State of the markets in which BBC Studios operates

A report for Ofcom

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Mediatique Limited
65 Chandos Place
London
WC2N 4HG
www.mediatique.co.uk

Executive summary

- Ofcom is seeking to better understand the state of the markets in which BBC Studios ('BBCS') operates, as part of the regulator's responsibilities to ensure that the BBC's commercial activities do not, as a result of their relationship with the UK Public Services, distort the market or gain an unfair competitive advantage.
- BBCS undertakes a number of activities in the media landscape, both in the UK and internationally, across four broad areas[1]; it
    - Invests in and/or produces content[2] in the UK and selected countries globally;
    - Distributes content and format rights on behalf of the BBC and third parties in the UK and internationally;
    - Owns or co-owns branded TV channels (e.g., UKTV in the UK, BBC America in the US and selected brands in other international markets) and jointly owns (with ITV) the North American variant of BritBox, the subscription video on demand ('SVOD') service; and
    - Distributes physical content – e.g., digital versatile discs ('DVDs') – and supplies content for retail via Electronic Sell-through ('EST') digital stores operated by companies such as Amazon and Apple.
- The markets in which the BBC operates are subject to a range of dynamics in technology, consumer behaviour and competitor strategies that have effects across all relevant geographies. In particular, the pace of change in audience engagement (including take-up of connected devices and multi-platform access to content) is accelerating in most markets internationally; as a consequence, companies highly exposed to traditional (historically high margin) broadcasting, like BBCS, are facing challenges.
- These have been compounded by the impact of Covid-19, in ways that remain difficult to quantify at this stage. All areas in which BBCS operates have sustained short-term impacts, whether in revenue declines (particularly advertising and production), higher costs (for resumed productions under social distancing and other Covid 19-related measures) or in an acceleration of consumer behavioural trends (for example, adoption of SVOD at the expense of pay TV). In general, we expect companies to 'trade through' some of the difficulties; however, it is likely that some of the key trends identified in our report will be affected in more durable ways over time, particularly around accelerated digital behaviours among cohorts (older demographics in particular) that had been resistant to using online services in the past.[3]
- Covid-19 aside, market players have responded to increasing complexity and competition in several ways, including by merging with or acquiring other companies, consolidating existing brands, launching new services and diversifying across the value chain.
- The dynamics in each market vary by geography, driven by factors such as ability/willingness of consumers to pay for media products and services, technological enablement, competitor activity, regulation and business models in operation. However, virtually every market in which BBCS is active shares certain characteristics:
    - A decline in linear ('live broadcast') TV viewing share, to the benefit of non-linear consumption;
    - Downward pressures on TV advertising in mature markets (although somewhat mitigated by growth in digital video advertising, some of it accruing to traditional broadcasters pursuing hybrid strategies across linear and non-linear);

[1] Details taken from the latest annual report of BBC Commercial Holdings for the year ended March 2020: http://downloads.bbc.co.uk/aboutthebbc/reports/reports/commercial-holdings-annual-report-2019-20.pdf
[2] Largely TV content but some audio – e.g., for BBC Radio.
[3] Our observations on current and medium-term trading are on the assumption that there is no second national comprehensive lockdown in the major markets in which BBCS operates. If this proves not to be the case, the prospect for further erosion in key revenue categories (production, advertising and affiliate fees) will be considerable.

- Pressures on pay TV revenues, as a result of cord cutting/cord shaving, and the growth of alternative (smaller bundle) pay and SVOD propositions from the big global streamers[4] (a few Latin American and Asian markets, at an early stage of development, are more resistant to this trend);
- Rapid growth in SVOD, Broadcaster Video on Demand ('BVOD') and other Video on Demand ('VOD') revenues, at the expense of traditional categories;
- The emergence of new content gateways for consumers (SVOD platforms, IPTV offerings, 'smart' TVs) and the potential for operating systems across TV and mobile to consolidate, potentially entrenching new gatekeepers (e.g., Amazon, Google, Apple);
- Increased competition for content, reflected in higher prices paid for premium programmes (drama, comedy, high-end documentaries) – both for commissions and for secondary and international sales (at least in the short term);
- A modest move by streamers into other content categories – entertainment, news, kids – but their focus has been on globally popular genres (drama foremost);
- Increasingly global perspective of both producers and commissioners/purchasers of content, favouring genres (and languages) with global appeal – US and UK drama in particular; and
- A continued focus on co-productions, particularly in drama (although SVOD players may over time eschew local partners to maintain global exclusivity for key content, with negative implications for domestic commissioners).

▪ In our report, we present a detailed overview of key dynamics and recent developments across the four areas in which BBCS is active, provide a view on future trends in each instance and summarise short-term and more enduring impacts likely to arise as a result of the Covid-19 pandemic and its aftermath.
▪ To give a sense of relative magnitude, we estimate that the global production and distribution market is worth around $220bn in annual revenues, with aggregation (compromising branded pay TV, SVOD and AVOD services and EST) generating around $260bn worldwide and broadcast (including TV advertising and sponsorship) responsible for a further $196bn of global revenues.
▪ The UK equivalent figures are £5.2bn for production and distribution, £9.1bn for aggregation and £3.9bn for commercial broadcast (excluding the licence fee). BBCS itself reported revenues in the financial year ending March 2020 of just under £1.4bn, of which £1.1bn was derived from production and distribution.[5]

UK and international production – overview and dynamics

▪ The production sector is ultimately the foundation of value across the audio-visual ('AV') supply chain. Activities in this market include the origination, creation and physical production of content; this content, and the underlying rights, together drive value generation in all subsequent commercialisation (e.g., content sales, DVD sales, merchandising).
▪ The independent TV production sector in the UK, the home market for BBCS, is the largest in Europe, with total revenues reaching more than £3.3bn in 2019, excluding turnover generated by producers that are wholly owned by the public service broadcasters ('PSBs'). Of this, most – c£2.7bn in 2019 – came from primary commissions in the UK and internationally.
▪ While UK PSBs (chiefly the BBC, ITV, Channel 4, Channel 5) remain the dominant commissioners in the domestic market, the sector has recently seen new or enhanced sources of demand, including:
    - Significantly higher primary investment by UK multichannel groups (e.g., Sky, UKTV);
    - Greater commitment to original production by international channel groups and other integrated studio players (e.g., Disney, Discovery, NBCUniversal, WarnerMedia); and

[4] We use the term 'streamer' to denote SVOD and AVOD operators such as Netflix, Hulu, Peacock and Britbox.
[5] Sources and the methodology used to categorise revenues are provided in the footnote to Figure 6 in Section 2.

- Commissions from new-entrant streamers such as Netflix and Amazon (often seeking global rights from external suppliers), operating on an SVOD basis.

- The net impact of this rising demand has been positive for the production sector, offsetting a decline in expenditure by PSBs arising from pressures on advertising and the licence fee: PSB annual spend on first-run content has declined by approximately £1bn in real terms since 2004 to £2.6bn.[6]
- Increased commissioning opportunities in the UK production sector have had an impact on the sector's characteristics and shape as well as its scale. The UK has become one of the central hubs for TV IP generation worldwide, with significant demand for UK production talent driving consolidation, international ownership (largely US) of production entities and a strengthening of the talent axis linking Los Angeles, New York and London.
- The overall number of independent production companies has remained relatively constant over the past five years, as the effects of consolidation have been broadly offset by new company launches – it is commonplace for senior executives to leave super indies and set up standalone production entities. The top ten producers (including so-called 'super indies' and studio-owned production brands) nonetheless generate the majority of 'external supplier' revenues (not counting producers controlled by the PSBs).
- Increasing competition for content has led to production cost inflation in key genres (e.g., drama and comedy). As a result, original commissions in these genres over the past few years have been increasingly characterised by co-production partnerships to share risks and rewards. Even the biggest domestic commissioners have pursued co-production with international players (e.g., BBC-AMC, BBC-Netflix, Channel 4-Amazon-Sony).
- Producers are often required to 'deficit finance' production costs, putting up their own or third-party risk capital to get the content made (usually secured by pre-selling ancillary rights such as international distribution and/or global SVOD rights).
- These trends have favoured a model that puts production and distribution under the control of a single corporate entity, permitting these integrated players to optimise returns across the value chain (we treat the implications for distributors in a separate section of this Summary and in the main report).
- Producers and commissioners alike have sought to shift their content strategies in line with market trends. With the internet becoming a major distribution route for video, new content formats have also emerged: e.g., short-form content, user-generated content, interactive and online-only content.
- The Covid-19 pandemic has had an inevitable impact on the production sector, which was effectively shut down in markets around the world. This led to several months during which no film or TV production was undertaken – on location or in studios – with significant short-term impact on output, revenues and jobs. As production has come back on line, particularly in the US and the UK (using social distancing and new innovations around the use of stand-ins, special effects and 'bubbles'), activity has been slowly returning to pre-pandemic levels, but costs have increased and lead-times lengthened. It may take some time for postponed productions to complete and for schedules to be re-stocked (and much depends on whether secondary lockdowns are imposed). Smaller independents in all major markets are the most at risk of outright failure in the event of further disruption; larger entities have stronger balance sheets conferring the ability to withstand short-term pressures. Consolidation through mergers and acquisitions, already a notable trend, may be accelerated as a consequence. There may be some enduring implications for this market segment (e.g., around innovations in production discovered as a result of Covid-secure techniques that have longer-term relevance).

[6] Ofcom, *Small Screen: Big Debate – a five-year review of Public Service Broadcasting*, February 2020. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0013/192100/psb-five-year-review.pdf.

UK and international production – key findings and market implications

- Further consolidation of supply in the US and the UK (including a trend toward more US ownership of UK production company assets) is likely to persist over the medium term (perhaps hastened by weakened positions of some smaller companies post-Covid-19). Offsetting this to a degree will be a replenishment of the 'long-tail' independent supplier segment by 'serial start-up' executives in the UK, encouraged by regulatory protections that continue to sustain qualifying independents.
- A decline in the importance of PSB budgets for UK external producers is expected to persist, in line with trailing trends; this will be mitigated, however, by increased foreign direct commissions from SVOD providers (Netflix, Amazon, Apple) and international (usually US) broadcasters.
- There is very likely to be a continued focus on the talent axis linking London, New York, and Los Angeles – driven by relationships between studios/streamers and talent (behind and in front of the camera).
- Locally sourced content will be of growing value to streamers (e.g., both for domestic SVOD propositions but also for streamers to be able to distribute globally); among international SVOD players, the demand for local content will tend to be focussed, certainly in the short to medium term, on a few developed markets (e.g., the UK, Italy, Germany).
- Further inflation in production costs is predicted, for top drama, comedy and high-end factual. This will be driven by increased demand from, in particular, SVOD providers seeking to increase the share of their content expenditure that is original, coupled with a growing requirement for exclusivity in multiple markets and over longer periods.
- These trends will have a significant impact on funding structures and content availability – typified by exclusive windows, shorter amortisation periods and an increased incidence of co-productions but without the involvement of national broadcasters. Shifts in content windows will result, as funding methods (co-productions, exclusivity requirements) evolve.
- There is a growing likelihood that national broadcasters will be 'priced out' of certain content categories or only able to participate as minority funders for a (perhaps non-exclusive) broadcast window and no other retained rights (with streamers increasingly seeking all-window rights).
- The outcome will be a shift in focus for producers toward SVOD clients and away from domestic, national broadcasters, with a knock-on effect on content sales (see below).

Content sales and distribution – overview and dynamics

- Content sales involves the licensing of finished content or format rights to third parties. In the UK market, buyers are made up of: UK PSBs and multichannels (including Sky, UKTV), international broadcasters, SVOD providers (such as Netflix and BritBox) and EST providers (Amazon, Apple).
- The UK distribution market is less fragmented than the UK production sector and is dominated by a small cohort of large, international players able to take advantage of global reach and scale. These include US studios and a handful of domestic 'champions' pursuing an integrated model (StudioCanal, Fremantle, Banijay, ITV Studios, Sky, BBCS) typically with exposure to both content production and distribution.
- Smaller production companies (or rights holders) typically lack the commercial and management resources to sell their content to broadcasters or other aggregators in post-primary windows and internationally; their priorities are generally to win commissions and produce content. As a result, they rely on third parties (e.g., BBCS) to distribute content in secondary/ancillary markets.
- A strong content pipeline for distributors has been key to the success of both the largest specialist UK distributors and the US and UK integrated studios. This will continue to be the case, and intensify as a market dynamic, as competition for content increases (reflecting proliferating and growing demand).

- As with TV production in the UK, the distribution market has seen new demand emanating from global streamers and traditional domestic and international broadcasters alike. UK distributors in particular have benefited from global demand for English language content, which continues to find favour internationally.
- The content sales segment saw some spikes in activity (volume and price) as a result of Covid-19, as broadcasters and streamers both sought to stockpile content in the absence of new programmes halted by the pandemic (particularly shows that had been close to delivery to clients or that are in the fast-turnaround category, e.g., soaps). These impacts will dissipate as production schedules slowly return to a semblance of normality (although the underlying trends observable before the onset of Covid-19 will persist).
- The increasingly global nature of demand for TV content has led to changes in rights windows: for example, for the most part, SVODs are active globally and want to provide access to the same content across all the countries in which they operate; this has meant SVODs have sought exclusive global rights across all territories and placed pressures on windowing conventions in domestic markets, including the UK.
- As a result, secondary/ancillary market prices have improved significantly, lifted by proliferation of demand from, e.g., streamers, including for locally acquired content to bolster demand for subscriptions in selected markets and growing consumer willingness to consume foreign-language/sub-titled content.
- Price inflation has been obvious in drama, comedy and other premium genres. Higher prices have been a hallmark even for the ‘fodder' programming that was traditionally supplied to general interest broadcasters but that now is also sold as 'deep catalogue' to new entrants (these higher prices are fuelled by increased demand from deep-pocketed streamers in particular).
- However, there may be some indicators that the dynamics of hyper-growth at the top end of the market at the expense of cheaper programming are stabilising. Many buyers in the industry can no longer afford content that was their staple and are looking increasingly at volume-driven cheaper programming to fill out schedules around expensive drama. For many, having more rights to shows with lower value is more effective than fewer rights to a more highly valued show.
- Similarly, SVOD operators are continuing to expand the breadth and depth of their content catalogues, and this has meant looking for volume-driven programming, such as unscripted, reality and formats.
- A final, but critical source of uncertainty around secondary market values is the impact of new entry by SVOD players and their strategy of investing increasingly in original and otherwise exclusive content, thereby lessening their reliance (actual and potential) on acquired programming – even if this reliance will not be reduced to zero.
- Price gains for content sales are also likely to be offset in the medium term by declines in demand from pay TV channels (reflecting challenges pay TV providers face in the US and other 'mature' pay TV markets).
- Pay TV in some immature markets still has room to grow; however, that growth may come from proliferating SVOD rather than traditional pay TV as mobile and fixed-line broadband improves (we treat pay TV trends and implications in greater detail in our section on branded services).
- There are also implications for content sales arising from the agreement between TV producer body Pact and the BBC, following approval by Ofcom of an extended catch-up window on BBC iPlayer (to 12 months from 30 days), which will have an impact on the value of content in subsequent windows. Finally, disruptions emanating from the Covid-19 impact will keep the price of some content higher[7] in the short term.

[7] This will include finished programmes in drama, comedy, high-end documentaries of appeal to audiences (replacing new commissions still in production that will be in short supply in coming months), as confirmed recently by Pact chief executive John McVay: “If you’ve got good quality British content that you’ve made – finished programmes – then you can charge a premium.” Link: https://www.theguardian.com/media/2020/aug/24/uk-broadcasters-netflix-outbids-for-new-shows

Content sales and distribution – key findings and market implications

- The impact of Covid-19 will prove to be relatively significant in this segment, but of limited duration, as underlying factors regain momentum.
- While unlikely to be a deciding factor in the short term, trends toward upfront content exclusivity and long availability periods (e.g., multiple earlier seasons of content on Netflix and longer iPlayer windows) will also have an impact on secondary market values over time. The assumption must be that 'lost' secondary value will be captured in future within a re-priced primary right – but the prospects of this are as yet unclear.
- In the medium term, content supply to international markets will depend on access to a content pipeline; the strongest market position will be held by those with both production and distribution capability (favouring the 'integrated studio' model), access to capital and where there is an English language or genre advantage.
- This reflects the ability of integrated producer-distributors to optimise commercial returns across the value chain: being able to 'play' in content commissioning segment (e.g., via direct commissions and/or participation in co-productions) secures a position in content sales. This permits the integrated player to benefit irrespective of whether value accrues chiefly in the primary or in secondary and other ancillary windows (and therefore acts as a hedge against the uncertainty around where value will be allocated in the future).

Branded services, including TV channels and SVOD – overview and dynamics

- The branded services division addresses the key consumer-facing market relevant to BBCS, with pay and free-to-air channel brands, BVOD services and SVOD services from global players all active participants. The division includes a stake in the Britbox venture outside the UK and the now wholly owned UKTV channel brands as well as a range of other channels in selected international markets.
- These services are at the coalface of changes to technology and consumer behaviour. The global decline in consumption of linear TV channels (pay and free to air) has been driven by increased consumer connectivity, the growing scale of connected device ownership and shifts in audience behaviours. Decisive in this trend is the emergence of SVOD and spectacular growth of the streaming model. Where once it was viewed as an addition to linear television, SVOD has emerged as a legitimate alternative to 'TV'.
- Despite these pressures, traditional linear TV has remained surprisingly robust in the UK, where BBCS is most significantly exposed in the branded channels space (specifically through UKTV). A prime contributor to this resilience is the popularity of such content as live sport, news, soaps and certain entertainment shows (for which the culture in the UK is especially strong). The impact of the Covid-19 lockdown has been dual-edged for linear TV: initially, more viewing, particularly during day time and for news, was the result of increased available audiences away from work; however, with the return to underlying trendlines, and facing some months of impoverished schedules owing to the lack of new productions coming on stream, linear TV declines may gain pace in the short term, in turn accelerating the underlying transition from linear to non-linear viewing.
- Linear TV's diminishing share of total long-form video viewing hours has created significant difficulties for channels wholly or partially dependent on ad-funded models. This has been compounded by the continued use of personal video recorders (where viewing is not monetised if the associated ads are 'skipped') and by growth in services that compete for TV eyeballs, including the SVOD players and even ad-funded VOD providers such as YouTube. While BVOD (especially catch-up TV) is a mitigation it is unlikely fully to compensate for declines in linear advertising income.
- Advertising, moreover, was severely affected by the lockdown in major media markets, despite significantly higher viewership. The combination of lower demand from TV advertisers, discounted prices and an increase in advertising frequency to fill slots is expected to lead to declines of between 10% and 20% year on year in the US and the UK. This reflects relative recovery in the second half of the year, following the significant trough in these markets in the second quarter of the year. In the UK, for example, broadcasters reported

declines of c40-50% during the comprehensive lockdown in the Spring. Further recovery from 2021 is unlikely to compensate even in the medium term: advertising expenditure will not regain their 2019 levels in real terms, even in five years' time. While the cyclical shock will abate, underlying trends (reduced viewing, weaker revenues) will persist. This assumes there is no second comprehensive, national lockdown in key markets nor a prolonged recession.

- The pay TV picture is more nuanced; overall take up of pay TV is growing globally (driven by trends in emerging markets) but faces increased revenue pressure in mature economies from SVOD players and 'skinny' bundles of channels and services delivered over IP. Pay TV operators and channel groups in developed markets have begun themselves to segment their offerings into smaller, 'skinny' bundles at significantly lower price points than traditional 'full service' bundles and to incorporate direct access to SVOD services within their own offerings (e.g., Netflix on Comcast Xfinity in the US and on Sky Q in the UK).
- Responding to pressures on traditional pay TV models, Sky and other pay TV platform operators have sought to reduce payments to third-party channels (a trend that has been evident for some time but has intensified in recent years). For example, UK pay TV market leader Sky has moved to either significantly reduce the amount it pays per subscriber to key suppliers or to agree to hold payments static or temper cuts in return for additional rights such as HD, 'multi-room' and mobile. This has direct implications for the revenues and strategies of UKTV, Discovery and other channel groups.
- The Covid-19 crisis had two short-term impacts on pay TV – an acceleration in cord-cutting and 'spin down' (customers either leaving pay TV platforms altogether or taking smaller bundles), and a hit to revenues from 'pauses' offered by operators to sports channel subscribers to compensate for the lack of broadcast sport, thus protecting underlying subscription levels. These amplify but do not fundamentally change the dynamics. Third party channel suppliers (such as UKTV) are likely to have seen declines in their affiliate fees as a result, given that fees paid under affiliate contracts typically vary by the number of subscribers to the packages in which the relevant channels are included.
- Shifting dynamics in these markets have led to significant consolidation and other corporate activity among channel operators, particularly at a global level (e.g., Sky-Comcast, Disney-Fox, BBC-Discovery, AT&T-Time Warner). Among the bigger deals, consolidation represents a broader opportunity to dovetail technology and network services with content, production and distribution.
- The most significant encroachment on TV channels' share of long-form video consumption is the growth of streaming services, increasingly delivered direct to the main screen in households. This includes the most dominant and influential players in the UK and North American markets (Netflix, Amazon Prime Video) and streamers that have either just launched or will be launching imminently (Apple TV+, Disney+, HBO Max, Peacock[8]). BARB reported that 14.7m UK households had access to at least one SVOD service in the fourth quarter of 2019, either directly by subscribing or indirectly by using another subscriber's log in.[9]
- BBCS exposure to SVOD is on many levels – as content producer, as content seller (e.g., to BritBox UK) and as co-equity partner (BritBox outside the UK). Its own branded services will be directly affected by the BBC's move to enhance the iPlayer by making content available for longer, exclusively, and for free to licence-fee payers – collectively making the iPlayer a more attractive proposition compared to, e.g., pay TV variants, and potentially eroding the value of subsequent windows (as reflected in content sales).

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[8] BBCS supplies BritBox, the UK streaming service launched in the UK in November 2019.

[9] In a survey for Ocom's Media Nations report published in August 2020, around 23% of online adults said they had added a SVOD subscription in their household during lockdown, for a growth of c6m additional household subscriptions in the period. We estimate that Disney+, which launched in late March 2020 just as lockdown began, delivered around 3m of these, with the rest spread across Netflix, Amazon, Now TV and others. Ofcom's survey suggested that around 95% of Disney subscribers were already taking an SVOD service. Our forecasts are consistent with those results.

Branded services, including TV channels and SVOD – key findings and market implications

- The traditional branded channels market (free to air and pay TV) will remain under significant pressure, as advertising declines and as pay TV operators continue to shift from 'full fat' to skinny propositions in the face of direct-to-consumer ('DTC') and other IP-delivered competition. The effect will be particularly marked for domestic ad-funded broadcast channels in mature markets and for pay TV brands that are viewed by operators as Tier 2 - e.g., documentaries and lifestyle.
- Tier One pay TV channel groups (UKTV is one, given BBC pipeline and some commissioned content) will resist the negative trends for longer. This confirms the advisability of BBCS' strategy of consolidating ownership of UKTV and taking full control of the dividend stream, innovating its content windowing strategy and continuing to deploy a hybrid free and pay model in linear and non-linear, securing both pay TV carriage fees and advertising.
- The US pay TV market is likely to see further declines in the next five years, with associated downward pressures on affiliate fees paid to channel groups (operators are likely to focus on fewer brands and on bundling SVOD and ancillary services such as mobile and gaming).
- The UK pay TV market is more resilient as it is less mature than in the US; it is susceptible, however, to broadly similar trends around skinny bundles and SVOD disintermediation. While already apparent as a trend, affiliate revenues in the UK are likely to be further focussed on fewer recipients (the US studios plus UKTV) and only in exchange for an increased raft of linear and non-linear content rights, including cloud storage, 'start again' functionality (i.e., permitting users to watch programmes from the beginning).
- Prospects for branded channels in emerging markets may be better (depending on pay TV trends, per capita income, local content developments, the role played by SVOD and the availability of local partners). However, some emerging markets may 'divert' to IP delivery before reaching a mature pay TV stage owing to technological innovations that are occurring globally irrespective of local market conditions (the combination of growth in GDP per capita and broadband connectivity, including via mobile, will be a leading indicator of the likelihood of such 'leapfrogging').
- Globally, the key trend over the medium term will be further proliferation of DTC propositions, led by Disney+, HBO Max, Peacock and other variants. Analysts suggest Disney (100m) and HBO (50m) may do particularly well globally by 2024; although well short of leaders Netflix, Amazon (whose growth rates, will, however, moderate). All these SVOD providers enjoyed a spike in the Covid-19 period, with growth even in the mature US and UK markets. Much of this demand may have been 'brought-forward', with future growth lower than it might have otherwise been. The exception is the degree to which older demographics might have adopted SVOD during lockdown where they might not otherwise have done so at all.
- There is likely to be a limit to how many stand-alone SVOD offerings can co-exist – strong brands (e.g., Disney) will do well; other content propositions with good pipelines but without a strong consumer-facing brand in every market (e.g., Warner-HBO) are more likely to do local distribution deals with third parties. Indeed, HBO has renewed its Sky distribution and output deal rather than launch HBO Max in the UK. Even Disney has engaged selectively with distribution partners (e.g., with Sky in the UK and Canal Plus in France) rather than go 'all in' via over-the-top distribution, where it would need to fight (and/or pay) for shelf space and prominence.
- There may be scope for a 're-bundling' over time by aggregators such that multiple SVOD brands are available for a single bill and price and integrated into search/navigation functionality – these might be controlled by legacy pay TV operators nimble enough to transition business models and/or by new aggregators with sophisticated operating systems, data capture capabilities and potentially offering exclusive content as bait.
- BritBox in the UK (owned by ITV and the BBC) will be a secondary purchase alongside Netflix, Amazon, Disney+. Mediatique projects that total UK 'any' SVOD households will reach 19.6m households by 2024, led

by Netflix and Amazon (the most common 'dual' combination); BritBox in the UK will achieve c2m (the US variant, in which BBCS has a stake, has already exceeded 1m subscribers there[10]).

- The growth in SVOD, even as it matures and moderates, will come at the expense of branded channels such as broadcast TV and pay TV channels in large bundles (and at the expense of consumer products; see below). There may well be a consolidation of SVOD propositions, but perhaps not in the medium term.
- Content providers need to be flexible as the markets shift: BBCS looks to be in a good position to 'pivot' from branded channels to branded SVOD (or to supply other SVOD operators) as market trends dictate. But only the strongest brands can hope to transition (on their own) to an SVOD environment or to evolve from linear to non-linear ad funding (via BVOD or hybrid SVOD/BVOD propositions). Some Tier 2 branded channels may survive if they win a place in skinny bundles, agree to supply additional digital rights and/or distribute via SVOD or BVOD. Many will not. In general, there is a prospect of continuing corporate activity in this segment – consolidation, restructuring, acquisitions – both to respond to underlying trends (the pivot from broadcast to on demand, challenges facing the bundled pay TV model) and to take opportunistic advantage of weak legacy revenue profiles and valuations as a result of the cyclical shocks of Covid-19.

Consumer products – overview and dynamics

- The consumer products market is wide-ranging in scope and activity, including the creation and sale of merchandise, gaming, magazines and other products and services associated with underlying media rights (e.g., theme parks, activity centres, cruises). BBCS' main activity in this area is physical product sales via DVDs, but it also retails apparel, board games, gifts and figures, stationery and other merchandise.
- Activity in this market typically involves intermediaries and partners (including manufacturers and retailers), but underlying value still resides with the rights holder. As with the business to business content distribution market, many smaller rights holders will rely on a major (often global) distributor to organise routes to market and share value.
- The home entertainment segment was historically a high margin business for studios, with significant revenues generated by DVD and Blu-Ray sales and rentals. More recently, the market has been severely affected by a perfect storm of technological, behavioural and economic pressures. As a result, the DVD market has been increasingly supplanted by online distribution including SVOD and EST (digital rentals and download to own). This has likely been exacerbated by changes in consumption habits induced by the Covid-19 lockdown.
- The broader implications of the Covid-19 pandemic have been mixed. The major global players have largely been affected by the closure of theme parks and retail stores, which form a significant portion of their operations.
- As and when lockdown restrictions loosen across global markets, segmental performance is likely to return to normal – home entertainment revenues may reduce slightly in scale as individuals are able to spend more time outside the home, but consumer demand for merchandise will continue to reflect underlying dynamics in this market.
- Despite some residual value for DVDs (e.g., ingrained habits of older consumers in particular around physical ownership and the role of gifting), ultimately all operators' strategies in this area are entirely focused on the transition from physical to digital, and on managing decline in the physical rental and retail markets.
- Across the wider products marketplace, licensed merchandise continues to be a major ancillary revenue stream for key properties – including apparel, toys and fashion accessories, and increasing growth in gaming associated with underlying TV brands. However, TV shows vary considerably in their ability to drive value

[10] "BritBox on plan, as ITV see VOD growth", Broadband TV News, March 2020. Link: https://www.broadbandtvnews.com/2020/03/05/britbox-on-plan-as-itv-see-vod-growth/#:~:text=BritBox%20US%20now%20has%20over,has%20over%20400%2C000%20signed%20up

outside the primary window, depending on their genre or format, their international appeal and longevity; drama and entertainment formats do well in secondary markets, as do shows with high repeatability, quality production values or a resonant brand that can drive merchandise sales.

Consumer products – key findings and market implications

- The next five years will see further erosion in DVD/Blu Ray sales, as EST and SVOD continue to take share. EST growth is likely to be relatively muted compared to SVOD, except for films (e.g., digital retailers such as Sky Store may continue to grow share). Overall, the appeal of 'ownership' is likely to wane in some content categories, owing to broader acceptance of SVOD as a substitute. Covid-19 has been an accelerant of this trend.
- Other consumer product segments have specialised appeal/markets (books, gaming, merchandising) and are likely to continue to perform in line with (moderate) historical rates and margins.
- BBCS (and predecessor) reliance on DVD sales will need to be replaced – through a combination of digital sales (Download to Own/Download to Rent) via, e.g., iTunes, Roku, Sky Store) and supplying, either directly or indirectly, SVOD propositions.
- A declining but still relevant DVD market is likely to be observable between now and 2024, however, buoyed by inertia, demographics and the enduring role of gifting.

Future direction of relevant markets

- The media markets in which BBCS is active are set to experience significant further change over the next five years, as technology continues to evolve, shifts in consumer behaviour accelerate and companies innovate their business models in response.
- Upstream, the integrated studio model looks likely to continue to dominate content production and distribution: US studios, the UK variants (BBCS, ITV, Sky), a limited number of other international studios (StudioCanal, RTL) and new entrants (Apple, Netflix and Amazon in particular) will set the pace.
- Content will remain 'king', as prices (for most content categories) inflate; but margins in pure production are unlikely to exceed current levels as production costs increase and as companies able to both produce and distribute their own content (studios, global streamers) set the pace and determine where along the value chain returns are generated.
- Content and format sales have been and will remain a critical revenue stream. There is likely to be a change in the relevant importance of different client categories, with a decline in purchases by traditional broadcasters and a rise in sales to SVOD operators. BBCS will also have to operate within the constraints of an extended BBC Public Service catch-up window, which will have implications for residual content values in the period after the 12 months of extended catch-up.[11]
- This is already being reflected in shifting content windows, with streamers increasingly requiring more exclusive rights (often global) over longer periods to the detriment of traditional models of content pricing by window, and in particular disfavouring traditional broadcast clients with a domestic footprint and with less access to capital.
- In the longer term, secondary market values may reduce as a result of declining demand from pay TV operators, the shift by established streamers to favour original content and changes in windowing – in line with front-loaded content availability on proprietary services for longer periods of time (leading to shorter

[11] Ofcom has looked at these issues in considerable detail in its review of the BBC's plans to enhance the iPlayer (https://www.ofcom.org.uk/__data/assets/pdf_file/0029/159725/statement-bbc-iplayer-final-determination.pdf) and in the context of discussions between Pact and the BBC to clear rights for the extended iPlayer window and the supply of BritBox.

amortisation periods). Mitigation may be provided by demand from new entrant SVOD players and re-bundling by streamlined pay TV propositions.

- The net impact is unclear. Certainly, the short-term prospects for content sales look healthy, if subject to pressures over time. The impact will be variable depending on genre, and traditional broadcasters in the UK (the PSBs specifically) may be affected more intensively as the streamers continue to focus their attention on their own content and reduce their dependence on acquiring secondary content in domestic markets.
- Assuming value 'lost' in secondary windows is re-directed toward primary commissions in line with changes to windows and exclusivity, then the most secure place along the value chain will be the combination of production and distribution, as a hedge; this favours the integrated studio model being pursued by the BBC.
- The short to medium term across the value chain will be affected by the impact of Covid-19 and the lockdown of 2020 – in terms of accelerating trends around viewing, usage, pay TV subscriptions and SVOD – even if the underlying fundamental trends are unlikely to alter. Different market segments will be affected variably, with production likely to resume its earlier rhythms and structures from pre-Covid-19; meanwhile, the impact may prove more enduring in branded services, hastening the transition to DTC from pay TV and accelerating consumer adoption of on-demand behaviours.
- The next five years are likely to see a continued decline in linear viewing and associated revenues, to the benefit of SVOD and advertising-funded video on demand (either BVOD, controlled by broadcasters, or new entrants – largely YouTube). This will reduce the revenues associated with broadcast TV – traditional bundled pay TV and spot advertising.
- Broadcast margins (historically high) will continue to come under pressure, as challenging viewing and revenue trends are confirmed; national broadcasters may struggle to remain credible co-production partners as global steamers seek to maximise exclusivity on a global basis.
- The next few years will be a test of consumer appetite for multiple branded SVOD services, as the major integrated studios (including Disney, WarnerMedia and NBCUniversal) all promote DTC propositions to vie with Netflix, Amazon and Apple TV+. Appetite for multiple stand-alone SVOD services will not be limitless: inevitably, some propositions will fail, seek partnerships or agree deals with aggregators.
- New connected gateways, increasingly voice controlled, may emerge to offer seamless access to content, trusted custodianship of data, attractive pricing and service bundling (global players with standardised technology and huge cashflows are likely to have an edge in 'owning' the consumer relationship on multiple platforms in the future). Pay TV platforms may struggle to maintain salience here, although the most robust among them may play a role similar to the connected gateway providers in aggregating content and services, retailing these on a bundle basis to consumers.
- There may be further consolidation across all the areas in which BBCS operates, with larger production and distribution entities continuing to acquire smaller brands (potentially amplified by the financial challenges facing smaller, cash-constrained operators, particularly in the independent production sector in the US, UK, France and elsewhere).
- There is also potential for larger-scale mergers and acquisition activity involving financially robust digital players and challenged 'traditional' media companies, given the discrepancies in revenues and market capitalisation of the digital giants (Amazon, Apple, Facebook, Google) and legacy operators (US studios, domestic broadcasters). It is noteworthy that even after recent acquisitions, players such as Disney-Fox (market value $223bn) and AT&T-Time Warner ($204bn) are valued at a fraction of the market capitalisation of Apple ($2 trillion) and Amazon ($1.6 trillion) [12], and this was true even before the share price weakness of

[12] All prices are correct at time of writing (early October 2020); as we note in the body text, these prices are unlikely to remain stable in the context of enduring Covid-19 difficulties. Company data referred to here should be treated as indicative of relative size.

traditional media companies due to Covid-19. The pace of change in corporate activity may be accelerated by the pressures building in the short term.

- Longer term changes directly related to the pandemic are harder to predict, aside from what appears to be incontrovertible – the acceleration of certain already observable trends around consumer behaviour and business models. There may be more enduring impacts on production (new innovations discovered during the lockdown and re-opening phases, and retained thereafter) and on consumer behaviour (definitive changes to older demographic behaviours as a result of adapting to on demand connectivity). On most fronts, however, Covid-19 appears to be confirmatory rather than transformative in effect.

Implications for BBCS

- BBCS in its current form, and in particular the combination of content production and distribution in an 'integrated studios' structure, is in line with the characteristics of cohort players and the broader dynamics observable in the markets in which it is active.
- The Covid-19 impact is likely to be destabilising in the short term, as the BBC itself concedes[13]. It is likely to take 12-18 months for the impact of the production hiatus to be fully overcome (and even then, this assumes the return to a 'new normal' in production is not pre-empted by further lockdowns). Content sales will remain a critical market for BBCS (whether selling to ad-funded broadcasters, pay TV channels, or – increasingly – streamers), and will be protected by strong demand and library sales. Content pipelines will need to be replenished, however, if strong growth is to be maintained. BBCS will remain heavily dependent on its sourcing of content from the BBC and other commissioning parties, but will amplify this advantage through co-productions, joint ventures and its pivot from channels to DTC propositions, entering into distribution partnerships to ensure access to households and consumers (prominently and cost effectively).
- The channels market was already under pressure before Covid-19 and this is likely to intensify, bringing forward the point at which BBCS will seeks to pivot more aggressively toward a DTC model (as a supplier, an operator, or both). It is likely that BBCS will not deliver a significant dividend (if any) to the BBC in 2020-21 as it conserves cash and contains costs. It may also contribute less to funding of BBC-commissioned content, which in any event will be subject to a 'less is more' discipline across the whole schedule.[14]
- Growth areas for BBCS include securing more commissions from new entrants (streamers), accelerating co-production deals with SVOD players, studios, channels (e.g., Netflix, HBO) and continuing to rationalise and consolidate its branded services (channels) business.
- BBCS, through its supply of content to BritBox in the UK and its equity involvement in BritBox North America and elsewhere internationally, is well placed to pivot as and when necessary from a branded channels strategy to a streaming focus.
- In either route to market (broadcast channels or SVOD/AVOD), it can use a pipeline of content sourced from the BBC (which will focus, at least in the short to medium term, on fewer, high-impact programmes of proven appeal), its third-party distribution relationships, global exposure and a strong, if declining, revenue stream from legacy businesses including the UKTV linear channels business in the UK.

[13] BBC, Annual Report 2019-20 (Commercial Holdings), 2020 "…looking forward, this crisis will significantly affect the Group's ability to deliver revenue in 2020/21, requiring preservation of cash and a tight rein on costs."

[14] In his maiden speech to staff, Director-General Tim Davie said: "We are going to look in all areas and identify how we can have more impact by making less." https://www.bbc.co.uk/mediacentre/speeches/2020/tim-davie-intro-speech?at_medium=custom7&at_custom1=%5Bpost+type%5D&at_campaign=64&at_custom3=%40bbcpress&at_custom4=A7437ED8-EDD9-11EA-8242-C37C96E8478F&at_custom2=twitter.

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1. Project background and scope

1.1 Most of the BBC's commercial operations are organised under a single commercial body, BBC Studios (BBCS)[15], which operates a number of commercial lines of business, including UK production, international production, content sales, branded services and consumer products.

1.2 Ofcom has a responsibility to ensure that "…the commercial activities of the BBC do not, as a result of their relationship with the UK Public Services, trading activities or non-service activities, distort the market or gain an unfair competitive advantage."[16]

1.3 Given the pace of change in the relevant markets in which BBCS operates, Ofcom deemed it appropriate to "carry out further work […] to understand the scope and operation of the activities of BBCS given its evolving commercial market position." To this end, Ofcom commissioned Mediatique to provide a report on the state of the markets in which BBCS operates.[17]

1.4 The work was commissioned in late 2019. Following the outbreak of the Covid-19 global pandemic, and the resultant lockdowns around the world, a number of market dynamics have been subject to a range of short-term and potentially more enduring impacts, which are explored in broad terms throughout this report. For the avoidance of doubt, the critical data sets used here are to the of calendar 2019 (where available), including the annual reports for the BBC and BBC's commercial holdings published in September 2020 and covering the period to end-March 2020. We have referenced the BBC's commentary on current trading dynamics in 2020, as outlined in those reports.

1.5 We have analysed developments in the scale and dynamics of key markets, including changes in ownership and the identity of key players. We have considered current trends and future outcomes in the four markets in which BBCS operates:

- **UK and international television production;**
- **Content sales and distribution;**
- **Branded services including TV channels and Subscription Video on Demand ('SVOD'); and**
- **Consumer products including digital versatile discs ('DVDs'), merchandise and magazines.**

1.6 There are a number of dynamics that are common to all these markets, reflecting in part convergence in the media sector and the impact of horizontal and vertical integration among key players. We have structured the remainder of this report as follows:

- **Section 2** sets out the structures and connections among the markets we are analysing and identifies the underlying drivers of performance in these markets. At the end of this section, we have included a review of the general impacts of Covid-19 on the key market dynamics.
- **Sections 3-6** analyse the structures, dynamics and recent developments in the four markets, and provide a summary review of market trends and implications. At the end of each relevant section, we provide specific consideration of the impacts of Covid-19 for the market segment.

[15] The BBC's other key commercial subsidiaries are Studioworks and Global News. BritBox, the UK subscription video on demand (SVOD) service, will be supplied in part with content distributed by BBCS and therefore the SVOD market is included as a 'market in which BBCS operates'; however, the 10% stake 'carried' by the BBC in BritBox (with an option to go to 25%) is held by BBC Commercial Holdings and not by BBCS (although the North American variant is a joint venture of BBCS, ITV and AMC).

[16] BBC Framework Agreement, Clause 28(1).

[17] While outside the scope of this report, Ofcom is currently considering whether the BBC's changes to its lines of business within BBC Studios provide sufficient transparency for Ofcom and for stakeholders on the performance of the different activities within BBC Studios.

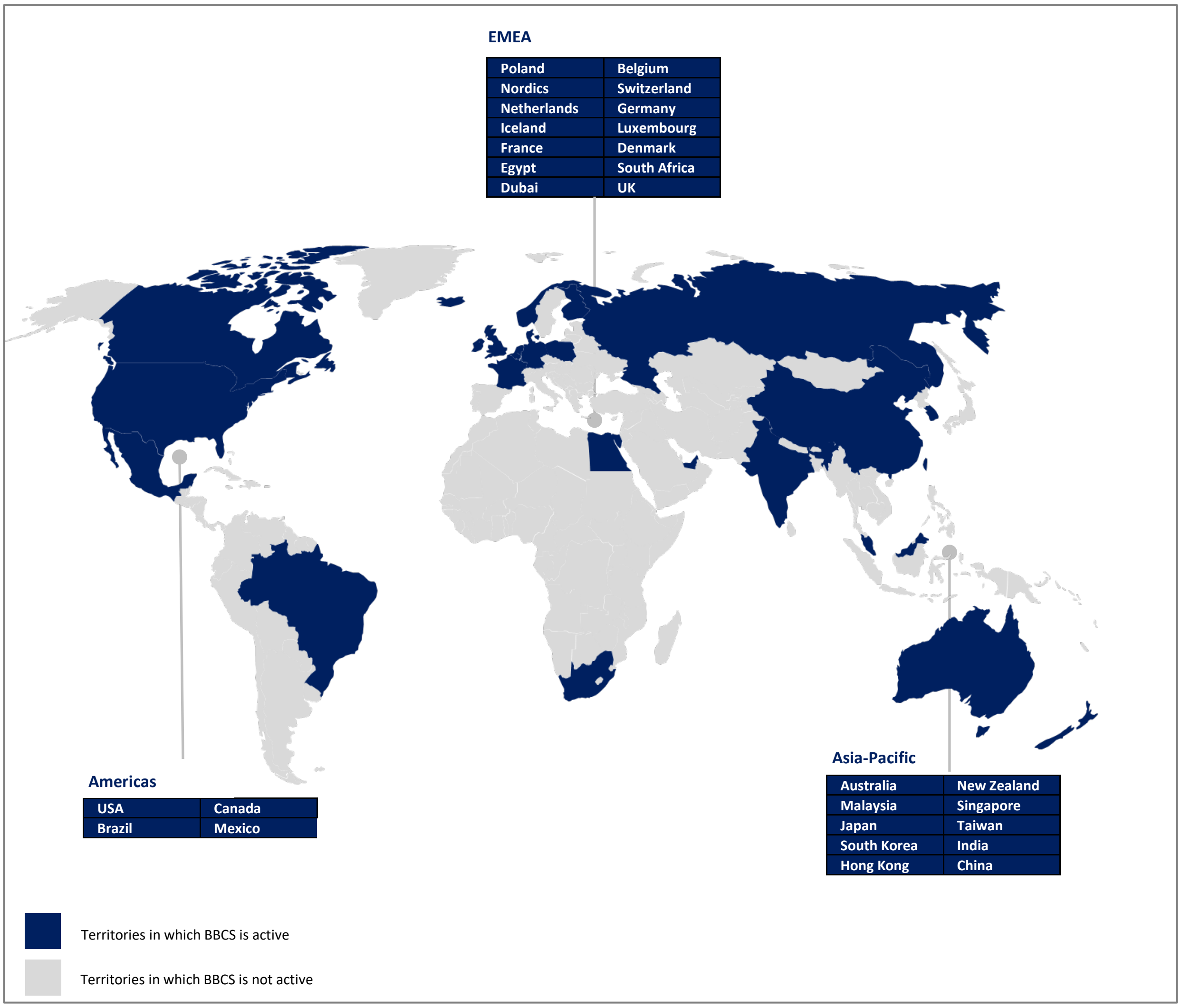
- **Section 7** provides our view on the future direction of the markets in which BBCS operates. Again, we take into account provisional impacts related to Covid-19.
- **Section 8** sets out our main conclusions.
- Profiles of the major competitors in the relevant markets are included in **Appendix A** and a Glossary is provided in **Appendix B.**

2. Overall sectoral drivers and developments

2.1. Our analysis covers key dynamics and market outcomes in the markets in which BBCS operates. BBCS operates distinct operations in these markets, although there are increasing overlaps and inter-connections between and among these activities.

2.2. BBCS invests in and/or produces content in the UK and selected countries globally (both for the BBC and other broadcasters and services) and distributes content on behalf of the BBC and third parties in the UK and internationally. It owns the intellectual property ('IP') rights to formats and finished programmes and/or shares these with partners or distributes on behalf of IP owners. BBCS also owns or co-owns branded TV channels (e.g., UKTV in the UK, BBC America in the US and selected brands in other international markets) which are distributed via affiliate arrangements with pay TV operators and/or on a fully ad-funded basis via free-to-view platforms (e.g., Freeview and Freesat in the UK). It jointly owns (with ITV[18]) the North American variant of BritBox, the SVOD service. BBCS also distributes physical content (e.g., DVDs) and supplies content for retail on Electronic Sell-through ('EST') digital stores.

2.3. Below is a map of the territories in which BBCS is active, defined as territories where BBCS has an international office location or where one of its branded channels is broadcast.[19]



[18] AMC, the US media company that jointly operates BBC America with BBCS, is a non-voting minority shareholder in BritBox in North America.
[19] The list is not exhaustive as BBCS distributes content to 220 markets around the world.

2.4. BBCS reported revenues in the financial year ending March 2020 of just under £1.4bn, of which around 1.1bn was derived from production and distribution. To give a sense of relative magnitude, we estimate that the global production and distribution market is worth around $220bn in annual revenues, with aggregation (including branded pay TV subscriptions and SVOD) generating around $260bn worldwide and broadcast (including TV advertising) responsible for a further $196bn of global revenues.[20]

2.5. There are a number of market drivers that are common to all markets that we are analysing, broadly related to changes in technology, consumer behaviour and competitor strategies.

2.6. In particular, with trends in audience engagement (including take-up of connected devices and multi-platform access to content) accelerating in many markets internationally, traditional broadcasters are facing new challenges, with material implications for strategy and organisation.

2.7. To avoid repetition later, we have provided here an overall contextual review of key drivers, with a particular focus on the UK. Thereafter, in subsequent sections, we assess the extent to which these drivers are affecting dynamics in each of the markets under review. At the end of this section, we provide a general review of the impacts of Covid-19 on the media market generally, and in particular the effect on production, content sales and consumer behaviour in relation to viewing and pay TV and SVOD subscription. More detailed consideration of impacts for each segment is provided at the end of reach relevant section of the report.

Increasing take-up and use of connected technology

2.8. In most of the media and communications world, fixed and mobile access to the internet has been growing, aided by greater network availability, faster speeds, and the bundling of TV and communications. Take-up of connected devices (smartphones, tablets, PCs, laptops, smart TVs[21]) is a key enabler of new behaviours in most markets, giving consumers increased access, flexibility and control over their content and services.

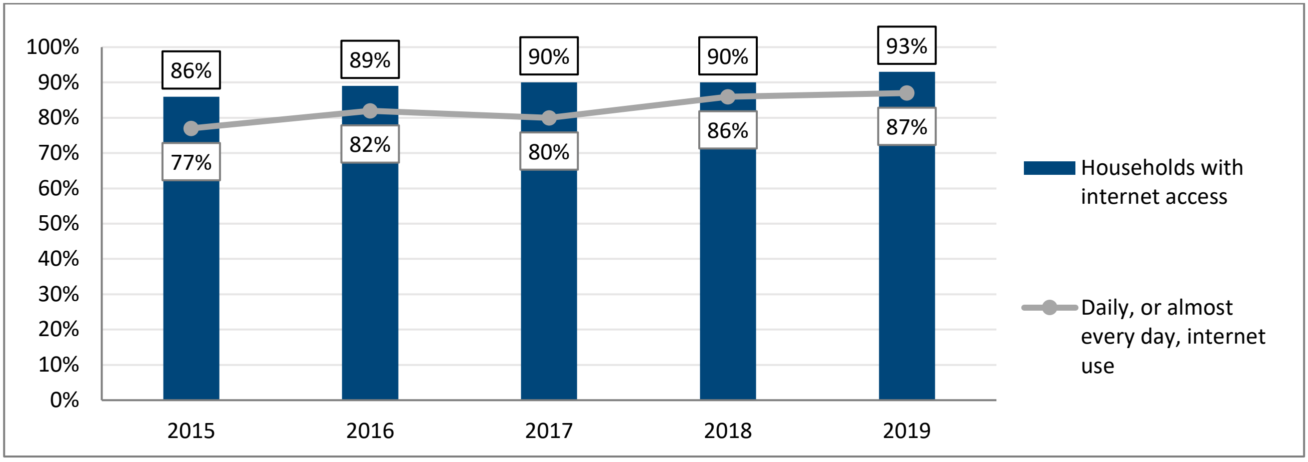
2.9. This connectivity is disrupting traditional content distribution relationships, reducing barriers to entry for new players and enabling direct routes to consumers. Digitisation, the process by which media formats are converted into digital format and thereby deliverable via internet protocol ('IP'), has also expanded the range of content available to consumers, including archive content, international, niche and user-generated video. This increased availability has been aided by efficient and cheap digital storage, including in the home via personal video recorders ('PVRs') and outside the home via content assets stored 'in the cloud' for delivery when requested.

2.10. As is true for all mature media markets, the UK has undergone structural changes that have significantly altered the provision and consumption of audio-visual ('A/V') services. Internet access (both fixed and mobile) has reached a level of ubiquity, with 93% of households having internet access and 87% of the population reporting daily or almost daily use of the internet.

[20] Further details and sources for these global figures can be found at the end of this section, in Figure 6, where we also provide equivalent figures for the UK market.

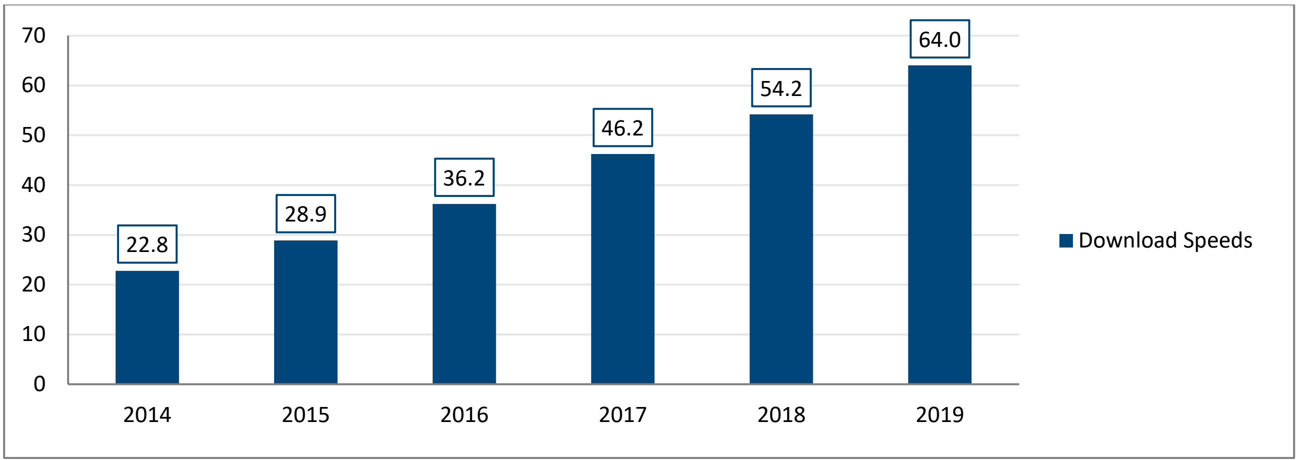
[21] While the BBC does not have a direct market interest in gaming, growing use of the cloud to deliver games content to connected devices will have concomitant impacts on the rest of the value chain. This is illustrated by the impending launch of less 'hardware reliant' new-gen gaming consoles (versions without hard-drives) that act increasingly as multi-functional 'streaming sticks' (i.e., games consoles that also aggregate A/V content).

Figure 1: Internet access and frequency of use in UK households (2015-2019) (ONS)



2.11. Access to fixed internet in the home is not new, and the graph above demonstrates that take-up of home broadband has been relatively static over the past five years; however, the average speed of broadband in the home has increased substantially over the same period, enhancing the ability of consumers to stream and/or download A/V content.

Figure 2: Average home broadband download speeds in Mbit/s (2014-2019) (Ofcom)[22]



2.12. These trends are replicated in most of the other markets where BBCS operates. Across the European Union the level of fixed broadband penetration ranges from a low of around 60% of the population (e.g., in Italy, Latvia and Poland) to 97% in the Netherlands.[23] While the level of fixed broadband coverage does not always correlate with the level of access to the internet, it is a useful proxy, particularly for mature markets. In some emerging territories, mobile broadband plays a significant role in the delivery of content even where fixed-line broadband penetration is relatively low.

2.13. Beyond developed nations, the level of internet access by households varies by country but overall the trend is towards greater connectivity over time. In countries where the physical infrastructure for fixed broadband is lacking, mobile internet has in many cases 'leap-frogged' fixed internet access.

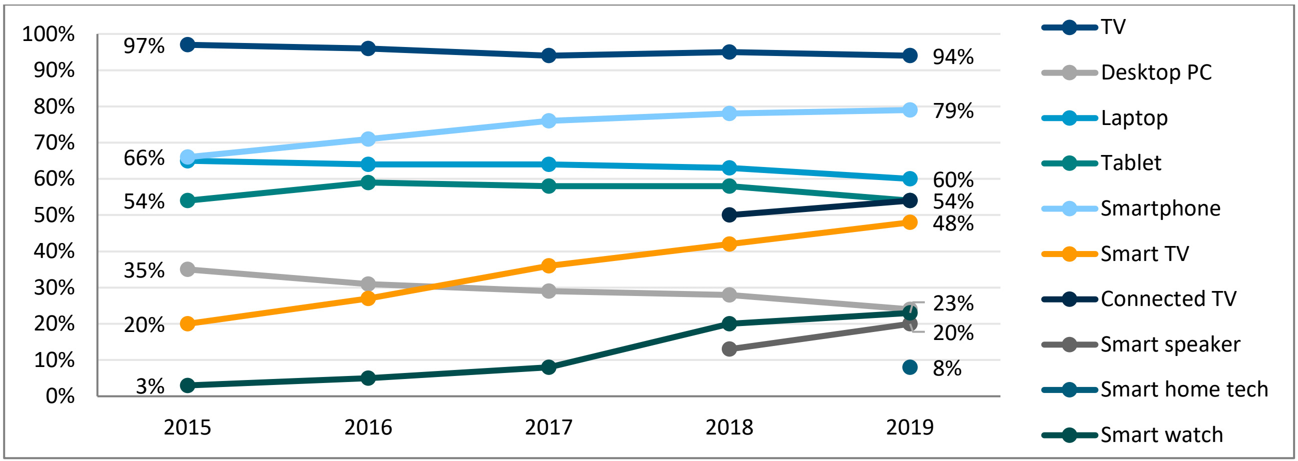
[22] For reference, Ofcom currently defines download speeds of 30 Mbit/s as "superfast broadband" and, with the UK Government, considers download speeds of 10 Mbit/s or higher as reasonable to allow for video streaming and content download.

[23] European Commission, DESI 2020 – Connectivity – Broadband Market Developments in the EU. Link: https://ec.europa.eu/digital-single-market/en/connectivity

2.14. In 2019, 3bn individuals around the globe had access to mobile internet; an increase of almost 500m people since 2017.[24] Among low- and middle-income countries ('LMICs'), mobile is now the primary means of internet access. This is likely to have a meaningful impact on the strategies of media companies operating in LMICs (including BBCS) over the medium term as they are likely going to have to contend with markets in which smartphone devices are important points of access for TV-like content. Currently, BBCS makes its channels (and associated content) available on mobile devices in Asia and Africa, but only as part of a pay TV package.[25]

2.15. Faster broadband speeds and increased availability have promoted the use of a wide range of connected devices, such as smartphones, tablets, PCs, laptops and smart TVs, as well as newer connected devices such as smart watches and smart home technology (including smart speakers and home hubs). Device take-up in the UK is summarised in Figure 3.

Figure 3: Take-up of selected devices in UK households (2015-2019) (Ofcom)[26]



2.16. In the UK, smart TVs show continued growth year-on-year as do connected TVs, smart watches, smart speakers and smart home technology. At the same time, household penetration of desktop PCs, laptops, tablets and even TV sets in general has fallen over the same time period.

2.17. These dynamics play out similarly in mature markets around the world. In non-mature markets, whether these are growing rapidly or are still relatively nascent, take-up of connected devices will vary greatly based on cultural behaviours, underlying infrastructure and wealth.

<u>Changes to consumer behaviour and preferences</u>

2.18. Enabled by these changes in technology, audiences are taking greater control over their media consumption, empowered by the take-up of connected (and portable) devices and new search and navigation functionality (e.g., algorithms, voice controls) to source content. In most developed and emerging markets, audiences have an expectation of *anywhere-anytime* access to content, and the ability to search for, store and recommend video content across multiple platforms.

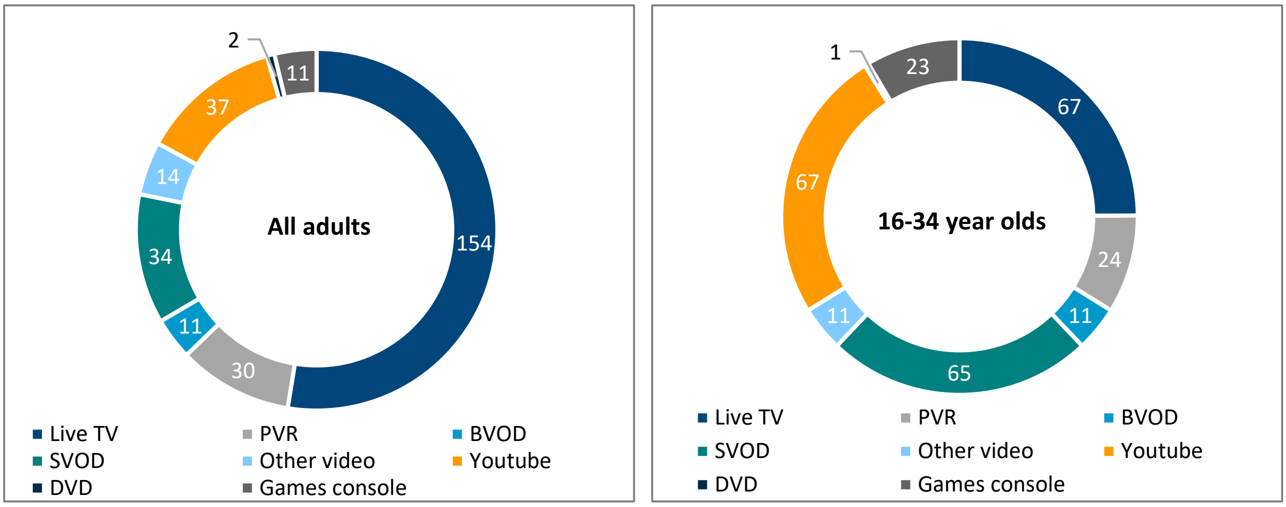
2.19. There has been a significant shift in behaviour toward non-linear consumption, for example through the use of SVOD platforms, catch-up services and TV box sets, on a range of smart TVs, set-top boxes, streaming sticks, PCs, smartphones and tablets. To varying degrees market by market, an effect of these

[24] GSMA, *The Mobile Economy 2020*. Link: https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/03/GSMA_MobileEconomy2020_Global.pdf
[25] BBC channels websites, various.
[26] Connected TV refers to a TV set connected to the internet. This can be as a smart TV (also included in the chart) or via a streaming stick, such as Google Chromecast and Amazon Firestick.

trends has been a shift in consumer attitudes toward pay TV, leading to a marked displacement of 'full fat' subscriptions (big bundles of pay TV channels and a range of complementary services) by 'skinny' bundles of fewer channels and services, or by SVOD with no pay TV channels at all.[27]

2.20. This has been supplemented by a significant increase in use of online video sites and social media more broadly, including YouTube, Vimeo, Facebook/Instagram, Snapchat and Twitter. These platforms, together with video on demand ('VOD'), have become very popular and, in 2019, UK adults were watching a cumulative 96 minutes a day of BVOD[28], SVOD, other online video and YouTube content. This rises to 154 minutes per day for 16-34 year olds.

Figure 4: Total daily viewing by type: Adults vs 16-34 year olds, in mins (Ofcom Media Nations 2020)



2.21. Mature markets (by which we mean developed economies with significant pay and free TV consumption, fast broadband and high levels of competition) are likely to demonstrate similar market dynamics to those observable in the UK in terms of linear to non-linear viewing. All territories are likely to move towards greater non-linear consumption over time, dependent on the current degree of internet access, TV and device take-up and consumer behaviours.

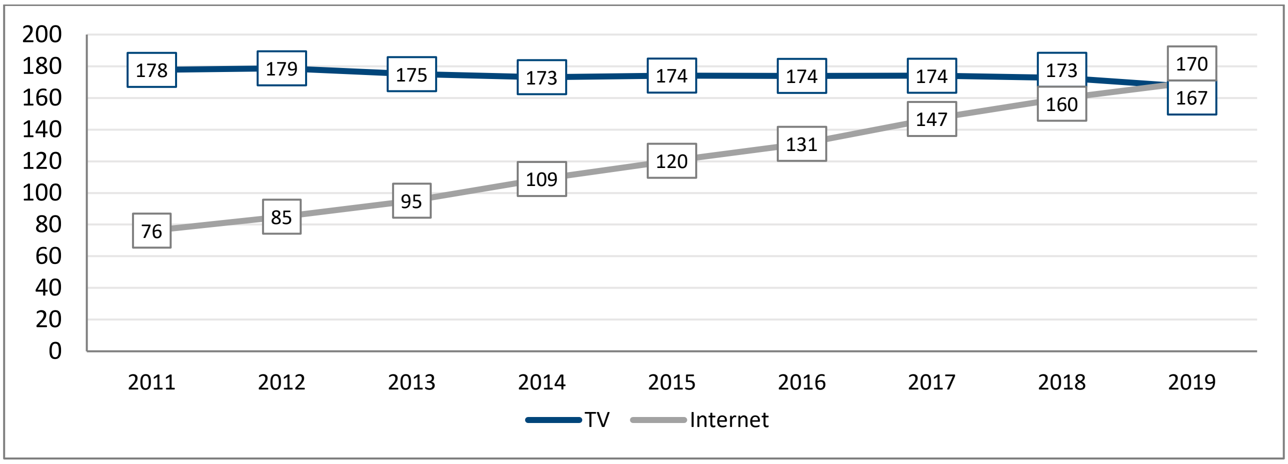
2.22. Linear TV viewing is still the dominant form of A/V media consumption around the world. Although in terms of daily usage per individual, total internet usage (170 minutes per day) has nudged ahead of TV viewing (167 minutes per day), the latter figure includes time spent watching YouTube, VOD, and other associated online activity[29].

[27] As we note in further detail below, changes in business strategies by platforms and channel operators (including offering 'skinny' propositions to mitigate outright cancellations) have been both a response to and accelerator of this shift. See Changes to corporate activity and strategy.

[28] We use the term Broadcaster Video on Demand ('BVOD') for ad-funded video on demand from traditional channels-based broadcasters, often offered as a catch-up service related to the linear schedule. For other advertising-funded VOD, we use the term 'AVOD' – the YouTube business model.

[29] Zenith defines 'Internet' as 'time spent each day on online activities like watching videos on YouTube, accessing social media, and shopping on ecommerce websites…'

Figure 5: Minutes spent per day[30] with media, worldwide (Zenith) (2011-2019)



2.23. In countries where mobile internet has outpaced fixed-line internet connectivity, the transition to majority non-linear consumption may actually be swifter than in countries following a more traditional transition through fixed broadband. This is partly because smartphones and other such connected devices that can use mobile broadband are well-equipped to disrupt traditional, expensive pay TV models which are more ingrained in mature markets and relatively nascent in developing ones.

2.24. Further, the use of smartphones to access video content is growing at a faster rate in countries where smartphone penetration is currently lower, suggesting that as more and more individuals come online for the first time via their smartphones they are likely quickly to adopt mobile viewing behaviours. This is the case in South Africa and Indonesia, for example, which saw the proportion of their smartphone populations accessing video content through their smartphones rise 15% and 10% respectively from 2017 to 2018, even as the smartphone population continues to grow from a relatively low base in those countries[31]. Smartphone adoption in Asia Pacific is forecast to grow from 64% to 81% in the years to 2025 and in sub-Saharan Africa from 45% to 67% over the same period.[32]

<u>Changes to corporate activity and strategy</u>

2.25. Business strategies are both a response to and a driver of market change: content owners and aggregators (e.g., pay TV platform operators) are following changes in consumer behaviour by launching/migrating services online and making more content available more widely and often at lower cost; platform and network operators are favouring IP infrastructure in place of, or alongside, legacy infrastructure (satellite, cable, terrestrial). Thus Sky, for example, has upgraded its core offering to include extensive IP-delivered services (Sky Q), created an SVOD brand Now TV, and is a major broadband provider; BT and Virgin, among other players, have invested in developing fast broadband (including, increasingly, full fibre).[33] Similar multi-market strategies have been followed by network and pay TV operators in other countries.

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30 'Time spent with television' refers exclusively to time spent on linear broadcast channels; time spent watching VOD and other associated on demand activity is counted as internet consumption.
'Internet' includes mobile and desktop internet usage

31 Global System for Mobile Communications Association ('GSMA'), *The Mobile Economy 2019*: https://www.gsmaintelligence.com/research/?file=b9a6e6202ee1d5f787cfebb95d3639c5&download.

32 Global System for Mobile Communications Association ('GSMA'), *The Mobile Economy 2020*: https://www.gsma.com/mobileeconomy/wp-content/uploads/2020/03/GSMA_MobileEconomy2020_Global.pdf

33 The classification of TV content providers is evolving, given business models and activities of traditional players and new entrants. For example, Sky is a broadcaster, a pay TV platform and an aggregator of third-party apps; similarly, Apple is both an SVOD service and an aggregator of third-party channels and services.

2.26. Broadcasters face competition from new players, new forms of content and new business models. Traditional free-to-air ('FTA') broadcasters have long had to compete with multichannel groups, initially on pay TV platforms and more recently on terrestrial (digital) platforms and via IP. They now compete for eyeballs directly with SVOD players, which are increasingly global and mass-market in their scale and outlook. Multichannels, both UK-based and from global players such as Disney, Discovery, NBCUniversal and WarnerMedia, have also seen their share of viewing reduce in favour of non-linear services including Netflix, YouTube and a range of new entrants, particularly for younger audiences.

2.27. Pay TV operators, for their part, have responded by incorporating new entrants into their services (e.g., carrying Netflix as part of their offering) and reducing affiliate fees paid to traditional channel suppliers. Even before the threat of new entry was apparent, traditional pay TV operators had already begun to diversify – for example, by offering fixed and mobile broadband.

2.28. As the global media sector adapts to these developments, scale has become an important goal in its own right for content players in particular, both in terms of global reach and in terms of access to content (i.e., libraries, volume, hours). This has led to significant consolidation and other corporate activity, as a means of securing greater scale across the entire value chain, deepening relationships with suppliers and customers, and driving cost efficiencies.[34]

2.29. Within this context, many integrated studios,[35] for example, are pursuing new business strategies to overcome the challenges of maintaining audience traction in the face of fragmentation and new competitors. These include:

- Launching direct-to-consumer ('DTC') propositions (e.g., ITV Hub, BritBox, Disney+, Discovery GO) and prioritising digital growth.[36]
- Increasing investments in original programming and reducing the amount of content being supplied to third-party channels and VOD aggregators (typically for retention for their own DTC offerings).
- Reviewing channel portfolios (including closure, consolidation and rebranding where necessary), responding to pressures on affiliate fees paid by pay TV operators – themselves challenged by higher customer 'churn' (cancellation) and flat TV advertising revenues.[37]
- Seeking further opportunities in markets and products, where possible (e.g., consumer products, content licensing, merchandising rights) in international territories, to offset weakness in core, domestic markets.[38]
- Pursuing corporate activity, including through M&A and consolidation, to secure scale in international markets or to fill gaps in expertise and capability.

[34] Figure 18 identifies recent examples of such consolidation, both globally and within the UK.

[35] Throughout the report, we use 'integrated studios' to refer to traditional US, European and UK studios active across the media value chain from production to distribution and operating at a global level. Examples include Disney, Discovery, RTL Group, Viacom, NBCUniversal, WarnerMedia, ITV, Sky and BBCS.

[36] The iPlayer is a part of this trend, particularly in its recent re-positioning as a destination for viewing rather than as a catch-up service.

[37] Traditional pay TV platform operators have sought to reduce the payments they make to non-premium channels, and this has been a feature of the market for the past five years. Where affiliate fees have remained flat, this has normally only been achieved by insisting that channel groups also make available digital rights (to, for example, box sets). We treat in detail strategic challenges and responses in the pay TV and channels markets in Section 5: Branded services.

[38] Dynamics in the consumer products market are detailed in Section 6: Consumer products.

- Focusing on core strengths in genre or formats to cement channel/content brands, including closing brands where necessary. For example, in 2018 AMC closed its channels in Asia-Pacific citing the "effectively immaterial" nature of the channels in that region.[39] Equally, Viacom is seeking to focus on five 'flagship' brands (Nickelodeon, MTV, BET, Comedy Central and Paramount) to concentrate viewership within defined genres.

2.30. Market entry and shifting audience preferences have had material upstream effects – segmenting content investment categories by genre, quality and cost and having an impact on rights windows and content funding structures.

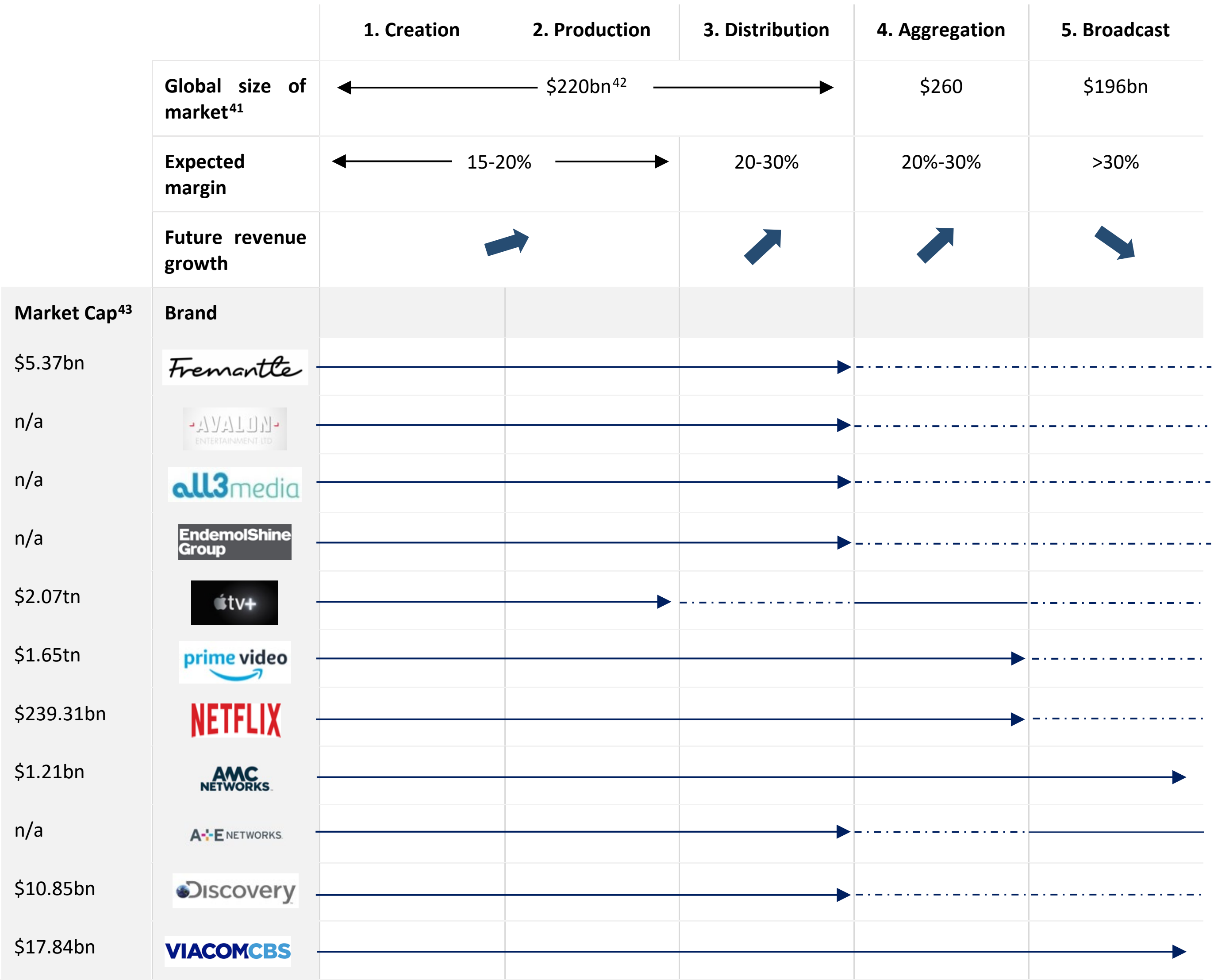
2.31. We cover all these important dynamics in detail in the relevant sections of our report, below.[40]

The implications for BBCS strategy

2.32. The integrated studio model adopted by the BBC is consistent with the direction of travel in the UK and in key international markets and with the underlying sectoral drivers and developments outlined in this section. By combining production and distribution, the BBC can, like other groups, pursue an integrated studio strategy, generate revenues across the value chain, rooted in the control of critical IP. The extent of the integration and the enlarged scope of activities at the major players are illustrated in the diagram overleaf.

[39] AMC Networks Q4 2018 Earnings Conference Call. Link: https://www.fool.com/earnings/call-transcripts/2019/02/28/amc-networks-inc-amcx-q4-2018-earnings-conference.aspx.
[40] See, in particular, Section 3: UK and international production and Section 4: Content sales and distribution.

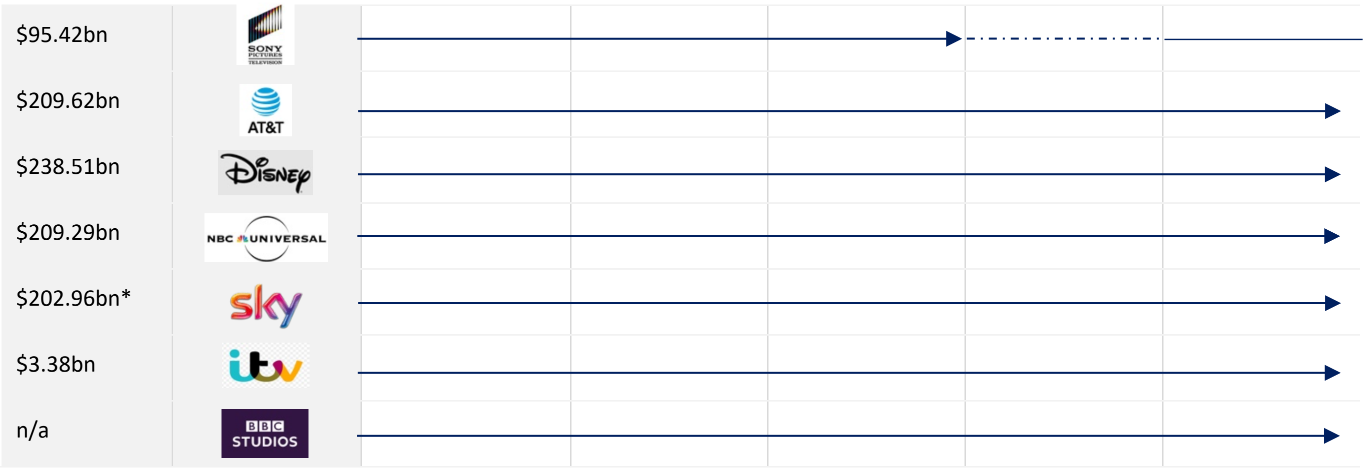
Figure 6: Comparison of BBC Studios competitors by market cap and by presence across media value chain (Mediatique)



[41] Sources: Ampere Analysis, Ofcom, PwC, Pact, WARC and Mediatique. Global size of market is an estimation based on overall revenues per category. Creation, production and distribution have been calculated together as the global 'content market'. Aggregation includes traditional subscription revenues as well as new forms of services and platforms, such as SVOD, EST and AVOD (YouTube). Broadcast is made up of global TV net advertising revenues. To avoid double-counting we have not included pay TV subscription revenue that accrues to broadcasters (currently in aggregation). We have disregarded merchandising (physical DVDs, clothing, books, etc.) and other categories such as events; we also exclude radio. While BBCS has exposure to 'products', there are too many different revenue streams across the cohort to establish the correct, like-for-like global market size. BBCS also makes limited audio content (excluded from our analysis). The equivalent figures for the UK market are £5.2bn for production and distribution (independent sector commissions, minus BBC and ITV owned brands and non-TV revenue; UK distributor revenues, minus BBC & ITV distributor revenues; BBC & ITV production revenue), £9.1bn for aggregation (subscription TV; SVOD; BVOD; YouTube) and £3.9bn for broadcast (NAR; sponsorship), all based on figures from Ofcom where available (Media Nations Report, 2020, and Communications Market Report, 2020), supplemented by Pact, Broadcast Distributors Survey and Broadcast Producer Survey. Double counting is avoided through adjustments conducted by Mediatique. Again, the 'products' category includes such a wide array of revenue streams that establishing a figure for the UK market is not useful.

[42] In the absence of an equivalent, comparable figure for creation, production, and distribution revenue in 2019, we have applied an inflationary factor on the last available figure (2018, source: Ampere Analysis). This is in line with our forecasted growth for the combined market segments.

[43] Market capitalisation is only available for companies with a public listing on a stock exchange. For Sky, market capitalisation is given for its parent company (Comcast) as it is unavailable on its own.



Overall implications for the value chain

2.33. The developments we describe here have affected each segment of the value chain from production to distribution to delivery, in terms of how content is produced, packaged and consumed. A key structural change is the extent to which each segment is increasingly integrated, with competitors operating across the value chain and global studios emerging that are active in production, aggregation, distribution and delivery across primary, secondary and subsequent (library) windows.

Content creation & production	Content distribution	Content delivery
• **Origination of creative ideas, and physical production of video content** • Cornerstone of value creation along the delivery chain • Increasingly integrated with distribution and delivery	• **Exploitation of rights and content in secondary markets** • Technology and consumer behaviour driving value in secondary markets and other windows • Corporate activity and global strategies driving greater integration of production and distribution	• **Delivery of content via channels or VOD services as well as related products and brand extensions** • Technology reducing barriers to entry, but allowed global players to emerge • Increasingly crowded and competitive space, with new gateways and gatekeepers (particulary around search and navigation)

2.34. There have been specific implications in revenue generation, margins and competitive dynamics across the value chain, characterised by:

- the pooling of value at the production and content distribution segments;
- pressures on traditional 'broadcast' models (e.g., full fat pay TV and linear FTA broadcast);
- significant moves by multiple players to focus on DTC routes to market;
- an associated shift in business models to new forms of 'pay' (including SVOD and 'skinny bundle' pay TV) and away from traditional advertising in favour of data-driven, interactive messaging (e.g., behavioural/contextual online advertising and ad insertion techniques);
- Diversification (e.g., by Netflix, the BBC, new entrant Quib), into shorter formats of A/V content, more readily consumed on mobile platforms, e.g., during commuting; and

- An emphasis on User Interface/User Experience ('UI/UX') – search navigation, prominence and findability; with a tension emerging between legacy pay TV operators and new aggregators (Apple, Netflix, Google) around who controls customer data and the relationship with the end consumer.[44]

2.35. These trends are observed in the case of BBCS which has reported sustained growth to production and distribution revenues, and even faster growth to 'Branded Services' revenue – the latter is predominantly driven by the consolidation of the key channel brands of the UKTV joint venture, but also includes the revenues accruing to BBCS from its international BritBox joint venture.

Figure 7: BBCS financial information (£m, financial years ending March 2019 & March 2020)

	2019	**2020**
Production & distribution revenues	1,047	1,059
Branded services revenues	161	385
Group adjustments	-19	-56
BBCS revenues	**1,189**	**1,388**
Cost of sales	-880	-998
Other operating expenditure	-260	-312
Share of profit (joint ventures)	36	28
Tax credits	31	24
Removal of D&A and impairment	43	51
EBITDA	**159**	**181**

2.36. The degree to which these observable trends and dynamics are common across the value chain and in multiple markets is further confirmed by the degree to which companies are pursuing opportunities globally and in multiple market segments, as we make clear in the relevant sections of this report.

<u>Similarities and differences by territory</u>

2.37. The trends described in this section will not affect all the territories in which key global players operate equally. There is great variability among international markets in terms of technological take-up, connectivity, consumer behaviour and the role and output of local/international media groups. Moreover, the scale and pace of change will vary.

2.38. To demonstrate how these drivers have affected media value chains worldwide, we have largely focused on providing detailed analysis of the UK market only, as both the home market for BBCS and as a model of a 'mature' media market. Allowing for small regional differences, we expect the picture presented by the UK market below to be broadly similar to other such mature markets (for example, the US, Australia/New Zealand, Canada, Nordics and Western Europe). Other less 'mature' territories, including the major markets of China and India, highlight how technological developments – and thereby consumer enablement – may evolve slightly differently but to the same end.[45]

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[44] We examine some of these tensions in the context of the dynamics of the branded services market, as described in section 5.

[45] In the relevant sections of this report, we capture international developments insofar as they relate to the 'markets in which BBCS operates' – e.g., content sales (including to SVOD globally), channels (US, Australia, Canada, selected rest of

2.39. The chart below provides rankings against key data points for some of the major territories where BBCS is active. While there are significant differences in the scale and size of each territory, and their starting position in terms of connectivity, the key driving forces on the demand side and supply side will be common to all.

Figure 8: Characteristics of selected international media markets (Mediatique, UN, World Bank)

	UK	USA	Canada	Australia	New Zealand	China	France	India
Population (000s)[46]	67,886	331,003	37,742	25,500	4,822	1,439,324	65,274	1,380,004
% internet[47]	95	87 (2017)	91 (2017)	87 (2017)	91 (2017)	54 (2017)	82	34 (2017)
GDP per capita ($)[48]	42,300	65,118	46,194	54,907	42,084	10,261	40,493	2,104
Growth prospects[49]	↗	↗	↗	→	→	↑	→	↑

Covid-19 impact on overall sector drivers and developments

2.40. The Covid-19 crisis has had immediate and potentially enduring impacts on the market segments in which BBCS operates. The short-term effects have been particularly acute in UK and international production (with the hiatus on making films and TV shows), in content sales (offsetting the weakness in commission and production, there has been an increase in the sale of library content to fill broadcast schedules in major markets) and in branded services (specifically, downward pressures on advertising and affiliate fees, offset by a spike in SVOD penetration).

2.41. Overall, the key dynamics we have identified across the relevant value chain described in this report will not be fundamentally altered by the impact of the Covid-19 crisis. The key effect will be one of acceleration – e.g., in the adoption of digital behaviours even by older cohorts; deeper, faster declines in traditional advertising, in response to lower viewing to traditional TV channels with impoverished schedules; more significant and earlier erosion of pay TV revenues (and hence the payments pay TV operators make to channel suppliers through affiliate fees); quicker transition by market players from curating through a channel model to offering content directly to consumers.

2.42. Assuming there is no second comprehensive lockdown, we expect UK and international production dynamics to move to a 'new normal', as production in the US and UK has now largely resumed. There may be some medium-term impacts (adoption of different methods discovered following lockdown that have proven to be of enduring value, greater use of computer-generated imagery, more animation), and margins may suffer into the medium term depending on how long Covid 19-affected measures (which have added

Europe, selected Asia, notably China) and international branded SVOD (US and Canada in light of BritBox in those territories). We are also mindful of the impact of international trends upstream, on content commissioning, windowing and value. While the BBC's international commercial activities, including producing content for non-UK commissioners, present fewer issues on the regulatory front, BBCS competes with ITV Studios and Sky in some of these ex-UK markets and financial contributions from overseas for BBCS are meaningful.

46 'United Nations World Population Prospects 2019', United Nations, 2019. Link: https://population.un.org/wpp/

47 In the table '% internet' refers to the % of individuals using the internet in each respective market. Unless otherwise reported, data is sourced from 'The World Bank: Internet access (% households)', The World Bank. Link: https://tcdata360.worldbank.org/

48 'GDP per capita (current LCU)', The World Bank. Link: https://tcdata360.worldbank.org/; all data to 2019

49 'Growth prospects' refers to the forecasted revenue growth in each of the reviewed media markets.

10-20% to production costs[50]) remain in place. There is also the potential for business failures, particularly among smaller, cash-constrained independent suppliers that have found the hiatus (and consequent disruption of payment flows) challenging.

2.43. For content sales, the spike in 2020, driven by the need to fill broadcast schedules in the absence of short turn-around shows (e.g., soaps), will flatten out again, and the underlying trends will revert to the dynamics we identify in the relevant sections of this report.

2.44. Longer term, there may be some enduring impacts in certain segments. For example, SVOD in key markets will have benefited from additional growth in subscribers, but in many cases this will have been 'brought-forward' demand, with future growth lower than might have otherwise been the case. The exception is the degree to which older demographics might have adopted SVOD during lockdown where they might not otherwise have done so at all.

2.45. The underlying shift from linear channels to DTC propositions, as outlined in our report, will continue and may indeed intensify. As we argued above, there may be an acceleration in the migration of linear channels online, in line with persistent advertising weakness and the knock-on negative effects on affiliate income of accelerated migration from 'full fat' to 'skinny' pay and the adoption of SVOD in place of pay TV subscriptions. This merely confirms, however, the dynamics already observed.

2.46. We do expect, however, that all companies with exposure to production and branded channel distribution will face cash constraints and a profit squeeze in 2020 and into 2021, owing to the weakness in key revenue categories such as advertising, affiliate fees and production (during hiatus and a patchy return to production). Indeed, BBCS reports that is likely to face financial pressures into early 2021, with a hit to revenues and a requirement to control costs.[51]

2.47. There is the prospect for further consolidation in key market segments, as companies with stronger balance sheets and less exposure to challenged revenue categories pursue opportunistic acquisitions. There may also be outright failures and service closures (e.g., of smaller production entities, second-tier TV channels, niche SVOD services).

[50] *"Submission to the Digital, Culture, Media and Sport Committee inquiry into the impact of Covid-19 on DCMS sectors"*, Pact, June 2020. Link: https://committees.parliament.uk/writtenevidence/6763/pdf/. Also confirmed in confidential interviews conducted by Mediatique with suppliers.
[51] BBC, Annual Report 2019-20 (Commercial Holdings), 2020 "…looking forward this crisis will significantly affect the Group's ability to deliver revenue in 2020/21, requiring preservation of cash and a tight rein on costs."

3. UK and international production: market structure and dynamics

3.1 The production sector is ultimately the foundation of value generation across the A/V sector. Activities in this market include the origination, creation and physical production of content; this content, and the underlying rights, together drive commercial value in subsequent windows and market segments.

3.2 BBC Studios was created from the majority of BBC (public service) in-house production departments and launched as a commercial subsidiary in April 2017. Following the agreement of the most recent Royal Charter, which removed the in-house guarantee for TV content, the BBC opted to create BBCS as a commercial entity, allowing it to bid not only for new (and returning) BBC programmes but from the wider domestic market.[52] Subsequently, in early 2018, BBCS was merged with BBC Worldwide, bringing together production and content sales, distribution and branded services and consumer products under a single commercial entity (we analyse market dynamics specifically associated with content sales and distribution, branded services and consumer products under separate sections of this report).

3.3 BBCS produces roughly 2,000 hours of content a year across a wide range of genres, in line with the output of BBC's predecessor production units. Almost all of this content has been for BBC channels although there have been several high-profile non-BBC commissions, including from Netflix,[53] Apple,[54] Spotify[55] and Quibi,[56] as well as a range of UK and European broadcasters (ZDF,[57] RTÉ,[58] Channel 5[59] and ITV[60]).

3.4 BBCS' UK production operations include its London bases and facilities in Belfast, Birmingham, Bristol, Cardiff, Elstree and Glasgow. Internationally it runs production operations from bases in the USA, Australia, France, India, the Nordics, and Germany.[61]

3.5 To a large extent, establishing BBCS as a commercial entity was itself a response to the structural changes in the UK production market over the past decade. As we discuss below, these changes required the BBC to adapt to cost inflation, greater demand for content and a vastly expanded range of channel operators,

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[52] Initially, BBC Studios took over production of in-house programming in order to facilitate the transition, with only very few productions being tendered out. Under the revised Charter, the BBC was obliged to reduce the in-house guarantee to zero by the end of 2027. For drama, comedy, factual and entertainment programming, at least 40% of content previously covered by the guarantee had to be put out to tender by the end of 2018. By the end of 2019, children's, sport and non-news current affairs were also subject to competitive tender.

[53] "BBC Studios Production wins first Netflix commission for science documentary series about pioneering surgeons", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/bbc-studios-production-win-first-netflix-commission.

[54] "Jay Hunt: Apple is open to co-productions", 2019, BBC. Link: https://www.screendaily.com/news/jay-hunt-apple-is-open-to-co-productions/5140709.article.

[55] "BBC Studios produces new podcast Stay Free: The Story of The Clash in partnership with Spotify", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/spotify-partnership-the-clash.

[56] "BBC Studios wins its first Quibi commission – Fierce Queens", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/bbc-studios-quibi.

[57] "BBC Studios and ZDF enter historic partnership", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/bbc-studios-zdf-partnership.

[58] "BBC Studios lands first format deal for DIY SOS, Baz Ashmawy to present new format to RTÉ" 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/diy-sos-format-deal-rte-baz-ashmawy.

[59] "BBC Studios wins a further commission from Channel 5", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/the-bust-channel-5-commission.

[60] "BBC Studios wins its first ITV commission – Inside the Duchy", 2019, BBC. Link: https://www.bbc.co.uk/mediacentre/bbcstudios/2019/itv-commission-inside-the-duchy.

[61] As of January 2021, BBCS will operate as a standalone production business, ending a decade-long partnership with All3Media. All3Media will take full control of Tower Productions, the joint venture set up between the two companies in 2009. Link: https://www.broadcastnow.co.uk/bbc-studios/bbcs-germany-and-all3-cut-ties/5153444.article?utm_medium=email&utm_campaign=Daily%20Daily%20News&utm_content=Daily%20Daily%20News+CID_82f2c5b7b5c7b0814e38d1b237083d51&utm_source=Newsletter&utm_term=BBCS%20Germany%20%20All3%20cut%20ties

platforms and other online services now commissioning content. While these trends are beneficial for independent production companies, they were potentially harmful to the BBC as a public service broadcaster commissioning content and facing declining audiences. The decision to commercialise TV production, to give BBCS the ability to fund and make content for the BBC and third parties, and to ensure that IP in programmes could be more consistently controlled (and monetised) by the BBC, was consistent with these market trends.

3.6 In the remainder of this section, we review the key dynamics and recent trends in the production sector (UK and international).

New sources of demand in the production sector

3.7 The independent TV production sector in the UK is the largest in Europe, with total revenues reaching just over £3.3bn in 2019 excluding revenues generated by producers that are wholly owned by the PSBs.[62] Of this £3.3bn, £2.7bn is derived from primary commissions from both domestic and international sources.[63]

3.8 While UK PSBs remain the dominant commissioners in the domestic market, the sector has recently benefited from new sources of demand. This has amplified the trend of rising prices for content and contributed to the significant structural changes experienced in the broader industry. New sources of demand include:

- Significantly higher primary investment by UK multichannel groups (Sky, UKTV, among others);
- Stepped up commitment to original production by international channel groups and other integrated studio players (Disney, Discovery, NBCUniversal, WarnerMedia); and
- Commissions from new entrants such as SVOD players Netflix and Amazon.

3.9 There is increasing overlap between and among these three categories of demand. UK multichannel groups are becoming potential merger targets for global players (the biggest and most recent example of this was the bidding war for – and Comcast's subsequent acquisition of – Sky). Meanwhile, traditional players are launching or enhancing their own DTC propositions (iPlayer, BritBox, Now TV, Disney+, Peacock), to meet the competitive threat from SVOD operators such as Netflix and Amazon Prime Video. There is also significant co-production activity, grouping broadcasters, multichannel groups and SVOD players in various combinations.

3.10 For clarity, we have opted to analyse PSBs, multichannels and SVODs as separate segments because their content strategies and therefore demand profiles have traditionally differed. Each has thus had a different impact on the sector as a whole, particularly over the past five years. However, investment, consolidation and merger activity, which increasingly cuts across these categories, has accelerated in recent periods (particularly in the context of TV production) and this is set to continue, further blurring the lines among the three groups. Segment-by-segment analysis is provided below, and a further Covid-19 impact review is included at the end of this section.

[62] This includes non-TV revenues from new media, online publishing, talent management, feature films, public relations and any other activities carried out by UK TV production companies. Non-TV revenues comes to £136m in the above. The total does not include £725m generated by ITV Studios (UK), £271m by ITV Studios America, £508m by ITV Studios International and £318m by ITV Global Formats and Distribution; neither does it include any revenues generated by BBCS (just under £1.4bn in 2019-20, of which c£1.1bn was production and distribution. Pact, *2020 Pact UK Television Census*, October 2020. Link: https://www.pact.co.uk/news-detail.html?id=huge-international-growth-generates-record-revenues-for-independent-tv-production-sector

[63] Pact estimates that the PSBs spent £1.3bn in 2019 on primary commissions from independent UK producers across all their channels (i.e., the core PSB channels and 'diginets' such as ITV2 and E4), out of the total £2.7bn of international and domestic 'primary commissions' income accruing to independents. Again, the definition of 'independent' here is that of Pact – all producers not fully owned by a PSB.

Shifting budgets at the PSBs

3.11 The strength of the UK production sector has historically been driven by a traditional commissioning model dominated by the PSBs – BBC, ITV, Channel 4 and Channel 5, which, excluding Channel 4[64], have all operated their own production departments in order to capitalise on in-house IP across the value chain.

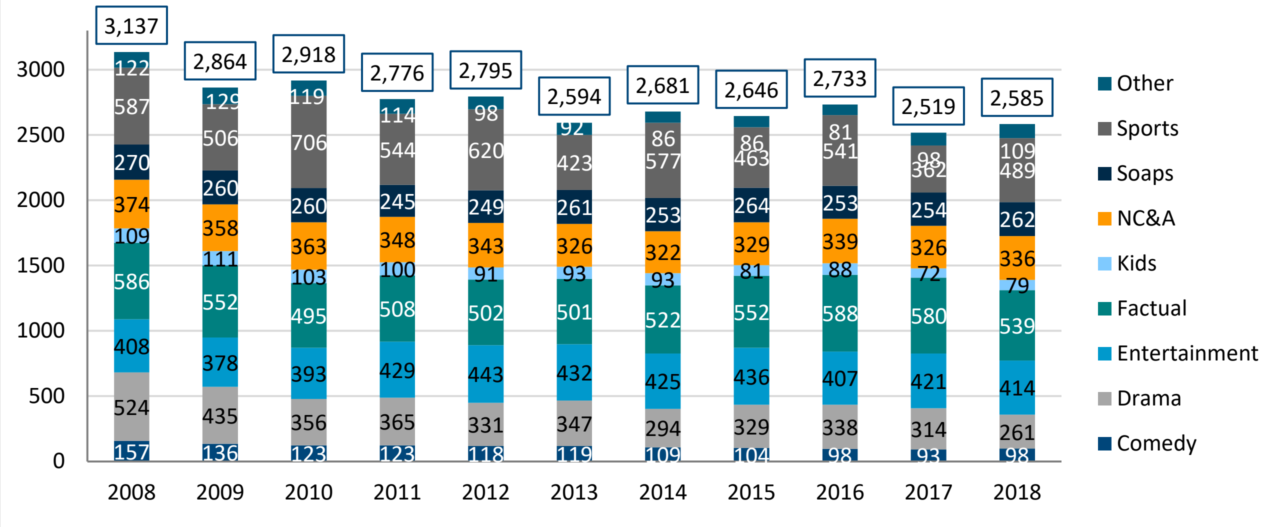
3.12 The PSBs are required to ensure at least 25% of qualifying programming (by hours) is commissioned from qualifying independent production companies.[65] The combined effect of three changes to the relationship between suppliers and the PSBs – the quotas, the introduction of Terms of Trade from 2004[66] ensuring qualifying external suppliers could control secondary rights to their content and the Window of Creative Competition ('WOCC') scheme (introduced by the BBC in 2007/08[67]) – was hugely beneficial to the independent production sector, which grew rapidly in the 1990s and 2000s. The ability to retain rights to their content post-primary window also allowed independent production companies greater scope to expand their operations in ancillary market segments.

3.13 Until recently, the independent production ecosystem could largely depend on the level of commissioning delivered by the PSBs. Over the past five years to 2019, the PSBs have collectively spent on average £3.3bn a year on content, of which roughly £2.5bn was spent on first-run UK originated commissions.[68] This figure, from Ofcom, is for expenditure on content broadcast on designated PSB channels, not on commercial channels ('diginets') operated by the PSBs. Pact reports that nearly £1.3bn was spent by PSBs on primary commissions for PSB channels in 2019; this includes, however, expenditure on commercial PSB 'diginet' channels.

3.14 While there has been relative stability in PSB spend in original content over the five years under review, this belies a longer-term trend which has seen PSB spend on content fall by more than £1bn a year in real terms since 2004. Although these real declines have moderated in recent years, the effects inherited from earlier periods are likely to persist over the medium term. This will inevitably be amplified by cuts in expenditure in 2020, as a result of cost savings triggered by the Covid-19 disruptions.[69] Note, however, that co-production trends will make like-for-like comparisons more difficult over time, given that PSBs in the past funded a higher share of primary commissions than in very recent periods. It can be argued, therefore, that the lower real-terms commitment to original content has a greater impact because it is amplified by co-production funding. We look at co-production trends in greater detail below.

[64] Channel 4 has been a 'publisher-broadcaster' by remit since its inception in 1982.
[65] A qualifying independent is one that is "not tied to a UK broadcaster through significant common ownership." (Ofcom glossary, at: https://www.ofcom.org.uk/__data/assets/pdf_file/0021/130719/Glossary.pdf). As a publisher-broadcaster, Channel 4 naturally spends the entirety of its content budget externally. The quota was first introduced in the Broadcasting Act (1990).
[66] As required by the Communications Act (2003).
[67] The WOCC originally set an 'in-house' floor of 50% of the BBC's original content (by hours), with 25% guaranteed to go to external providers and the remaining 25% 'contestable' by the BBC and external providers. This was formally removed with the launch of the latest BBC Royal Charter and Framework Agreement in 2017.
[68] Ofcom, *Media Nations 2020*, 2020. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf
[69] All PSBs have announced significant reductions in origination spend – C4 aims to reduce its 2020 content spend by £150m, ITV by £100m. https://deadline.com/2020/04/channel-4-coronavirus-cost-cutting-plan-1202903441/.

Figure 9: PSB first-run UK origination content spend by genre, £m (2008-2018)[70] (Ofcom: Media Nations)



3.15 The content expenditure data over the past few years directly reflects weaknesses in the core revenue streams relied upon by the PSBs – namely, the licence fee (for the BBC) and advertising. The impact on expenditure by the PSBs on content supplied by external producers has been marked. Although commissions from independent production companies grew to £1,295m in 2019 from £1,271m the previous year,[71] this figure was as high as £1.35bn in 2014.

3.16 While PSB spending still makes up the majority of revenue from commissions for external suppliers, this may not hold over the long-term, particularly when other sources of commissioning are proliferating, including players (such as the streamers[72]) with much larger content budgets.

[70] Other includes Arts/Classical Music, Education, Feature Films and Religion. 2018 prices. PSB refers to ITV, Channel 4, Channel 5 and the BBC channels only: BBC One, BBC Two, BBC Three, BBC Four, CBBC, CBeebies, BBC News and BBC Parliament.

[71] The figure includes spend on original commissions for PSB channels and diginets (note that Ofcom's expenditure by genre figures related to PSB channels only). Pact, *2020 Pact UK Television Census*, October 2020. Link: https://www.pact.co.uk/news-detail.html?id=huge-international-growth-generates-record-revenues-for-independent-tv-production-sector

[72] We use the term 'streamer' to denote SVOD and AVOD operators such as Netflix, Hulu, Peacock and Britbox.

Figure 10: UK originated content spend by source, £m (2014-2019) [73] (Pact, BBC/ITV annual reports)

Segment	2014	2015	2016	2017	2018	2019
ITV Studios – internal production[74]	366	411	463	523	551	573
ITV Studios – external production	93	136	163	169	144	152
BBC – internal production	463[75]	n/a	n/a	n/a	432[76]	442[77]
Indie sector[78] – primary commissions for all PSB operated channels *% of total primary commission in indie sector*	1,350 *85%*	1,328 *86%*	1,229 *82%*	1,294 *83%*	1,271 *80%*	1,295 *77%*
Indie sector – primary commissions for multichannels *% of total primary commission in indie sector*	236 *15%*	222 *14%*	275 *18%*	259 *17%*	321 *20%*	390 *23%*
Total (ex. BBC)[79]	£2.51bn	£2.1bn	£2.13bn	£2.24bn	£2.29bn	£2.41bn

Increasing overall content spend at multichannel[80] commissioners

3.17 Content spend by UK multichannel operators across all forms of content excluding sport reached £1.1bn in 2017 (the latest year for which data is available),[81] rising at a compound annual growth rate ('CAGR') of 12% since 2013.

[73] These figures are not comprehensive, as they will not include certain expenditure (e.g., 'internal' Channel 5 and Sky productions) and are provided to be indicative only. Note that these figures should not be compared with Ofcom's five-year average figure of £2.6bn spent by PSBs on 'origination,' *op. cit*.

[74] Sales from ITV Studios to ITV Broadcast and Online (all channels and services).

[75] Mediatique for Ofcom, *TV production sector evolution and impact on PSBs*, December 2015. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0014/82301/mediatique_annex_evolution.pdf.

[76] 2018 figure is for year to March 2018; provided for reference only. As reported in the 2017-18 Annual Report: http://downloads.bbc.co.uk/aboutthebbc/insidethebbc/reports/pdf/commercial_holdings_limited_accounts_201718.pdf. There are no historical figures for 'internal BBC production' for the period prior to the creation of BBCS in 2017. The 2014 number is the Mediatique estimate done for Ofcom as part of the review of Terms of Trade (see footnote 54 above). For the financial year ending March 2019, the BBC reported 'UK production' revenues of £602m, including external income, and £142m in 'international production.' See: http://downloads.bbc.co.uk/aboutthebbc/reports/reports/commercial-holdings-annual-report-2019.pdf.

[77] 2019 figure is for year to March 2020; provided for reference only as BBC does not report external production income as separate from internal income. This, therefore, is the total revenue wholly attributed to 'production income.' See: http://downloads.bbc.co.uk/aboutthebbc/reports/reports/commercial-holdings-annual-report-2019-20.pdf

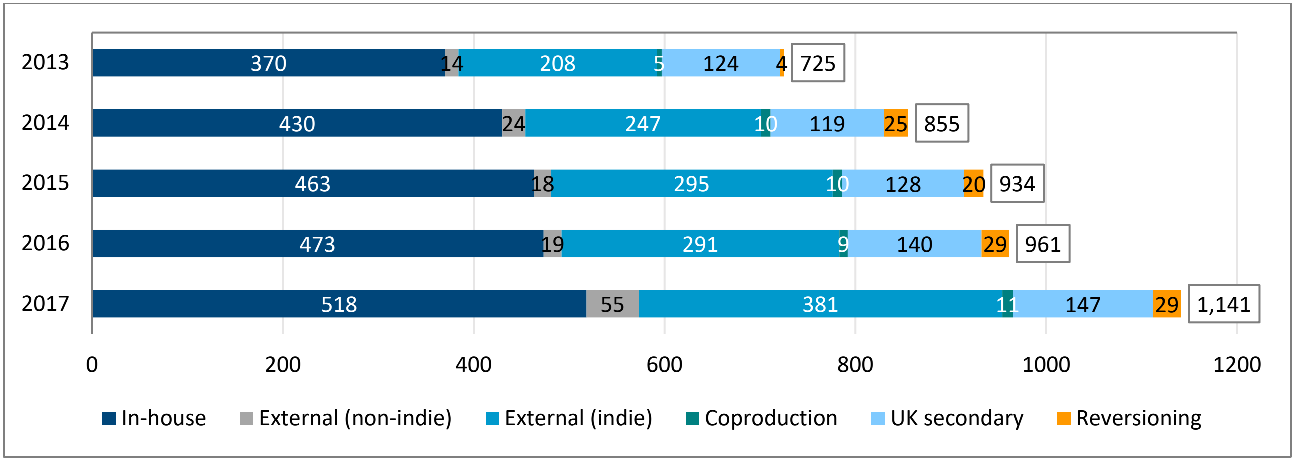
[78] Refers to Pact definition of 'independent' (i.e., not wholly owned by a PSB).

[79] We do not include BBC data in the 'Total' row; given lack of data for 2015-2017, and as figures provided in 2018-19 are for reference only as they are not calendarised, it would be potentially inaccurate to provide a sum.

[80] We use the term 'multichannel' to refer to all other non-PSB (or PSB-associated) linear channels. This includes both FTA and pay TV channels such as the Sky portfolio, UKTV portfolio, and channels from integrated studios such as Discovery, Disney, NBCUniversal and WarnerMedia among others.

[81] This includes spend on in-house production, secondary window rights and re-versioning as well as commissions, although it excludes sports rights. COBA, *COBA Content Report 2019: Multichannel investment in UK television programming*, 2019. Link: https://www.coba.org.uk/wp-content/uploads/2019/01/COBA-Content-Report-2019-FINAL.pdf. Note that Pact multi-channel expenditure excludes many of these categories.

Figure 11: UK multichannel spend by content type, in £m (2013-2017)[82] (COBA)



3.18 Expenditure on in-house production still makes up the majority of content spend by UK multichannels, although the amount spent on commissioned content from indies almost doubled (from £208m to £381m) over a period of only four years, most likely as multichannels face greater pressures to attract and retain viewers and have therefore sought the best programmes from UK creatives.

3.19 The chart above does not detail what proportion of the spend on external production companies goes to commissions and original content rather than acquisitions. Traditionally, multichannels spent the majority of their content budgets on acquisitions for their linear schedules, but this is changing as the streamers compete for the same content (e.g., deep archive and secondary) that multichannels have traditionally relied upon.

3.20 Data from production companies themselves (via Pact) suggests that the proportion of spend by multichannels on commissions is increasing, as can be seen in the figures overleaf.

Figure 12: Multichannel TV spend on production, UK (2014-2018) (COBA and Pact)

	2014	2015	2016	2017	2018	Compound Annual Growth Rate ('CAGR')
COBA members' total investment in UK independent producers, including non-qualifying independents and co-productions *(COBA)*	£280m	£322m	£319m	£447m	*Data not available*	*16.9%*[83]
Value of external UK TV commissions[84] from UK independent producers *(Pact)*	£236m	£222m	£275m	£259m	£321m	*8%*[85]

[82] Excludes sports rights.
[83] From 2014-2017.
[84] UK broadcaster commissions from UK indies (non-PSB owned only), excluding in-house. This is in line with Pact's own classifications.
[85] From 2014-2018.

- The data from COBA and Pact are self-reported and thus the relationship between them is unlikely to be completely correlative. However, both indicate a broad upwards trend in spend from multichannels (with a mean CAGR between 8% and 17%).
- In 2018, spend by multichannels on commissioned content was substantially up from the 2017 base and by more than the decline reported by Pact in expenditure by PSBs on primary commissions.

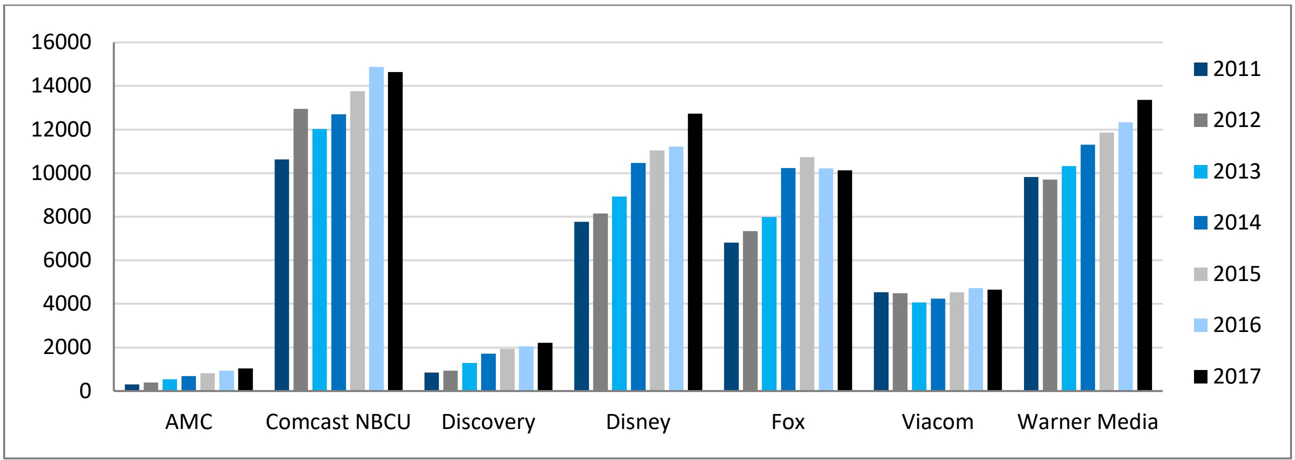
3.21 Multichannel groups (including Sky, UKTV and the US pay TV and FTA channels) have traditionally been less inclined to spend on original content given their access to large (often their own) content libraries from overseas (this has been particularly true for US studio-owned channels). However, now faced with structural changes to the broadcast landscape – viewers are spending less of their overall media time with linear channels and streamers have been competing for the content traditionally bought by multichannels – these groups are increasingly convinced of the need to differentiate their offerings by transmitting original content of their own.[86]

Growth in international commissions from UK producers

3.22 International players (the US studios in particular) are both direct players in the UK (owning and operating linear channels) and represent a distinct category of growing demand for original UK content: the commissioning from UK producers of content destined to be broadcast internationally. These are worth distinguishing briefly because their demand profile – and the strategic reasons for investing in the UK – differs from that of domestic players.

3.23 The major global studios have increased their overall content budgets to compete more effectively for audiences – as we illustrate below[87]. Some of this additional expenditure has been on direct commissions to UK producers. This gives them access to content with high production values, and in the English language, enabled by strong links to UK production talent in front of and behind the camera, often built on format rights to programmes that have already been shown to be popular in the UK.

Figure 13: Content spend by integrated production studio, $m (2011-2017) (Broadcast Intelligence)

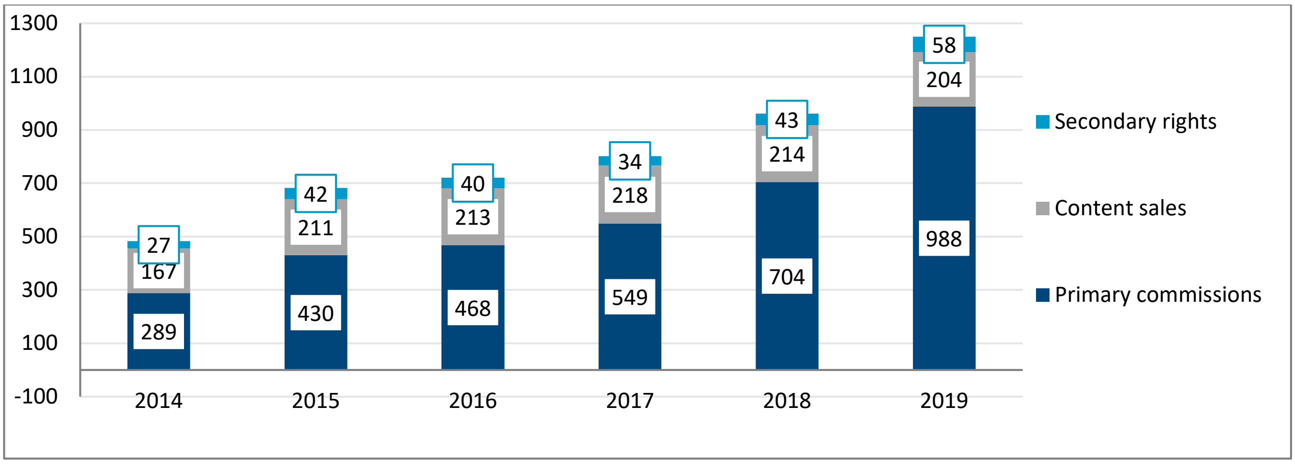


[86] We return to the role of SVOD players in the production market later in this section.
[87] In the absence of more recent data relative to the spend of integrated production studios, we note that UK spend on high-end television programmes, features and animation programmes (content akin to the type and genres favoured by these studios) has increased significantly in recent years, rising, to £3.65bn in 2019, from £2.49bn in 2015. The ratio of inward investment (i.e., investment into the UK from international studios and producers) to domestic investment has also changed significantly: the international category now represents 84% of total spend on high-end television programmes in the UK, up from 71% in 2015.

3.24 In 2019, UK production revenue from international sources reached £1,251m, up 30% on the previous year and driven by a £284m growth in international commissions, which reached £988m. This is equivalent to a 28% CAGR over the past five years (2014 – 2019). Comparatively, content sales and secondary rights have remained broadly static.[88]

3.25 The £988m spent on UK commissioned content includes expenditure by SVODs and other global digital services. In 2019, this came to £337m (34% of the total) and is a clear growth driver for this revenue segment; up 20% from the previous year.[89] We look specifically at SVOD commissioning trends in the following section.

Figure 14: International revenues for UK TV production sector by type, £m (2014-2019) (Pact)[90]



Emergence of SVOD players as major commissioners

3.26 The role that SVODs have played in recent years in shaping the dynamics in the UK production sector has been considerable. Although their presence as content buyers and commissioners in the UK context is relatively new (commissioning began in earnest in 2016), they have had a clear impact on the market because of their different approach to commissioning (discussed more fully below).

3.27 The key characteristic of these new players is their global reach, which in turn influences their content strategy; content is typically selected on the basis of its appeal to global audiences. While Netflix and Amazon were previously sourcing commissioned content from the US, this has now shifted to a much more global approach.

3.28 In 2019, Netflix transmitted 79 commissioned titles or co-productions[91] from 19 countries, including the UK, Spain, Brazil, South Korea, India, Australia and France. Of these, the UK was the best represented country with 15 titles transmitted, including *Black Mirror*, *Our Planet*, *Sex Education*, *The Crown* and *The Disappearance of Madeleine McCann*.

3.29 Content continues to play a major role in their strategies going forward, although the genres favoured and the level of investment are likely to differ among providers depending on their ultimate goals for the

[88] Content sales and secondary rights are covered in Section 4.
[89] Pact, *2020 Pact UK Television Census, October 2020*. Link: https://www.pact.co.uk/news-detail.html?id=huge-international-growth-generates-record-revenues-for-independent-tv-production-sector
[90] Pact definitions: Primary rights give rights to transmit programmes on a designated channel or service (typically the main PSB licensed channels). Secondary rights allow broadcasters to show programmes on additional channels after the original broadcast (e.g., on the PSB's portfolio channels). Content sales refer to the sale of programme rights to other broadcasters or VOD services outside of the original commission.
[91] Netflix's co-production contribution is accounted for within original commissioned expenditure.

service and their broader strategies – e.g., driving e-commerce (Amazon), offsetting legacy weaknesses (NBCU-Peacock), promoting hardware sales and brand ecology (Apple), maintaining subscriber growth momentum and addressing retention (Netflix).[92]

Figure 15: SVOD content strategies, by key player (Mediatique)

SVOD service	Role of SVOD in company A/V strategy	Content strategy	2019 (or launch year) original content budget
Amazon	Enhance Prime/Apple service, and act as essential add-on to anticipated bundles of Amazon/ Apple media services (music, video, ebooks, hardware, etc).	Original films and high-end drama, sports, early release films (via EST and download to own/rent) to drive incremental spend	\$3-4bn[93]
Apple		Focus on high-end premium drama and factual, supplemented by a range of licensed and original, including films, plus high-end/premium TV	\$2bn[94]
Disney+	Act as the new core platform for access to Disney content (i.e., Disney aims to be less reliant on linear model)	Family-oriented/kids, high recognition brands (*Star Wars* and other Disney properties), and making full use of extensive Disney back catalogue	\$1bn[95]

[92] We look at the broader strategies of SVOD providers listed here in the context of our review of branded channels and SVOD in section 5.
[93] Amazon is trending to spend \$7bn in 2019 on licensed and 'original' video and music content, based on Q1 2019 trend; the 'original' estimate is Mediatique's calculation.
[94] The Financial Times reported that Apple will spend \$6bn on 'original' content in 2019, however this is in our view an over-estimation as it relates to all content, original and acquired.
[95] The \$1bn figure is original Disney+ only and does not include the value of Disney content (movies, TV) being distributed on the SVOD service; Disney's content expenditure on all content is likely to be in excess of \$20bn in 2019.

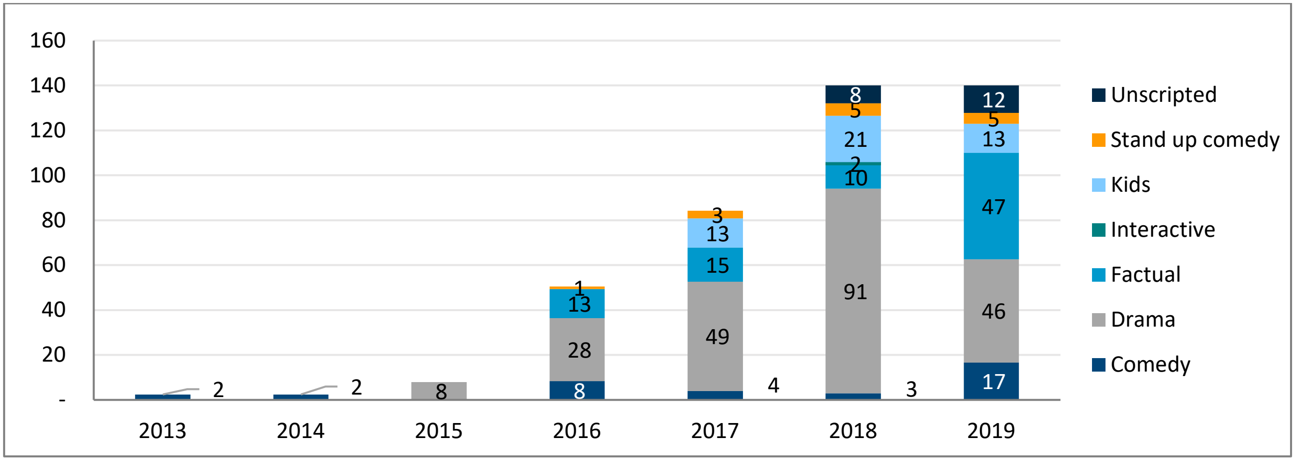
Hulu	Anchor for video bundles, either with other video providers (as an Amazon channel or bundled with Disney+ and ESPN) or with other media properties, e.g., with Spotify. Currently in US and Japan	'Grown-up' offering from Disney and Fox, focusing on original scripted drama and comedy.	\$2.5bn[96]
Netflix	A 'pure' SVOD business, where the goal is subscriber growth and retention through enhanced offering (currently focussed on increasing original content offering to maintain international growth momentum)	Provide an extensive range of genres, styles, production values and languages to appeal to all consumers	\$7.5bn[97]
Peacock	Supplementary service to NBCU's linear channels and other businesses; tiered platform ("freemium") to drive incremental audiences and grow D2C relationship with consumers using extensive library	Make use of extensive NBCU back-catalogue, original content to focus on renewing in-house IP, mainly comedy, drama and entertainment	\$1bn[98]
HBO Max	New proposition to replace HBO Now and aimed at protecting the underlying premium HBO brand by securing distribution deals with 'traditional' pay TV providers; will not launch in Sky territories	Will feature all HBO content and programming from sister brands at WarnerMedia (e.g., *Friends*)	\$1.5bn[99]

3.30 Content expenditure at the major SVOD players continues to be focussed on drama, comedy and factual, although the size of overall budgets provides scope for the big players to invest in other genres too. This has had the effect of strengthening demand for a very wide range of suppliers and talent across genres, sizes and capabilities.[100] A key issue for UK production companies seeking to tap SVOD demand, however, is

[96] We estimate Hulu's content budget has remained roughly in line with the \$2.5bn it announced in 2017, given it is currently undergoing changes to corporate structure. Link: https://variety.com/2017/digital/news/hulu-2017-content-spending-2-5-billion-1202558912/.
[97] Netflix is estimated to have spent up to \$15bn in 2019 on all content, of which 50% is assumed to be original. The company provides very little guidance overall on the split between original and acquired content. In 2016, when Netflix said it spent \$6bn, it also revealed that 25% of its expenditure was on 'originals', or around \$1.5bn. Subsequently, the company guided investors that around 85% of its new spend was on originals in 2017 and that it was aiming to take the split between acquired and original to 50/50 within a few years (https://variety.com/2016/digital/news/netflix-50-percent-content-original-programming-cfo-1201865902/). In 2017, the company spent around \$8bn on content or around \$2bn more year on year. Assuming 85% of the incremental spend of \$2bn (or \$1.7bn) was on original content, this implies an original content spend in 2017 of \$3.2bn, or around 40%. Following aggressive further spending in 2018 and 2019, and assuming that Netflix is on track to meet its 50% original content split, we estimate that the 2019 expenditure of \$15bn gives a figure of around \$7.5bn on original content.
[98] Peacock launched in July 2020 and is expected to spend \$2bn on original content across its first two years of operation. We have included an annualised \$1bn in the table above to show relative size against the rest of the cohort but this is for indicative purposes only. Link: https://variety.com/2019/digital/news/comcast-peacock-2-billion-streaming-service-1203429809/.
[99] HBO currently spends c\$2.5bn on content, of which c\$1bn is original. Owners AT&T have said they would increase the original budget by c\$500m a year from 2020. https://www.fool.com/investing/2019/10/24/will-hbo-max-grow-into-its-content-budget.aspx.
[100] Streamers in the US have aggressively pursued talent, both behind the scenes (producers Shonda Rhimes and Ryan Murphy, the Obamas) and on-screen (Jerry Seinfeld, David Letterman). However the recent arrival of Apple+ has made this an even greater priority: in talk show content (Oprah), scripted (Reese Witherspoon and Jennifer Anniston), direction (Steven

access; many small firms will lack the commercial resources and management expertise to pitch effectively to global players (often commissioning out of the US) and securing time with key SVOD personnel can be challenging.

Figure 16: Total hours of UK commissions from US SVODS: Netflix, Amazon and Hulu, by genre (2013-2019) (Mediatique)[101]



3.31 Content expenditure estimates for SVODs are notoriously difficult to establish and validate. Many sources (in particular trade magazines and websites) conflate total content budgets with expenditure on original content (e.g., declaring that Netflix spent $15bn on original content in 2019, when this is actually the figure for all content, acquired and original). There is also an issue of definition: often, programmes are called 'original' even when they have been acquired as finished product, which can misrepresent some figures in the market for actual commissioned or in-house content.

3.32 For the time being, TV production in the UK is benefitting greatly from the additional demand. Indeed, the SVODs (and in particular Netflix and Amazon) have been cited as paying well above market rates for UK content[102].

3.33 The estimated revenues to the UK production sector from commissions from all global digital services (essentially the global SVODs Amazon and Netflix) over the three years from 2016 to 2018 is £556m, with the expenditure growing roughly by £60m, when it reached £337m.[103] We estimate that Netflix and Amazon released 21 and 10 original commissions (or co-productions) respectively from the UK in 2019.[104]

3.34 With increasing numbers of channel operators, SVODs and broadcasters looking to use content to differentiate their services and retain and/or grow their audiences and/or subscriber base, the need to secure original or exclusive content has grown. Thus, platforms that have not in recent years been commissioners of content have entered (or re-entered) the market. For example, having previously exited

Spielberg) and production (A24 studios), Apple TV+ has made large bets. In the UK context, the deal between Amazon and *Fleabag* creator Phoebe Waller-Bridge may herald the start of a trend.

[101] Only includes transmitted programmes as of November 2019; there may be unannounced originals released in 2019 not included in the chart above.

[102] Netflix and other SVOD operators typically seek global exclusive rights and will be definition pay more upfront than commissioners buying primary rights (where secondary and other residual revenues are generated beyond the initial arrangements). There is very little transparency in how SVODs structure commissions and acquisitions. Confidential discussions with independent producers indicate that the SVOD operators pay higher tariffs both for commissioned content and for acquired programmes but it is not possible to quantify and compare, given that data for PSB commissions are for the primary licence period and do not reflect the total programme returns across all windows over time.

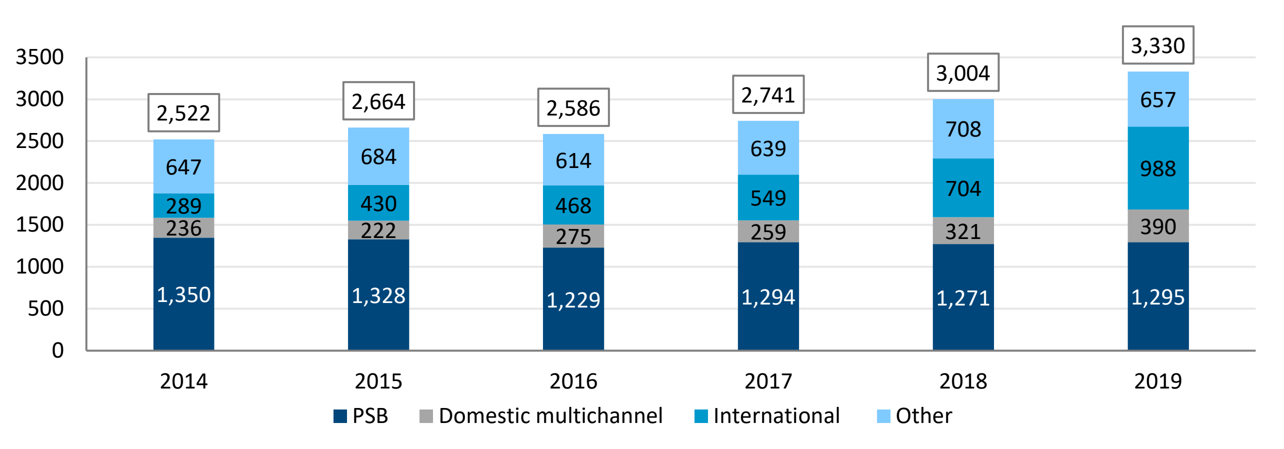
[103] Pact, *2020 Pact UK Television Census*, October 2020. Link: https://www.pact.co.uk/news-detail.html?id=huge-international-growth-generates-record-revenues-for-independent-tv-production-sector.

[104] Mediatique content audit.

the channels and content business entirely,[105] Virgin Media recently commissioned *The Rook* (Lionsgate and Liberty Global) and *The Feed* (a co-production with Amazon).[106]

3.35 The result of greater demand has been continued revenue growth in the UK production sector, as summarised below. In the figure, the fastest growing category has been 'international', driven in particular by SVOD commissions (note that 'other' here includes all non-commission income, including secondary sales and non-TV revenues).

Figure 17: Total UK independent production revenue, £m (2014-2019) (Pact)



3.36 A further implication of the growth in international and SVOD demand has been a change to the definition of the primary window. Historically, production companies were focused on securing commissions from UK broadcasters to produce content for the TV broadcast window; this subsequently included release to catch-up[107] and paid-for on-demand windows after broadcast. The emergence of SVOD players has led to an evolution in the 'primary window', which now includes primary release on SVOD platforms.[108]

Structural changes in the UK production sector

3.37 Increased commissioning opportunities in the UK production sector have had an impact on the shape as well as the size of the production sector. There have been two fundamental shifts: the globalisation of UK TV content (and consequently of the owners of UK TV IP, namely production companies) and consolidation in the market.

3.38 The UK has become one of the central hubs for TV IP generation worldwide, confirming in particular the importance of the London-New York-Los Angeles access for talent, both in front of and behind the camera (including the critical role of show-runners). With the new sources of demand in the market as outlined above, the increasing value of content is being recognised by global players.

3.39 As a result there has been a strong appetite for consolidation from both global players and key 'super-indies' in the sector (i.e., those larger production companies that have the capacity to acquire smaller

[105] Virgin had formerly been a 50% shareholder in UKTV with the BBC (it sold its stake to Scripps in 2011) and wholly owned other channels such as Living and Challenge (sold to Sky in 2010).

[106] "Exclusive: Virgin Media's director of content partnerships departs", TBI Vision, August 2019. Link: https://tbivision.com/2019/08/12/exclusive-virgin-medias-director-of-content-partnerships-departs/.

[107] The catch-up window was 7 days for the BBC until 2014, when it was brought into line with the practice at ITV, Channel 4 and Channel 5 (30 days). In 2019, Ofcom approved the BBC's proposals to extend its availability window on the iPlayer to 12 months, subject to conditions. https://www.ofcom.org.uk/consultations-and-statements/category-3/proposed-changes-bbc-iplayer.

[108] See Changing models of production funding, later on in this section, for further analysis of this point. We also return to the implications of changes to funding and content windows in Section 7: Future direction of relevant markets.

entities). At the same time, large-scale transactions involving big US studios (Comcast/Sky, Disney/Fox and Viacom/CBS) have also resulted in further consolidation of production. Leading super indies include All3Media, IMG, Fremantle and Endemol-Shine Group (now owned by Banijay).[109]

Figure 18: Selected recent acquisitions in the UK and global markets (2014-ongoing) (Mediatique)

Target	Acquirer	Date	Consideration paid
495 Productions (US)	Fremantle (UK)	2014	*Undisclosed*
Raw TV (UK)	Discovery (US)	2014	£32m
Love Productions (UK)	Sky (UK)	2014	£24.5m
Neal Street Productions (UK)	All3Media (UK)	2015	£48m
Talpa Media (Netherlands)	ITV (UK)	2015	£355m
Mammoth Screen (UK)	ITV (UK)	2015	*Undisclosed*
TwoFour (UK)	ITV (UK)	2015	£55m
Pulse Films (UK)	Vice (US)	2016	*Undisclosed*
Two Brothers (UK)	All3Media (UK)	2017	*Undisclosed*
Cattleya (Italy)	ITV (UK)	2017	*Undisclosed*
Elk Production (Sweden)	ITV (UK)	2017	*Undisclosed*
True North (UK)	Sky (UK)	2017	*Undisclosed*
Lookout Point (UK)	BBC Studios (UK)	2018	*Undisclosed*
Scripps (US)	Discovery (US)	2018	$14.6bn
Time Warner (US)	AT&T (US)	2018	$85bn
Sky (UK)	Comcast (US)	2018	$39bn
21st Century Fox (US)	Disney (US)	2019	$52.4bn
Barcroft Studios (UK)	Future (UK)	2019	$30.1m
Viacom (US)	CBS (US)	2019	$30bn merger value
Endemol Shine Group (Netherlands)	Banijay (France)	2020	$1.7bn

3.40 There have been some concerns in the market that such extensive consolidation would be harmful for the sector as a whole. In particular, it was feared that the globalisation in the ownership of content supply, driven by acquisitions of UK production companies by US (or other) integrated studios, might lead to an imbalance of market power between producers and commissioners (e.g., broadcasters) and a change in the focus of content, away from domestic storytelling and toward narratives reflecting global tastes.

3.41 From 1995 to 2014, there was a decline in the total number of independent operating production entities in the UK, from roughly 1,000 to around 500[110] as the market consolidated and smaller outfits dependent

[109] We will encounter many of these same players when we turn to content sales and distribution in section 4, given the extent to which players are active across both production and distribution.

on relatively few programmes either graduated to a larger category, closed or were bought out. We estimate there are now roughly 450 production companies currently operating in the UK, including individual production entities (brands) owned by large holding companies.[111]

3.42 In recent years, continuing consolidation has been offset by low barriers to entry and a constant replenishment of entrepreneurial talent, typified by senior executives leaving super-indies and setting up standalone production entities. This 'revolving door' ecosystem is evident in these recent examples:

- Great Scott Productions, founded by Leon Wilson and Ed Sleeman in 2020 (both ex. Talkback, owned by Fremantle),
- Shiny Button Productions, founded by Andy Brereton and James De Frond in 2017 (both ex. Talkback, owned by Fremantle), and
- 72 Films, founded by David Glover and Mark Raphael in 2016 (ex. Dragonfly, owned by Endemol Shine Group).

3.43 Owing to these factors, the overall number of independent production companies has remained relatively constant over the past five years.

3.44 More generally the UK production market is both competitive and dynamic: the launch, growth and acquisition of new production companies is a common feature, often led by individual creatives or single commissions. This continues to be a key source of innovation, both in creative and organisational terms. Successful start-up producers can move toward eventual consolidation or acquisition.

3.45 We set out below a picture of the current UK production sector, broken down by size. The long tail of small and micro companies represents the majority of production entities, although they constitute a relatively small proportion of sector revenue. The 'super-indies' (companies not aligned with the PSBs and with revenues of more than £70m) are few in number but generate significant income for the sector, not least through their international activities (with the top 10 producers responsible for just under half of sector revenues[112]). Note that super indies tend to have their own distribution arms[113] and will therefore re-appear in league tables in the next section when we turn to content sales. Indeed, the combination of production and distribution (associated with both the studio model and super indies) is precisely the model being followed by BBCS.

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[110] Mediatique estimate, as provided in its report for Ofcom, *TV production sector evolution and impact on PSBs (2015), op. cit.*
[111] http://www.pact.co.uk/membership.html.
[112] We refer here to the top ten UK producers as published by Broadcast in its Indie Survey 2020; total revenues for this cohort of ten producers reached £1.6bn, just under half of total production revenues as defined by Pact in its 2020 Census (49%). Link: https://www.broadcastnow.co.uk/indie-survey-2020/indie-survey-table-2020/5148029.article.
[113] Nine of the top ten UK producers are owned by an international parent. Owners include: Sony, Avalon, Fremantle, All3Media (Studio Lambert & Lime Pictures), NBCUniversal, Vice Media and Sky. The remaining production company, Sister, is independently owned.

Figure 19: Summary of UK production sector structure[114] (Mediatique estimates, Pact, Broadcast)

Turnover bracket	Less than £1m	£1-5m	£5-10m	£10-25m	£25-70m	£70m+
No. of producers[115]	~300	39	28	38	27	6
% total revenues[116,117]	3%	5%	7%	21%	26%	38%[118]
Producer examples[119]	Big deal, Films of Record, Particle 6, Milk and Honey	Little Gem, Flicker Productions, Brook Lapping	Firecracker, Vox Pictures, Bad Wolf	October Films, Maverick Television, Sid Gentle	Optomen, Raw TV, Pulse Films, Hat Trick Productions	IMG Media, Left Bank Pictures, Avalon, Thames
Characteristics	Long tail, including start-ups and lifestyle businesses Often limited to niche genres (e.g., religion, specialist factual) or single titles		Highly professionalised outfits, often focused on documentaries, factual and factual entertainment Proven success in securing demand from domestic broadcasters		Typically producing high-end drama and comedy, including long-running series	Highly diversified and international businesses with depth in genre and client base

3.46 Consolidation within the production sector is set to continue. This may be accelerated by short term weakness among smaller players and opportunistic moves by larger entities, and/or business failures. More fundamentally, the role of 'super-indies' in buying smaller companies with the aim of deeper integration of production and distribution is likely to persist. Owning IP and being involved in content creation at an earlier stage provides companies with better monetisation opportunities. Equally, as market norm shift towards buyers' seeking wholesale exclusive rights, super-indies are in a much better position in sales negotiations given they are able to deficit-fund production, taking greater risks and benefiting from content distribution opportunities.[120] It also helps to have an international parent company with supply chain exposure in multiple markets.

3.47 As a result, production companies in the UK are becoming much more integrated with international companies, either as a result of direct ownership (e.g., All3Media) or through distribution deals. It is worth

[114] The Pact Census defines the 'UK production sector' as "TV and film production companies in the UK excluding those companies wholly owned by PSBs. All references to producers and the production sector [within this report] follow this definition."
[115] We are able to estimate a higher number of total production companies than those surveyed in Pact's census because of the survey's methodology and its membership: "This year [2020] 72 completed responses to the survey were received. These companies represent around 80% of the total industry turnover...Turnover band ranges are used to gross up sample responses to provide estimates for the overall industry...responses are placed into turnover bands, then total within each band are scaled up based on the known composition of the market (i.e., number of producers by turnover band)."
[116] This data is representative and refers only to production companies that took part in Pact's surveys. Refers to share of producer revenues from Pact survey.
[117] Refers to all independent producers, not just qualifying independents. Mediatique estimates, based on industry research and Broadcast Indie Survey 2020.
[118] Revenue for this cohort of producers (as per Broadcast's Indie Survey 2020) is: £1.37bn. The full cohort includes IMG Media (£740m); Left Bank Pictures (£203.7m); Avalon TV (£168.7m); Thames (£97.1m); Studio Lambert (£85.9) and Lime Pictures (£83.2m). As before, our analysis is informed by industry research and Broadcast Indie Survey 2020.
[119] Some individual entities will be owned by large super-indie groups or holding companies (e.g., Endemol-Shine owns Tiger Aspect, Kudos, and Shine TV, all of which are counted as individual companies).
[120] This is discussed more fully below, and in the following section on Content Sales and Distribution.

noting, however, that net margins among independent production companies, even large ones, seldom exceed 10-15% and many struggle to achieve even this level (and may indeed fail outright); the higher returns are reserved for the valuable combination of production and distribution, as we describe in further detail in the next section.

Changing models of production funding

3.48 Traditional models of production funding saw a direct flow of funds from a commissioning broadcaster to a producer, covering the full programme budget, production fees and associated expenses.

3.49 However, increased competition for key content categories/titles has stoked price inflation and has made the affordability of some productions a more difficult hurdle for traditional commissioners to surmount.[121] To a degree, this has been mitigated by the value of the existing production relationships between suppliers and commissioners, close and enduring links to talent and long-standing expertise in commissioning and production oversight, all of which confer advantages when sourcing content from independent suppliers. By contrast, global players struggled, at least initially, to secure talent and resources in domestic markets without the ability to leverage the relationships and skills of existing aggregators.

3.50 Reflecting these relative strengths and weaknesses, and in recognition of the higher costs and therefore risks inherent in original production, there has been a marked trend in recent years toward commissioning and production partnerships (‘co productions’), permitting a fusing of respective skills/resources – for example, the global reach/financial resources of Amazon and Sony alongside the local know-how/valuable brand of Channel 4, or the joint approach of the BBC with, successively, Netflix and AMC.

3.51 The ‘co-pro’ model is especially prevalent for drama, with the BBC, ITV and Channel 4 all sourcing significant co-production funding in this genre. Co-production finance has reduced on-screen costs for broadcasters, *albeit* typically in return for sharing back-end rights and attribution.[122] While there are no agreed data on the level of co-productions, we estimate that well more than half of all dramas originated in the UK in 2019 and broadcast on network television were funded as co-productions.

3.52 While attractive as a means of reducing cost while maintaining or even enhancing on-screen quality, such co-productions carry implicit threats – to the ability of broadcasters to maintain brand recognition, secure prominence and optimise returns in subsequent windows. This is particularly true regarding co-productions between broadcasters and SVODs; broadcaster-broadcaster co-productions (such as the natural history and drama programming created through the co-production agreement between the BBC and PBS since 2015) are less risky given that both parties are committed to mutually exclusive territory deals. Netflix and other streaming companies more usually seek global, exclusive rights – and this may become increasingly incompatible with domestic channel requirements.

3.53 Our analysis of Netflix shows an increase in co-production titles since 2015, where Netflix has commissioned a show alongside a broadcast channel. These are biased towards expensive high-end drama. A significant proportion of its original content will also be co-funded by broadcasters, external financiers or distributors.

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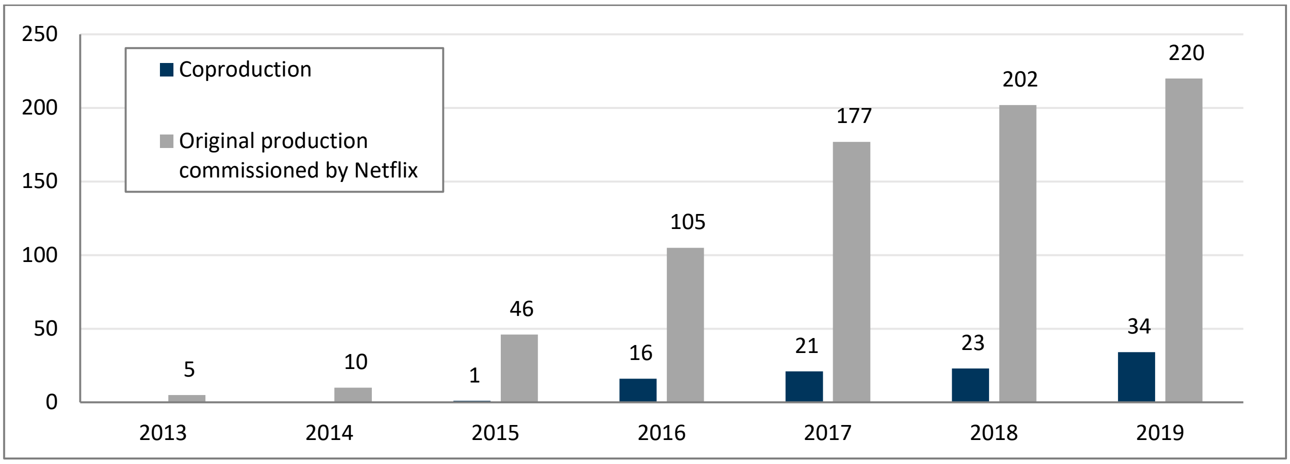
[121] There are no public sources for tracking content price inflation, despite much speculation in the trade press that programming costs have been growing significantly. However, broadcasters and distributors alike confirm that content costs for many categories are on the rise, as we review below and in Section 4: Content sales and distribution. We provide our estimates of programme cost trends below: see Changes to production costs and polarisation by genre.

[122] The changes to windows, and the concomitant impact on the time over which programme rights are amortised, are also explored in Section 4: Content sales and distribution, given the central role windowing plays in determining the value of content in the period after primary transmission.

Figure 20: Netflix titles by production type[123] (2013-2019) (Mediatique estimate)



3.54 Channel 4 told the House of Lords Committee on Communications and Digital in 2019 that it had increased the frequency of co-productions in response to cost inflation, reporting that the cost of its drama output had risen from an average of £725k per hour in 2013 to £1.5m per hour in 2017.[124] Increasing budgets, in line with upward pressures on the cost of talent and behind-the-camera resources, have led to greater risk sharing in genres other than drama as well, including comedy and high-end factual. Channel 4, alongside other broadcasters, expressed concern that domestic windows will be squeezed, and it will become harder for a UK broadcaster to retain brand attribution value (and a share of secondary rights income) from content it co-produces.

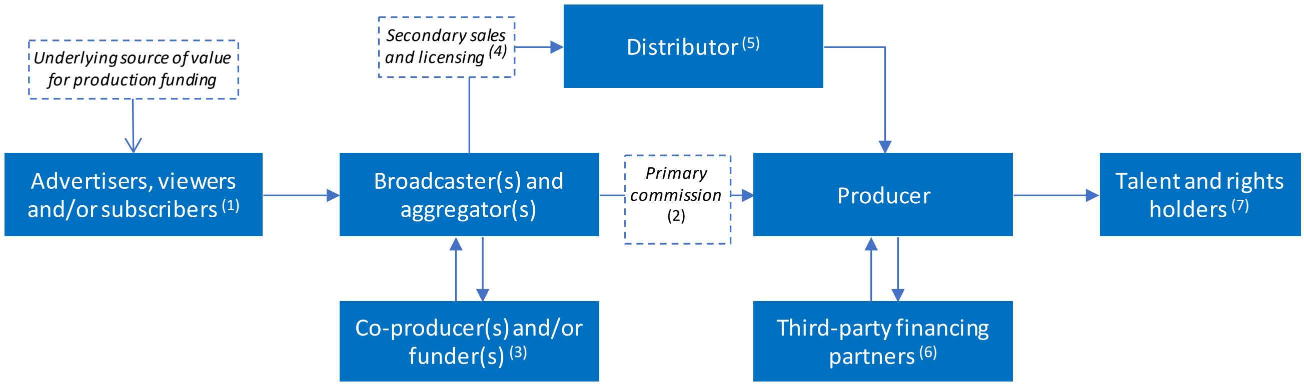
3.55 The flow of funds model for production – and associated distribution – is becoming increasingly complex for certain programmes and genres, as we illustrate in Figure 20, overleaf.

- The primary cash flows in the production – and distribution – markets originate from underlying business models linked to the relevant commissioning or purchasing broadcaster (e.g., advertising, and subscription, the TV licence fee or other consumer payments). Commissioners may supplement their own budgets with cash flows from co-production partners, which in the aggregate flow directly to producers who retain control over day-to-day expenses and cash flows for shows in production. Producers will typically retain a production fee and other agreed payments or fees (including expenses and revenue shares from secondary windows). Producers may also seek additional cash flows from third parties where they are required (or elect) to deficit finance productions, usually backed by pre-sales of content rights in later windows or internationally. Producers will also activate tax credits if eligible.
- Distributors (which may be directly linked or owned by producers, or third-party players) will secure cash flows from client broadcasters or aggregators; they will retain a share of income and pay the residual to producers and rights owners. Distributors may also contribute to deficit-funding of a producer as part of the primary commission, in return for a share of secondary revenues in relevant windows. They may also 'pre-sell' rights in certain windows and territories. Dynamics in this specific market are analysed in Section 4: Content sales and distribution.

123 In this graph, as throughout, our criterion for a Netflix original is that it be first-run commissioned or in-house. Anything previously on another channel is not counted as original, even if it is counted as a Netflix Original. Co-productions, importantly, are those shows with another broadcaster attached. Where shows are co-funded (i.e., *House of Cards*, co-funded by Media Rights Capital) these are not counted as co-productions as the co-production partner is not a broadcaster. While circuitous, this is in line with what most industry participants mean when they say co-productions.

124 http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/communications-and-digital-committee/public-service-broadcasting-in-the-age-of-video-on-demand/written/101482.html.

Figure 21: Illustrative flow of funds for content production and distribution (Mediatique)

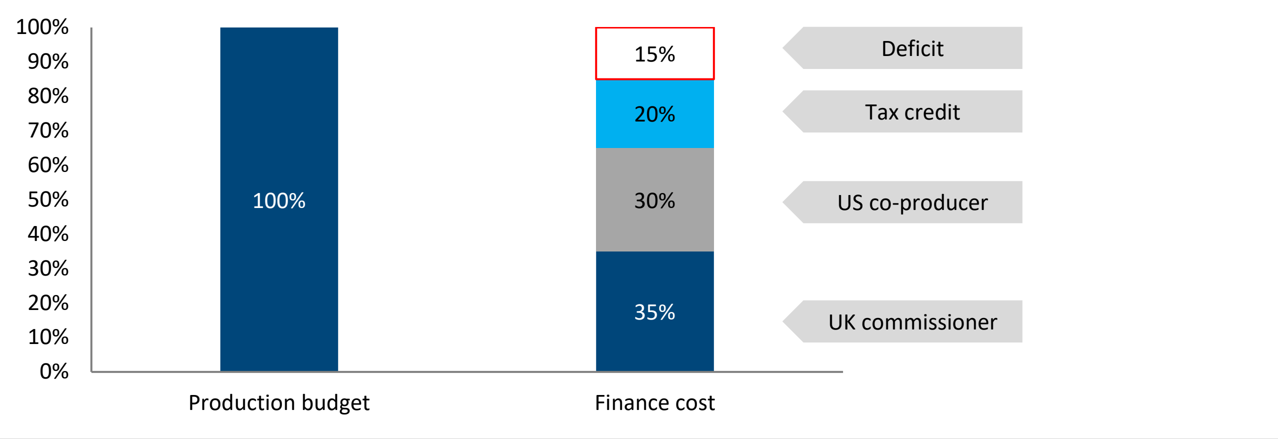


Source of funds	Production, aggregation and distribution	Third party funding	Residual talent and rights fees
(1) Aggregators generate revenues from a mix of advertising spend, subscription fees and discrete consumer payments	(2) Broadcasters typically pay a licence fee to fund productions; producers typically retain a fixed production fee (10-15%) and an agreed share of associated on-demand or other revenues (3) Aggregators may co-fund productions (and thus spread risk) with financing partners or other broadcasters, particularly for content with large budgets (4) Aggregators will typically pay a negotiated cost per hour, or cost per programme, to secure secondary rights for finished content. Brand licences (for merchandise or other rights) may include upfront payments or revenue shares (5) Distributors will take a percentage of fees secured via purchase of secondary rights. Larger producers will operate their own distribution function	(6) Where licence fees (i.e., production budgets from commissioners) are less than the overall budget, producers may secure deficit funding with third parties including distributors or financiers. This might also include tax credits and pre-sales	(7) Producers may own the underlying rights, or may have secured rights from the original creator via an outright purchase or licensing deal

3.56 These dynamics lead to greater complexity in production funding for certain programmes and genres. By way of example, Pact provides illustrative finance models for high-end drama suggesting that 15% of a production budget may typically be met by deficit finance, even after co-production finance is taken into account.[125]

[125] There is not enough data in the public domain to determine what share of 'deficit funding' might be true 'at risk' capital and how much might be derived from pre-sales of ancillary rights. This is likely to vary by size and financial strength of producers. This is likely to vary as well by the size and financial strength of producers. For example, large 'indies' with significant production slates, extensive libraries, format rights and development pipelines are more likely to be able to put up their own capital to secure returns. Smaller entities are more likely to either give away margin or to seek external funding (paying away margin) in order to secure initial commissions. The difference the two extremes will also be informed by whether or not the production entity has its own distribution arm and whether the programme in question has value in secondary and international markets. For Netflix or other SVODs, there is a growing tendency for the commissions to include global exclusive rights, aside from transactions involving a UK co-producer (such as BBCS). UK producers report (in confidential discussions with Mediatique) that Netflix and Amazon are increasingly unwilling to grant a long UK window to a funding partner in cases where the SVOD operator is contributing the larger share of production costs. In many cases, the independent producer is permitted to commercialise programmes following a licence period (typically five years), as Netflix deems content only to be valuable in its model (driving and maintaining subscriptions) for a limited period of time. This does not apply, of course, to content produced by Netflix in house, where rights are retained in perpetuity. The amount of content in this category is set to increase as Netflix seeks to reduce reliance on third parties (such as the US studios), many of which are launching DTC consumer propositions in competition with Netflix and the SVOD players. Investments by Netflix in its own studios in the US and Europe are a sign of this shift in focus, as we note further on.

Figure 22: Illustrative finance models for high-end drama (Pact)



3.57 In some ways, this is a good example of effective risk sharing in a complex and crowded market, where otherwise quality and expensive content may be too risky for a single funder to undertake. In some instances, the producer itself may volunteer to deficit finance to produce a better-quality product and generate superior returns post-the primary window. However, this does alter the balance in favour of larger players with access to capital.

3.58 Pact further argues that deficit financing creates an additional emphasis on distribution fees in secondary markets in order to fund initial productions: "The importance of secondary sales has been higher in recent years as producers are increasingly required to deficit finance productions. In some cases, independent production companies are required to relinquish their production fee and thus rely solely on secondary rights for their return on investment."[126] This is further indication of the increasing integration of production and distribution markets.

3.59 Broadcasters have expressed concern that the new entrants such as Netflix and Amazon may not participate in co-production models in future, having now developed their own direct ties to UK talent and having amassed a skillset in UK commissioning. There are early signs that these concerns may be well founded, as Netflix and Amazon are both establishing UK talent relationships directly[127] and Netflix is investing in UK production assets (having secured permanent production space at Shepperton Studios.) This does not apply, of course, to content produced by Netflix in house, where rights are retained in perpetuity. The amount of content in this category is set to increase as Netflix seeks to reduce reliance on third parties (such as the US studios), many of which are launching DTC propositions in competition with Netflix and the SVOD players. Investments by Netflix in its own studios in the US and Europe are a sign of this shift in focus[128]. Netflix in particular is increasing the amount of content it makes in-house in the US and certain international markets, responding in part to competition from traditional US studios in the SVOD segment (e.g., Disney+, HBO Max, Peacock), where parent studios have sought to end their supply agreements with Netflix and Amazon. An example of 'in house' is Netflix's *Stranger Things*, where it has the rights to a range of ancillary income (merchandising, books, comics). We return to the implications of different models in the section on Content Sales, below.

[126] Pact, *Submission to BBC iPlayer Proposals: Public Interest Test consultation*, February 2019. Link: http://downloads.bbc.co.uk/aboutthebbc/reports/consultation/iplayerpit/pact.pdf

[127] Streamers in the US have long pursued talent, both behind the scenes (producers Shonda Rhimes and Ryan Murphy, the Obamas) and on-screen (Jerry Seinfeld, David Letterman). However the recent arrival of Apple+ has made this an even greater priority: in talk show content (Oprah), scripted (Reese Witherspoon and Jennifer Anniston), direction (Steven Spielberg) and production (A24 studios), Apple TV+ has made large bets. In the UK context, the deal between Amazon and *Fleabag* creator Phoebe Waller-Bridge may herald the acceleration of the trend.

[128] https://variety.com/2019/tv/news/netflix-shepperton-studios-uk-production-1203272394/.

3.60 In remarks to the House of Lords Communications Committee, in July 2019, Netflix's vice president, original series, Anne Mensah said she and her London based team would deepen ties with the UK. "The UK is full of amazing creative voices, we've got a long and successful track record of commissioning British shows, but they've been commissioned from LA, which makes it a little bit harder. The idea of having a full-service enterprise in the UK, means we can be there on the same time zone and with the same understanding of the market as the creatives we want to work." She added that Netflix intended to continue to work with local broadcasters in co-production, despite fears expressed to the contrary by PSBs such as Channel 4. The importance of PSB in the UK was reiterated in subsequent comments from Netflix at a session held by the Digital, Culture, Media and Sport Committee in September 2020.[129]

Changes to production costs and polarisation by genre

3.61 New players – particularly streamers with global reach – will continue to use their significant financial resources to overcome barriers to entry and to secure traction in a range of domestic markets. This has had and will continue to have the effect of driving up content costs. Premium content has been eclipsed by a distinct new category of 'super premium' – largely drama and some comedy – which has attracted the attention of new entrants as well as premium channel operators in the US and UK (e.g., AMC, HBO, Sky).

3.62 The strategy of leading SVOD players (Netflix, Amazon, more recently Apple) to invest in original, premium content and to spend less on library secondary content will have a mixed impact. There may be scope for content to be distributed via other routes to market (for instance, BritBox or BVOD propositions) or to supply one of the new-entrant SVOD and AVOD players looking to build their businesses (HBO Max, Peacock, Pluto TV). This may favour producers with significant catalogues, such as BBCS. Volume may not be accompanied, however, by high prices, which may suffer as a result of the re-focussing of the top-tier SVOD players.

3.63 Cost inflation across UK TV production has many drivers: rising demand for talent, both in front of and behind the camera; the changing mix of content being acquired and/or commissioned by new entrants, which has placed a focus on genres where there had not been significant demand in the past (documentaries, lifestyle programmes); tight supply of production facilities, leading to long lead times to gain access to studios and post-production sites (this is being addressed currently by new investments in production by Warner and Sky, among others; steadily higher quality requirements for production (special effects, location shoots) as TV increasingly takes on attributes formally associated with feature films.

3.64 These trends have not affected all genres equally. There are still some categories of programmes that are unlikely to ever find significant purchase on SVOD platforms. It is therefore likely that in the future the PSBs will remain the dominant providers in the market of these genres, such as religion, arts and culture, and specialist factual, along with news and current affairs programming. These genres have deep public service value but are unlikely candidates for funding on a commercial model when compared with genres such as entertainment and drama.

3.65 However, PSB expenditure on such genres (excluding News and Current Affairs) has reduced over the past five years, as have the total hours of first-run UK origination for each.[130] This is likely due at least in part to

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[129] "Netflix, Sky tell UK Parliament Committee that Public Service Broadcasting remains key to TV industry's future", Deadline, September 2020. Link: https://deadline.com/2020/09/netflix-sky-tell-uk-parliament-committee-that-public-service-broadcasting-remains-key-to-tv-industrys-future-1234576951/. https://committees.parliament.uk/committee/378/digital-culture-media-and-sport-committee/.

[130] Down from 12,614 hours in 2013 to 12,043 hours in 2018 (excludes News and Sports hours). Ofcom, *Media Nations 2019*, 2019. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0019/160714/media-nations-2019-uk-report.pdf.

overall cost inflation, which has had the effect of raising prices for all content to a greater or lesser degree, and diverting expenditure away from 'public service' genres.

3.66 We summarise genres and cost categories in the Figure below and overleaf.

Figure 23: Cost and characteristics of emerging content categories in the UK (Mediatique)

Content categories	Second tier	First tier	Premium	Super premium
Key characteristics	Long run, volume-driven Cornerstone of multichannel networks – highly repeatable	Key element of traditional broadcast schedules	Content with high domestic but less international value Key to domestic network schedules, including FTA	Global audience appeal High production values Strong 'box set' premium
Typical cost per hour	<£750k	£750k-£2m	£2-£4m	>£4m
Key genres	Factual, factual entertainment Lifestyle Reality Low-end drama, TV movies	Domestic drama Talent-led reality, gameshows Documentaries (lower end) Entertainment Kids	Leading US and UK drama Sitcoms and comedy High-end factual	High-end drama Talent-led comedy High-end natural history Top-tier sport and movies
Examples (estimated cost per hour[131])	*Taskmaster* (£300-350k/hr) *The Circle* (£400k/hr) *EastEnders* (≈£300k/hr)	*Downton Abbey* (£1m/hr) *X Factor* (£2m/hr)	*Black Mirror* (£2.5m/hr) *Planet Earth II* (£3m/hr)	*His Dark Materials* (£5m-£6.25m/hr) *Game of Thrones* (£7.5m-£11m/hr) *The Mandalorian* (£10m/hr)
Future dynamics	Increasingly less valuable to pay TV operators Offsetting demand from syndication, and VOD players seeking to boost library size	Still valuable to pay TV operators as part of flagship multichannel brands Rights sought by VOD platforms, but often at low cost	Overall investment under some pressure from shift to 'fewer better' strategies Back catalogue important to VOD libraries	Key to SVOD original slate but minority of broadcast hours Shift to multiple funders/co-production to cover costs
Key players	Basic + niche tier multichannels Extension channels of national networks VOD players (acquisitions)	National networks All multichannels VOD players (acquisitions)	National networks Flagship multichannels VOD/SVOD players (commissions)	Premium multichannels (sport, drama) Global SVOD players (commissions/co-pros)

3.67 One of the challenges facing the market and policy makers in the UK will be whether (and how) to avoid the loss of a commissioning industry for challenged genres. In 2017, the Department for Digital, Culture, Media

[131] Cost per hour for each title has been calculated using press reports. Where total production budget was given, we have assumed the total divided by number of episodes (where episodes fit a one-hour time slot) is equal to the cost per hour. Where necessary, costs have been converted from USD to GBP using the exchange rate 1:0.75 (https://www.irs.gov/individuals/international-taxpayers/yearly-average-currency-exchange-rates).

and Sports launched a three-year pilot Contestable Fund which will make £60m (split 95:5) available to support the creation of children's TV content and public service audio content on radio. DCMS stated: "It is the government's view that while the licence fee continues to be paid for receipt of television services a small proportion of the licence fee may be available to organisations other than the BBC to help deliver quality and pluralistic public service content, using competitive forces to ensure the highest quality for the best value for money. This approach may help deliver appropriate volumes of certain valued public service genres … and stimulate plurality within public service broadcasting."[132]

3.68 In the meantime, the entry into the market of niche SVODs and other online players (for example, CuriosityStream, Vice, LoveNature, and a range of child-focused platforms: Hopster, YouTube Kids, etc) as commissioners of original content in some of these genres may alleviate some of the pressures felt by content producers. These niche SVODs are under threat themselves however, as studios and others seek to launch DTC products, which will add to the competitive pressures.

New forms of content – short-form, interactive, online-only

3.69 As demand for new programming shows no signs of abating, producers and commissioners are slowly embracing new forms of content. With the internet becoming a major distribution route for video, new content formats have emerged: e.g., short-form content, user-generated content, interactive and online-only content. As we noted in Section 2: Overall sectoral drivers, UK adults watched a cumulative 96 minutes a day of BVOD, SVOD, other online video and YouTube content in 2019, rising to 156 minutes for 16-34 year olds.[133]

3.70 The vast majority of this time has been spent with YouTube, by far the largest video aggregator in the world. The openness of the YouTube platform has enabled the massive expansion in scale and range of the content available online (in terms of source, format and quality). Broadly, short-form content can be broken down into user-generated content (including non-professional vlogs, etc.) and professional content (whether repurposed broadcast material, online-only supplements to broadcast content or entirely online-only content from traditional and new entrant providers).

3.71 With viewing on devices other than the TV set growing, producers are increasingly looking at these forms of content (short-form content, digital-only, interactive) as new methods for reaching consumers (whether directly or via a range of distribution partners). Providers of content in this category include studios (WarnerMedia, NBCUniversal, Disney), broadcaster and channel brands (Discovery, RTL), independent production companies (All3Media, Endemol Shine, Barcroft), advertising agencies, and start-up digital production companies (e.g., Blackpills in France). In the UK, broadcasters such as Channel 4 and the BBC are already commissioning for their online VOD platforms, All 4 and BBC iPlayer respectively.

3.72 Until recently, online short-form content[134] presented producers with something of a dilemma as the main revenue model for online video – advertising – has proven incapable of funding the costs of original productions. At the same time, the length of such content online is not compatible with a TV-style ad-load.

[132] Department for Culture, Media and Sport, *A BBC for the future: a broadcaster of Distinction*, May 2016. Link: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/524863/DCMS_A_BBC_for_the_future_linked_rev1.pdf.

[133] Ofcom, Media Nations 2020, 2020. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf

[134] While there is no definitive consensus on the definition of short-form content, we use the generally accepted ≤15 minutes, which, with the exception of Children's content, is a format rarely seen on linear broadcast. Online content can be both short-form (e.g., via YouTube or other platforms) or long-form (e.g., via SVOD and BVOD players) although we see the

3.73 In more mature markets, the cost of commissioned short-form content ranges from as little as the equivalent of $10,000 an hour, up to Channel 4's tariff of £20-30,000 for a 6x5" series (i.e., around £60,000 an hour). As further subscription services (Netflix, Amazon) and online services (BBC Three, for example) enter the market, prices may rise. In particular, Jeffrey Katzenberg's Quibi was reportedly paying up to $125k per minute (i.e., $7.5m an hour), prior to its launch in April 2020. Televisual notes UK production companies have praised Quibi's "realistic budgets"[135] and the following programmes were released as part of Quibi's launch: Elba vs. Block from Workerbee (Endemol Shine Group) and Green Door Pictures;[136] Around the World from BBC News;[137] Fierce Queens from BBC Studios;[138] Transmissions from HTM (Hat Trick Productions);[139] and Blood Orange from World Productions.[140]

Impact of Covid-19 on this market segment: UK and international production

3.74 The impact of Covid-19 on UK and international production has so far been meaningful: filming pauses, and necessary compliance with social distancing measures once production resumes, will continue to significantly delay the delivery of content to commissioners and customers, and the cost of production will rise accordingly[141]. Early estimates suggest a Covid-19-related cost increase of c15-20%, to cover extended production times[142], new techniques, on-site protection, insurance[143], etc.

3.75 Some players will be more affected than others. Netflix, for instance, has publicly stated that it expects little alteration to its 2020 release schedule because of the long lead time it works to: "our 2020 slate in films are largely shot and are in post-production, remotely, in locations all over the world"[144]. Its 2021 schedule, however, is less certain. PSBs, other SVODs with a shorter slate of original content, and those less able to rely on an integrated studio of their own, will also find the short term more difficult in this regard.

3.76 Despite this, the impact of Covid-19 will not be significant enough to redress the balance of trends already observable and will act, rather, as an accelerant. Post pandemic, PSBs will remain the dominant commissioners of content in the domestic market, but sources of competition and demand will be felt more acutely over time. This competition will be applied both in terms of viewing (short term, the lack of

boundaries here blurring with longer formats becoming available on those platforms traditionally associated with short-form and vice versa with shorter-form content on platforms such as Netflix and BBC iPlayer (particularly on BBC Three).

[135] Televisual, *Broadcaster Reputations*, Autumn 2019, p. 19 (http://www.televisual.com/).

[136] "Quibi unveils first UK commission", Broadcast Now, June 2019. Link: https://www.broadcastnow.co.uk/broadcasters/quibi-unveils-first-uk-commission/5140392.article.

[137] "Quibi orders BBC News show", Broadcast Now, September 2019. Link: https://www.broadcastnow.co.uk/bbc/quibi-orders-bbc-news-show/5142881.article.

[138] *Ibid.*

[139] "Mercurio to pen Quibi sci-fi show", Broadcast Now, July 2019. Link: https://www.broadcastnow.co.uk/international/mercurio-to-pen-quibi-sci-fi-show/5141434.article.

[140] *Ibid.*

[141] Pact surveyed 100 of its members at the beginning of the Covid-19 pandemic and the results suggested that producers had lost, at that point, more than £250m in revenue due to delayed or cancelled productions (although it is likely that this sum will be largely recouped when production begins again). 61% of respondents said they expected their reserves to last for a maximum of six months.
"Submission to the Digital, Culture, Media and Sport Committee inquiry into the impact of Covid-19 on DCMS sectors", Pact, June 2020. Link: https://committees.parliament.uk/writtenevidence/6763/pdf/

[142] *Ibid.*

[143] Government intervention regarding insurance provision has been a significant factor in the eventual resumption of TV and film production; in July 2020 a Government-funded scheme was announced for UK film and TV productions struggling to get insurance for Covid 19-related costs. Details of the scheme are included in the link below.
"Film and TV Production Restart Scheme", Department for Digital, Culture, Media & Sport and HM Treasury, September 2020. Link: https://www.gov.uk/government/publications/film-tv-production-restart-scheme

[144] "Ted Sarandos says "Viewing is Up" for Netflix amid Coronavirus"; Hollywood Reporter, 22nd March 2020. Link: https://www.hollywoodreporter.com/news/ted-sarandos-talks-coronavirus-impact-netflix-1285844

new content in schedules may reduce the appeal of legacy network TV channels, amplifying the underlying trend) and in terms of pressures from other players competing for content, talent and formats.

3.77 New content will be made scarcer in the short term, increasing the likelihood of competing demand from multichannel groups, international players, and new entrant SVODs. Growing demand from the latter is particularly likely, reaffirming the SVODs' growing spend on commissions from the UK independent sector. This has risen significantly in the three reported years since 2016 (by £211m to reach £337m).

3.78 The pressures already observable on traditional revenues (in the UK context: advertising; the licence fee) will naturally be exacerbated by the virus and the associated policy response. Reflecting dramatically reduced advertising expenditure over the UK's lockdown period (down c40-50%) in April and May, and some recovery in the second half of the year (assuming no second national lockdown), we expect that net advertising revenue (NAR) will decline by 15-20% in 2020. Despite year-on-year growth in 2021 and 2022, NAR will not recover to 2019 levels in real terms even in five years' time. The BBC's public income through the licence fee, although not directly affected, will emerge from 2020 lowered by the need to fund the licences of some over-75-year-olds over the medium term[145] and by an increase in households not using a TV or BBC iPlayer and thereby not required to have a licence. The BBC will also see reduced contribution from its commercial subsidiaries, reflecting weakness in advertising and pay TV in particular. Revenue weakness affects the PSBs' ability to maintain current levels of spend on first-run content. It is likely there will be a lasting impact for several years to come, worsening the declines already in train.

3.79 Some players are more capable of response than others. ITV, benefiting from strong underlying liquidity, reported significant cuts to programming spend in March 2020, citing "savings from sport" and "other cost cutting measures" as major components. This, and various other measures, has provided the broadcaster with a "pot of at least £300m" to mitigate the difficulties it faces in light of declining NAR.[146] For others, it will not be as easy: the BBC was quoted it "need[s] to make £125m of savings this year", and will have to "think hard about every pound" it spends on programming in the near future.[147] For its part, Channel 4 announced programming cuts in 2020 of £150m.[148]

3.80 The short-term implications for the independent production sector are stark. Historic trendlines already suggest that whilst PSBs will remain the biggest content commissioners for some time, their declining spend on UK-originated content (£1bn less in real terms, since 2004) will not be offset by multichannel operators, which maintain a higher reliance on acquisitions and on the content libraries of their larger parent companies. Delayed, or even cancelled production schedules affected by Covid-19 distancing measures, will have likely increased multichannels' reliance on these same libraries. There is also likely to be a change in the content mix, as commissioners focus on fewer high-profile programmes and seek to spend less on other genres and formats. Certainly during the early weeks of resumed production in 2020,

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145 From 1 August 2020, over 75s will be required to pay the licence, which was previously free for this age group. Only those households receiving Pension Credit will be exempt.

146 "Covid-19's impact on Europe's networks and production landscape", S&P Global Market Intelligence, 6th April 2020. Link: https://www.spglobal.com/marketintelligence/en/news-insights/research/covid-19s-impact-on-europes-tv-networks-and-production-landscape

147 "BBC 'needs to make £125m savings this year', BBC, April 2020. Link: https://www.bbc.co.uk/news/entertainment-arts-52474911.

148 "Channel 4 sets out financial plan to navigate the organisation through the impact of the Covid-19 crisis", Channel 4, April 2020. Link: https://www.channel4.com/press/news/channel-4-sets-out-financial-plan-navigate-organisation-through-impact-covid-19-crisis.

some broadcasters sought to reduce tariffs paid for content – for example for daytime schedules – in order to minimise cash outlay.[149]

3.81 The long-term commissioning habits of SVODs and international players, however, are unlikely to be materially affected. Integrated international studios, already on an upward trendline in terms of content spend (Figure 13), will continue to require content affiliated to the UK and its associated high production values. BBCS year-end performance is evidence of this: in the year to March 2020, it more than doubled the amount of third-party commissions that it secured in its first two years as a market-facing commercial studio.[150]

3.82 This trend will only intensify as studios commission more content for their own D2C propositions (for example Warner/HBO, Disney and ViacomCBS).

3.83 Changes to the composition of the production sector in the UK and abroad, to some extent led by these international players, was already evident before the onset of Covid-19 and this is set to continue. Operational restructuring, away from a focus on broadcast and toward DTC, will likely become more evident as the pace of changing consumer behaviour accelerates:

- July 2020: NBCUniversal announced that it would adopt a new structure under which it would "shift resources from linear to streaming." The revised structure will be named NBCUniversal Television, and be composed of NBCUniversal's TV networks, stations, NBC sports, and Peacock.[151]
- August 2020: TimeWarner's Warner Bros. announced that it was to consolidate its TV Studios (Warner Bros. Television and subsidiary Warner Horizon Scripted TV) to form Warner Bros. TV Scripted Division. Catalysed by the virus, it represents a consolidation of streaming and linear cable network businesses to focus more on the former.

3.84 As already observed, the trend of larger production companies acquiring smaller entities will also gather momentum, with buyers taking advantage of cash-constraints at small operators (at least in the short term). The 'constant replenishment of entrepreneurial talent' we cited earlier also looks set to continue. Announced in September 2020, Nicola Shindler will depart from StudioCanal (and Red Production Co.) to launch a new scripted label in 2021 with international distribution managed by ITV Studios.

3.85 The impact of Covid-19 on alternative forms of content has been mixed. The lockdown period was resoundingly successful for YouTube, and it is unlikely that the virus will have a material impact on its content going forward: the platform remains an aggregated mix of user-generated, professional, or entirely online-only content, and the most significant decision regarding its content strategy (no longer making YouTube Original programming exclusive to Premium customers) was taken well before the virus took hold.

3.86 The long-term prospects for Quibi, and a content strategy predicated only on short-form videos between five and ten minutes long, is less clear. In an interview in May, Jeffrey Katzenberg remarked that he attributes "everything that has gone wrong [with the app's launch thus far] to Coronavirus…".

3.87 Quibi content was commissioned on the assumption that it would be consumed in transit, or in the moments between other commitments. With so many working from home, the demand for such content was limited.

[149] "C4 caps lockdown commissions at £50k", Broadcast, April 2020. https://www.broadcastnow.co.uk/channel-4/c4-caps-lockdown-commissions-at-50k/5148717.article

[150] BBC, *Annual Report 2019-20*, 2020. Link: http://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2019-20.pdf

[151] "NBCUniversal's TV group is restructuring to shift focus from linear to streaming", Variety, July 30th, 2020. Link: https://variety.com/2020/tv/news/nbcuniversal-tv-group-restructuring-shift-streaming-1234720840/

Trends and market implications – production

UK and international production: trends
▪ Further consolidation of supply in the US and the UK (including a trend toward more US ownership of UK production company assets) ▪ Replenishment of 'long-tail' indie segment by 'serial start-up' executives in the UK, encouraged/sustained by Terms of Trade ▪ Declining importance of PSB budgets for UK external producers in line with trailing trends, offset by increased foreign direct commissions from streamers and international (usually US) broadcasters ▪ Continued focus on the talent axis linking London, New York and LA – driven by output deals, talent relationships between studios/streamers and creatives ▪ 'Locally sourced' content of increasing value to streamers (e.g., both for domestic SVOD propositions but also to distribute globally); focussed currently on a few developed markets (UK, Italy, Germany) ▪ Perpetuation of distinct content cost categories – super premium, premium, standard ▪ Short term impoverishment of broadcast schedules owing to Covid-19 production hiatus
UK and international production: market implications
▪ Further inflation in production costs predicted (linked to cost of talent) particularly for top drama, comedy and high-end factual and driven by increased demand from the likes of streamers seeking to increase the share of their content expenditure that is original, coupled with a growing requirement for exclusivity; intensified efforts to create 'in house' production capability by SVOD providers seeking to reduce dependence on third parties ▪ Shifts in content windows driven by funding mechanisms (co-productions, exclusivity requirements) ▪ Likelihood that national broadcasters will be 'priced out' of certain content categories or only able to participate as minority funders for a (perhaps non-exclusive) broadcast window and no other retained rights (with streamers increasingly seeking all-window rights) ▪ A significant impact on funding structures and content availability – increased incidence of co-productions but without the involvement of national broadcasters, exclusive windows, shorter amortisation periods ▪ Shift in focus by producers toward streamers and away from domestic, national broadcasters ▪ Further M&A activity, business failures, consolidation of operations in key markets ▪ Short-term budget squeeze owing to the pandemic may accelerate declines in viewing among network TV players, thereby reinforcing their reduced salience as commissioners of original content ▪ Knock-on effect on content sales (see following section)

4. Content sales and distribution: market structure and dynamics

4.1 BBC Worldwide was involved in commercial distribution for decades, before the creation of BBCS and its merger with BBC Worldwide in early 2018. The sale of finished programmes to other broadcasters remains one of BBCS' key activities, responsible for around 30% of its total revenues in the 2019/2020 year.[152]

4.2 Content sales involves licensing to third parties content and format rights made by (or assigned to) the BBC. Sales encompass BBCS-produced content owned by BBC (public service), sales from the BBC (public service) archive, BBCS-produced content owned by BBCS, or content and formats in which the BBC holds distribution rights.

4.3 Buyers are made up of: UKTV (via a programming licensing agreement), other UK PSBs and multichannel operators (e.g., Sky), international broadcasters, SVOD providers (such as Netflix and BritBox) and EST providers (Amazon, Sky Store, iTunes). It has a global (outside the UK) distribution arrangement in Natural History with Discovery, formed when BBCS and Discovery agreed to unwind the UKTV joint venture.

4.4 BBCS competes with a range of other UK and international distributors.

Market structure and key players in the UK distribution market

4.5 BBC Studios is the largest distributor in the UK. In 2018, it sold £95m of programming domestically and an additional £308m internationally.[153] This compares to estimates of the total market size in 2019 of £1.8bn.[154] Unlike the production sector, the distribution market in the UK is less fragmented and is dominated by a small cohort of large, international players (producers, distributors and/or integrated studios) that are better placed to take advantage of global reach and scale.

4.6 Smaller production companies (or rights holders) typically lack the commercial resources and management expertise to sell their secondary content to broadcasters or other aggregators; their priorities are typically on winning commissions and producing content. As a result, they typically rely on third parties to distribute content in secondary markets. Thus BBC Studios will distribute content for its own content as well as on behalf of other producers, most (but not all) of which will have had their content broadcast on the BBC previously.

4.7 While there are some smaller distributors operating in the market, these tend to focus on sales of niche (factual, children's, arts) content from third parties, rather than content made in-house or through owned-and-operated production subsidiaries. Increasingly, these companies are under pressure as consolidation at the top end of the market causes greater competition for content from third-party producers than in the rest of the market. Indeed, the top ten largest distributors operating in the UK are all also active in production as well, although the extent to which in-house programming makes up their catalogues varies dramatically from 4% for TCB to 100% for ITV Studios.[155]

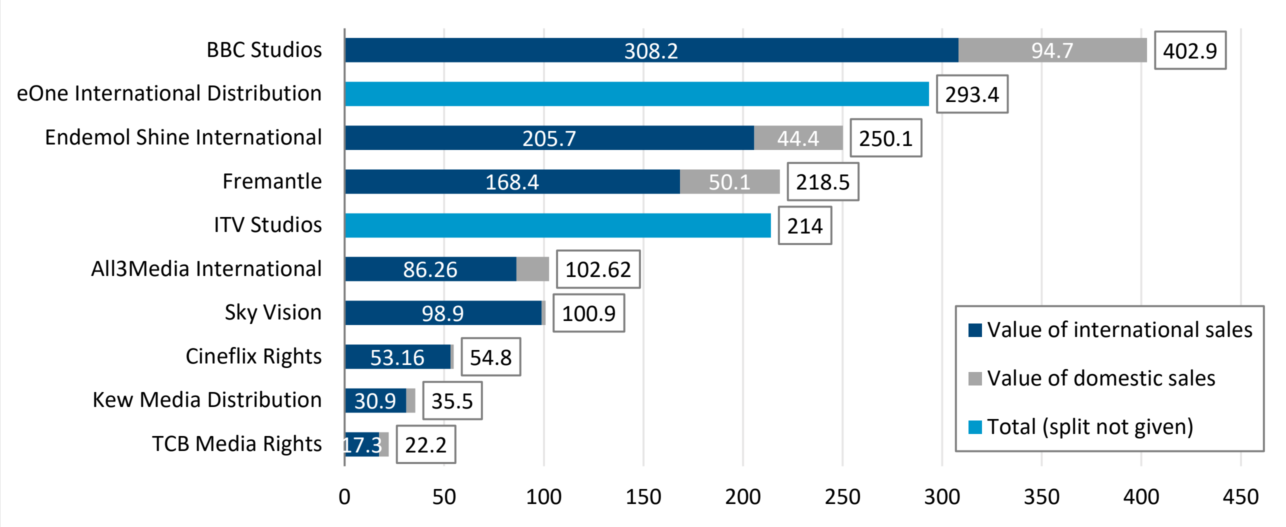
[152] BBC, Annual Report 2019-20, 2020. Link: http://downloads.bbc.co.uk/aboutthebbc/reports/reports/commercial-holdings-annual-report-2019-20.pdf.

[153] These numbers are taken from Broadcast, *Distributors Survey 2019*, for the year to April 2019, and is therefore comparable to BBC results from the year 2018/2019. The BBC itself reports 'content sales' of £404m for the year to March 2019 (before 'group adjustments') in its Strategic Report for Commercial Holdings, 2019. See : https://www.broadcastnow.co.uk/digital-editions/broadcast-distributors-survey-2019/5143252.article and http://downloads.bbc.co.uk/aboutthebbc/reports/reports/commercial-holdings-annual-report-2019.pdf.

[154] Broadcast, *Distributors Survey* 2019.

[155] Broadcast, *Distributors Survey 2019.*

Figure 24: Distributors' international and domestic programmes sales, £m (year ending Apr 2019) (Broadcast)



4.8 In the UK, there has been only modest change in the list of the top ten distributors between 2015 and 2019. The largest players (BBCS, Endemol Shine, Fremantle, ITV Studios GE and All3Media) were among the top six in both years. Two companies in the top 10 in 2019, eOne International and Kew Media, were not on the list in 2015.

Figure 25: Major UK distributors' market ranking (Broadcast)

Distributor	2019 rank	2015 rank		2015 revenue
BBC Studios	1	1	→	£321.2m
eOne International Distribution	2	New entrant		
Endemol Shine International	3	2	↓	£211.1m
Fremantle Media International	4	3	↓	£185.6m
ITV Studios Global Entertainment	5	4	↓	£144m
All3Media International	6	5	↓	£51m
Sky Vision	7	7	→	£30.2m
Cineflix Rights	8	6	↓	£45.5m
Kew Media Distribution[156]	9	New entrant		
TCB Media Rights	10	14	↑	£7.1m

4.9 All of the distributors above operate globally, with many maintaining offices in the US, Australia and New Zealand and Europe (in particular, the key markets of France, Germany, Spain, CEE and the Nordics).

<u>Increasing supply-side integration of production and distribution</u>

4.10 The importance of a strong content pipeline for distributors has been key to the success of both the largest distributors in the UK and channel-operators/studios. This will continue to be the case and will further

[156] Kew's Canadian parent encountered difficulties, following a finding of 'financial irregularities' and this led to the closure of the UK entity in March 2020. . The issues appear to be company-specific and do not reflect any structural trends that would affect other players in the market.

strengthen as competition for content in the market increases. Similarly, the granting of more exclusive rights and shifts in content windowing have reduced opportunities to licence content through time and across geographies, thereby impairing the ability of distributors to generate revenues in different markets and placing greater weight on the value generated in the primary window. All this has led to a changing role for the distributor: from a focus solely on sales of finished content to a greater degree of involvement at the production stage. Covid-19 will likely make assumption of this role more common.

4.11 All the major distributors (BBCS, eOne, Endemol, Fremantle, ITV Studios GE and All3Media) are characterised by their links to other segments of the content value chain, in particular to strong production pipelines.

- **BBC Studios:** As of 2020, and in addition to its internal production assets, BBC Studios has acquired or has a stake in 15 TV production companies, all of which are based in the UK. These include Clerkenwell Films (drama), Cuba Pictures (drama/scripted), Lookout Point (drama), Sid Gentle Films (drama/scripted), and Expectation (entertainment, factual entertainment, scripted comedy).
- **eOne:** eOne operates 14 subsidiaries around the world, the majority of which are TV and film production companies. Their brands include Stephen Spielberg's Amblin Partners (film/TV drama) and Renegade Pictures (non-scripted) in the US. eOne operates two brands in the UK: Whizzkid Entertainment (non-scripted/formats) and Daisybeck (factual). The former's longest running asset is *Ex on the Beach* whilst Daisybeck is best known for *The Yorkshire Vet.*
- **Endemol Shine Group:** operates 120 production subsidiaries in 20 markets around the globe (including emerging markets such as Brazil, Israel, Russia and India). Some of its best-known brands include Dragonfly (factual), DSP (drama/high-end factual), Fifty Fathoms (drama), Kudos (scripted), and Tiger Aspect (comedy/entertainment/drama/kids), which are all based in the UK. Significant UK-based productions from these include: *One Born Every Minute* (Dragonfly), *Fortitude* (Fifty Fathoms) and *Broadchurch* (Kudos).
- **Fremantle:** has 33 production companies in over 30 territories worldwide including Abot Hameiri (formats/scripted) in Israel, Eureka (factual entertainment/entertainment) in Australia, Wildside (drama) in Italy and Shotglass (short-form), Euston Films (drama), Thames (entertainment), Talkback (comedy/entertainment) and Boundless (factual entertainment) in the UK. Of those based in the UK, notable productions are: *The X Factor* (Thames), *Dublin Murders* (Euston) and *QI* (Talkback).
- **ITV Studios:** runs 60 production labels in 12 countries around the world including: 12 Yard (formats/ entertainment), Mammoth Screen (drama), World Productions (drama), TwoFour (drama/scripted), Oxford Scientific Films (factual) and The Garden (factual) in the UK; Leftfield Pictures (unscripted) and Sirens Media (unscripted/factual) the US; Cattleya (film/drama) in Italy; Tetra (scripted) in France; and Talpa Media (formats/entertainment) in the Netherlands. ITV made two of the most successful recent dramas to air on British television – *Line of Duty* and *The Bodyguard* (both from World Productions).
- **All3Media:** operates 21 production companies across the UK, including betty (factual), Company Pictures (drama), responsible for *Wolf Hall* and *Elizabeth I*, Lime Pictures (entertainment/formats/drama), Little Dot Studios (online content), Neal Street Productions (drama/film), Studio Lambert (formats), with IDTV (shiny-floor/entertainment) in the Netherlands and South Pacific Pictures (formats/scripted) in New Zealand.

4.12 The recent acquisitions of Sky by Comcast, Fox by Disney, eOne by Hasbro and Endemol Shine by Banijay suggest that large UK producer/distributors are prime targets for global players seeking to improve content pipelines.

<u>Demand-side expansion in the distribution market</u>

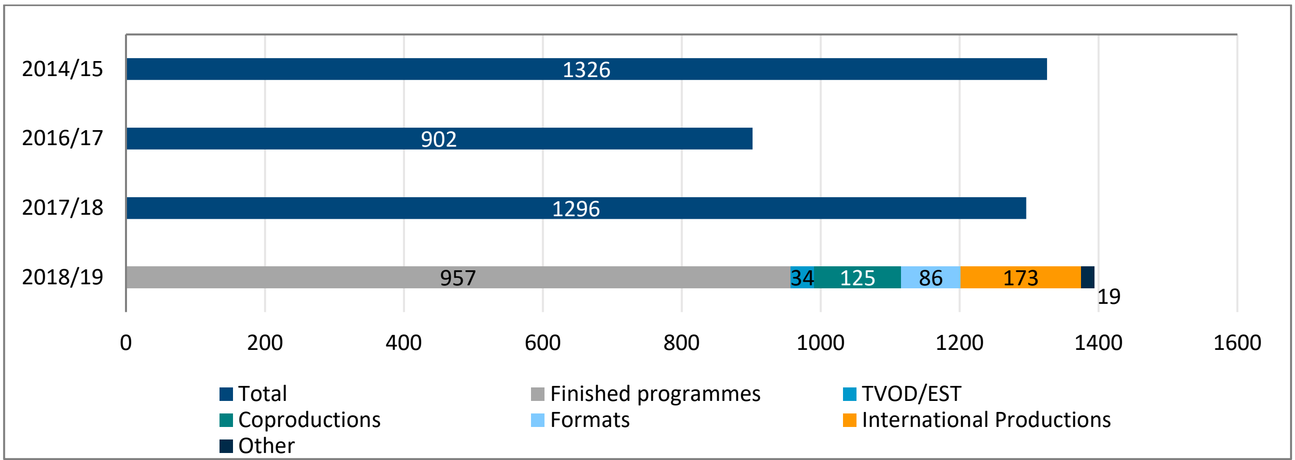
4.13 As with TV production in the UK, historically distribution of finished content outside the primary window was limited to servicing other UK and international broadcasters, for transmission on linear channels.

4.14 However, and again in similar fashion to the transformation evident in the production sector, new or enhanced sources of demand are changing the shape and dynamics of the distribution market. Demand is increasing from streamers and traditional broadcasters alike, both of which are looking for a combination of fresh and proven content to keep their audiences engaged.

4.15 UK TV content has long been successfully sold into international markets. This is due in part to the ubiquity of the English language and to the scale and reach of US global studios as they launched and nurtured channels in territories worldwide.

4.16 In 2018/19, the market for UK TV exports remained solid, with an estimated £1.4bn in UK TV international exports, representing a 7% growth on 2017/18. It should be noted that this figure includes £298m of international productions and co-productions, but the majority (68%) was driven by the sale of finished programming abroad. It is too early to predict the size of the market in 2020, as the Covid-19 pandemic continues to have a disruptive effect on content pipelines, sales and pricing. (We look in greater detail at the effect of Covid-19 on this market segment at the end of the section.)

Figure 26: Total UK TV exports by type, £m (2014/15-2018/19) (Pact)



4.17 UK exporters sell to a range of territories worldwide; with the new category of 'pan worldwide' now reflecting the role of streamers in securing global rights to certain content.

Figure 27: Total UK TV sales by regions, £m (2014/15 vs 2018/19) (Pact)

Territory	2014/15 (£m)	2018/19 (£m)	CAGR (2015-2019)
North America	493	531	2%
Europe	362	470	7%
Asia	95.5	92	-1%
Australasia	141	123	-3%
Latin America	34	36	1%
Middle East & North Africa	24.3	30	5%
Sub-Saharan Africa	15	20	7%
Rest of World	39.3	32	-5%
Pan Worldwide[157]	n/a	58	n/a
Total	1,204	1,392	4%

4.18 As in the production market, increasing demand, particularly from SVOD players, is fuelling inflation in the costs of acquiring finished programmes in certain genres. This is for two core reasons: major SVOD players are generally more financially capable when bidding; and the demand for programming with high production value is also increasing. In 2019, a survey of UK distributors found 77% agreed that the average cost of finished drama programming had increased on the previous years, with no respondents finding it had fallen. Comparatively, 33% found the cost of finished factual had increased, with 17% saying it had fallen across the same timeframe.[158]

4.19 Other categories of high-end content – natural history programming, scripted comedy – are likely to experience similar cost inflation in finished content sales as well. This inflation has also been evident in the case of genres previously seen as inexpensive – for example, archive documentaries and lifestyle programming.

4.20 The inflation factor has an impact on the margins enjoyed by suppliers of finished content – e.g., external production companies with significant format and finished programme assets that are newly attractive as demand from new entrants has increased. This impact, variably affected by the rhythms of production hiatus, return to production during the pandemic and lockdown and changing needs in acquired content as schedules were depleted, has been particularly felt in BBCS's key markets of the US and the UK.

4.21 However, there may be some indicators that the dynamics of hyper-growth at the top end of the market at the expense of cheaper programming are stabilising. For one, many buyers in the industry can no longer afford content that was their staple and are looking increasingly at volume-driven cheaper programming to fill out schedules around expensive drama. For many, having more rights to shows with lower value is more effective than fewer rights to a more highly valued show.

157 Pact began collecting data on pan-territory/pan-worldwide deals in 2015/16. Pan worldwide deals in that year equated to £7.3m. We attribute the sharp rise in revenues to globally operating SVOD services, which seek exclusive global rights to content. This may also account for slowing sales in Asia, Australasia and Rest of World in the table above.

158 "Record revenues as growth slows", Broadcast Now, September 2019. Link: https://www.broadcastnow.co.uk/international/record-revenues-as-growth-slows/5143130.article.

4.22 Similarly, the SVODs are continuing to expand the breadth and depth of their content catalogues, and this has meant looking for volume-driven programming, such as unscripted, reality and formats. Some distributors make the case that these genres are particularly effective for binge-watching; however it remains to be seen if this is the direction of travel for SVODs and other on-demand services in the future.

4.23 The SVODs – particularly Netflix – are also expanding their exposure to non-English language content and intra-regional genres: for example, K-drama in South Korea and Asia-Pacific and anime from Japan. In November 2019 Netflix announced a three-year licensing deal with South Korean cable TV network JTBC.[159] The terms of the deal grant Netflix the worldwide streaming rights to more than 20 Korean-language drama series.

4.24 In contrast, Amazon Prime Video's approach to non-English language content is more conservative: it has several non-English language originals in its library, and these are largely dominated by Hindi, Japanese and German titles.

4.25 A final, but critical reason why the outlook for secondary market values is uncertain is linked to the fundamental changes occurring in upstream markets as a result of new entry by SVOD players and their strategy of investing increasingly in original and otherwise exclusive content, thereby lessening their reliance (actual and potential) on acquired programming.

Shifting business models and rights exploitation windows

4.26 As the sector becomes more consolidated and more global, with new sources of demand and new buyers, business models are evolving.

4.27 Previously a range of content (from premium drama and factual to cheaper unscripted and comedy) could be sold to UK linear channels for secondary windows and to international broadcasters. Selling to international broadcasters was particularly lucrative because these could be targeted on a territory-by-territory basis meaning that, while broadcasters had exclusive rights to programming in their own jurisdictions, distributors could monetise that content across many different windows and locales simultaneously. Moreover, these sales were often very high margin – certainly for any productions that had already made back their investment in the primary window.

4.28 However, this is changing. For the most part, SVODs operate globally and want to provide access to the same content across all the countries they are available in. This has meant SVODs have sought exclusive global rights across all territories – both for their own commissioned content but also for secondary deals.

4.29 This has had mixed effects on distributors. On the one hand, SVODs have paid well above market rates for exclusive access to library content. There have recently been several high-profile examples of this in the press:

- ***Friends***: WarnerMedia reportedly paid $425m for exclusive access to all seasons of *Friends* for five years on its streaming platform HBO Max;[160]

[159] "Netflix bolsters K-Drama lineup in multiyear deal with South Korea's JTBC", The Hollywood Reporter, November 2019. Link: https://www.hollywoodreporter.com/news/netflix-bolsters-k-drama-lineup-deal-south-koreas-jtbc-1257822.

[160] Friends is a Warner property. Warner still set a 'price' of $425m to assign the exclusive rights in the SVOD window to sister company HBO Max to account for the opportunity cost of not selling it to a third party and to ensure that pay aways to third parties such as creatives and producers are calculated on an arms-length basis. From the parent company's perspective, the net impact will be lower as it is both a seller and buyer of the rights. "'Friends' officially leaving Netflix for WarnerMedia's streaming service", The Hollywood Reporter, July 2019. Link: https://www.hollywoodreporter.com/live-feed/friends-officially-leaving-netflix-warnermedias-streaming-service-1223151.

- ***The Office***: NBCUniversal has paid $500m for exclusive domestic streaming rights for Peacock (its DTC platform) starting after the Netflix deal ends in 2020;[161]
- ***The Big Bang Theory***: in a deal rumoured in the trade press to be worth "billions", all seasons of The Big Bang Theory now stream exclusively on HBO Max in the US;[162]
- ***Seinfeld***: the $500m deal which saw Netflix take over exclusive global rights to *Seinfeld* from Amazon and Hulu) was reportedly on par with those that saw *Friends* and *The Office* change hands[163]

4.30 On the other hand, and especially at the lower value end of the market, these deals with SVODs require producers and/or distributors to cede all rights, with no ability to offer secondary rights to other broadcasters (for instance, pay TV operators in their own markets and broadcasters in other territories). This largely reflects market practice in the US, where most of the SVOD players originate; commissioning arrangements in the US are typically 'for hire' and producers are paid a production fee, with no residual ownership of the underlying rights. This contrasts with the UK model, governed in the case of the main PSB broadcasters by Terms of Trade, which give the producer ultimate ownership of the rights after agreed holdback periods.

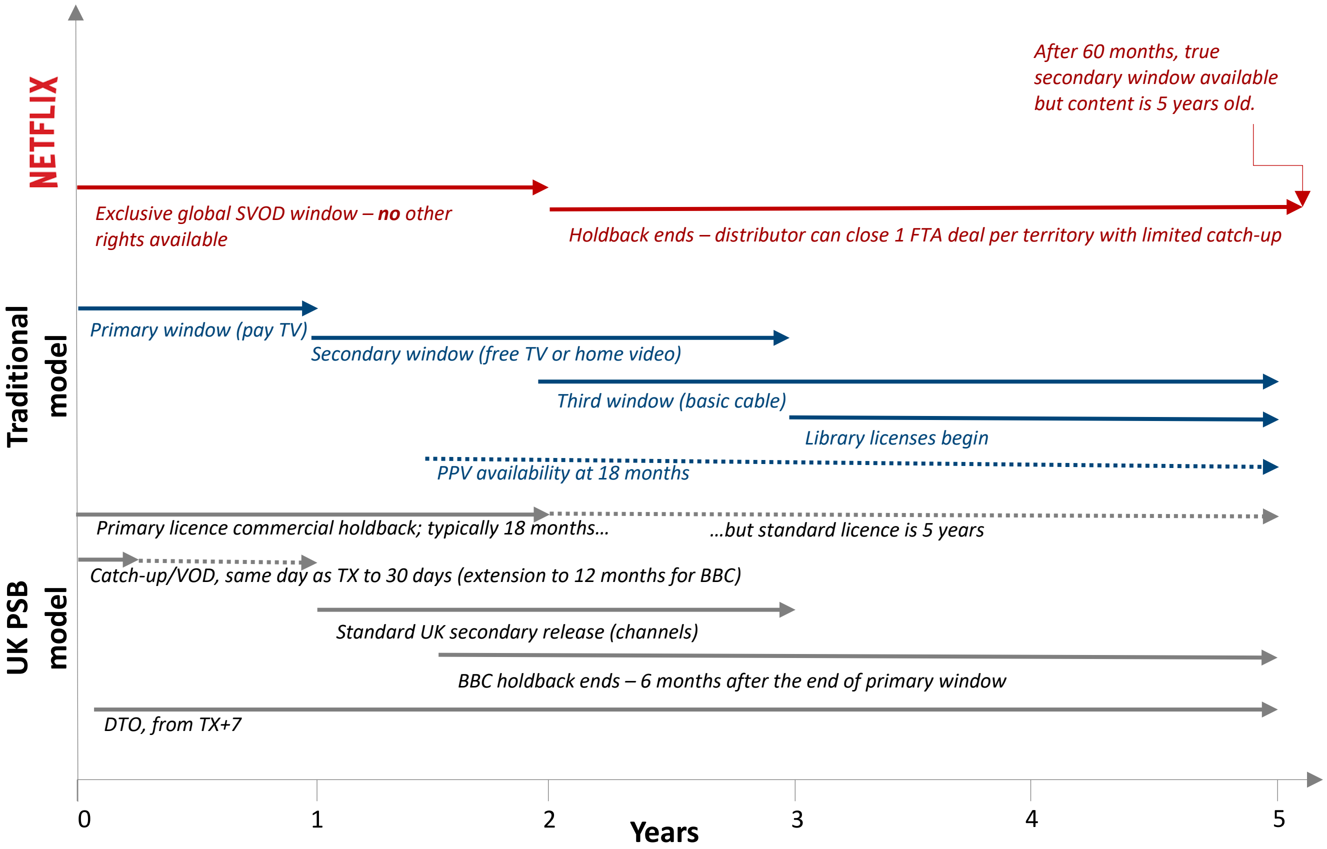
4.31 Whereas previously non-exclusive rights to content were standard and programming had a sustainable lifecycle over the medium-term (up to 10 years for TV content), there is now much greater emphasis on the primary window (usually with all other rights bundled in). The graphic below uses Netflix as an example but this model is increasingly becoming the norm for premium content.

[161] "'The Office' to leave Netflix in 2020, stream exclusively on NBCUniversal's forthcoming service", The Hollywood Reporter, June 2019. Link: https://www.hollywoodreporter.com/live-feed/office-leave-netflix-2020-stream-exclusively-nbcuniversals-forthcoming-service-1220954.

[162] "'Big Bang Theory' sets staggering multi-billion dollar HBO Max streaming deal", The Hollywood Reporter, September 2019. Link: https://www.hollywoodreporter.com/live-feed/big-bang-theory-sets-staggering-multi-billion-dollar-hbo-max-streaming-deal-1240250.

[163] "Netflix acquires the global streaming rights to 'Seinfeld'", Los Angeles Times, September 2019. Link: https://www.latimes.com/entertainment-arts/business/story/2019-09-16/netflix-acquires-the-global-streaming-rights-to-seinfeld.

Figure 28: Illustrative changes in windowing mechanisms (Mediatique)[164]



- The diagram above sets out how Netflix (and other SVODs) have collapsed the traditional windowing model in the US and elsewhere. Firstly, the effective length of the primary window has been doubled from 12 months to two years. Second, within the primary window, Netflix's global exclusive deals means that no other rights or windows are available for other broadcasters or platforms within this timeframe.

- Based on confidential discussions with external producers, we observe that Netflix in particular is likely to pay 'above market' in order to retain global, exclusive rights to content – either acquired or commissioned – to drive the value in terms of attracting and retaining customers in multiple markets. Early in the ramping up of its original content expenditure, Netflix routinely set extremely long rights windows for content it commissioned, up to 12 years, and retained a right to roll over these rights even after that.[165]

[164] 'Basic cable' refers to the most affordable cable TV package for consumers. Generally this will be the 'first tier' in a range of packages offered by a pay TV provider. 'PPV', or 'Pay-per-view', is a service that allows customers to purchase events (often live sports) that are encrypted and only viewable if paid for.

[165] In recent contracts, Mediatique understands that Netflix is more likely to seek five-year licences for content, on the basis that the value in terms of driving and maintaining subscriptions declines significantly by the end of that period. Unlike the deals done under UK Terms of Trade, the supplier is not able to sell content in secondary, international and other ancillary windows and markets during the time of exclusivity carved out by Netflix; therefore, the amounts paid by Netflix are by definition higher than those paid by broadcasters seeking a single-market licence (even where the broadcaster might share in the back end).The exceptions include where there is a co-production partner – for instance the BBC – where Netflix might cede an initial UK window and keep all other rights. Even this appears to be declining as a model, given that Netflix is increasingly prepared to take on significant share of costs and expects to retain exclusive rights over the medium term in every market. To achieve this, it is also increasingly making its own content in-house and/or securing all rights. Amazon is a relatively immature new entrant in the content market but is emulating Netflix's approach.

- After two years, the holdback period normally expires. However, the distributor is still limited to very restricted deals; usually, the distributor can only arrange one FTA deal per territory with limited to no catch-up rights to content. After an additional 36 months, the 'true' secondary window begins, with content available in the same way it would be under the traditional model. However, at this point, the content is at least five years old and may not be as valuable[166]. Indicative of this value depletion, Netflix now amortises its original content investments over four years, rather than the 7-10 years that was once standard in the industry.
- By comparison, the secondary window under the old (US) model started at 12 months after initial broadcast (versus at 48 months for Netflix), with less emphasis on exclusivity both inter- and intra-regionally; i.e., just as programming would be available on multiple platforms around the globe simultaneously, so too might it be available through multiple aggregators (PPV/EST/cable/FTA channels) in a single territory.
- The UK model, informed by Terms of Trade, is different again. The licence period for most primary commissions is five years, with a hold back of 18 months before secondary distribution is allowed. Catch-up is 30 days (with the BBC now exploiting a 12-month catch-up window and a further window at 12-18 months for BritBox).
- Sky tends to operate more on this 'UK' model, where it seeks to limit its costs by only looking to secure initial transmission and early window box set rights, as it does not have a global distribution footprint. It will be interesting to see whether the launch of Peacock internationally, by Sky's owners Comcast (NBC-U), might lead to a change in commissioning models involving Sky.

4.32 This change in windowing practice has extended the primary window significantly, as shows can now reside within a VOD library for a long period of time before being made available to other services. This is compounded by a greater emphasis on exclusivity and, in some cases, near-permanent availability[167]. It remains to be seen if the revenues 'lost' from the collapse of secondary windows is being sufficiently captured by rights owners in their primary deals with SVODs and others.[168]

4.33 The complications are being compounded as broadcasters and other legacy players are increasingly looking towards the same model (of bundled rights and exclusivity) in order to compete with the SVODs. Global players such as Disney, WarnerMedia, and NBCUniversal – and indeed the BBC and ITV in their plans for the iPlayer and BritBox – are specifically looking for longer periods of exclusivity, often global.

4.34 The year 2019 represented a period of limbo for many distributors in light of market entry:

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[166] As mentioned, Netflix routinely secures an option to continue to exploit rights to content it commissions, and may choose to do so where content appears to have a longer shelf life. This is more likely to be the case for dramas (where multiple seasons are envisaged) and some high-end documentaries with themes that do not become stale with time).

[167] Some legacy deals reached by Netflix have permitted it to continue to distribute content over many years – for example, *House Of Cards* and *Orange is the New Black*. It is also keen to be able to offer earlier series when it launches the latest season of a popular programme (for example, *The Crown*). As the amount of original content in its library increases (with more than half of its expenditure each year now on original, truly exclusive content and with its growing commitment to in-house production), it is less incentivised to seek long term deals and renewal options with third parties as its pipeline is constantly being replenished.

[168] There was a similar debate between the BBC and Pact around compensation for extending the catch-up window to 12 months and carving out a so-called 'BritBox window' at between 12 and 18 months for content commissioned by the BBC from independents. Pact argued that this would reduce the value of the content for any distribution after 18 months and that the BBC should compensate; the BBC argued, in its response to Ofcom's review of the extended iPlayer window, that the use of the content was within the original 'hold back' period, permitting "more opportunities to find and grow audiences, and avoid being drowned out by US rivals." https://www.ofcom.org.uk/__data/assets/pdf_file/0026/159227/bbc.pdf). The two sides reached an agreement in May 2020, under which the BBC agreed to reduce its 'back end' share of rights to commissioned content and to pay a fee to extend rights beyond the 12-month automatic extension.

- Many of the major studios announced new DTC offerings and carefully monitored the licensing periods of their own content in order to have sufficient content (in terms of quality and quantity) when these services were launched. The prices paid for *Friends, Seinfeld et al.* were an indicator of these strategies in practice, as SVOD operators vied for content.
- New platform launches are likely ultimately to be beneficial for distributors as they are likely to require additional (i.e., non-original) content, particularly at launch. This seems certain to be true over the medium term. Longer term, SVOD proliferation may reach saturation point (an issue we look at further in Section 5: Branded services, below); this might lead to lower values for acquired content in secondary windows over time.

Impact of Covid-19 on this market segment: content sales and distribution

4.35 Content sales and distribution enjoyed a significant spike in 2020 as broadcast schedules were rapidly filled in the absence of regular short turn-around shows (e.g., soaps) and as SVOD players continued to complement their offerings with acquired content.

4.36 The peak will be short-lived, however, as production has already re-started and the trends we have already reviewed are set to resume from 2021. The BBC will remain the largest distributor in the UK by some distance, and the remainder of the market will continue to be dominated by a group of well-resourced international players (e.g., eOne; Endemol Shine; Fremantle), which are best placed to take advantage of market trends.

4.37 Supply-side integration of production and distribution, and its associated value, will also continue to be a fixture. As evidenced by ITV's mid-pandemic announcement that it will be launching another production label in 2021 (with distribution managed by its content sales arm), it is clear that the impact of Covid-19 is unlikely to alter this trend.

4.38 The demand-side expansion observed before the pandemic's onset will also likely continue into 2021; growth to this point had been driven by increased demand from streamers (often in joint venture with broadcasters), and we expect this to show no signs of abating. Demand for content, particularly high-end content, will endure (consider, for example, the Netflix-BBCS production *A Suitable Boy* and the HBO-BBCS joint financing of *His Dark Materials.*

4.39 It is also probable that existing dynamics regarding rights exploitation are sufficiently entrenched for Covid-19 to have less impact other than in the short term. Exclusive, long term access to content will remain of great importance, especially for SVODs in fierce global competition with one another.

Trends and market implications – distribution

Content distribution and sales: trends
▪ Distribution market dominated by US studios globally and by a handful of domestic 'champions' pursuing integrated model (Fremantle, Banijay, ITVS, Sky, BBCS) - this will continue
▪ Secondary market prices have improved significantly, lifted by content inflation trends and fed by proliferation of demand from, e.g., streamers, including for locally acquired content to bolster demand for subscriptions in selected markets and growing consumer willingness to consume foreign-language/sub-titled content[169]
▪ Inflation in content prices – especially of drama, comedy and other 'premium' genres but true even of 'fodder' that traditionally supplied general interest broadcasters but now also sold as 'deep catalogue' to new entrants

[169] While there is no published data on secondary market prices, Mediatique has seen figures related to Sky and Channel 4 content acquisitions suggesting a significant inflation since 2014. Channel 4's average prices for acquired content (excluding top product such as The Big Bang Theory) has been around £180k an hour, easily twice the levels of five years ago.

(these higher prices are fuelled by increased demand from deep-pocketed streamers in particular) ▪ A further spike in demand was provided by the effects of the production hiatus on broadcasting schedules and SVOD propositions; this impact will wane ▪ The gains will be offset by the move of established streamers (Netflix, Amazon) to favour their own over acquired content and by a decline in demand from pay TV channels (reflecting challenges facing pay TV models in the US and other 'mature' pay TV markets) ▪ Offsetting growth from new entrants, include AVOD, and re-bundling by streamlined pay TV operators may be a source of mitigation; moreover, the impact will be variable depending on genre ▪ Some immature pay TV markets still have room to grow; however, that growth may come from proliferating SVOD rather than traditional pay TV as mobile and fixed-line broadband improves ▪ Trends toward upfront content exclusivity and long availability periods (e.g., multiple seasons of content on Netflix, longer iPlayer windows) will have an impact on secondary market values over time ▪ The assumption must be that this 'lost' secondary value will be captured in future within a primary right – but the prospects of this are as yet unclear and there could be weakness in secondary market values in the aggregate over time
Content distribution and sales: market implications
▪ Content supply to international markets will depend on access to IP pipeline; strongest market position will be held by those with both production and distribution capability (favouring 'integrated studio' model), access to capital and where there is an English language or genre advantage ▪ Being able to 'play' in content commissioning segment (e.g., via direct commissions and/or participation in co-productions) secures position in content sales ▪ Value of secondary rights, having benefitted from streamer-inspired inflation in recent years, may decline in line with increased role for upfront exclusivity and longer windows, at least partially mitigated by new entrant streamers and re-positioned pay TV bundles ▪ The impact of Covid-19 will prove to be relatively significant but of limited duration, as underlying factors regain momentum. ▪ We would expect any net reduction in ancillary market values to lead, over time, to a re-pricing across all rights window to reflect a decline in the value of ancillary exploitation.[170] ▪ This would tend to favour players with exposure to both production and distribution, able to benefit wherever value pools (across primary and secondary windows)

[170] In a deal announced in May 2020, the BBC was granted the ability to extend, at no additional upfront cost, its iPlayer window to 12 months for content secured from third parties as well as its own productions; relinquishing some of its back-end share from ancillary exploitation and agreeing a new fee structure for any extensions beyond 12 months.

5. Branded services including TV channels and SVOD: market structure and dynamics

5.1 BBCS' branded services division includes its commercial linear channels and supply of content to SVOD services, including its own BritBox proposition in the US and Canada.[171] It is a major channel operator in the UK (through UKTV) and, via a joint venture with AMC, operates BBC America in the US. It also distributes branded channels in selected international territories, delivering 33 different services in 120 markets. Its revenue model includes receiving affiliate fees from distribution partners and advertising on pay and free-to-air channels. BBCS' revenues in this market were £385m in the year to March 2020, up substantially from £161m a year earlier, and this income stream delivered the highest margins across its businesses. The increase was largely due to the consolidation of 7 out of the 10 channel brands of the UKTV joint venture to 100% BBCS ownership.

5.2 The branded services market includes traditional broadcast channel brands, broadcaster-VOD services and SVOD services (including those from the US global players). While high margin, broadcast businesses face significant challenges, as consumption of linear TV channels (pay and FTA) declines, driven by consumer connectivity, digitisation, and the growing scale of connected device ownership. Decisive in this trend has been the emergence of SVOD and spectacular growth of the streaming model. Where once it was viewed as an addition to linear television, SVOD has emerged as a legitimate alternative.

5.3 We elaborate on these trends in the remainder of this section. We look first at the declines in viewing characterising linear broadcast channels (FTA and pay), then at pressures on ad-funded models and pay TV; BBCS faces high exposure to both, through its UK and (to a lesser extent) international channels businesses. We then consider the impact of consolidation on the channels market, before addressing issues around the rapid growth of SVOD services. BBCS' exposure to SVOD is two-fold – via its BritBox offering (in conjunction with ITV) in the US and Canada; and as a supplier to (but not a shareholder of) BritBox in the UK and to other SVOD players globally.

Declines in viewing of linear broadcast channels

5.4 Changes to consumers' behaviours have placed linear television in the UK under significant strain in both viewing and revenue terms. Competing on-demand services, and greater availability of content on connected and portable devices, have led to significant expansion in on-demand and time-shifted viewing among most UK viewers. These behaviours are particularly marked among younger demographics.

5.5 Across all video viewing categories, live TV's share of total viewing in the UK stands at 53%, down from 85% five years ago. The key driver of recent falls in linear viewing is the growth in SVOD.[172] Exacerbating these declines is the increased functionality provided by pay TV platforms (and even some 'free' services such as

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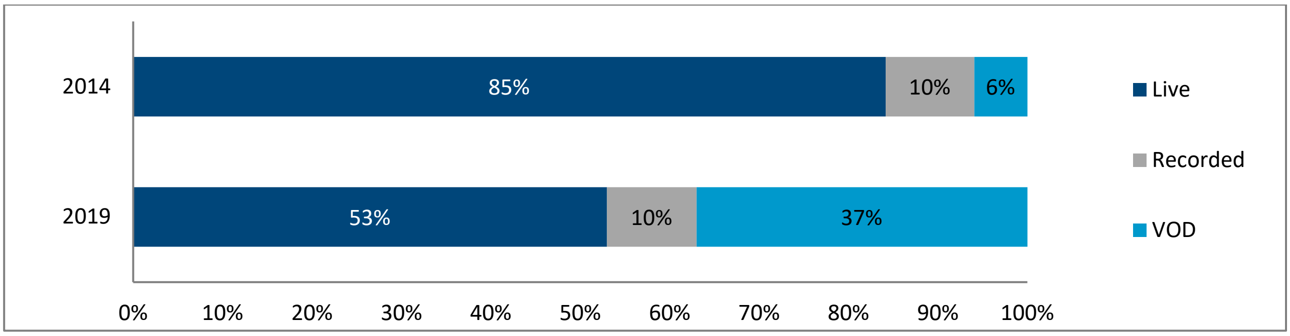
[171] BBCS is a shareholder of BritBox in the US and Canada, although not in the UK, where the BBC's 10% stake in the UK venture held by Commercial Holdings (the parent company of all the commercial subsidiaries). BBCS is a supplier to BritBox in the UK.

[172] Ofcom Communications Market Report 2015. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0024/13974/uk_2.pdf, and Ofcom, Media Nations 2020, 2020. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf. This picture is more pessimistic than the published figures from BARB which tracks a 'gold standard' measure of live+7 days only; this reported live viewing as 84% of this total at the beginning of 2019. The BARB measure does not account for time-shifted viewing beyond seven days nor 'unmatched' viewing from SVOD and other services. These outcomes are also limited to viewing on the TV set and do not include viewing on other devices (e.g., smartphones, computers, tablets) or viewing of emerging forms of video content (e.g., short-form content, SVOD content from new suppliers). BARB is developing multi-screen measurement, however, and this is expected to become a campaign tool in the course of 2020. The plans at BARB are summarised in presentations made in November 2019, and available here: https://www.barb.co.uk/news/understanding-viewers-in-the-2020s/.

Freeview Play and smart TVs), permitting easy consumer access to non-linear services and recordings (including via personal video recorders that enable ad skipping).

Figure 29: Share of total video viewing by category, % (2014-2019) (Ofcom)[173]



5.6 Similar viewing pressures are evident in other mature, connected markets, including the US and major European territories.[174]

5.7 The Covid-19 lockdown saw a rise in TV viewing in many markets, and significant increases in viewing to VOD. However, the rise – driven by increased viewing of news and daytime schedules during lockdown – was relatively short-lived, as broadcast schedules thinned and the trend line was re-asserted following the end of lockdown.

5.8 And yet, despite the undoubted challenges, traditional linear TV has remained surprisingly robust in the UK, where BBCS is most significantly exposed. A prime contributor to this resilience is the popularity of such content as live sport, news, soaps and entertainment shows (for which the culture in the UK is especially strong). FTA share is also sustained by the performance of Freeview, still a large platform in the context of delivering TV channels in the UK (and a key platform for BBCS' FTA UKTV channels).

<u>Changes in market share of linear channels</u>

5.9 There continue to be material shifts in market share and channel group performance, particularly among mid-tier channel groups. Changes in viewing market share are influenced by multiple factors including programming and scheduling decisions, the mix of FTA versus pay, the target audience of relevant channels, branding and marketing strategies, and the strength of competition within the channels market (including the impact of new launches).

5.10 Players have mitigated some of the structural challenges by re-focussing and re-branding their services, changing the mix of pay versus FTA brands, launching or supplying on-demand offerings (e.g., UKTV Player) and through consolidation and trading of slots on Electronic Programme Guides. As we illustrate below, some mid-tier channel groups have been able to increase their market share and secure stronger market positions.

[173] In Ofcom's Media Nations: UK 2019 report, it published VOD data with more granularity than it did five years ago. For the purposes of the chart we have used a historical version of this chart from 2014 and the latest breakdown from Media Nations 2020.
[174] EBU Audience Trends: Television 2019.

Figure 30: UK viewing share (individuals), by channel group (2007 vs 2019) (BARB, Mediatique)

Channel group	Viewing share: 2007	Viewing share: 2019	% change	Comments
BBC	34.0%	31.0%	-8.8%	Inevitable result of growth in multichannel TV since 2007, offset by multiple launches of their own digital extensions (including +1 and HD variants)
ITV	23.2%	23.4%	0.9%	
Channel 4 + Box	11.8%	10.0%	-15.3%	
Sky[175]	6.4%	9.7%	51.6%	Mix of premium channels and FTA brands
ViacomCBS (inc Channel 5)	8.3%	9.6%	15.7%	Despite Viacom's acquisition of Channel 5 in 2014, its overall growth in viewing share has been limited by Channel 5's gradual decline.
UKTV	3.2%	4.4%	37.5%	Mix of organic growth, rebranding and new channel launches
Discovery + Scripps	1.2%	4.3%	258.3%	Material growth in market share at all mid-tier channel groups (albeit from small bases in 2007) – driven by consolidation, M&A, channel launches and rebranding
Sony + CSC	0.5%	2.0%	300.0%	
A&E	0.3%	0.9%	200.0%	
Walt Disney	1.0%	0.4%	-60.0%	
Other	8.4%	2.6%	-69.0%	Consolidation has resulted in far fewer independent channels

<u>Pressures on ad-funded channels</u>

5.11 Live TV's diminishing share of total long-form video viewing hours consigns channels with ad-funded models to significant difficulties, compounded by the continued use of PVRs (where 'skipped' ads are not monetised).

5.12 Overall, advertising has been relatively flat in major markets, even after taking into account the rapid growth in digital advertising (including BVOD and other non-broadcaster AVOD), underlining pressures on key traditional categories (newspapers, magazines in particular but in more recent periods linear TV as well).

5.13 Aside from the US (the world's biggest advertising market) and China (still growing rapidly, from a relatively small base), advertising spend in major markets has broadly plateaued since 2014. If there has been growth in these markets, it has generally been marginal (Japan, UK and Brazil).

[175] This data includes Sky channels and the NBCUniversal portfolio of channels

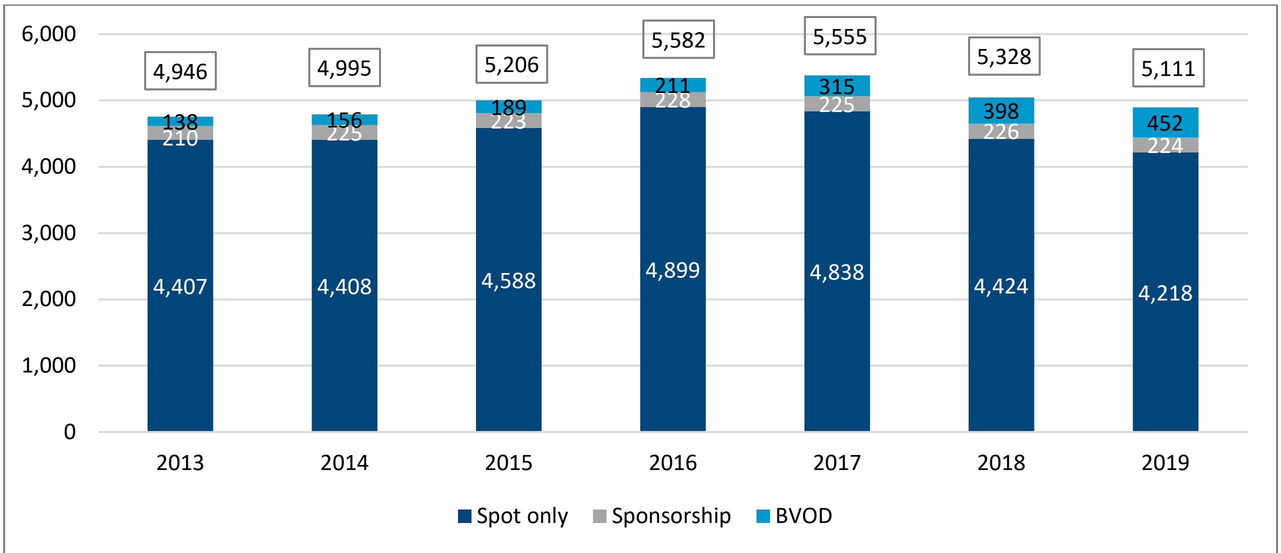
Figure 31: Top ten ad markets by ad spend 2014 – 2019, $m, nominal (ZenithOptimedia)

Rank	Country	2014	2015	2016	2017	2018	2019
1	USA	176.2	182.6	190.8	197.5	218.0	242.5
2	China	45.8	73.6	75.0	80.4	85.2	91.4
3	Japan	41.6	36.6	41.9	43.0	42.5	46.0
4	Germany	24.8	21.4	22.0	22.1	23.0	24.8
5	UK	24.3	24.9	24.2	24.4	25.7	28.4
6	Brazil	14.2	10.1	13.0	13.2	15.7	13.8
7	France	13.2	11.3	11.4	11.7	12.6	13.9
8	South Korea	11.8	11.4	11.3	11.8	12.6	13.5
9	Australia	11.5	10.6	10.9	11.6	12.5	12.7
10	Canada	10.3	8.8	8.7	9.7	10.8	11.0

5.14 Expenditure on TV has been relatively flat within this broader advertising picture, and there were signs (throughout 2018 and 2019) of persistent weakness in the UK, even before the cyclical shock of the impact of the Covid-19 lockdown (see the section on Covid-19 at the end of this section). Such pressures had been exacerbated by uncertainty in the wider economy and the impact of Brexit negotiations in particular on the willingness of advertisers to commit to large marketing campaigns.

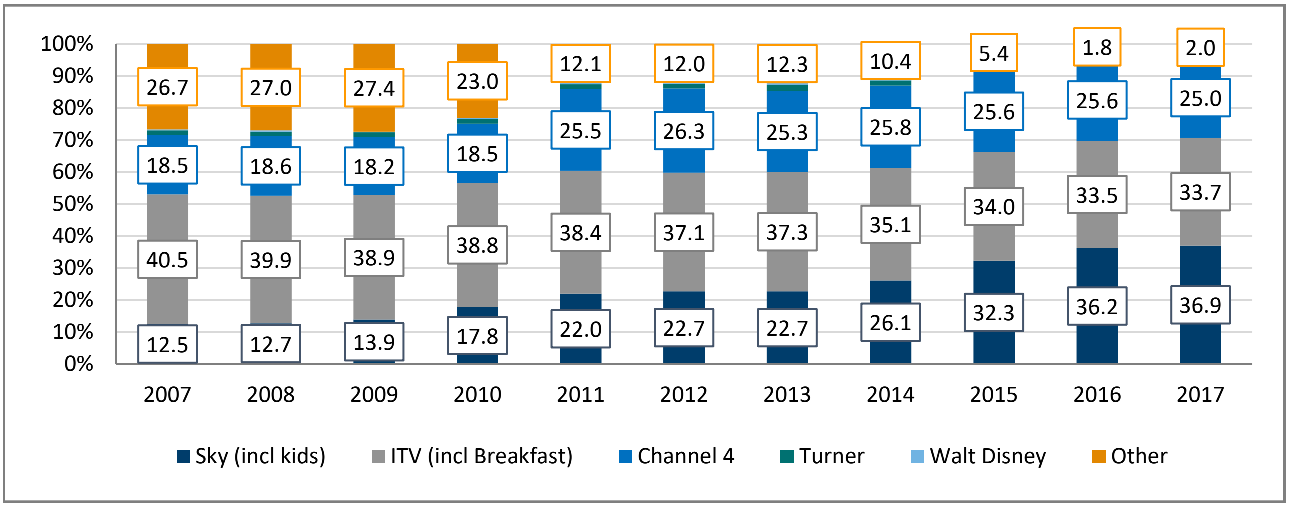
5.15 The historic trendline for UK TV advertising revenue highlights the cyclicality of the advertising sector and the discretionary nature of marketing expenditure, with various peaks and troughs since 2012.

Figure 32: TV advertising, adjusted for CPI, gross, £m (2013-2019) (Ofcom Media Nations; AA/WARC)



5.16 There has also been a significant consolidation of airtime trading – notably with Channel 4 Sales taking on UKTV (and now selling the UKTV channels owned outright by BBCS) and Sky adding Viacom's Channel 5 (Viacom itself had already been represented by Sky). Sky Media has been particularly aggressive in acquiring channels from former TV sales points: Sky's sales team now represents all of Sky's TV channels and websites, Discovery (including the UKTV channels taken by Discovery when the joint venture was unwound), National Geographic, History and Fox. It now reaches over 95% of the UK population with its advertising.[176] ITV, with its large market share and subject to regulatory constraints, has not been a participant in the recent consolidation.

Figure 33: Share of commercial impacts by sales house, % (2007-2017) (BARB)[177]



5.17 Threats to TV advertising investment – at least in mature, digitally engaged markets – will be mitigated by key factors and dynamics that inform how media buyers and planners compared different advertising routes.

- TV remains a part of the media mix, particularly for product launches and for brands seeking exposure that combines reach and frequency effectively. Replicating the reach of TV is of course possible on other media, but typically takes longer and requires aggregation of a greater number of platforms/outlets. Viewing shifts from live ad-funded TV to SVOD services do not provide alternative solutions to advertisers as services like Netflix do not (yet) carry advertising, while short-form content via online video may not be as attractive for certain campaigns owing to lack of mass-market reach and impact, and concerns over the reliability of data and measurement. As a result, advertisers retain TV as a crucial outlet within the overall media mix – although increasingly they appear to be investing in BVOD alongside their linear expenditure, as key broadcasters bundle linear and VOD advertising opportunities. The commitment to TV will be tested over the medium term, however, as linear viewing continues to fragment (particularly among younger audiences), and as advertisers switch focus to platforms and routes to market favoured by young demographics.
- Big brands in fast-moving consumer goods (‘FMCG’; i.e., food, personal care and household goods, restaurant chains and pharmaceuticals) continue to demonstrate loyalty to TV, given the importance to these advertisers of the reach, brand safety and transparency advantages associated with broadcast. This is increasingly true in the light of concerns around accountability, fraud and brand safety in the online advertising market.
- Changes in category spend are both a major concern (weakness on the high street) and a major opportunity (brand building and new product launches by cars, telecommunications and digital businesses – e.g., voice assistants most recently) for media owners. Category replacement is a major

176 Sky Media. Link: https://www.skymedia.co.uk/.
177 Some labels have been removed (for smaller channels) for presentational reasons. ‘Other’ includes smaller channels sold by independent sales houses including Ethnic Media Sales, Axiom Media, Media15, ESI Media and Star UK.

feature of the TV advertising market, where diminishing expenditure by certain advertising categories can be replaced by new or returning categories.[178]

5.18 Pay TV income is a further major source of income for many basic channels (including UKTV). It faces a range of challenges – largely structural – as well.

Challenges and structural changes in the pay TV market

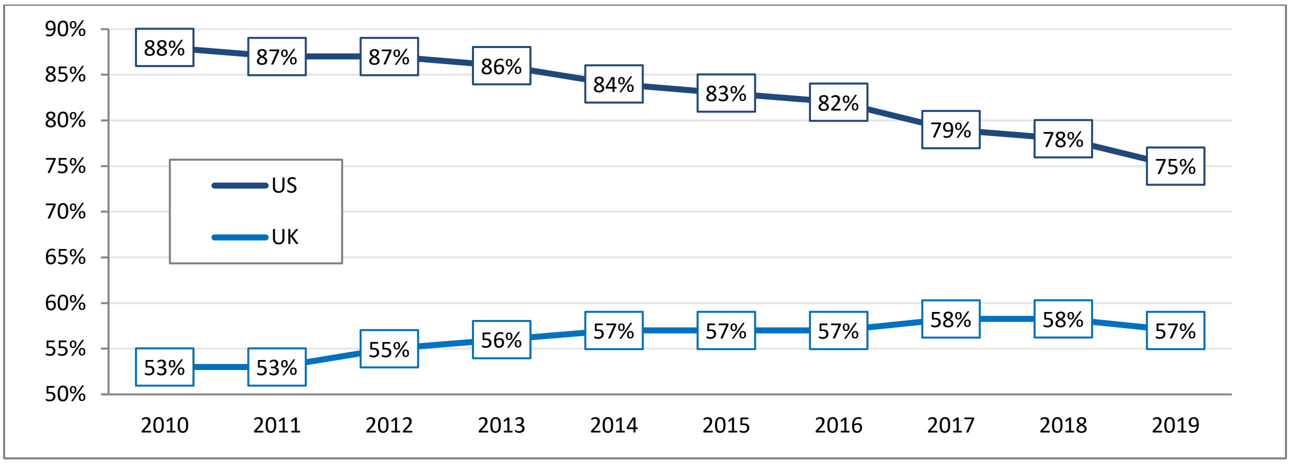
5.19 The pay TV market picture is nuanced; overall take-up of pay TV is growing globally but faces increased revenue pressure in mature markets from SVOD players and 'skinny' bundles delivered over IP.[179]

5.20 Pay TV subscribers in mature markets (including the UK, but more profoundly in the US) have historically been obliged to subscribe to large, long term, expensive pay TV bundles. Therefore, the emergence of alternatives that are lower priced and offered with few contractual obligations are attractive propositions.

5.21 Cord cutting, the term often used to denote cancelling cable pay TV subscriptions, often in favour of over-the-top ('OTT') alternatives, is not exclusive to these territories, but is felt most severely in markets with already high pay TV penetration. This is particularly true in the US which has seen significant declines in pay TV subscribers on cable and satellite since the all-time high of more than 100m households (88% of all US TV homes) was reached in 2010. Cable and satellite operators have continued to lose TV customers, although income from broadband, now routinely offered by cable operators, has compensated in revenue-per-household terms.

5.22 In the UK, pay TV penetration has been markedly lower than in the US (in part reflecting the universal availability of the licence-fee funded BBC). Pay TV has continued to experience growth in recent years but this has been driven by the emergence of alternative providers with smaller, cheaper offerings (e.g., BT and Talk Talk); the peak year of 'full fat' TV penetration (across Sky and Virgin) was reached in 2013.

Figure 34: Pay TV penetration in the US and UK, % of households (2010 – 2019) (Leichtman Research Group, Mediatique)[180]



5.23 Pay TV revenue growth is generally challenged in all mature markets, driven by a decline in the number of high ARPU[181] households – those paying for a full package of channels and services. The Covid-19 crisis saw

[178] The Government recently announced a consultation on limiting TV advertising before the watershed for food and drink that is high in fat, sugar and salt. Depending on the outcome, this could have a material impact on a major category for UK broadcasters. In time, however, such losses might be recouped through additional demand from other or new categories.
[179] Note that we discuss SVOD in detail below, when we turn to branded services – SVOD.
[180] For the purpose of this chart, we define pay TV penetration as: '% of TV households with an active pay TV subscription' – we exclude households with SVOD and no other pay service.

an acceleration in cord cutting in the US and some further declines in ARPU in the UK (see the Covid-19 observations at the end of this section). Emerging markets are the only examples where revenue growth is expected in the coming years and even here, this is generally forecast to be marginal between 2019 and 2024.

Figure 35: Top five countries by pay TV revenues, $m (2017-2024 forecast) (Digital TV Research[182])

Top ten countries	2019	2024	CAGR
USA	90,756	75,659	-4%
China	11,346	11,609	0%
India	5,546	6,315	3%
UK	6,825	6,048	-2%
Canada	6,189	5,708	-2%
Others	71,205	71,751	0%

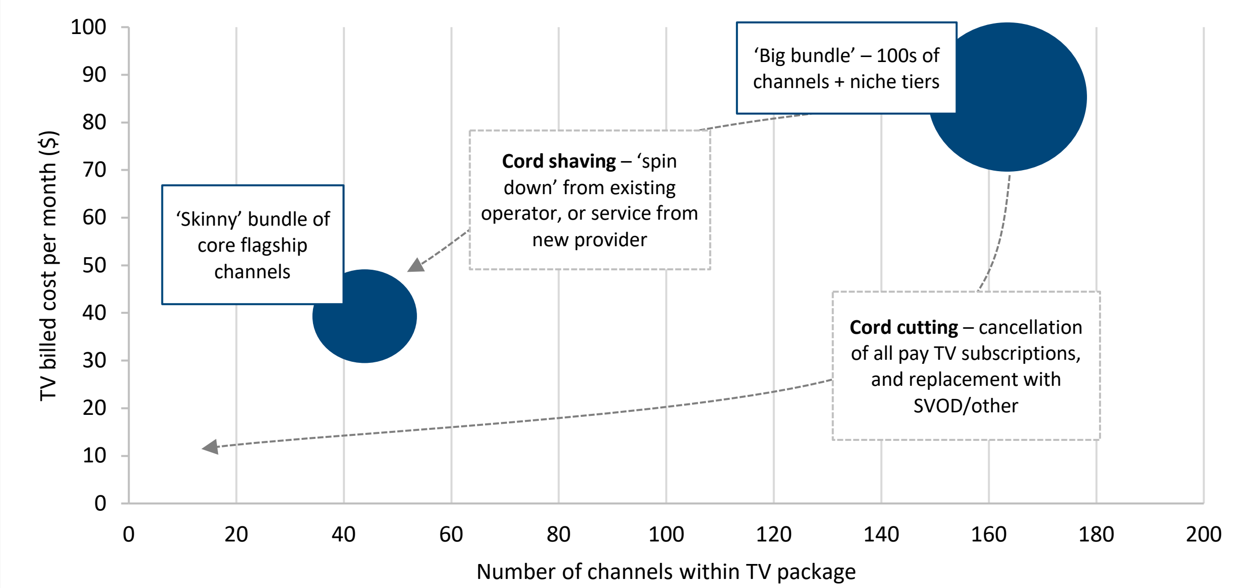
5.24 In response to underlying trends, pay TV operators in the UK, and more recently in the US, have diversified into broadband and telephony and attempted to maintain their subscriber base even if households no longer take a traditional pay TV proposition.

5.25 A common feature in many markets, and particularly the UK, is cord shaving. Pay TV operators have begun themselves to segment their offerings into smaller, 'skinny' bundles priced significantly lower than 'full fat' bundles and to incorporate direct access to SVOD services within their own offerings (e.g., Netflix on Comcast Xfinity in the US and on Sky Q in the UK). Because these bundles come equipped with a limited number of core flagship TV channels, take-up does not equate to cutting the cord completely. They are designed to be attractive to subscribers who are either price conscious or who may have been looking to spin down to a standalone SVOD proposition.

5.26 Also typical of these recent innovations by pay TV operators are attempts to match the ease of navigation and search pioneered by the streamers and smart device manufacturers, and to introduce voice controls similar to those offered by Amazon, Google and Samsung. Some innovations (e.g., using the cloud to store digital assets for seamless delivery or for 'start again' functionality) have tested the rights regime under which content (including linear channels) have traditionally been provided to pay TV operators.[183] Some of these developments undercut 'traditional' listings, search and navigation processes, and may favour providers able to pay for or trade prominence, access and supply, and disfavour services supplied by the PSBs (currently protected in linear distribution via 'appropriate prominence' rules).[184]

[181] 'Average revenue per unit'; refers to the mean revenue generated per subscribing household over a given time period. It includes revenues raised through 'bolt-on' services (such as when households pay extra for additional channels or box sets) and when customers subscribe via free trials.
[182] "Pay TV revenues to fall to 2010 levels", Digital TV Research, 2019. Link: https://www.digitaltvresearch.com/ugc/Global%20Pay%20TV%20Revenue%20Forecasts%202019%20TOC_toc_238.pdf
[183] This refers to consumers' ability to 'start again' if the beginning of a programme is missed. The most well-known example of this is Sky's 'Watch from start' feature available on Sky Q ; if customers miss the beginning of a Sky Cinema film, live football match or TV show, as long as a live broadband connection is present, the platform gives customers the option to watch from the start.
[184] These rules may be reformed if Ofcom's advice on extending prominence protections to smart devices is accepted by Government. Link: https://www.ofcom.org.uk/consultations-and-statements/category-1/epg-code-prominence-regime.

Figure 36: Illustrative dynamics in pay TV markets (Mediatique)



5.27 Sky has differentiated its own and high ARPU propositions by brand, launching NOW TV, its IPTV service featuring a range of pay TV content at a lower price. [185] The structure of its Pass Plans is indicative of how it competes: with access to selected Sky Entertainment, Movies and Sports channels, it offers limited access to content also available on its parent broadcaster for a significantly lower price and with no obligation to a long-term contract. UKTV's Gold is one of the channels available on Now TV's Entertainment pack.

Figure 37: Comparison of Now TV and Sky TV bundles (2020) (Mediatique)

Now TV	Price per month	Features
Entertainment Pass	£12.99	Live TV streaming and over 300 boxsets via On Demand
Sky Cinema	£14.99	Sky Cinema live streaming and over 1,000 films On Demand
Kids	£3.99	1,000s of ad-free episodes and 6 Kids channels not on Freeview
Sports	£33.99 (rolling)	All 11 Sky Sports Channels
Sky TV	**Price per month**	**Features**
Entertainment	£29 (18 months)	100 channels; 500 Box Sets; unlimited Netflix on any device
Entertainment, Sports	£43 (18 months)	Live sport and over 300 Sky TV channels
Entertainment, Sports, Cinema	£54 (18 months)	Over 1,000 movies on demand and over 300 Sky TV channels
Entertainment, Sports, Cinema, HD	£60 (18 months)	Every Sports channel, 1,000 movies on demand, Box Sets, over 40 live Sky channels in HD

Changes to carriage fee income for channel providers

5.28 These shifting pay TV dynamics have significant implications for the channels market itself. Cord cutting, cord shaving and the competitive threat from SVOD negatively affect the ARPU of platform providers; this

[185] 'IPTV', or 'Internet Protocol Television', refers to the delivery of television content over an internet network rather than traditional cable or satellite signals.

in turn has resulted in the carriage fee payments from platform operators to channels decreasing significantly. There is every expectation that this trend will be amplified, certainly in mature pay TV markets, by the Covid-19 lockdown (see the Covid-19 commentary at the end of this section).

5.29 US channel groups in particular have faced pressure on affiliate fees and challenging negotiations with platform operators, after a ‘golden age’ of multichannel affiliate growth throughout much of the 1980s, 1990s and early 2000s. Most channel groups have reviewed portfolios in light of these growing financial pressures, while seeking to maintain global reach and brand value.

- Viacom has publicly announced a strategic focus on its five core flagship brands – Nickelodeon, MTV, BET, Comedy Central and Paramount – to concentrate investment and viewership within defined genres. After years of substantial growth, media brands are emerging from negotiations with platform operators with smaller sums than agreed historically (as Viacom appeared to confirm in its recent deal with AT&T in 2019[186]).
- NBCUniversal has recently closed channels in the US – Esquire, Chiller, Choo – to focus on high visibility channel brands.
- A+E is focussing attention on its ‘skinny bundle’ propositions in the US, including favouring distribution of A+E, History and Lifetime as core brands.

5.30 The UK market has in fact seen pressures on affiliate fees for some years, with Sky and Virgin both focussing on leading channel brands and offering lower fees to lower tier services (or no fees at all).

5.31 This is potentially destructive for the wider pay TV market, but specifically for smaller niche channels, where affiliate fees payable by pay TV operators have already been declining, and where advertising revenues are also likely to decline as reach and viewing suffer.

5.32 Some genres do remain broadly exempt from the trend in declining affiliate fees; premium sport, film, drama and high-end documentaries all remain highly sought after, and their carriage fees remain consistent with, and in some cases surpass, their historical levels. This is most clearly demonstrated by premium sport, the continuing value of the English Premier League Football rights[187] and deals to broadcast the NFL, NBA and MLB in the US.

5.33 In addition, channel operators able to offer digital rights (e.g., on demand, cloud storage and mobile) to pay TV platforms can mitigate declines in affiliate fees; not all channel groups have extensive digital rights to trade, however, or are concerned that ceding these rights will exacerbate underlying erosion of viewing to their linear services.

5.34 In the UK, Sky no longer reports its payments to third-party channels, and our estimates are based on market intelligence and internal analysis. From a total content budget of £3.7bn in 2019, we estimate Sky spent £345m in 2019 on third-party payments for channels, including £50m on digital and HD rights. Of the remaining £295m, we estimate that 85% went directly to the top-7 channel groups – Disney, Discovery, Fox, NBCUniversal, Turner, UKTV, Viacom. A similar figure, pro-rated for platform size, is paid by Virgin for access to the main pay TV channels, supplemented by a deal with Sky to carry the Sky wholly owned channels. The Virgin third-party channels payments, like Sky’s, are not publicly reported.

5.35 These payments are affected by the market pressures that we have identified, observable in the UK.

[186] “Viacom, AT&T reach deal that keeps Nickelodeon, MTV and Comedy Central on DirecTV”, Los Angeles Times, March 2019. Link: https://www.latimes.com/business/hollywood/la-fi-ct-directv-viacom-att-distribution-deal-20190325-story.html.
[187] The value of these rights rose significantly between 2000 and 2018, although the most recent renewal saw the domestic rights decline (offset by higher international income).

- Cord shaving and competition from SVOD have placed significant pressure on pay TV ARPU and the ability to fund rising content costs in premium genres. This is compounded by significant inflation in the cost of sports rights and investments in ad technology and improvements in functionality (including the launch of Sky Q and upgrades to Now TV at Sky), leading to a squeeze on budgets for other sources of content. Virgin and BT have equally been pressured to divert investment from linear channels to other service and functionality categories.
- Sky has also invested heavily in its own basic channels, increasing its investment in original content and lessening its reliance on third-party channels. During a November 2017 interview with Variety, Sky CEO Jeremy Darroch stated: "The idea that we can keep growing and developing just by doing the things we did in the past seems to be for the birds. We're going to spend 25% more on originals this year, and we'll probably spend a similar amount more next year. We have big ambitions."[188] In addition, Sky has also invested significantly in securing the rights to key acquired content (notably from HBO) in part to see off the threat from Netflix and others in the UK. BT, for its part, has invested significantly in its sports offering.

5.36 It is in this context that Sky and other pay TV platform operators have sought to reduce payments to third-party channels, which are seen as the most dispensable element of their overall content budget. Within an overall increasing content budget, the current £345m of estimated carriage fees payable by Sky has fallen from c£425m in 2016.[189,190]

Figure 38: Breakdown of Sky content spend and expected change (2016 vs 2019) (Mediatique)

Sky spend	2016	2019	Forecast
Sport	£2.0bn	£2.25bn	↔
Movies	£450m	£450m	↔
Original/UK secondary	£275m	£464m	↑
US acquired (ex. HBO)	£115m	£115m	↔
HBO	£35m	£35m	↔
Sky News	£40m	£40m	↔
Third-party payments	£425m	£345m	↘
Total	£3.34bn	£3.68bn	↔

5.37 The third-party payments are lower today in real terms than in 2012, when Sky last reported the affiliate line separately.[191] There are three dynamics on the Sky platform (which in turn helps determine carriage fees on Virgin and other pay TV platforms):

[188] "Sky to continue boosting spending on originals in 2018", Variety, November 2017. Link: http://variety.com/2017/tv/global/sky-tv-content-1202619532/.

[189] The key dynamic in this analysis is the strategy and negotiating stance of Sky, as the largest pay TV operator in the UK; other platforms (Virgin Media, BT, TalkTalk) typically take their lead from Sky.

[190] In its annual report Comcast noted that Sky's "…expenses were flat in 2019 compared to 2018. Excluding the impact of foreign currency, expenses increased primarily due to an increase in the cost of sports programming contracts". Thus as, balancing factor, it is likely that Sky's third-party payments have decreased for expenses to remain relatively flat.

[191] In 2012, Sky reported third party channel costs ahead by £30m (having reported £293m the previous year). This is around £380m in 2020 terms.

- Sky is seeking to pay channels less in line with its declining contribution to the value proposition of pay TV;
- Fees have been reduced in line with declining subscribers to big packs; and
- Sky has sought to reward certain key affiliates (Fox, Disney) at the expense of smaller groups.

5.38 These reductions in carriage fees have come about through a range of approaches at renegotiation points. In recent contract renewals, Sky has moved to either significantly reduce the amount it pays per subscriber to key suppliers or to agree to hold these static or temper cuts in return for additional digital rights such as multi-room and box set supply to Sky On Demand and Sky Go.[192] Virgin and BT have sought, similarly, to lower overall affiliate budgets.

5.39 Having resisted the downward pressures in renewals since 2011, even UKTV has struggled to maintain payment levels from pay TV operators recently.[193]

<u>Consolidation and other corporate activity in the pay TV channels market</u>

5.40 Continued competition and the threat from SVOD have driven consolidation and/or re-positioning of linear channel portfolios through various means (changing the mix of FTA versus pay, trading slots on electronic programme guides to improve prominence or positioning, closing/merging services, migrating some content to on demand), as we explored in the section on linear channel market share, above. Where changes to consumer habits become too disruptive, dominant players are wielding their sizeable financial capability to acquire additional channels (among other media assets) in order to protect themselves, with much of this activity taking place at a global level.

- Sky was acquired by Comcast in 2018, giving Comcast (the owner of NBCUniversal) control over Sky's pay TV platforms and key channel brands, including in the UK. The terms of this deal meant that all of production/distribution (Sky Vision, NBC-U), channels (Sky One, Sky Living, Sky Atlantic, Sky Sports, Sky Movies, Sky News, Universal, SyFy, E!, CNBC), and Now TV were brought under single ownership.
- Disney acquired 21st Century Fox in 2018, with the latter also selling its stake in Sky as a result of the Comcast deal. Disney-Fox are currently executing a significant consolidation (with up to 20,000 jobs affected), notably at the studios and to a lesser degree the channels business.
- The BBC and Discovery closed the UKTV joint venture in 2019, dividing up the channels between them. This followed the acquisition by Discovery of Scripps in 2017, bringing UK channels the Food Network and the Travel Channel together with Discovery's portfolio of lifestyle and documentary brands.
- AT&T acquired Time Warner in 2018, bringing together a leading telco operator and pay TV platform (AT&T with DirecTV) and a major content provider, which became WarnerMedia.[194] A major strategic and management re-alignment is currently under way.
- The merger between Viacom and CBS closed in December 2019, reuniting the two companies that had originally split in 2006. The deal delivers what is now the largest TV audience share of any US broadcaster (via CBS' broadcast network, MTV, BET, Nickelodeon and Comedy Central) a library of

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192 BBCS, mindful of the need to supply digital rights to Sky and other pay TV providers to mitigate declines in affiliate fees for the UKTV linear channels, specifically carved out rights for UKTV alongside its supply of BritBox in the UK.

193 The outcomes are confidential; however, Mediatique understands that UKTV agreed a broadly flat carriage deal with Sky having agreed to supply certain box set rights. This has been complicated by the evolving position at the BBC around supplying content to SVOD services including BritBox in a way that does affect pay TV carriage arrangements and prices.

194 Content assets included Turner and HBO.

3,600 film titles and 140,000 TV episodes, and the Paramount Pictures, CBS broadcast network, and MTV, BET, Nickelodeon brands.

5.41 At a global level, consolidation represents a broader opportunity to dovetail technology services with content, production and distribution: for example, AT&T recognised the potential of harmonising its technology and telecoms business with Time Warner's credentials in TV channels, content production and distribution.

Figure 39: Selected communications and content M&A activity (2011-2018) (Mediatique)

Asset Targeted	Acquirer	Value of deal	Year of purchase
NBC Universal	Comcast	$30bn	2011
DirecTV	AT&T	$67.1bn	2014
Time Warner	AT&T	$108.7bn	2016
Sky	Comcast	£12bn	2018

5.42 Changes in the strategies of many of these global players will have implications for local markets, as many local channel groups have US or international parents, and local strategies are heavily influenced by the perspective and outlook of US management.

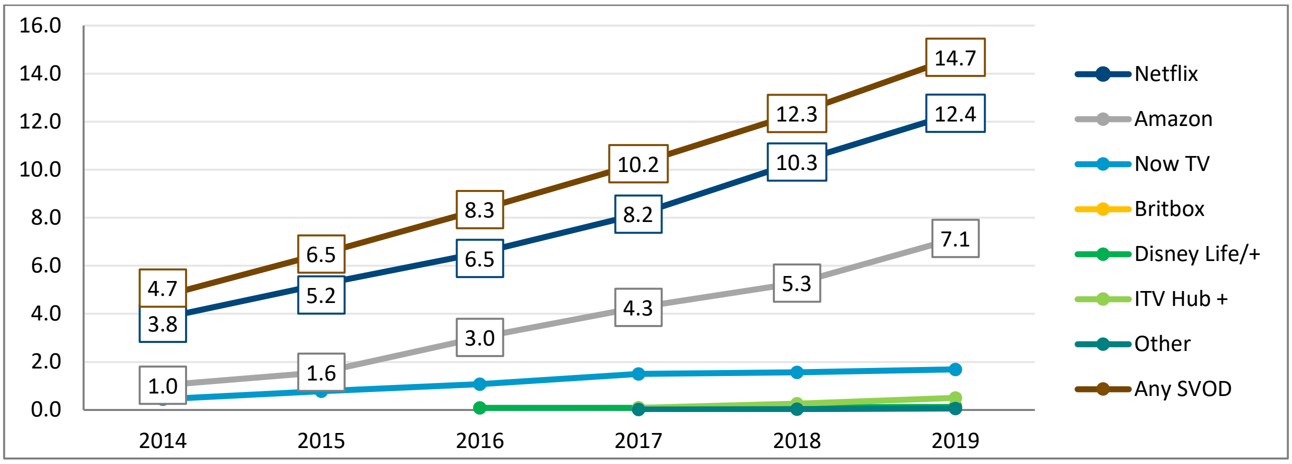
5.43 It is important to note that the resultant entities, following major consolidation, still trade at values significantly below those of the digital leaders (Facebook, Apple, Alphabet-Google and Amazon). Moreover, these larger players have been relatively protected from the downward pressures on valuation suffered by companies with greater exposure to 'traditional' revenue streams (e.g., broadcast advertising, affiliate fees).

Increasing traction among VOD – and SVOD – services

5.44 The most significant encroachment on TV channels' share of long-form video consumption is the growth of OTT streaming services. This includes the most dominant and influential players in the UK and North American markets (Netflix, Amazon Prime Video) and streamers that have more recently been launched l (Apple TV+, Disney+, HBO Max and Peacock). BARB reported that 14.7m UK households had access to at least one SVOD service in the fourth quarter of 2019. As we point out in the Covid-19 commentary at the end of this section, SVOD additions spiked further during lockdown in the US, the UK and other large media markets. [195]

[195] BARB is not currently reporting data in light of disruptions owing to Covid-19.

Figure 40: SVOD households in the UK, in m (2014-2019) (BARB; Mediatique)[196]



5.45 In line with the significant rise in UK adoption of OTT, SVOD revenues have markedly increased; in 2014 Netflix's UK revenues were £167.6m and these rose to £791.4m in 2019.[197] Amazon Prime Video's revenues have enjoyed similar growth, increasing from £41.5m in 2014 to £359.6m in 2019.[198] Driven largely by the two market leaders, the UK SVOD market generated revenues of £1,358m in 2019.[199] At this stage of roll out internationally, Netflix is unlikely to be turning a profit except in the US (overall, Netflix had a net profit margin in 2019 of 13% and its revenues per household are lower outside its home market). Amazon pursues a different model, and therefore does not aim to turn a profit on its video service directly.

5.46 Globally, there are an estimated 500m subscriptions to SVOD services, with Netflix and Amazon the clear leaders. The global market was worth around $47bn in 2019[200], according to data compiled by Digital TV Research, with Netflix revenues in that year reported at just over $20bn[201].

5.47 Though the range of genres appearing on the SVOD platforms is wide, historically their greatest successes have been delivered in drama and comedy, e.g., *Stranger Things* (Netflix), *Orange is the New Black* (Netflix), and *The Marvellous Mrs. Maisel* (Amazon Prime Video). However, genres that had been typically associated with broadcast TV uniquely (live sport, entertainment and current affairs) are appearing on OTT platforms far more often.

5.48 The success of factual entertainment and comedy on streaming platforms has encouraged streamers to further expand in these content areas. The continued presence of Amazon Prime Video in recent tenders for global sports rights (ATP Tennis, English Premier League Football in the UK, the Champions League in Germany and the Autumn Nations Cup (Rugby Union), jointly with Channel 4) suggests that the platform intends to make live sport's presence on the service, at least in some capacity, permanent.

5.49 OTT adoption in the UK has had a positive impact on BVOD revenues too. In 2014, BVOD advertising revenue (including players like All 4, ITV Hub, UKTV Player and Sky Go) was £145m. In 2019, reflecting the continued migration from linear viewing, revenues had increased to £452m.[202] The BVOD market includes

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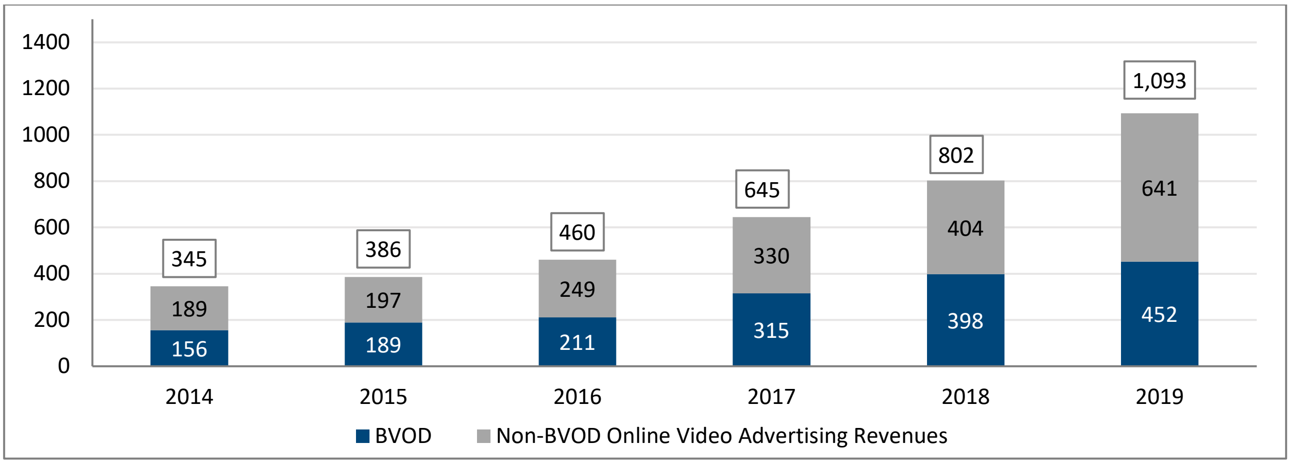
196 Millions of households in Q4 of each year, 'Other' includes Hayu and Mubi etc.
197 BARB, Ofcom Media Nations 2019; Mediatique forecast.
198 BARB, Ofcom Media Nations 2019; Mediatique forecast.
199 BARB, Ofcom Media Nations 2019; Mediatique forecast.
200 "Global SVOD numbers set to double", Digital TV Europe, 2019. Link: https://www.digitaltveurope.com/2019/09/05/global-svod-numbers-set-to-double/
201 Netflix, Q4 2019 Shareholder Letter, 2019. Link: https://s22.q4cdn.com/959853165/files/doc_financials/2019/q4/FINAL-Q4-19-Shareholder-Letter.pdf
202 Mediatique analysis.

on-demand catch-up programmes, archive (particularly from Channel 4) and live streaming. ITV, Sky and Channel 4 are all developing 'smart' advertising propositions to promote the premium nature of BVOD compared to linear (and will soon have a BARB-standard campaign tool to allow advertisers to identify unduplicated reach and frequency across linear and non-linear impacts).

5.50 Non-BVOD advertising-funded video on demand ('AVOD'), principally YouTube, has also grown quickly, although the content on the platform remains heavily skewed toward shorter-form, promotional and user-generated programming. In 2014, AVOD advertising revenue in the UK was £189m; by 2019, this had risen to just over £640m.[203]

Figure 41: Online video advertising revenues in the UK, £m (2014-2019) (AA/WARC, Ofcom)



5.51 Growth in AVOD revenues is not exclusive to the UK; in recent years, global AVOD revenue has grown and will continue to do so over the next five years. In 2018, global AVOD revenues were $21bn; this is forecast to rise to $56bn by 2024. North America will experience the most significant growth, from $6bn in revenue to $20bn in the period. Revenues for BVOD and non-BVOD AVOD are likely to be down year on year in 2020, however, despite robust viewing and usage performance, as the Covid 19-related advertising slump extended across both linear and non-linear (see the commentary on Covid-19 at the end of this section).

Figure 42: Global AVOD revenues, $m (2018-2019, and forecast 2024) (Digital TV Research)

Territory	2018	2019	2024
Asia Pacific	10,734	13,167	25,140
North America	6,074	7,564	20,277
Europe West	4,033	4,661	8,292
Latin America	511	600	1,217
Europe East	375	454	972
Middle East & North Africa	138	160	317
Sub-Saharan Africa	31	38	104

5.52 The AVOD market (outside BVOD) is still dominated by formats other than long-form. SVOD is, by contrast, a long-form medium.

[203] Ofcom, *Media Nations 2020*, 2020. Link: https://www.ofcom.org.uk/__data/assets/pdf_file/0010/200503/media-nations-2020-uk-report.pdf

The prospects for SVOD growth

5.53 VOD and SVOD usage and revenue in the short term are set to continue to grow, driven by the Covid-19 spike, the upgrading by broadcasters of their own VOD propositions, the anticipated arrival of several major entrants to the SVOD market globally and underlying consumer behaviours, particularly among younger demographics. The inherent risk is significant over-supply. Exponential growth in subscribers and revenues is unlikely to continue at the same rate as it has done recently, even with entry of so many new players.

5.54 Not all future entrants have strong credentials in content or archive libraries (this is particularly true for Apple TV+), but they do have the financial might to stay the course:

- **Apple TV+**: Of the latest raft of new entrants to the SVOD market, Apple TV+ was the first to launch, on 1st November 2019. Boasting an initial original content budget of $1bn and leading talent to promote its release, the platform marked Apple's first foray into A/V content production.[204] Its strategy, in the short term at least, is clear: front-load original content with highly recognisable talent to drive maximum footfall to the platform (and its aggregated brands). Its ultimate goal is to build a channel aggregation business, taking revenue share from third parties eager to address the connected Apple TV+ base, and to incentivise continued use of its hardware brands
- **Disney+**: Having been piloted in beta form in the Netherlands, Disney+ debuted in the US, Canada and Netherlands (now fully functioning) on 12th November 2019. A prior content rights deal with Sky (Comcast) determined that Disney was only able to launch in the UK in March 2020, immediately prior to the Covid-19 induced lockdown. The platform is dedicating billions of dollars to its original content strategy, as well as relying on its archive catalogue of film, animation and Pixar studios content. So far it has performed above expectation[205]. Note that Disney's Hulu, a hybrid advertising and subscription on demand service, is not available in the UK.
- **Peacock** (NBC-U): Peacock launched in the United States in July 2020. It runs a tiered 'freemium' model, granting free access to two thirds of the content library when accompanied by advertising, the whole library (still accompanied by advertising) for an add-on fee, and ad-free access for an incrementally larger fee. Comcast Xfinity customers in the United States are granted free access to the premium tier as part of their bundled TV/broadband subscription. Original content will predominantly be produced by affiliate brands Universal Pictures and DreamWorks Animation. No plans have yet been unveiled for the UK market.
- **HBO Max**: HBO Max was the third AT&T DTC consumer offering to launch and will ultimately replace the incumbent HBO Now as the platform for those without an HBO cable subscription. Of the new streamers to enter the market, HBO Max as a brand is unlikely to have any impact in the UK, given the renewal of the HBO-Sky output deal (through which HBO supplies programming exclusively for Sky Atlantic). Rather than wind down arrangements with big pay TV operators like Sky in the UK, WarnerMedia CEO John Stankey has stated they will expand HBO Max by "leaning on our licensing relationships with key partners in territories."[206]

[204] Like Netflix before it, Apple has signed partnership deals with established producers (including A24, Bleecker Street and Greenwich Entertainment) to provide them with original content. It is expected over time that Apple will further emulate Netflix by moving into production itself.

[205] BARB is not currently reporting new data on SVOD, owing to the lockdown, but estimates suggest that Disney+ was the fastest growing service over the period: by mid-2020, we estimate that Disney+ had c.3m subscribers; this is in line with survey data published by Ofcom in Media Nations 2020.

[206] "WarnerMedia unveils HBO Max launch date, price, international plans", ScreenDaily, October 2019. Link: https://www.screendaily.com/news/warnermedia-unveils-may-2020-launch-date-price-international-plans/5144229.article.

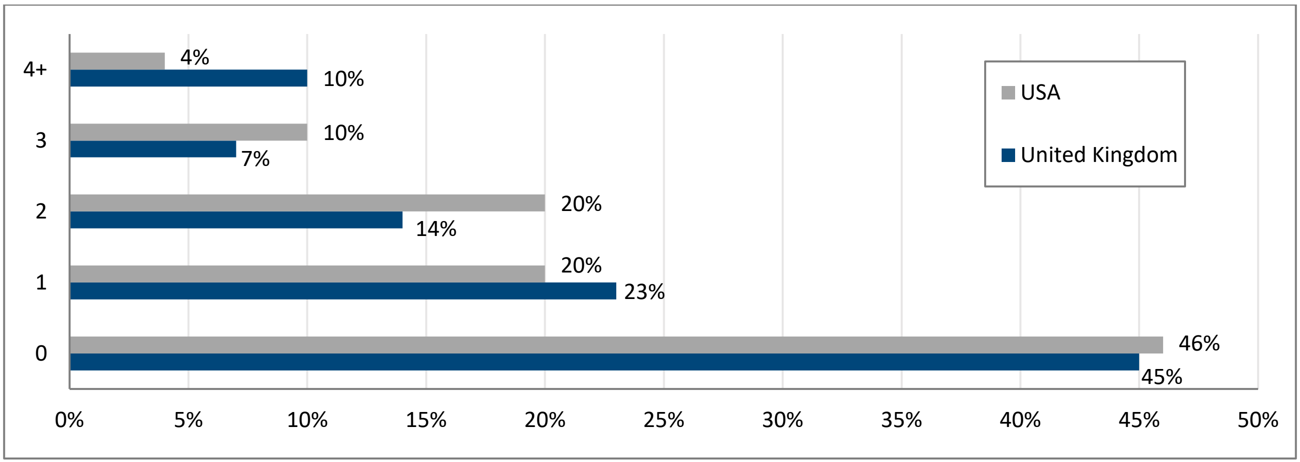
- **BritBox:** Already established in North America, the 'best of British' service was launched in the UK in November 2019, with a range of content from the BBC (including BBC Studios and various independent producers), ITV, Channel 4, and Channel 5. ITV, the primary shareholder, has indicated that BritBox is intended to be a secondary purchase within the SVOD market, and its ambitions are relatively modest. Mediatique expects the proposition to have around 2m UK subscribers within five years.[207] The BBC and ITV plan further international roll-outs in the future, starting with Australia in the Autumn of 2020, building on early success in the US, where it has c1m subscribers. [208]

5.55 The initial acquisition strategies of these new services give an indication of their confidence in consumers' willingness to pay for more services than currently (or to abandon their current service in favour of a new entrant). The difficulty for legacy businesses contemplating an SVOD distribution model is that by removing content from their linear channels they may see their pay TV affiliate revenues decline even more quickly, and by greater amounts than they can offset through DTC propositions.

5.56 It is not inconceivable that at some point in the future SVOD platforms will be consolidated in the same way as the channels market. This may be as a result of 're-bundling' by legacy pay TV operators (Sky, Comcast) or through the efforts of 'new' aggregators such as Apple and Amazon. Single billing, common navigation and bundled pricing may prove an attractive alternative to SVOD 'stacking'.

5.57 As per the chart below, price is not necessarily, and has not been historically, the only barrier to willingness to pay for television packages; resistance to a high number of separate subscriptions to separate services is also a contributing factor.

Figure 43: Individuals willing to pay for multiple SVOD subscriptions, UK vs US (2018) (Parrot Analytics)



5.58 A number of the SVODs' strategies appear to be focussed on attracting customers quickly, even at the risk to ARPU. For example, Apple may see greater potential in its channel aggregation business than the SVOD platform on its own. Meanwhile, the free-to-access content offered to purchasers of hardware and other bundled approaches appear to confirm a 'land-grab', at least initially, as a means of using operating systems and customer UI/UX as a 'battering ram' for building share in the SVOD market.

[207] Mediatique forecast.
[208] https://www.broadbandtvnews.com/2020/03/05/britbox-on-plan-as-itv-see-vod-growth/#:~:text=BritBox%20US%20now%20has%20over,has%20over%20400%2C000%20signed%20up.

Figure 44: Customer acquisition strategies for selected SVOD players (Mediatique)

Streamer	Date launched	Price p/m	Customer acquisition strategy
Apple TV+	01/11//2019	$4.99	One year's free access to purchasers of Apple iPhone, iPad & Mac
BritBox	07/11/2019	£5.99	One month's free trial – longer trial than is conventional for SVODs
Disney+	12/11/2019	$6.99	*Seven-day free trial at launch (since rescinded)*
Peacock	15/04/2020 on Comcast; 15/07/2020 in US	Free; $4.99; $9.99	Free for all subscribers to Comcast broadband services, tiered system of ad-supported and subscription (without ads) for non-Comcast customers
HBO Max	May 2020	$14.99	Automatic upgrade to platform for current subscribers to HBO Now

5.59 These trends permit an array of new revenue models to emerge in the delivery of A/V services, associated with how providers with control over consumer interfaces in particular can monetise their market position once they secure traction. This might include charging for storage of content assets in the cloud, selling or otherwise monetising consumer usage data, providing digital advertising opportunities for content distributed with commercial messaging, charging for access and prominence and/or optimised search, and taking a fee or revenue share from suppliers ('trading' access and prominence).

5.60 Where providers of A/V services have exposure in other elements of the value chain, the benefits of controlling the UI/UX may be realised in myriad ways – increased viewing of their own content and stickiness for subscriptions (this is the case for AVOD propositions such as iPlayer and ITV Hub or SVOD players such as Netflix, with innovative and appealing search and navigation tools); sales generation in adjacent markets (for example e-commerce); charging (or trading) for a range of services including content storage and delivery; offering advertising propositions on a tailored basis using 'first-party' data. The way that the pay TV versus 'new' aggregator tensions play out will dictate how the market evolves.

5.61 BBCS' exposure to the branded market continues to be weighted toward the traditional channels business, with its SVOD exposure still limited to supplying the likes of Netflix and Amazon and, more recently, BritBox, and its investment in the North American variant of BritBox. This may suggest, however, that BBCS is keen to maintain an ability to pivot, as and when appropriate, from one model to the other. This ability to pivot will be increasingly valued, particularly as the impact of Covid-19 appears likely to accelerate the decline of linear models and the ascendency of on demand.

<u>Impact of Covid-19 on this market segment: branded channels and SVOD</u>

5.62 Two key revenue streams in the branded services segment – advertising and affiliate income – have been adversely affected by the Covid-19 pandemic and the resultant lockdown in major markets.

5.63 Advertising, while recovering from the significant low of the second quarter of 2020, is still expected to be down in the full year by around 10-20% depending on the market, with the UK at around -18% and the US tracking at -10%.[209] BVOD and other forms of AVOD will also be down in 2020, but not by as much (by single digits in most markets). Recovery will be patchy and relatively slow. We are unlikely to see 2019 levels of TV advertising income (real terms) in mature markets such as UK and the US before 2024. Again, the forecasts

[209] Reporting in August, *Variety Intelligence*, quoting iSpot, predicted US spot advertising would decline year on year in 2020 by 9%, as a direct consequence of Covid-19.

here will be highly dependent on there not being a comprehensive, national lockdown imposed (or re-imposed) in major markets.

5.64 Affiliate income in the US and UK, the main pay TV markets where BBCS operates, had already shown signs of weakness, as pay TV trends (cord-cutting and cord-shaving) persisted in 2019. In the Covid-19 affected period, there were further losses for pay TV operators, particularly cable and direct to home (satellite), as subscribers either churned off (those who subscribed to sports channels in particular) or were offered a 'pause' in subscriptions by operators aiming to keep customers signed up (Sky and BT both offered to pause payment of the sports channel element of subscription packages in the UK[210]). This represented an acceleration in the declines seen for traditional pay TV, as subscribers either switched to cheaper bundles or cut their pay TV bundles altogether, in favour of free and lower-cost options (broadcast TV, AVOD and SVOD, for example). In the US, pay TV penetration declined by 7% year on year in 2019, compared to 4% in 2018, according to Convergence Research.[211] For the current year, Convergence estimates a further decline of 9%, accelerated by consumer behaviour during lockdown.

5.65 In the UK, similar trends are evident. We expect UK channel operators to have faced around 20% reductions in aggregate annual affiliate payments between 2016 and 2019, reflecting a lower number of subscribers overall and a migration from large to smaller packages (implying a deeper decline in carriage payments for certain channel groups[212]). This is consistent with market intelligence suggesting that the former UKTV channels (across the BBCS and Discovery brands) saw reductions in affiliate fees of between 10 and 15% in recent carriage renewals. This was offset by the hybrid pay and free to air strategy followed by UKTV (the BBCS brands), with some channels (Dave, Drama, Yesterday) available on Freeview as well as on Sky and Virgin, even as the remaining pay-exclusive channels (W, Gold and Alibi and Eden) remained on Virgin, Sky, BT and TalkTalk.

5.66 SVOD revenues for the full year are difficult to predict. Even in the mature home market (the US), Netflix and Amazon added significant numbers of subscribers, although this may presage weakness in future quarters.[213] In 2019, the US SVOD market was worth c$22bn.[214]

5.67 In the UK, c6m more SVOD subscriptions were taken out during lockdown, favouring Netflix, Amazon and Disney primarily. Accounting for a growth in the number of services taken by each 'active' SVOD household, the number of households taking at least one SVOD service in the UK is forecast to rise to 16.7m by the end of 2020, compared to 14.7m at the end of 2019. On our assumptions about average revenues per household from SVOD and the number of services subscribed to by the average SVOD household, we expect the UK market to generate around £1.8bn in 2020, up from £1.3bn in 2019.

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210 Virgin Media also facilitated a pause in payments for customers that subscribed to Sky Sports and/or BT Sport via its service.

211 https://fortune.com/2020/05/05/cord-cutting-coronavirus-cable-satellite-tv-comcast-verizon-charter-altice-att-dish/.

212 Affiliate fees are generally set as a price per subscriber, and therefore will vary over time by the number of subscribers to packages in which channels are included.

213 "We've had an increase in subscribers in March [2020] that's essentially a pull-forward of the rest of the year." – Netflix chief executive Reed Hastings to investors commenting on first quarter performance (https://deadline.com/2020/04/netflix-reed-hastings-subscriber-surge-covid-19-streaming-1202914140/).

214 "US dominates global SVOD revenue", MediaPlayNews, March 2020. Link: https://www.mediaplaynews.com/report-u-s-dominates-global-svod-revenue/.

Trends and market implications – branded channels and SVOD

Branded services (channels): trends
▪ Traditional channels market (FTA and pay TV) will remain under significant pressure, as pay TV operators continue to shift from 'full fat' to skinny propositions in the face of 'over the top' and other IP-delivered competition ▪ The effect will be particularly marked for domestic ad-funded broadcast channels in mature markets and for pay TV brands that are viewed by operators as Tier 2 – e.g., documentaries, lifestyle ▪ The impact will be amplified by the lack of fresh content following the production hiatus, and the prospect for an acceleration in viewing declines to channels reliant on advertising and/or 'basic tier' affiliate fees ▪ Some branded channels can survive if they win a place in skinny bundles, agree to supply additional digital rights and/or distribute via SVOD (see below); others will be subject to closure, consolidation ▪ US pay TV market likely to see further cord cutting in the next five years, with associated downward pressures on affiliate fees paid to channel groups (operators likely to focus on fewer brands and on bundling SVOD and ancillary services such as mobile, gaming); ▪ UK pay TV market more resilient as is less mature than in the US; is susceptible, however, to broadly similar trends around cord shaving and SVOD disintermediation ▪ Pay TV operators in both markets saw a deterioration in pay TV subscriber numbers, APRU, revenues and operating profits owing to the Covid-19 pandemic, amplifying but not altering underlying trends ▪ While already apparent as a trend, affiliate revenues in the UK are likely to be further focussed on fewer recipients (US studios plus UKTV) and only in exchange for an increased raft of linear and non-linear content rights, including cloud storage, 'start again' functionality (i.e., permitting users to watch programmes from the beginning) ▪ Channels that are wholly (or even partially) ad-funded face additional pressures linked to the impact of Covid-19, declining viewing and prospects for disintermediation by new aggregators (displacing broadcast TV and traditional EPGs in favour of their own or third-party brands willing to pay for access/prominence) ▪ Ad funded channels will also continue to be disadvantaged by PVR usage – leading to ad skipping; the value of PVRs in locking in subscribers to pay TV platforms is incontrovertible (but not recognised in value exchange between platforms and channel suppliers) ▪ Emerging markets are likely to be relatively good prospects for branded channels for some years to come ▪ Some emerging markets may 'divert' to IP delivery before reaching a mature pay TV stage owing to technological innovations that are occurring globally irrespective of local market conditions (growth in GDP per capita coupled with broadband connectivity – fixed or via mobile – will be an indicator)
Branded services (channels): market implications
▪ Branded channels market will split between premium and second tier; the latter are challenged without an IP delivery alternative ▪ Only strongest brands can hope to transition (on their own) to an SVOD environment (see separate section below) ▪ Tier One pay TV channel groups (UKTV is one, given BBC pipeline and some commissioned content) will resist negative trends for longer (confirming advisability of consolidating ownership and taking full control of dividend stream and content windowing strategy) ▪ Prospects may be better in emerging markets (depending on pay TV trends, per capita income, local content developments, role of SVOD, availability of local partners)

Branded services (SVOD): trends
▪ Proliferation of DTC propositions is expected, led by Disney+, HBO Max, Peacock ▪ Analysts suggest Disney (100m) and HBO (50m) may do particularly well globally by 2024; although well short of leaders Netflix, Amazon (whose growth rates, will, however, moderate) ▪ All SVOD players, even in mature markets, saw a spike during lockdowns; some of this is likely to have been 'brought forward' demand and may lead to lower customer acquisition and higher churn as trends normalise ▪ There is likely to be a limit to how many DTC stand-alone offerings can co-exist – strong brands (Disney) will do well; other content propositions with good pipelines but without a strong consumer-facing brand in every market (e.g., Warner-HBO) are likely to do local distribution deals outside the US with third parties (e.g., HBO has renewed its Sky distribution and output deal)

▪ Even Disney has engaged selectively with international distribution partners (e.g., with Sky in the UK and Canal Plus in France) rather than go 'all in' via over-the-top distribution, where it would need to fight (and/or pay) for shelf space ▪ Indeed, there may be scope for a 're-bundling' over time by aggregators such that multiple SVOD brands are available for a single bill and price (masking distribution arrangements involving paid-for access/prominence) ▪ BritBox in the UK (supplied by ITV and the BBC) will be a secondary purchase alongside Netflix, Amazon, Disney+ ▪ Total UK 'any' SVOD on Mediatique's projections will reach nearly 20m households by 2024, led by Netflix and Amazon (most common 'dual' combination); BritBox will achieve c2m ▪ BBCS exposure to SVOD is on many levels – as content producer, as content seller (e.g., to BritBox UK) and as co-equity partner (BritBox US, Canada, Australia)
Branded services (SVOD): market implications
▪ Inevitable growth of SVOD propositions over coming years, even if growth rates of 'mature' players (Netflix, Amazon) moderate ▪ This will come at the expense of 'branded channels' such as broadcast TV and pay TV channels in large bundles (and at the expense of consumer products; see below) ▪ There will be a consolidation of SVOD propositions, but perhaps not before 2024 ▪ There may be scope for a 're-bundling' over time by aggregators such that multiple SVOD brands are available for a single bill and price – these might be controlled by legacy pay TV operators nimble enough to transition business models and/or by new aggregators with sophisticated operating systems, compelling UI/UX including advanced search and navigation functionality, data capture capabilities and potentially offering exclusive content as bait ▪ Prominence and access on platforms – traditional and new – will be critical for channel and content brands ▪ Content providers need to flexible as the markets shift: BBCS may be in a good position to 'pivot' from branded channels to branded SVOD (or supply other SVOD operators) as market trends dictate

6. Consumer products: market structure and dynamics

6.1 The consumer products market is wide ranging in scope and activity, including the creation and sale of merchandise, gaming, magazines and other products and services associated with underlying media rights (e.g., theme parks, activity centres, cruises).

6.2 The BBC's main activity in this area is physical product sales via DVDs, but it also retails apparel, board games, gifts and figures, stationery, and other merchandise. The BBC also licences the CBeebies brand for themed activities at Alton Towers and licences a number of brands for magazine sales (in partnership with Immediate Media, including *Radio Times* and *Top of the Pops*).[215] In the year to March 2020, BBCS reported revenues from consumer products of £89m.

6.3 BBCS has recognised the pressures in the DVD market in a recent operational review, writing off the remaining £4m goodwill in the consumer distribution business. It noted that DVD sales are declining by an average of approximately 42% per year, and extrapolated this to a predict a decline on EBITDA for the business.[216]

Key players in the consumer products market

6.4 Rights owners have long sought to exploit value across as many windows as possible, and to drive value from the underlying ownership of intellectual property rights and familiarity with programme and content brands.

6.5 This includes what is essentially business-to-consumer ('B2C'[217]) distribution of finished products via DVDs and physical media; such value creation originated before wholesale take-up of connected devices, where physical media was one of the few opportunities to watch content that had previously been broadcast (including archive content).

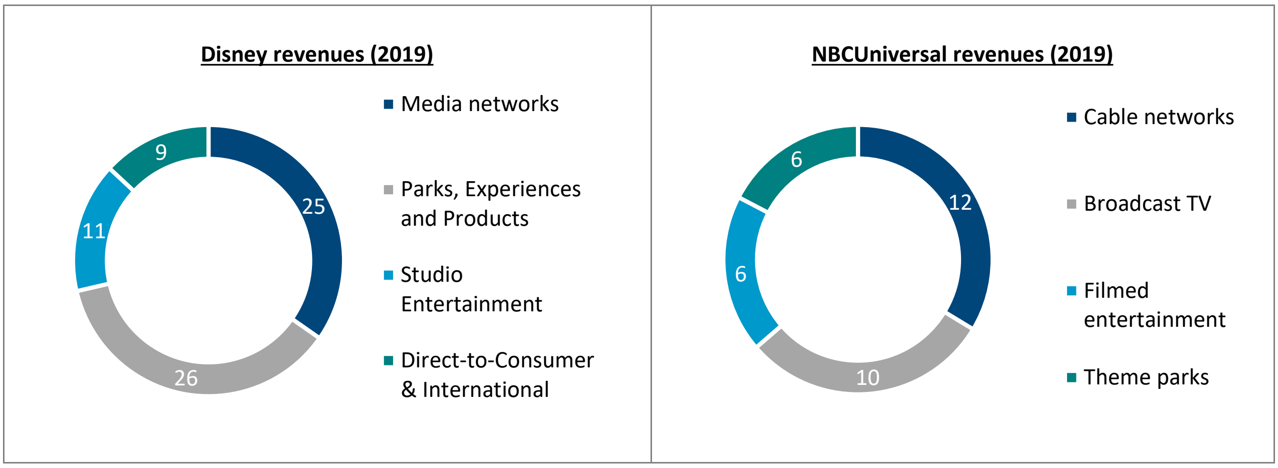
6.6 The market also includes a very wide range of branded products and services that are linked to underlying TV programme brands and now overlaps multiple other markets including retail, leisure, travel, tourism and entertainment.

6.7 Activity in this market typically involves intermediaries and partners (including manufacturers and retailers), but underlying value still resides with the rights holder. As with the B2B distribution market, many smaller rights holders will rely on a major (often global) distributor to organise routes to market and share value. Similarly, all the major studios and larger players have their own products or home entertainment divisions including Discovery, Disney, eOne, Fox, HBO, ITV, NBCUniversal, Paramount, Sony Pictures and Warner Brothers. As the list implies, TV distribution is typically combined with film distribution for relevant companies.

6.8 There are differences in the scope of activity by player. All the majors have historically exploited the home entertainment market via DVD sales and rental, and also merchandise linked to key programme brands (e.g., *Game of Thrones*, *Dr Who*); but some players (notably Disney and NBCUniversal) have much larger operations including theme parks, hotels and cruise ships.

[215] We have not analysed the magazine market here, as this is outside the scope of the BBC's main competitors.
[216] http://downloads.bbc.co.uk/aboutthebbc/reports/annualreport/2019-20.pdf
[217] B2C refers to selling services or products directly to customers, rather than to third-party businesses.

Figure 45: Revenues at key consumer products companies, $bn (Disney, NBCUniversal)



6.9 Commercial arrangements within this market include both direct revenue generation from consumers (i.e., retail sales, rental payments ticket sales, guest spending) as well as licensing agreements with third-party operators (e.g., themed elements in rides, attractions, and merchandising).

Re-balancing in the home entertainment market

6.10 The home entertainment market was historically a high margin business for studios, with significant revenues generated by DVD and Blu-Ray sales and rentals. More recently, the market has been severely affected by a perfect storm of technological, behavioural and economic pressures; this was true even before the severe influence of Covid-19:

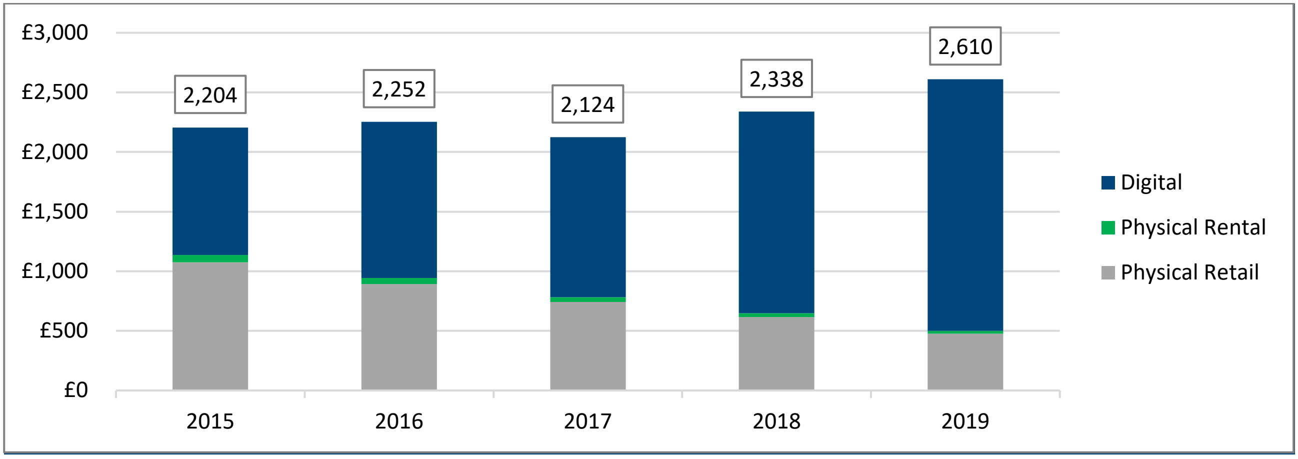
- Digital delivery and storage have created a compelling – and arguably easier and sometimes cheaper – alternative to the purchase of physical media.
- Media consumers have embraced new forms of video engagement including on-demand services (download-to-own, subscription VOD).

6.11 As a result, the DVD market has been increasingly supplanted by online distribution including SVOD and EST.

- IHS Markit and Digital Entertainment Group report that global spending on physical media was $25.2 billion in 2014 ($14.9 billion internationally and $10.3 billion in the US), which had fallen to $13.1 billion ($7.3 billion overseas and $5.8 billion domestically) by 2018.
- Recent periods have seen digital sales and rentals gain traction as network coverage and use has improved globally. This has enabled overall growth in the market, with digital sales offsetting declines in the physical segment.
- "Whereas physical media sales have fallen off, digital spending has more than made up for the gap. In 2014, digital sales amounted to $15.7 billion globally. By 2018, that figure had ballooned to $42.6 billion. Overall, home entertainment consumer spending increased 16 percent from 2017 to 2018, topping out at a record $55.7 billion". IHS Markit, Digital Entertainment Group.

6.12 A similar picture is evident in the UK specifically, with the overall market returning to growth as a result of significant digital sales.

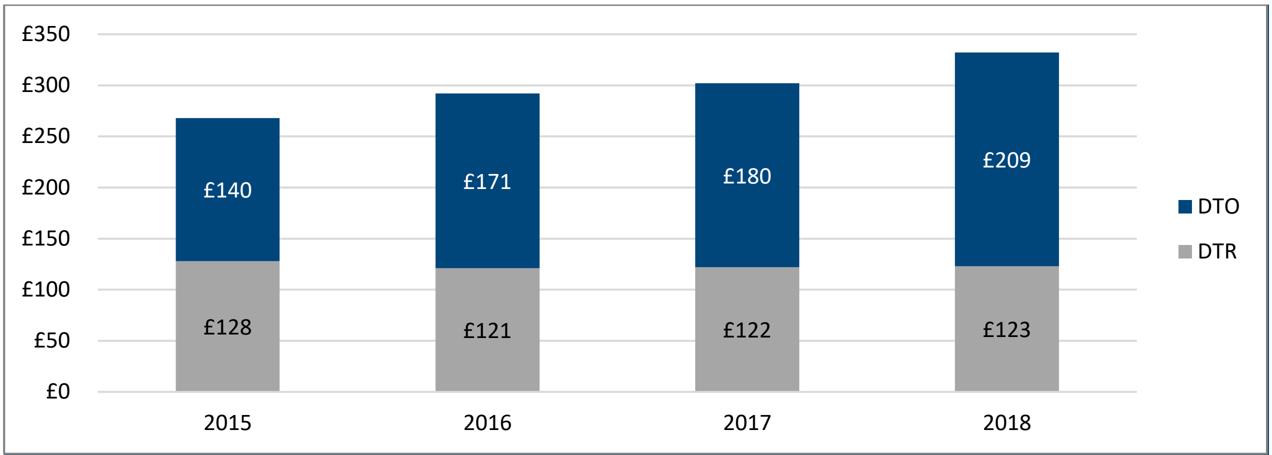
Figure 46: UK video entertainment revenues, £m (2015-2019) (Entertainment Retailers Association)[218]



6.13 Market definitions in the digital category vary considerably, and some analysts include SVOD alongside transactional services (as above, for the Entertainment Retailers Association). The main digital routes for transactional services market include the major global players (e.g., iTunes, Amazon, Google Play) and local players operating in each market which are often linked to platform operators or broadcasters (e.g., Sky, Virgin, Roku in the UK).

6.14 The main distinction within the transactional segment is between download-to-own ('DTO') and download-to-rent ('DTR'), reflecting the similar historical distinction in the physical market between rental and purchase. The overall download market continues to show growth in the UK, but DTR revenues are under serious pressure from SVOD services which have undermined the underlying consumer impulse for digital rental. Films have proven a partial exception to this dynamic, with Sky reporting good growth in DTR for films via its Sky Store (linked to Sky's strong position in the first pay window for Hollywood movies, addressing key fans for movies generally). Overall, DTO sales of films have been relatively strong in the UK, bolstered by Sky Store's aggressive marketing and the appeal to consumers of 'owned' premium content (by which it can be inferred that DTO is relatively more resistant to the incursion of SVOD into the consumer market).

Figure 47: UK TV and movie download revenues: DTO vs DTR, £m (2015-2018) (British Association for Screen Entertainment)



[218] The Entertainment Retailers Association's digital definition is broad and includes any transactional digital video (including EST and online digital rental for movies and TV) as well as SVOD revenues (including Netflix and an allocation of Amazon Prime revenue).

6.15 Within the overall products market, what is perhaps surprising is the continuing scale of physical video, which remains a sizeable but declining element of the market. There is some residual value for DVDs, in line with older demographic habits around physical ownership and the role of gifting, although price pressures in the retail segment have compounded underlying challenges to the economic model. The Entertainment Retailers Association itself states: "Physical entertainment retailing is clearly off its peak, but …[t]he growth of vinyl in particular shows that physical formats can flourish if they offer distinctive benefits. The strength of the DVD and CD formats over the Christmas period shows that physical still dominates when it comes to gifting, for instance."[219]

6.16 Ultimately, all operators' strategies in this area are entirely focused on the transition from physical to digital, and to manage decline in the physical rental and retail markets. Their focus will doubtless be more acute post-Covid-19 as they manage a more aggressive transition than previously expected.

Opportunities in the wider licensing and products markets

6.17 The wider consumer products market faces multiple dynamics including the strength of demand for retail sales and leisure in major territories.

6.18 In general terms, there is continuing long-term value in TV and content brands and value creation is linked to consumer traction with these brands (e.g., recipe books for cooking programmes, programme-themed merchandise).

6.19 Despite pressure from video, online and mobile games, licensed merchandise continues to be a major ancillary revenue stream for key properties:

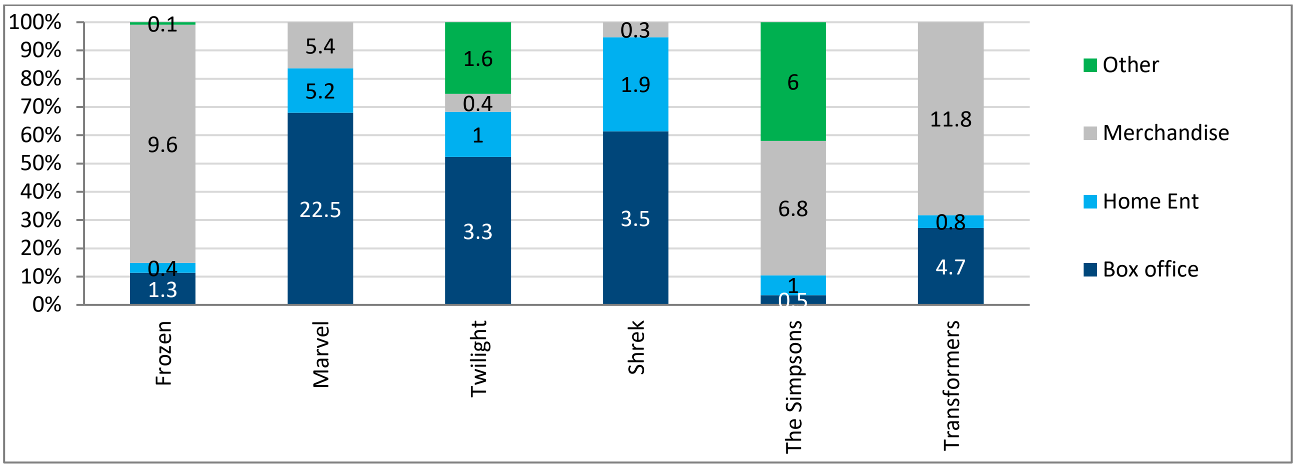
- Apparel, toys and fashion accessories continue to dominate licensed merchandising with a combined share of just under 40% in a $293bn global market[220].
- Many strong film and TV properties are able to drive significant merchandise income, including from toys, clothing and other consumables.
- This segment is subject to pressure from an overall challenged retail environment, which has primarily led to margin decline.

6.20 However, TV shows vary considerably in their ability to drive value outside the primary window, depending on their genre or format, their international appeal and longevity.

- Drama and entertainment formats do well in secondary markets, as do shows with high repeatability, quality production values or a resonant brand that can drive merchandise sales.
- There is considerable upside for shows that are able to lock in domestic revenues from primary commissions and drive incremental value from international sales in secondary markets.

[219] Entertainment Retailers Association CEO Kim Bayley, March 2019.
[220] "Global sales of licensed goods up 4.5% to US$292.8", Licensing Source, June 2020. Link: https://www.licensingsource.net/global-sales-of-licensed-goods-up-4-5-to-us292-8-billion/#:~:text=Global%20sales%20revenue%20of%20licensed,June%208)%20by%20Licensing%20International.

Figure 48: Breakdown of revenues, by selected brands ($bn) (Mediatique, press releases)[221]



6.21 An emerging source of interest for producers and rights holders is gaming, which is a key source of growth in all major markets. The global gaming market is expected to grow at a CAGR of 7.7% until 2023, with a large portion of this growth driven by mobile gaming[222]. Just under half of smartphone users in the UK play games on their mobile phone.

- Successful games are often based on media brands. Of the top ten grossing mobile games ever, three take inspiration from already successful licensed characters.
- Successful games from TV brands include *The Walking Dead*, *My Little Pony*, *Game of Thrones* and *Pokémon*. Successful games from film brands include *Harry Potter*, *Star Wars*, *Avatar* and *James Bond*.

Organisational challenges

6.22 Home entertainment and certain consumer products income has historically been lucrative for rights holders, allowing them to tap consumer income directly and drive returns from previous investment in the primary window.

6.23 As the market moves toward increasing digital engagement (including digital sales and rental of finished product), there is potentially less reason for these operations to be separated from, say, branded and on-demand services. As the window for physical home entertainment sales declines further, companies may seek to combine their operations in business-to-business and business-to-consumer licensing and distribution, particularly in the context of DTC launches by Disney, Warner, HBO and others. The BBC is no exception here.

6.24 This will of course vary by sub-segment, and the successful theme park or holiday activities of certain major players will always remain separate, for example.

Impact of Covid-19 on this market segment: consumer products

6.25 The implications of the Covid-19 pandemic have been mixed on the consumer products segments of media companies. The major global players have largely been affected by the closure of theme parks and retail stores, which form a significant portion of their operations. Walt Disney and Comcast have reported revenues down by up to 85% in their parks, experiences and products segments over the most recent reported quarter.

[221] 'Other' revenues include publishing, other royalties and where relevant syndication and advertising (e.g., for *The Simpsons*.).

[222] "The world's 2.7bn gamers will spend $159.3bn on games in 2020", Newzoo, May 2020. Link: https://newzoo.com/insights/articles/newzoo-games-market-numbers-revenues-and-audience-2020-2023/

6.26 The home entertainment market has been sustained by restrictions on leisure time outside the home, and consumer demand for digital entertainment is likely to have increased as is the case with SVOD and other at-home propositions. The structural transition from physical to digital assets (and the decline in DVD purchases most notably[223]) may have been accelerated slightly, as the major physical retailers (Argos, HMV, Game) had to close physical stores – but this transition is already well embedded within consumer preferences and behaviours.

6.27 The ultimate barometer for future performance in this segment will be the retail environment. Retail sales have remained relatively robust over the current period, although most retail activity has focused on life at home, including greater sales in supermarkets and DIY. The lockdown period may lead consumers to favour online purchases over in-store purchases over the long-term, and this may favour global players such as Amazon. Increased online shopping drove Amazon revenues up 40% year-on-year in the three months to the end of June, and despite the quarter being "highly unusual", some residual benefit may yet be sustained.[224]

6.28 Delays and cancellations in TV and film production are likely to filter through to the home entertainment market, as the number of new releases (in digital or physical form) will be limited. This may ultimately favour competing media such as SVOD in the medium term, as these propositions are able to rely on the marketing of content libraries rather than the promotion of new releases. Sales of merchandise may also be delayed, as the lack of new titles will prohibit associated sales.

6.29 As and when lockdown restrictions loosen across global markets, segmental performance is likely to return to normal – home entertainment revenues may reduce slightly in scale as individuals are able to spend more time outside the home, but consumer demand for merchandise will continue to reflect underlying dynamics in this market. The global players will eventually see a rebound in their attractions as theme parks, attractions and cruise ships reopen for business, although this may take some time: footfall may remain limited in the short term as some distancing restrictions are likely to ensue, and they may incur additional resourcing costs and/or challenges[225].

[223] "Pandemic exacerbates decline of DVD sales", Advanced Television, April 2020. Link: https://advanced-television.com/2020/04/28/research-pandemic-exasperates-decline-of-dvd-sales/
[224] "Amazon doubles quarterly profit despite Covid-19 costs", Financial Times, July 2020. Link: https://www.ft.com/content/7a42b1d8-9ca7-4827-aaae-729fdb7637f5
[225] "Walt Disney to make 28,000 cuts at US theme parks", InterPark, October 2020. Link: https://interpark.co.uk/walt-disney-to-make-28000-job-cuts-at-us-theme-parks/

Trends and market implications – consumer products

Consumer products: trends
▪ Next five years will see further erosion in DVD/Blu Ray revenues, as EST and SVOD continue to take share ▪ EST growth likely to be relatively muted compared to SVOD, except for films (e.g., Sky Store still likely to grow); appeal of 'ownership' is likely to wane in some content categories, owing to broader acceptance of SVOD as a substitute ▪ Other consumer product segments have specialised appeal/markets (books, gaming, merchandising) and are likely to continue to perform in line with (moderate) historical rates and margins
Consumer products: market implications
▪ BBCS (and predecessor) reliance on DVD sales will need to be replaced – combination of digital sales (DTO/DTR via, e.g., iTunes, Roku, Sky Store) and supplying, either directly or indirectly, SVOD propositions ▪ A declining but still relevant DVD market between now and 2024, however, buoyed by inertia, demographics and gifting

7. Future market developments

7.1 The markets in which BBCS is active are set to experience significant further change over the next five years, as technology continues to evolve, shifts in consumer behaviour accelerate and companies innovate their business models in response.

7.2 Upstream, the integrated studio model looks likely to continue to dominate content creation, production and distribution extending to, in many cases, DTC propositions: US studios, the UK variants (BBCS, ITV, Sky), a limited number of other international studios (StudioCanal, RTL) and new entrants (Apple, Netflix and Amazon in particular) will set the pace.

7.3 The combination of **content production and distribution** is very likely to remain a key nexus of value creation for the A/V sector, favouring the integrated studio model being pursued by the BBC. However, there will be a significant premium attached to the content pipeline in this regard and the costs of participating are rising, particularly for long-form drama, comedy and high-end documentaries. The ability to earn secondary income is subject to the impact of shorter content windows for some content – and puts a premium on maintaining a rights position early in the process and being able to retain exposure across the production and distribution chain regardless as to where value pools.

7.4 In the longer term, secondary market values may reduce as a result of declining demand from pay TV operators, the shift by established streamers to favour original content and changes in windowing – in line with front-loaded content availability on proprietary services for longer periods of time (leading to shorter amortisation periods). Mitigation may be provided by new entrant SVOD players and re-bundling by streamlined pay TV propositions.

7.5 The net impact is unclear. Certainly the short-term prospects for content sales look healthy, if subject to pressures over time. The impact will be variable depending on genre, and traditional broadcasters in the UK (the PSBs specifically) may be affected more intensively as the streamers continue to focus their attention on their own content and reduce their dependence on acquiring secondary content in domestic markets.

7.6 Assuming value 'lost' in secondary windows is re-directed toward primary commissions in line with changes to windows and exclusivity, then the most secure place along the value chain will be the combination of production and distribution, as a hedge; this favours the integrated studio model being pursued by the BBC.

7.7 **Traditional branded services** (i.e., FTA and pay TV channels) will face the challenging and persistent trend away from 'full fat' pay TV and linear broadcast TV more generally, in favour of 'skinny' bundles, disintermediation by SVOD providers and substitution of broadcast TV by ad-funded online video (including BVOD, short form and online-exclusive content). These trends will have been accelerated by the Covid-19 pandemic and its aftermath.

7.8 National broadcast channels in domestic markets will have to vie for content with new competitors, including international streaming companies with deep pockets, strengthening brands and global distribution capabilities. This is likely to be true for both primary and secondary windows, but particularly in the all-important original commissions segment. Without the protections afforded to PSBs (and in particular their extension to include content delivered via new 'gatekeepers' such as smart TV and device manufacturers), UK traditional broadcasters will be even further threatened. These impacts will be compounded by the growth in new forms of navigation and content display, including greater use of voice controls and data-driven algorithms offered by global players on a global basis.[226]

[226] Ofcom has already determined the need for a strengthened framework for PSB prominence, broadly to cover PSB content on a non-linear basis via connected devices such as smart TVs.

7.9 Channels with full or partial ad-funded models will continue to struggle in any event, both as a result of lower linear viewing and the impact of ad skipping via PVRs. They will, however, benefit from capturing at least a share of viewing migrating from linear to non-linear provided they offer BVOD propositions alongside linear, and assuming they remain 'findable' on alternative distribution platforms such as smart TVs, late-generation pay TV propositions (e.g., Sky Q, Comcast Xfinity) and other devices (Chromecast, Amazon Fire TV).

7.10 In the short to medium term, ad-funded channels will face severe challenges, even if markets recover, as expected, in 2021. Traditional revenues are unlikely to return to their 2019 levels in real terms at any point between now and 2025, with knock-on impacts on their ability to fund content to attract audiences.

7.11 Hardest hit will be 'Tier 2' channels (e.g., lifestyle, documentary and general, non-premium entertainment) where affiliate fees payable by pay TV operators are already declining, and where advertising revenues are likely to weaken in line with reduced viewing of these second-tier channels. More resistant will be premium 'must have' content (including live sport).

7.12 UKTV will face medium term pressures, although these are mitigated in the short term through the BBCS consolidation, which has allowed the BBC to optimise supplying pay TV operators (thereby underpinning affiliate fees) and new streamers (including BritBox), even as its enhances the iPlayer.

7.13 Traditional **pay TV operators**, a major client of branded channels, face an uncertain, challenged medium-term future. A combination of cord cutting (e.g., replacing pay TV with over-the-top SVOD and online video) and cord shaving (a shift to smaller bundles of channels and related services) is already evident in the US, the UK, France and other developed markets. These trends were amplified in 2020, as a consequence of the lockdown in major markets.

7.14 Operators have responded by changing their service offerings – for example, diversifying into superfast broadband provision, bundling SVOD services within their own, smaller, pay TV propositions, making their content and other services available on demand – e.g., Sky Go, Now TV – and developing new, often voice-activated propositions via IP (including Sky Q). In coming years, satellite operators in particular may seek to migrate to IP only distribution (as Sky is seeking to do with its Sky X proposition). To ensure these services have full content and functionality, platform operators are routinely asking for a suite of digital rights to be included within affiliate arrangements, and have often agreed to keep payments steady (or reduce them by less than would otherwise be the case) in exchange for these additional rights. UKTV has, for example, been relatively successful in containing affiliate declines over recent carriage renewals by agreeing to supply additional rights.

7.15 How value is shared between pay TV platforms and aggregators on the one hand and content suppliers on the other (and the degree of compensation agreed between them for digital rights and increased functionality) will be a central feature of carriage negotiations over the next five years (with significant implications for BBCS as a supplier of branded TV channels domestically and abroad). The relationships will be further complicated by the role platforms and aggregators play in commissioning and acquiring their own content, using it to attract users/viewers/subscribers.

7.16 The next few years will be a test of consumer appetite for multiple **branded SVOD services**, as the major integrated studios (including Disney, WarnerMedia and NBCUniversal) all promote their own DTC propositions to vie with Netflix, Amazon and Apple TV+. There may be a limit reached to the willingness of consumers to 'stack' multiple SVOD subscriptions; there may come a time, perhaps even relatively soon, when aggregation (multiple brands with a single billing point, a reduced, bundled price, common search and navigation functionality) becomes the norm for SVOD, in the same way as pay TV channels were bundled by satellite and cable operators throughout the 1990s and 2000s. Indeed, the bundled services may well be provided by those very same pay TV operators that pioneered 'full fat' TV in the past.

7.17 Conversely, new entrants with compelling technology (operating systems standardised globally, attractive UI/UX, advanced search functions) may emerge as gatekeepers, controlling access to the end consumer and securing a cut of revenues across the value chain. Google and Apple are the obvious candidates. How the tensions between legacy and 'new' aggregators play out will be a fundamental dynamic in media markets over the medium term.

7.18 Complicating the overall picture will be future corporate activity, potentially involving acquisition of 'traditional' media companies by larger, digital players or further consolidation among legacy operators (channel groups, studios and pay TV platforms, for example). The weakness of some players in the immediate aftermath of the pandemic may be seen as an opening for opportunistic moves by those with sounder balance sheets and valuations.

8. Conclusions and implications

Key findings and conclusions

8.1 The markets in which the BBC operates are subject to a range of changes in technology, consumer behaviour and competitor strategies that have effects across all relevant geographies. In particular, trends in audience engagement (including take-up of connected devices and multi-platform access to content) are accelerating in most markets internationally; as a consequence, companies highly exposed to traditional (historically high margin) broadcasting, like BBCS, are facing challenges. These have been laid bare, in many ways, by the Covid-19 crisis. While the impact has been variable across key sectors, and not necessarily likely to be of long duration, the changes observable mid-pandemic suggest it has acted as an accelerant of already well-established trends.

BBCS structure and scope

8.2 BBCS, as currently structured, addresses all the key markets of the relevant media value chain, from content production, to distribution, to branded aggregation – via channels and streaming.

8.3 It is particularly strong in the amalgam of production and content sales/distribution, where margins have tended to be the most reliable and where positioning for the future looks the most secure. Bolstered by the content it makes for the BBC, the secondary distribution sales – domestically and internationally – generate 30% of BBCS revenues. By definition, if the BBC cannot (after the in-house guarantee falls away) retain access to this content (or fund and/or commission content of equal quality elsewhere), then its advantages would diminish.

8.4 Its historical dependence on high-margin branded channels (in particular via its UKTV joint venture in the UK) and on consumer products (in recent years, driven by DVDs and BluRay) is likely to reduce in line with broader trends in key markets away from traditional broadcast and physical product sales. It is already increasing its supply of digital content (EST) to various digital outlets, including Sky Store, iTunes, Amazon and Roku. By taking full control of key assets formerly held in the UKTV joint venture, BBCS can now manage its optimised distribution strategy more effectively, across branded channels and SVOD for example.

8.5 Content and format sales have been and will remain a critical revenue stream. There is likely to be a change in the relevant importance of different client categories, with a decline in purchases by traditional broadcasters and a rise in sales to SVOD operators. BBCS will also have to operate within the constraints of an extended BBC Public Service catch-up window, which will have implications for residual content values in the period after the 12 months of extended catch-up.[227]

8.6 This is already being reflected in shifting content windows, with streamers increasingly requiring more exclusive rights (often global) over longer periods to the detriment of traditional models of content pricing by window, and in particular disfavouring traditional broadcast clients with a domestic footprint and with less access to capital.

8.7 Finally, BBCS itself concedes that it will have to operate with great care over the coming months to ensure it can weather the short-term impacts of the Covid-19 crisis. Against sharply lower revenues, it will need to contain costs and preserve cash.

[227] Ofcom has looked at these issues in considerable detail in its review of the BBC's plans to enhance the iPlayer (https://www.ofcom.org.uk/__data/assets/pdf_file/0029/159725/statement-bbc-iplayer-final-determination.pdf) and in the context of discussions between Pact and the BBC to clear rights for the extended iPlayer window and the supply of BritBox.

Current market trends

8.8 The dynamics in each market vary by geography, driven by factors such as ability/willingness to pay, technological enablement, competitor activity, regulation, business models in operation. However, virtually every market in which BBCS is active share certain characteristics:

- A mix of short to medium term impacts arising from Covid-19 and the resultant financial pressures across the value chain
- A decline in linear viewing share, to the benefit of non-linear consumption (e.g., AVOD, BVOD, SVOD)
- Downward pressures on TV advertising in mature markets (although somewhat mitigated by growth in digital video advertising, some of it accruing to traditional broadcasters pursuing hybrid strategies on linear and non-linear); exacerbated by the cyclical shock of advertising declines in 2020
- Pressures on pay TV revenues, as a result of cord cutting/cord shaving, and the growth of alternative (light) pay and SVOD propositions (a few Latin American and Asian markets, at an early stage of development, are more resistant to this trend); all markets are seeing some Covid 19-related dislocation
- Rapid growth in SVOD, BVOD and AVOD revenues, at the expense of traditional categories – again, also affected by Covid-19, with a short-term increase in SVOD subscriptions (and rising BVOD/AVOD viewing, if not revenues)
- Emergence of new entrant aggregators as potential gatekeepers, equipped with global operating systems, advanced search and navigation functionality (including voice), and large cashflows (with Apple and Google the most likely candidates)
- Increased competition for content, reflected in higher prices paid for premium programmes (drama, comedy, high end documentaries) – both for commissions and for secondary sales; a modest move by streamers into adjacent content categories – entertainment, news, kids – but their focus will remain on globally popular genres (drama foremost)
- Increasingly global perspective of both producers and commissioners/purchasers of content, favouring genres (and languages) with global appeal – US and UK drama in particular
- A continued focus on co-productions, particularly in drama, although a likelihood that SVOD players will over time eschew local partners to maintain global exclusivity for key content, with negative implications for domestic commissioners such as the PSBs

Cohort responses

8.9 Competitors across the value chain will respond (indeed are already responding) with changes to business models:

- Pay TV operators are launching their own 'skinny' bundles of pay TV channels and services, to compete with new entrants and attempting to incorporate existing and proposed SVOD propositions into their content offerings
    - This is leading to lower affiliate fees paid to Tier 2 branded channel providers (e.g., documentaries, lifestyle) and/or demands for more digital rights (on demand, on the go) layered with linear rights to maintain affiliate compensation
- New aggregators are investing in content and looking to leverage other advantages – e-commerce prowess (Amazon), hardware leadership (Apple, Amazon, Samsung), global, established operating

systems (Google, Apple), data capture and monetisation skills (Google, Amazon) – to emerge as competitors to pay TV platforms as gatekeepers

- Studios are seeking to launch their own SVOD propositions, although may, market-to-market, reach distribution arrangements with innovating pay TV operators ('re-bundling')
- Ad-exposed players are developing BVOD and other means of tapping digital advertising to offset declines in traditional categories (advertising and sponsorship)
- Content producers are continuing to consolidate in the major markets (US, UK, France, Nordics) and integrated studios are favouring in-house access to talent and production (the US majors, RTL, ITVS); meanwhile, a 'long-tail' of UK and US indies in particular is being re-invigorated by serial start-up executives reaching the end of earn-outs with acquirors
- The integrated studio model – content production and distribution – remains the favoured approach as it is the most likely to generate margin growth despite structural challenges across the value chain.

Five-year outlook

8.10 As markets normalise post Covid-19, the next five years are likely to see a continued decline in linear viewing and associated revenues, to the benefit of SVOD and AVOD. This will reduce the revenues associated broadcast TV – 'full fat' pay TV and spot advertising.

8.11 Emblematic of activity in coming years will be the progress of new SVOD propositions from content owners, including Disney+, HBO Max, Peacock, BritBox and moves by broadcasters and pay TV operators to introduce further dynamic ad insertion technologies to mitigate pressures on core linear advertising.[228]

8.12 There is unlikely to be room for many stand-alone SVOD services: inevitably, some will fail, seek partnerships or agree aggregator deals. Aggregators, new and/or old, will step in to 're-bundle' services, offering compelling UI/UX and attractive pricing.

8.13 Content will remain 'king', as prices (for most content categories) inflate; but margins in pure production are unlikely to exceed current levels as production costs increase and as companies able to both produce and distribute their own content (studios, global streamers) set the pace and determine where along the value chain returns are generated. The impact on secondary markets is unclear: demand is likely to wane among streamers as they continue to focus on original content, and as traditional pay and FTA TV channels remain under financial pressure. The effects on secondary markets will vary by genre, moreover.

8.14 Sources of mitigation will come from new SVOD and AVOD launches and the re-bundling being undertaken by pay TV operators; meanwhile, any 'lost' value in secondary markets is likely to be captured in an enhanced primary commission window. Again, this puts an emphasis on the strategy of operating in both production and distribution.

8.15 Broadcast margins (historically high) will continue to come under pressure, as challenging viewing and revenue trends are confirmed; national broadcasters may struggle to remain credible co-production partners as global steamers seek to maximise exclusivity on a global basis.

8.16 A key unknown will be the impact of potential mergers and acquisitions activity, perhaps linked to short-term weakness among legacy providers, leading to consolidation and outright service closures. There may be scope for large digital players to use high stock market valuations to fund opportunistic acquisitions.

[228] The ability to offer advertising tailored to specific audiences, either inserted into the linear stream or accompanying on-demand viewing is key for broadcasters to charge a premium, and can offset declines in traditional 'spot' advertising, which is increasingly under pressure in line with audience fragmentation and declining traditional viewing. Sky AdSmart and ITV's Amobee offering are the best domestic examples.

8.17 Longer term changes directly related to Covid-19 are harder to predict, aside from what appears to be incontrovertible – the acceleration of certain already observable trends around consumer behaviour and business models. There may be more enduring impacts on production (new innovations discovered during the lockdown and re-opening and retained thereafter) and on consumer behaviour (definitive changes to older demographic behaviours as a result of adapting to on demand connectivity). On most fronts, however, Covid-19 appears to be confirmatory rather than transformative in effect.

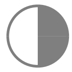
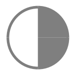
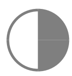
BBCS prospects

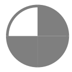
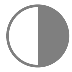
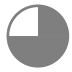
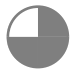
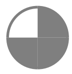
8.18 Following a difficult 2020-21, growth areas for BBCS include securing more commissions from new entrants (streamers), accelerating co-production deals with SVOD players, studios, channels (e.g., Netflix, HBO) and continuing to rationalise and consolidate its branded services (channels) business. This will allow it to build on its successful de-risking in the US via the joint venture with AMC, the unwinding of its UKTV JV with Discovery, which gave it 100% of the revenues and margins of the bulk of UKTV (both pay and FTA channels, plus the UKTV player) and other international channel distribution (direct and in joint venture).

8.19 BBCS, through its supply of content to BritBox in the UK and its equity involvement in BritBox North America, is well placed to pivot as and when necessary from a branded channels strategy to a streaming focus. In either route to market (branded channels or SVOD), it is able to rely on a pipeline of content as a result of its relationship with the BBC (perhaps focussed, at least in the medium term, on fewer, higher-impact programmes of proven appeal), its third-party distribution partnerships, global exposure and a strong, if declining, revenue stream from legacy businesses (including the UKTV channels business in the UK).

8.20 Content sales will remain a critical market for BBCS – whether selling to ad-funded broadcasters, pay TV channels or – increasingly – streamers. It will remain heavily dependent on its sourcing of content from the BBC but will amplify this advantage through co-productions, joint ventures and its pivot from channels to DTC propositions.

Summary table: Covid-19 segment impact

Segment	Covid-19 impact – summary:	Size of impact:
UK and international production	*Accelerant to dynamics already observed; some impact of longer duration around production techniques, content mix* ▪ Pauses to production will delay delivery of content to commissioners and customers ▪ Negative pressures on traditional revenues (advertising expenditure; licence fee) will further restrict PSBs' ability to fund content ▪ Independent production sector will suffer (continued) reduced investment and an accelerated skills shortage ▪ Long-term commissioning habits unlikely to change: SVODs and international players will continue to require UK-originated content ▪ Consolidation among the larger international players will continue to be evident – so too will larger production companies acquiring smaller entities ▪ Short form (YouTube) content consumption will grow; YouTube's competitors will struggle to make an impact	Short term:  Long term:  Revenue (short term):  Revenue (long term): 
Content sales and distribution	*Accelerant to dynamics already observed* ▪ BBCS will remain largest distributor in the UK; market will see little change as existing cohort best placed to take advantage of impacts from pandemic ▪ Both supply and demand side dynamics will be accelerated by lockdown – out-performance of SVOD clientele in particular ▪ Rights exploitation dynamics sufficiently entrenched to see little impact	Short term:  Long term:  Revenue (short term):  Revenue (long term): 

Branded services (TV and SVOD)	*Accelerant to dynamics already observed; possible longer-term impact from digital behaviours among older demographics* ▪ Advertising and affiliate income set to decline significantly in 2020, will thereafter resume its secular downward trend from a smaller base than otherwise expected – in effect, an accelerated decline ▪ SVOD revenues are difficult to predict – significant subscriber numbers added, but longevity of uplift in growth less clear. Mature markets (US, UK) may see higher churn and/or price resistance in the medium ▪ C.6m more SVOD subscriptions were taken in the UK in lockdown (predominantly Netflix; Amazon; Disney+); number of SVOD households will rise to 16.7m by the end of 2020, compared to 14.7m at end of 2019	Short term:  Long term:  Revenue (short term):  Revenue (long term): 
Consumer products	*Accelerant to dynamics already observed* ▪ Covid-19 impact will be mixed for consumer products segments of media companies – theme parks and retail stores have suffered, but home entertainment has been sustained by increased time spent at home ▪ Future retail environments will prove decisive in longevity and performance of segment – retail sales have remained robust, if somewhat focused on domestic goods, supermarkets, and DIY ▪ Generally, the likely outcome is that segmental performance will revert to trendline: home entertainment revenues may decline as less time is spent indoors, global players will see rebounding attraction revenue from theme parks (social distancing measures and vaccine dependent), whilst footfall to retail stores should gradually return to underlying trend (i.e., moderate decline)	Short term:  Long term:  Revenue (short term):  Revenue (long term): 

Appendix A: Company profiles of key players

Walt Disney	TV Production: ✓	TV Channels: ✓	SVOD: ✓	Content Sales: ✓	Consumer Prod: ✓
Key services/products	Disney is a global entertainment company that splits its operations into four distinct business units: Media Networks; Parks, Experiences and Products; Studio Entertainment; and Direct-To-Consumer International. Its biggest brands within these four business units are Disney+ (SVOD), Disney Channel & ESPN (TV Channels), Twentieth Century Fox (Content Production & Sales), Disneyland(s) (Theme Parks) and Walt Disney Studios (Content Production & Sales).				
Presence	**Global** (SVOD notwithstanding): Disney channels is available in 164 countries globally and in 34 different languages.				
Revenues ($bn)	69.57	**5 – year CAGR**	7%		
Operating profit ($bn)	11.85	**5 – year CAGR**	1%		
EBITDA ($bn)	16.01	**5 – year CAGR**	3%		
Market Cap. ($bn)	242.51				
Strategy/analysis	Disney's strategy, like many of its competitive cohort, is largely focused on consolidation and establishing better D2C relationships. Its two most recent corporate activities are good indicators of this: **21st Century Fox**: The acquisition of Fox Entertainment assets consolidates legacy Fox content with Disney's own archive library, transfers ownership of Fox television networks, and gives a controlling stake in Hulu (now the second of Disney's SVOD platforms). The acquisition of the brand is an act of sizeable consolidation and has direct implications for its SVOD platform. **Disney+**: Disney hopes to leverage the brand's significant resource in content (existing and original), now enhanced by Fox Entertainment assets, to gain a substantial share of the SVOD market.				

Netflix	**TV Production: ✓**	**TV Channels: X**	**SVOD: ✓**	**Content Sales: X**	**Consumer Prod: X**
Key services/products	Netflix began as a posted movie rental subscription service in 1997 and is now the most widely subscribed to SVOD platform in the world (158m). In recent years the business' focus has been on developing its own original content strategy. Initially this referred to the acquisition of content rights of already produced film/television, but it is now well established as producer/creator of 'true original' content. Key assets include the Netflix Original successes, Stranger Things, and Orange is the New Black.				
Presence	**Global:** Available in 190 countries				
Revenues ($bn)	20.16	**5 – year CAGR**	30%		
Operating profit ($bn)	1.87	**5 – year CAGR**	48%		
EBITDA ($bn)	2.60	**5 – year CAGR**	46%		
Market Cap. ($bn)	235.1				
Strategy/analysis	Netflix's immediate objectives will be to resist the incoming threat from recently launched streaming services, namely Apple TV+, Disney+, Peacock and HBO Max. In the short term, it not expected to come under immediate threat; its presence in SVOD households in the UK and elsewhere is near ubiquitous (84% of SVOD households in the UK[229]), making it the default choice for SVOD services in its served markets. Disney+ take-up has been strong (10 million subscribers globally in its first week), but Netflix's content productions, partnerships and existing library are expected to ensure that the market share of new entrants is largely incremental to, rather than cannibalistic of, the market leader.				

[229] BARB, Mediatique forecast.

<table>
<tr><td>Amazon Prime Video</td><td>TV Production:
✓</td><td>TV Channels:
X</td><td>SVOD:
✓</td><td>Content Sales:
X</td><td>Consumer Prod:
X</td></tr>
<tr><td>Key services/products</td><td colspan="5">Amazon is one of the world's largest e-commerce and logistics businesses and Amazon Prime, a service originally introduced to offer free and discounted shipping, was launched in the United States in 2006.
Prime Video, or Amazon Unbox as it was then called, was launched in parallel with Prime in the US in 2006, and launched in the UK, Germany and Austria in 2014. In April, Amazon confirmed that Amazon Prime had over 100 million subscribers (although the business does not confirm the ratio of Prime Video users within this number.)
Like Netflix, in the absence of an archive content library, Prime Video's attention has shifted in recent years to 'Prime Originals', although its budget for these is significantly less than the former ($3-4bn vs $7.5bn).
Key Prime Video assets include Lord of the Rings (future), Tom Clancy's Jack Ryan and The Grand Tour.</td></tr>
<tr><td>Presence</td><td colspan="5">Global: Prime Video is available in 200+ countries</td></tr>
<tr><td>Revenues ($bn)</td><td colspan="2">280.52</td><td>5 – year CAGR</td><td colspan="2">21%</td></tr>
<tr><td>Operating profit ($bn)</td><td colspan="2">13.98</td><td>5 – year CAGR</td><td colspan="2">n/a[230]</td></tr>
<tr><td>EBITDA ($bn)</td><td colspan="2">14.75</td><td>5 – year CAGR</td><td colspan="2">45%</td></tr>
<tr><td>Market Cap. ($bn)</td><td colspan="5">1,638</td></tr>
<tr><td>Strategy/analysis</td><td colspan="5">Again, like Netflix, Prime Video is compensating for the absence of an archive library by tying up exclusivity deals with celebrated producers (Phoebe Waller Bridge, Fleabag) and spending large sums on original content: Prime Video bought the rights to a Lord of the Rings prequel series (not including any future productions costs) for $250m.
However unlike Netflix, Prime Video (and Amazon Channels) has other means of revenue. Amazon Channels aggregates channel content from, among others, Eurosport, HBO and Discovery for which it takes a 30% share of the affiliate fee. Indeed, whilst also being a credible attraction to the Channels platform, it is also a secondary method of generating footfall to the service.</td></tr>
</table>

[230] Data unavailable as Amazon used different reporting metrics before 2016.

ViacomCBS[231]	TV Production: ✓	TV Channels: ✓	SVOD: ✓	Content Sales: ✓	Consumer Prod: ✓
Key services/products	ViacomCBS is one of the world's leading global, multi-platform entertainment brands; the merger, closed in December 2019, resulted in the reorganisation of the brand into four distinct categories: Cable Networks (Showtime, The Movie Channel); TV Entertainment (CBS TV Network, CBS Television Distribution); Filmed Entertainment (development, production and financing film and television content) and Publishing (publishing and distributing Simon & Schuster consumer books) Key brand assets include MTV, VH1, Nickelodeon and Comedy Central, as well as legacy CBS assets: CBS All Access and CBS sports The re-merger of the two brands (having reversed an original merger in 2005), brings together a larger channel portfolio and shares D2C capabilities/expertise additional channels and SVOD capability.				
Presence	**Global:** Viacom (and its family of channels) is present in 180 countries				
Revenues ($bn)	27.81	**yoy % growth**	2%		
Operating profit ($bn)	3.2	**yoy % growth**	-4%		
EBITDA ($bn)	4.9	**yoy % growth**	-19%		
Market Cap. ($bn)	17.81				
Strategy/analysis	ViacomCBS CEO Bob Bakish declared in in February 2020 that ViacomCBS' renewed strategy post-merger was to "maximise the value of our content by reaching the largest addressable audience…" The strategy will address three tiers of streaming: free (Pluto); pay (CBS All Access) and premium pay (Showtime OTT). Like NBCUniversal (and Peacock), ViacomCBS sees value in tiered access to D2C programming, and will incrementally add content from Viacom networks and Paramount.				

[231] The ViacomCBS merger completed in 2019 as such there is no historic data available to do a comparative 5-year CAGR; instead we have illustrated a year on year % increase/decrease, as published in ViacomCBS 2019 Annual Report

ITV (Studios)	**TV Production:** ✓	**TV Channels:** ✓	**SVOD:** ✓	**Content Sales:** ✓	**Consumer Prod:** ✓
Key services/products	ITV is a British free-to-air Public Service Broadcaster with a commercial Studios business which distributes an archive content catalogue, produces original content, manages an SVOD platform, and sells merchandising and licensing deals. ITV is a legacy player in UK broadcasting; however ITV Studios in its current guise is less established. Formerly known as Granada Productions, ITV studios was rebranded in 2009. Studios produced over 8,500 hours of programmes by over 45 ITV owned studios in 2018. These include: Big Talk Productions, Multi Story Media, Potato and Silverprint Pictures.				
Presence	Varied: **Global** in distribution of content, more limited presence in production (12 territories).				
Revenues ($bn)	1.82	**5 – year CAGR**	14%		
Operating profit ($bn)	0.24	**5 – year CAGR**	9%		
EBITDA ($bn)	0.27	**5 – year CAGR**	11%		
Market Cap. ($bn)	3.35				
Strategy/analysis	ITV's growth strategy in the coming years is likely to be diversifying its revenue streams: traditional revenues (advertising, sponsorship, product placement) are unlikely to be sustainable sources of income in the long- term, so ITV's future success will largely be built on the strength of its SVOD proposition, its performance as fully integrated producer broadcaster, and its ability to maintain advertising revenues in a flat net advertising revenues ('NAR') market.				

WarnerMedia	TV Production: ✓	TV Channels: ✓	SVOD: ✓	Content Sales: ✓	Consumer Prod: ✓
Key services/products	WarnerMedia is comprised of four business units: WarnerMedia Entertainment, WarnerMedia News & Sports, Warner Bros. and WarnerMedia Sales & International. Within these four business units are major brands, including HBO, CNN and Warner Bros. The 2016 merger of AT&T and Time Warner now delivers a full-service approach to media and content provision; WarnerMedia's legacy credentials in content production, distribution and channels, and AT&T's experience in technology, "bridge[s] the gap between premium content and connectivity to that content."[232] Key assets in the Warner Media portfolio are original content productions (*Game of Thrones, Westworld,* and *The Wire),* its D2C streaming platforms (HBO Go and soon-to-be-launched HBO Max) and content production brands (HBO, Warner Bros.)					
Presence	**Global**				
Revenues ($bn)	33.49	**5 – year CAGR**[233]	4%		
Operating profit ($bn)	9.33	**5 – year CAGR**	9%		
EBITDA ($bn)	9.70	**5 – year CAGR**	9%		
Market Cap. ($bn)	210.95[234]				
Strategy/analysis	To combat diminishing numbers of pay TV subscribers in the United States, WarnerMedia, and specifically HBO, is heavily backing its new SVOD platform. Its support for the platform has relevance for all four of its business units; Warner Media has allocated an extra $1bn to original content production, renewed existing rights deals in Sales & International with the streamer's launch in mind, and will be relying on Warner Bros. archive content. HBO will be much more expensive ($14.99) than its competition, but free for subscribers to its channels; it is likely to seek distribution partnerships in territories where its brand is less known to consumers (e.g., it has extended its supply deal with Sky in Europe)					

[232] AT&T Annual Report 2018.
[233] Calculated from 2013-2017 due to changes in reporting post-acquisition.
[234] AT&T TimeWarner market cap.

All3Media	TV Production: ✓	TV Channels: X	SVOD: X	Content Sales: ✓	Consumer Prod: X
Key services/products	All3Media is a creator, producer and distributor of TV and digital content; it comprises of 28 companies who are all creatively independent of one another. In 2019 it produced over 3,000 hours of content, including key assets like *Call the Midwife, The Missing, Gogglebox* and *The Only Way is Essex.* Notable companies within the group are: Neal Street Productions, Studio Lambert, and Caravan. The group sells its catalogue of 9,500 hours to over 1,000 clients in the world and is jointly owned between Discovery Communications and Liberty Global.				
Presence	**Global:** offices in the UK, Germany, the Netherlands, New Zealand, Singapore, New York and Los Angeles				
Revenues (£m)	529.40	**5 – year CAGR**	1%		
Operating profit (£m)	n/a	**5 – year CAGR**	n/a		
EBITDA (£m)	n/a	**5 – year CAGR**	n/a		
Market Cap. (£m)	550*				
Strategy/analysis	Despite the UK production sector's recent relative dearth in mergers and acquisitions, All3Media has continued to grow its share; in 2018 it acquired Formula E producer Aurora Media and is also weighing up international expansion. It has had a presence in North America for some time but is now widening its scope. In support of this ambition, it opened an office in Singapore in 2016 which it is using to explore Asia and it has also been evaluating Nordic and European markets.[235] Scale is evidently an important component of All3Media's strategy and its pursuit protects it against a changing production landscape.				

*****2014 figure is last reported Market Capitalisation; figure is likely to have grown since then*

[235] IBC365, 2019: https://www.ibc.org/publish/all3media-mulls-overseas-expansion/4211.article.

NBCUniversal	TV Production: ✓	TV Channels: ✓	SVOD: ✓	Content Sales: ✓	Consumer Prod: ✓
Key services/products	NBCUniversal is another of the world's largest media and entertainment companies. Owned by Comcast, it operates a portfolio of television channel networks, a film production company, TV production operations, consumer products and direct to consumer-based businesses. Key brands within the portfolio include NBC, Universal Pictures, Peacock, Universal Studios (theme park) and NBC Sports Programming Comcast, its parent, also owns Sky (with pay TV operations in the UK, Ireland, Germany, Italy, Australia and Switzerland)				
Presence	**Global**: Main country of operation is the United States, but is available in 176 countries globally				
Revenues ($bn)	33.97	**5 – year CAGR**	6%		
Operating profit ($bn)	6.64	**5 – year CAGR**	10%		
EBITDA ($bn)	8.77	**5 – year CAGR**	9%		
Market Cap. ($bn)	n/a*				
Strategy/analysis	NBCUniversal's changing relationship with the media landscape has been evident in the last three months; in September it announced significant restructuring to its entertainment and lifestyle group (home to Bravo, E!, Oxygen and Universal Kids brands). 50+ employees have been made redundant in the announcements thus far and is a clear response to Pay TV subscriptions falling. In the UK, Sky and NBC-U have been brought more closely together, particularly via Sky Vision, its content arm The brand's onward strategy will be more dedicated to direct to consumer relationships: the announcement of Universal Beijing Resort and Peacock emphasises that NBCUniversal has recognised the importance of studio/consumer interface				

**NBC Universal is a subsidiary of Comcast and therefore a Market Capitalisation is unavailable.*

Sky[236]	TV Production: ✓	TV Channels: ✓	SVOD: ✓	Content Sales: ✓	Consumer Prod: X
Key services/products	Sky is a British media company now owned by Comcast; its operations include bundled telephony (voice and broadband), TV content production, D2C VOD services, and pay TV channels (Sky Entertainment, Sky Sports, Sky News and Sky Movies). Key brands within the group include NOW TV (VOD), Sky Studios (producer of original content) and Sky Media (the advertising and sales arm of both its TV and online services.); as noted above, Sky is working more closely with NBCUniversal, its sister company within the Comcast stable				
Presence	**Domestic:** UK&I, although NOW TV is now available on NOW Ticket in Germany, Italy, Spain and Switzerland				
Revenues ($bn)	19.22	**5 – year CAGR**	9%		
Operating profit ($bn)	0.39	**5 – year CAGR**	-21%		
EBITDA ($bn)	3.09	**5 – year CAGR**	10%		
Market Cap. ($bn)[237]	203.42				
Strategy/analysis	Sky's strategy is multifaceted; it will seek to carry on its growth in Europe, continue to leverage content partnerships with global players (e.g., its renewed deal with HBO), and leverage its telephony and broadband provision to mitigate the risk from declining pay TV subscriptions. NOW TV is a significant component of all three of these: it will act as Sky's presence in those recently launched European territories (acting as bridge for broadband and telephony provision), be a vehicle for viewing of HBO/Sky original content, and provide a credible 'skinny' alternative to waning pay TV subscribers.				

**This was Comcast's valuation of Sky at time of the takeover; no figures reported since.*

[236] Sky's 2014 revenues (in GBP, pre takeover) converted to USD using an average exchange rate for GBP to USD for the year 2014

[237] Comcast market cap as of September 2019

Appendix B: Glossary of terms

Affiliate Fees fees paid by Pay TV operators to channel suppliers in return for the channels' presence on their platform
e.g. fees that AT&T pay Viacom to retain its channels (Nickelodeon, MTV and Comedy Central) on its DirecTV platform

ARPU average revenue per unit – metric commonly used to measure the average subscription fee paid by subscribing households

AV audio/visual content that possesses both audio and visual components
e.g. TV

AVOD Advertising-funded video on-demand – video on-demand services that are free at the point of use; costs are covered by advertising
e.g. YouTube

BARB broadcasters' audience research board – the body responsible for delivering the UK's TV audience measurement data; core measurements include age, gender and social groups

Broadband a high-speed connection to the internet (wide bandwidth data transmission); preceded by 'narrowbandwidth' dial-up connections

BVOD broadcaster video on-demand – video on demand services made available by TV broadcasters (often to enable 'catch up' of broadcast programmes); can be supported by advertising or not
e.g. All 4 & BBC iPlayer

B2B business-to-business – commerce or transactions made between businesses rather than between businesses and consumers

B2C business-to-consumer – commerce or transactions made between businesses and direct consumers

Catch-up the availability of content in the period after its original broadcast; an internet connection is required
e.g. BBC Sounds & BBC iPlayer

Cord cutting/cord shaving 'Cutting' the service (typically of a cable or satellite operator) to dispense with pay TV in favour of other content provision – e.g., SVOD services; or 'shaving' the service – taking a smaller bundle of channels or services from an operator but maintaining an underlying subscription

CAGR compound annual growth rate – metric used to indicate a 'smoothed' growth rate of an investment or value over a finite period of time

Churn the rate at which customers cease to do business with an entity; most commonly expressed as a % of subscribers who terminate subscriptions over a fixed period

Cloud computing on-demand availability of computer system resources; common uses are in digital data storage and remote computing power
e.g. iCloud and Amazon Web Services

COBA	Commercial Broadcasters Association – the industry body responsible for digital, cable, satellite broadcasters and on-demand services
Co-pro	co-production – a media content production with multiple producers attached to it *e.g. BBC1's 'Seven Worlds, One Planet' – co-production shared between BBCS, BBC America, Tencent Penguin Pictures, ZDF, France Télévisions and China Media Group*
Diginet	Term used in the UK context to denote the digital channels of the UK PSBs *e.g. . BBC4, ITV2, E4, FiveUSA*
Download, downloading	noun: a file transferred via the internet from a server to a device; verb: the process of transferring a file via the internet from a server to a device
DTC	direct-to-consumer – business propositions that bypass any intermediaries on route to the consumer (in relation, notably, to billing) *e.g., Netflix, Disney+*
DTO	download-to-own – a media download over the internet to a hard-drive for a transactional fee; storage is for an indefinite period *e.g. Sky Store 'New Movies To Buy'*
DTR	download-to-rent – a media download over the internet to a hard-drive for a transactional fee; storage is for a finite period as defined by the distribution company *e.g. Sky Store 'New Movies To Rent'*
DVD	digital versatile discs – digital storage format invented in 1995; generally formatted for use in video playback and A/V content
EPG	electronic programme guide – navigation software which lists current, scheduled and TV programmes on demand; commonly referred to as a 'TV guide'
EST	electronic sell through – a media download over the internet to a hard-drive for a transactional fee; includes both 'DTO' and 'DTR' as sub-categories
Full fibre	at time of publishing, the fastest and most reliable broadband technology; does not use copper wiring which delivers a slower connection than fibre optic cable
Freemium	pricing strategy which provides services free of charge; money is subsequently charged for additional features, services and/or content *e.g. Dropbox vs Dropbox Business*
FTA	free-to-air – TV and radio services broadcast in unencrypted form on public networks; allows any person with appropriate equipment to receive, watch or listen to content
FTV	free-to-view – TV and radio services broadcast in encrypted format; requires a conditional-access module to receive, watch or listen to content but no further payment
Full fat pay	traditional type of pay TV subscription; big bundles of pay TV channels with high subscription value and long contract length
Games console	computer system designed for playing video games; generally connected to a TV or other display to emit video and sound *e.g. Xbox One*

HD Video high definition video – a category of TV picture quality; of better quality than 'standard definition'

IP
(1) intellectual property – refers to the ownership of intangible content; commonly used in the context of distribution and rights arrangements
(2) internet protocol – the delivery of files to devices over a computer network; internet connection is required
e.g. Now TV, EE TV

Laptop laptop computer – a small, personal computer that is portable and suitable for use while travelling; also known as a 'notebook'
e.g. Lenovo ThinkPad

Linear traditional delivery of content on a scheduled basis, at a time of the scheduler's choosing; conventionally broadcast over the air or through satellite and/or cable

Multichannel refers domestically to non-PSB (or PSB-associated) linear channels. Includes both free-to-air and pay TV channels
e.g. Dave and Sky Atlantic

Multi-room function that allows consumers to watch TV in different rooms simultaneously whilst using the same TV subscription
e.g. Sky Multiscreen & Virgin Media multi-room

Non-linear on-demand or time-shifted viewing of material originally broadcast on scheduled services; can also refer to consumption on SVOD platforms, catch-up services, TV box sets, smart TVs, set-top boxes, streaming sticks, PCs, smartphones and tablets of content on demand

OTT over-the-top – delivery of content via IP to a TV or set-top box, rather than through broadcast or a closed network of a platform provider
e.g. Netflix

Pact Producers Alliance for Cinema and Television – the trade association which represents the commercial interests of UK independent TV, film, digital, children's and animation media companies

PC personal computer – a computer used by one person at a time; used in business, education or domestically

PCs personal computers – plural of 'PC'

PPV pay-per-view – television services which require viewers to pay a fee to watch a specific, one-off programme; commonly used in broadcast of boxing and martial arts events

PSB public service broadcasting – the formal term applied to holders of broadcast licenses as providers of public-service broadcasting; in return for various commitments on reach and content, PSBs are gifted DTT capacity and prominent positionings in TV listings and on EPGs
e.g. BBC, ITV, Channel 4 and Channel 5

Publisher-broadcaster	a broadcast model entailing that no programming is produced in-house; content is always commissioned from external production companies *e.g. Channel 4*
PVR	personal video recorder – integrated device with storage memory that records, stores and subsequently replays TV content; differs from a VCR because the recording is kept in digital format as opposed to analogue
Showrunner	the leading creative authority in the production of a TV programme; referred to frequently in the context of long-term output deals signed with studios *e.g. Phoebe Waller-Bridge & Amazon*
Skinny bundle	opposition to traditional 'Full Fat' pay TV services; smaller, less expensive multichannel services that are generally more customisable *e.g. Sling TV, BT TV, Now TV*
Smartphone	mobile phone with functionality beyond basic requirements in communication; connects to the internet and performs like a computer *e.g. iPhone, Google Pixel*
Smart TV	TV set equipped with tuner and integrated internet connectivity; removes requirement for connected set-top-box *e.g. Sony Bravia Smart TV*
Start again	function enabled by TV operators allowing users to start programmes from the beginning if the start is missed; a broadband connection is required *e.g. Sky Q 'Watch from start'*
1) Stream **2) Streamer** **3) Streaming**	1) Noun: a file delivery in digital format over the internet in real time; not a download a. Noun: deliverer of files in digital format over the internet to end users (*e.g. Netflix*) b. Noun: end-user of files in digital format over the internet (*e.g. Netflix subscriber*) 2) Verb: the consumption of files in digital format over the internet in real time
Superfast broadband	term used to describe any broadband service that offers speeds of more than 24 megabytes per second *e.g. TalkTalk Superfast Fibre*
SVOD	subscription video on demand – unlimited access to a library of on-demand content for a monthly subscription fee; an internet connection is required *e.g. Netflix*
Tablet	Tablet computer – thin mobile computer which uses a touchscreen as its primary input device; smaller than a laptop, larger than a smartphone *e.g. iPad, Huawei MediaPad T5*
UKTV	multi-channel broadcaster now wholly owned by BBC Studios after previous joint venture with Discovery; home to the channels: W, Dave, alibi, Gold, eden, Drama and Yesterday
VOD	video on demand – the delivery of content on a non-scheduled basis to users at a time and on a device of their choosing

WOCC window of creative competition – measure introduced by the BBC in 2007 to ensure that independent TV production companies continue to compete with in-house BBC production teams; refers to the 25% of the BBC's commissions that fall outside the 25% statutory independent quota, and the 50% in-house guarantee that is set in the BBC's Charter and Agreement

Important information

Contact details

Mediatique Limited
65 Chandos Place
London
WC2N 4HG

020 7836 5050
www.mediatique.co.uk

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Registered Office: 130 Shaftesbury Avenue, London, W1D 5AR