs within the UK production sector are in Scotland and the North West.

# Over a third of spend and employment were situated outside of London

Primary commission revenue and related production employment have similar regional splits; over a third of both are located outside London. Scotland and the North West were the two largest regional hubs

## Value of Primary Commissions by Region

% of primary commissions spend amongst producers included in the census



## Employment by Region

% of direct, full-time equivalent employment within producers included in the census

