

A decade of success

Ten years after the Communications Act 2003 became law, this report examines the impact and importance of terms of trade in sustaining UK content investment and independent production sector economic growth

A report from Oliver & Ohlbaum Associates Ltd
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Glossary

A/V	Audiovisual
IP	Intellectual property
OTT	'Over the top' (i.e. distributed via the internet onto TVs)
PRTS	Premium rate telephony services
PSB	Public service broadcaster
R&D	Research and development
VoD	Video on demand

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1 Introduction

July 2013 marks the ten year anniversary of the statutory framework set out within the Communications Act 2003 that established the requirement for codes of practice governing how the UK's public service broadcasters (i.e. the BBC, ITV, Channel 4 and Channel 5, collectively referred to as 'the UK PSBs') commission programmes from independent producers. The implementation of these codes of practice ultimately led to the introduction of negotiated 'terms of trade' into the UK market, a system of agreed trading principles that sets out the rights that are available to broadcasters under their primary commissioning licence and the revenue sharing arrangements between broadcasters and producers that relate to the subsequent use of their commissioned IP.

The terms of trade, introduced following the 2003 legislation relate specifically to the main PSB networks (BBC1, ITV1, Channel 4 and Channel 5) and to the digital channels of the BBC and Channel 4. In order to qualify for these negotiated terms of trade, producers must be eligible as 'qualifying' independents, meaning that they are not wholly or partly owned (to a 25% threshold) by another broadcaster operating in the UK market. As a result, independent producers in the UK must be truly independent from UK broadcasters.

The introduction of negotiated terms of trade was in many ways a watershed moment for the UK content industries, allowing independent producers to transition from being a relatively small part of the UK commissioning market to building international businesses that – in many cases – are global leaders in their field. As the UK economy is becoming increasingly driven by IP-based enterprises, the successes and economic contribution of the UK independent production sector plays a key part in the promotion of the UK's creative industries internationally and underpins the UK's attractiveness as a hub for international productions.

In this report, we look at how the UK independent production sector has evolved over the last 15-20 years and the milestone events that have shaped it.

2 The importance of terms of trade

Since terms of trade were introduced in 2004 the UK independent production sector has grown to become a £2.8bn industry and a global leader in TV production

The UK independent production sector today is a global leader in developing and commercialising intellectual property, doing so with broadcasters, aggregators and platform owners across the huge diversity of programme output that is commissioned each year in the UK and in every other major TV market. UK independent producers have been at the heart of some of the most iconic brands in UK TV history, whether developing some of the biggest drama and entertainment franchises (e.g. *Idol*, *X-Factor*) or the most popular game show formats (e.g. *Millionaire*) shown in markets around the world. The scale and scope of operations that has grown with this success has made the UK independent sector a major contributor to the UK economy both directly via employment, services expenditure and tax paid and indirectly via its capacity to support the funding of UK content for PSB and commercial broadcasters.

The independent production sector that we recognise today is global in outlook and has built up significant UK and international operations. As a result, it is both better able to withstand short-term financial shocks such as the recent credit crunch period and to contribute to UK broadcasters' commissioning activities based on funds generated in other markets. However, these are only relatively recent developments.

More than ten years ago, the UK independent sector was going in reverse as the dominant PSB broadcasters sought to increase their share of UK production activities by protecting their large in-house production units and working increasingly with tied production companies such as Granada or Fremantlemedia. With over 90% of UK commissioning spend coming via the four main PSB groups at

that time, this vertical integration squeeze in the market meant that the UK independent production sector was losing share and lacked the critical mass to invest in growth and diversification. Critically, producers also lacked the opportunity to own the rights to their commissioned output meaning that companies in the sector could not build up an asset base against which to trade and raise capital.

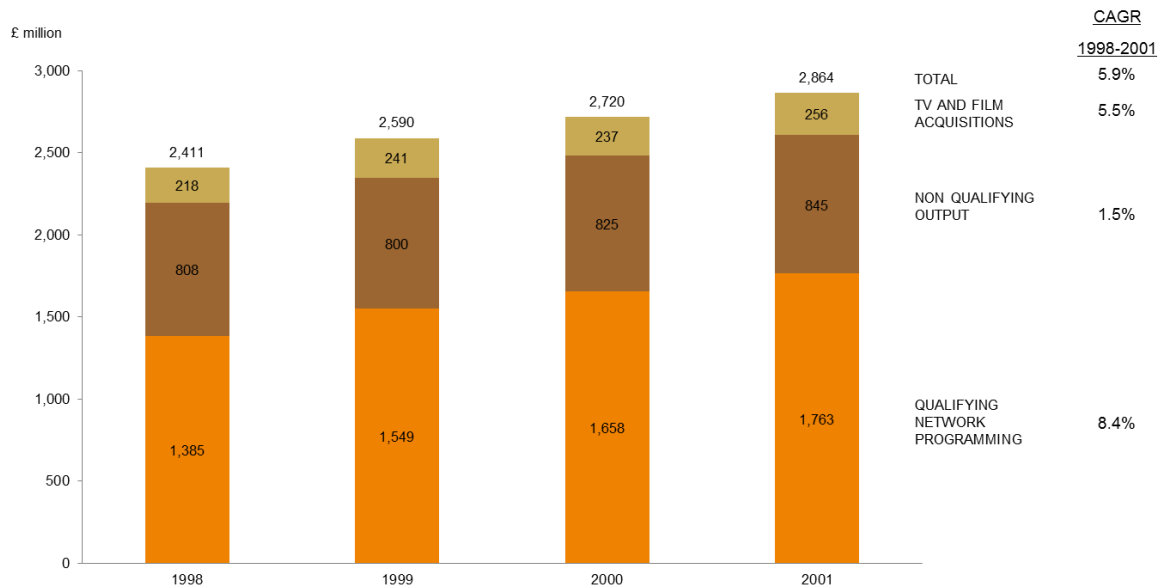
Prior to terms of trade being introduced things looked very different; the independent production sector remained highly fragmented, relatively unprofitable and largely UK centric

Prior to 2003, the UK market opportunity for independent production companies looked very different than it does today. Companies within the sector were highly dependent on the main PSB network groups which – prior to Channel 5’s launch in 1997 – meant only three main commissioning bodies (as ITV’s schedule was largely controlled from its corporate centre). This level of buyer concentration in the market for UK original programming meant that producers had very little scope to negotiate on production fees or take strong positions in back end (i.e. post primary transmission) rights.

Further compounding the squeeze on the independent sector at this time was the fact that the two largest commissioning broadcasters in the market – the BBC and ITV – both retained large in-house production divisions and that third-party production companies (i.e. those tied to other broadcast groups) were also taking a significant share of the market. Effectively, though the UK market for original content was growing strongly, independent producers were being squeezed out of the resulting opportunities.

Figure 1: Main networks’ commissioning spend, 1998-2001

Main networks’ programme spending, 1998-2001

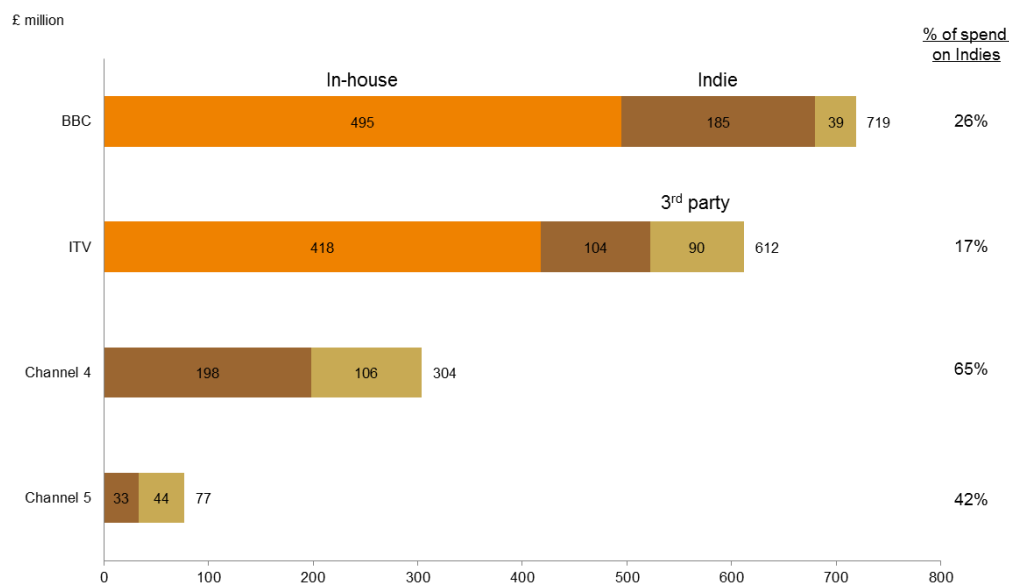


Source: ITC, BBC, O&O estimates

The strategies of the integrated producer / broadcasters at this time were relatively clear. For the BBC, there was a strong incentive to retain and defend the scale of its in-house production activities. As a result, its use of the independent sector was designed to meet the regulated quota for qualifying programming (which was set at 25% of qualifying hours) but not to substantially exceed it. For ITV there was potentially a dual motivation as retaining a large in-house production division also benefited it in picking up 3rd party commissions from other UK broadcasters. This combination of incentives meant that independent producers were limited in their market share, had few opportunities to grow revenues beyond the mandated PSB quotas and found it difficult to grow basic production margins beyond the industry standard fees of 5%-10%.

Figure 2: Indies' share of main network qualifying output, 2001

Sourcing of qualifying programming by network, 2001



Source: ITC, Channel 4, BBC, O&O estimates

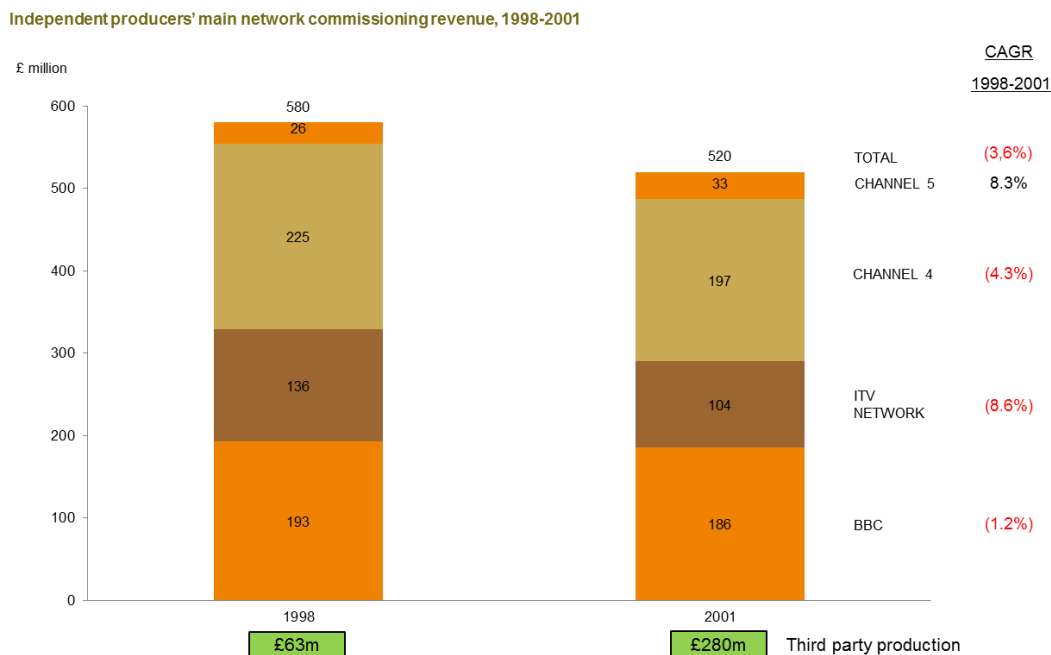
As a further illustration of the market conditions prevalent at the end of the 1990's, the independent Television Commission's¹ Review of the Programme Supply Market (published in 2002 as part of the evidence for regulatory change) observed that the long-term growth of the UK independent sector had reversed between 1998 and 2001 and found that the combined profits of the top 50 independent producers in the market had declined from £8.2m in 1998 to £3.5m in 2001. This shows that even the largest independent producers at that time suffered from a lack of bargaining power with commissioners and that – as a result – the sector remained highly fragmented, was generating only a small annual surplus and hence had only a very limited capability to reinvest in development and production.

The combination of these market effects and strategies resulted in the size of the UK independent production sector shrinking between 1998 and 2001, despite the guaranteed minimum level of business provided for under the 25% PSB quota system. It was clear at the time that while PSB quotas and ownership based definitions of qualifying companies helped, they were not sufficient to create the market conditions under which the UK independent production sector could grow and – through that growth – be able to contribute more directly to content investment.

In order to create a sustainable platform for the evolution of the UK independent production sector from small UK focused service companies to international leaders in creative development, innovation and IP exploitation, further intervention was required. In particular, in order to be able to raise investment capital and grow beyond the confines of their position in the vertically integrated UK commissioning market, independent producers needed to be able to participate more in the trade in value outside of the primary broadcast commission – in other words, to participate in rights ownership and trading. In this regard, terms of trade has been a key intervention in the market, re-imagining UK indies as asset owning creative businesses rather than 'work for hire' service companies and enabling them to raise the funds necessary to capitalise on a liberalised global market for programme IP and formats.

¹ The ITC, a forerunner of Ofcom

Figure 3: UK independent producers' main network qualifying commissioning spend, 1998-2001



Source: ITC, BBC, O&O estimates

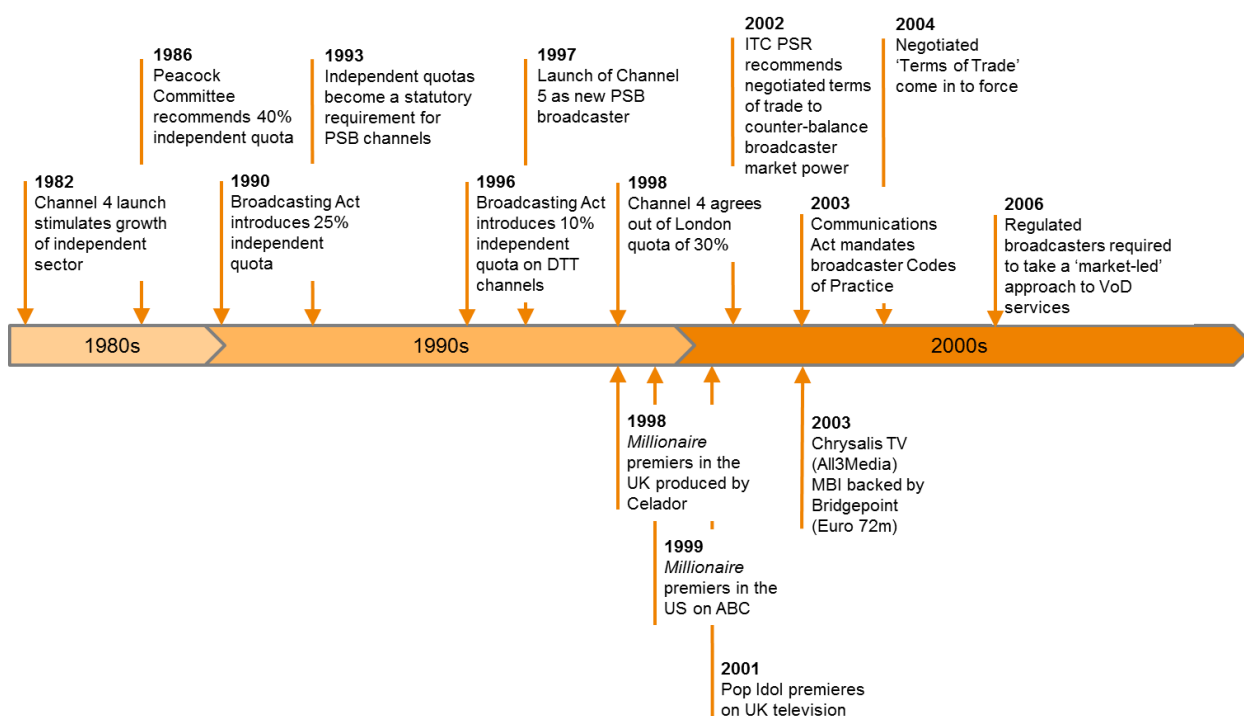
Negotiated PSB terms of trade set the foundations for sector growth

In order to grow as a truly independent commercial sector in its own right, independent producers needed a few market conditions to change, including:

- Limits to broadcasters' dominance in rights and their incentives to warehouse them – providing indies with the opportunity to own their creative assets in the long-term;
- having a greater opportunity to compete for commissions over and above the minimum PSB quotas; and
- the opening up of supply relationships in other countries, driven by changes in how broadcasters source new ideas and share risk.

As the market evidence from the end of the 1990's shows, the PSB quotas introduced in the 1990's were insufficient in themselves to allow for producers to grow as genuinely 'independent' businesses. By failing to break the traditional model of producers being employed on a 'work for hire' basis (i.e. essentially paid on the basis of production costs plus a small fixed margin) the sector still lacked the capacity to invest, both in funding expansion and in recycling funds back into the development of new content. It is this market issue that the PSB terms of trade directly address.

What PSB terms of trade delivers for the UK independent production sector is a set of standard commercial templates for revenue sharing with broadcasters and the opportunity to retain ownership of commissioned IP in the long-term. Prior to this, revenue sharing took place, but broadcasters had the negotiating power to dictate terms. With the introduction of terms of trade, PSB broadcasters had to agree to negotiate terms with the independent sector with Ofcom as the arbitrator if no agreement could be found; the overall the effect being that broadcaster negotiating power in production contracts was more limited. In addition, the fact that indies were now asset-owning companies made them more able to attract 3rd party funding for expansion and investment and were generally more attractive to the investment community.

Figure 4: Timeline of events in the run up to Communications Act 2003²

The timing of the terms of trade intervention in 2003/04 was also an important factor in priming the UK independent production sector for growth. During the late 1990's, UK producers were seeing increasing success in placing UK developed formats with overseas broadcasters, particularly in the US. With IP ownership now secured under terms of trade, the success of formats like *Millionaire* and *Idol* during this period set the scene for further growth in the 2000s, fuelled by private equity and venture capital funding of the sector and multiple rounds of consolidation, all leading to the UK's position as the home of the 'super-indies' (such as All3Media and FremantleMedia) and building a diverse set of mid-sized indies with international scale and scope alongside them.

Over the last 10 years, UK independent producers have grown to become market leaders and the UK has emerged as a leading global production hub, all generating strong returns for the UK

The impact of terms of trade on the UK independent production sector can be seen clearly in the different economic fortunes of the sector immediately preceding and following their introduction. As outlined earlier in this report, between 1998 and 2001 the UK indie sector was in retreat, squeezed by strong UK broadcasters and lacking the asset base from which to borrow and invest. Following the introduction of terms of trade in 2003/04 and combined with a broadening international opportunity following the success of late 90's UK formats overseas, the independent sector started to show strong domestic and international growth.

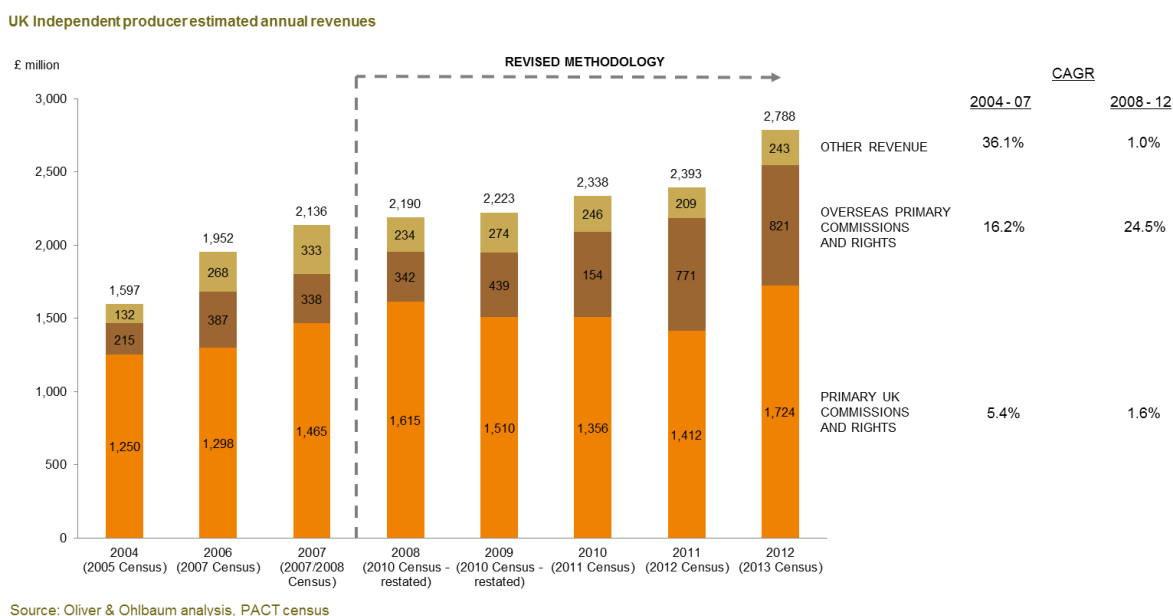
Over the period from 2004 to 2007, the UK independent production sector grew rapidly, with UK commissioning and rights income returning to growth in line with market spending and a rapid expansion in overseas income as UK indies invested in building positions in other markets. By having the economic basis with which to attract new sources of funds, UK indies were able to grow both organically and by acquisition, building strong positions in key trading markets and driving growth in the export of UK IP.

The value of the investments made during this period can also be seen in terms of how the independent sector has adapted and contributed through the subsequent recessionary period in the UK from 2008 onwards. In 2009, market conditions in the UK broadcasting market changed substantially with a strong

² Source: Oliver & Ohlbaum analysis, Pact, Ofcom, ITC

advertising downturn and growing pressure on the BBC to work within a flat licence fee deal. As a result, UK indies started to see their revenue from UK commissioning starting to fall again as broadcasters had to look at cutting schedule budgets and, within that, how to protect the core of their in-house production businesses particularly where rights ownership was becoming an important part of their own business models. The difference from 2009 onwards in comparison with the pre-2003 period is that independent producers were able to continue growing having diversified revenues away from their sole dependence on the spend of the UK PSBs.

Figure 5: UK independent production sector estimated annual revenues, 2004-2012



The international growth of the UK independent sector has also brought further benefits that have helped to sustain the UK PSB networks through the recent downturn and that will continue to support the UK content sector overall. Amongst these has been a greater capacity to directly contribute to programme commissioning costs, whether through producer deficit finance or by arranging co-production partnerships or pre-sales agreements from relationships across their global networks. This has helped UK commissioning broadcasters to hold down the cost of commissioning in a market where inflation would otherwise have had a stronger effect. Again, the ownership of rights under UK terms of trade has been a key factor in this as international rights trading has been a source of high margin income for UK indies and thereby provides a high proportion of the funds for re-investment.

The strength of a well-funded, entrepreneurial and innovative UK independent production sector is also benefiting the UK in supporting the expansion in bringing international production work to the UK. In this respect, the UK is increasingly seen as an international production hub, competing to be the home of leading US productions as well as the source for new programming destined for international network groups such as Discovery and Viacom. This adds further to the range and diversity of production activity in the UK market and is helping to strengthen the UK's reputation as a key centre for the creative industries. However, despite its international scale, scope and success, the UK independent sector today remains fundamentally underpinned by its role in bringing new ideas to UK screens and by developing UK-owned IP in conjunction with the major UK broadcasters.

To this end, terms of trade remains a key piece in the jigsaw of regulations and incentives that has helped to make the UK a market leader in creative television, video games and other interactive media production. It has also become part of a key sustaining inter-dependency between the independent sector and the UK PSB groups, as indies have helped to drive growth in monetising the benefits of PSB investment in overseas markets and by doing so have helped to amortise the costs and risks of PSB commissioning across the global market. Without this relationship in place, UK PSBs would have had a more limited capacity to generate funds from trade in overseas markets and hence the costs of UK

commissioning would be higher and PSB content investment would be much more susceptible to the volatility of UK market conditions alone.

3 The development of the UK independent production sector with terms of trade

In many regards, the introduction of terms of trade in 2003/04 was a timely intervention. Capital markets were recovering from the dot.com recession and some of the leading producers had already shown that the appetite in overseas markets for UK content was growing with the success of shows like *Who wants to be a Millionaire?* in the US.

Adding terms of trade to the UK PSB regulations around independent production quotas gave the sector a strong start in terms of their ability to build IP from the UK market. But it is the success of their creativity in developing strong programmes for UK audiences that has underpinned their growth and subsequent demand for their finished programme rights and IP internationally. The story of the sector since 2004 is one of rapid growth and diversification as producers have used their newfound access to external capital and opening up of international markets to drive their growth from domestic players to international leaders in the creative industries.

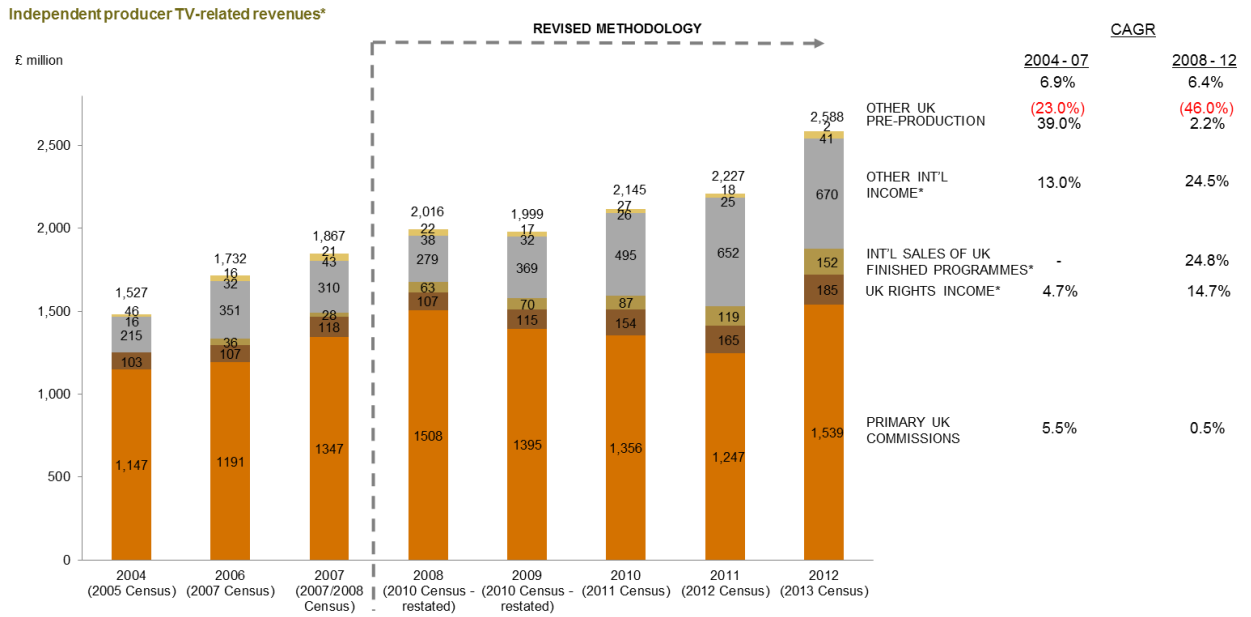
The net benefits of this growth and diversification to the wider UK content sector are many. First, the ability to diversify revenues across markets and different categories or genre of IP has made many independent producers more robust organisations, able to withstand short-term changes in local markets. Second, this diversity helps the UK creative sector to stay at the forefront of innovation and new creative trends, sourcing the best ideas from around the world. And third, the incentive to export UK creativity to other markets generates a high margin income that is recycled into UK broadcasting via greater R&D spend, deficit finance and pre-sales income, all helping to reduce the amount that UK broadcasters have to directly invest in order to get high quality programmes on air.

3.1.1 An increasing role in sustaining the UK commissioning market

With renewed incentives to compete for a greater share of UK broadcasters' commissioning business, UK independent producers saw their revenues from UK primary commissioning grow from £1.1bn in 2004 to over £1.5bn by 2008. Beyond 2008, the UK picture became more complicated as the post credit crunch recession placed financial pressure on commercial PSB spending and – to some extent – the importance of maintaining a flow of UK IP meant that producers were incentivised to accept lower commission fees offset by the continued growth in UK and international rights income.

As outlined earlier, this illustrates the value to the broader UK content ecosystem of an independent production sector that has scale, diversity of revenues and ownership of IP. By providing incentives for producers to seek efficiency improvements and offset lower production tariffs against increased rights income, UK broadcasters have been able to avoid cost inflation and save in their schedule budgets at a time when top line revenues have been under pressure. This scale and diversity is therefore both a key strength of the independent sector today and also a key supporting factor in the UK content market more widely.

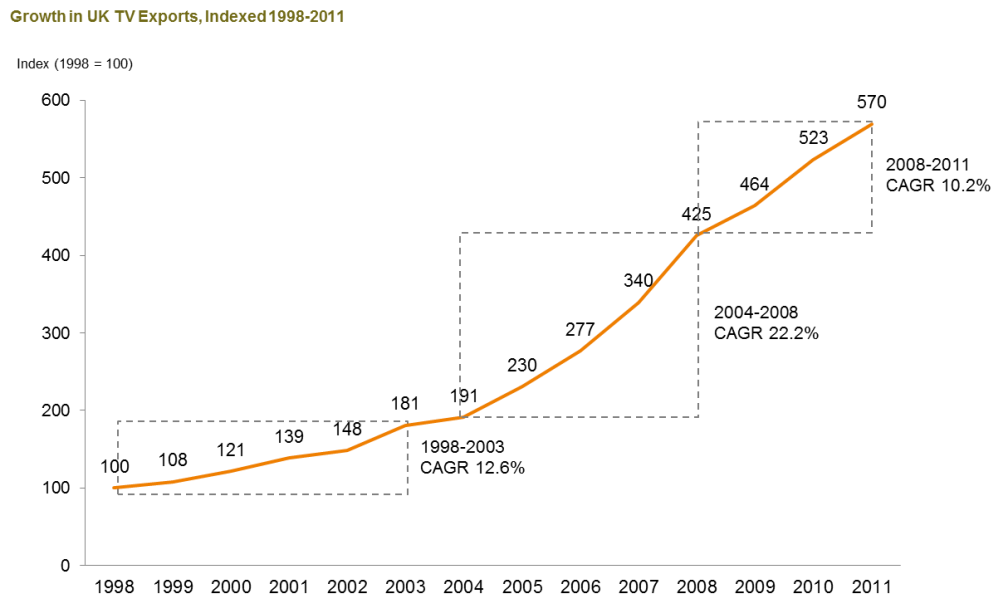
Figure 6: Rights growth sustains UK funding as primary commissions fall³



3.1.2 Opening up international content markets

The liberalisation of local content markets to international trade has been one of the key factors driving the market opportunity for UK independent producers since 2003. Once dominated by the US studios, the international demand for UK finished programming has grown substantially over the last ten years and trade in this part of the market tends to be reinforcing – i.e. viewers’ appreciation of one UK show makes them more likely to accept another and, in turn, broadcasters are more likely to take the risk on a UK acquisition. The strength of UK IP and this virtuous circle effect partly explains the rapid growth that producers experienced in TV exports from 2004 onwards.

Figure 7: Growth in TV exports has accelerated since terms of trade introduced⁴



³ Source: Pact Census 2013

⁴ Source: UKTI / Pact Annual Exports Surveys, Oliver & Ohlbaum analysis

The opportunity to grow beyond the confines of the UK commissioning market has been one of the keys to the success of the UK independent production sector and its ability to financially contribute into the UK content ecosystem. This is due to several factors including:

- Having a greater diversity of income streams across markets helps to offset single market risk (i.e. downturn in the UK is offset by growth elsewhere)
- Having a greater scope to generate rights income overseas increases margins and therefore the available capital for reinvestment
- Recognising that the UK remains an important market for high quality content development and production, with strong commissioning broadcasters and a commitment to diversity on screen

Additionally, the strength of UK production companies overseas has strong benefits to the wider economy through a growing of the export base and in building relationship and attracting overseas productions to the UK.

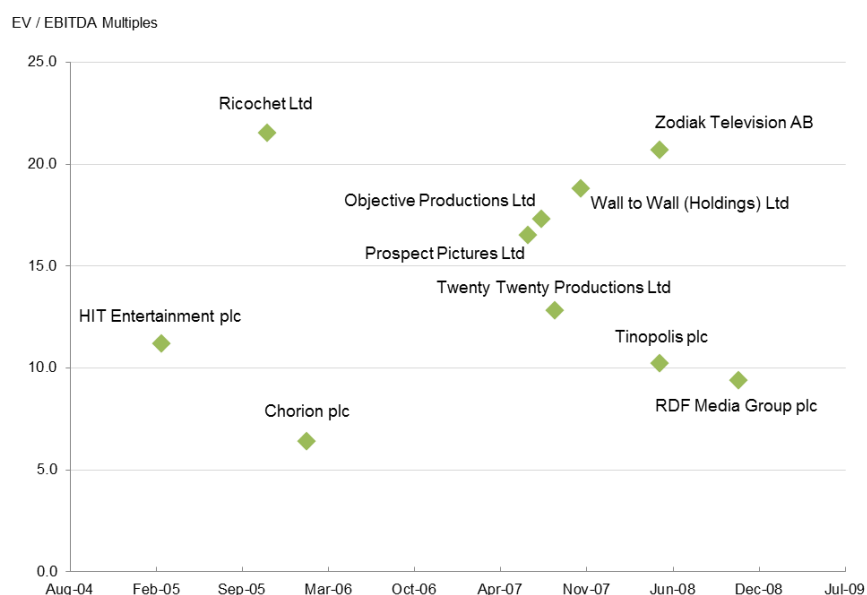
3.1.3 Access to external capital

While the market opportunity - both in the UK and overseas - was present, the UK independent sector still needed access to new sources of capital in 2003/04 in order to fund its development activity and invest in expanding the scope of their operations. The combination of market demand for UK IP and the newfound opportunity to own their creative IP (and hence build asset value over time) encouraged new providers of funding to enter the market, most notably the private equity and venture capital industries who started to see an opportunity for rapid growth in the UK independent production industry for the first time.

This attractiveness to external investors is a key part of the sector's story over the last ten years. By making investment capital available and – arguably – bringing a new model of growth by acquisition to what was a relatively conservative independent production market at that time, the impact of private equity investment on the sector during the period from 2003 to 2008 fuelled its rapid expansion and is what has also resulted in the UK's disproportionate share of leading international production groups, including the so-called 'super-indies'.

Figure 8: Example deals and transaction multiples, 2004-2009⁵

Reported transaction multiples – Independent Production (EV / EBITDA), 2003-2008



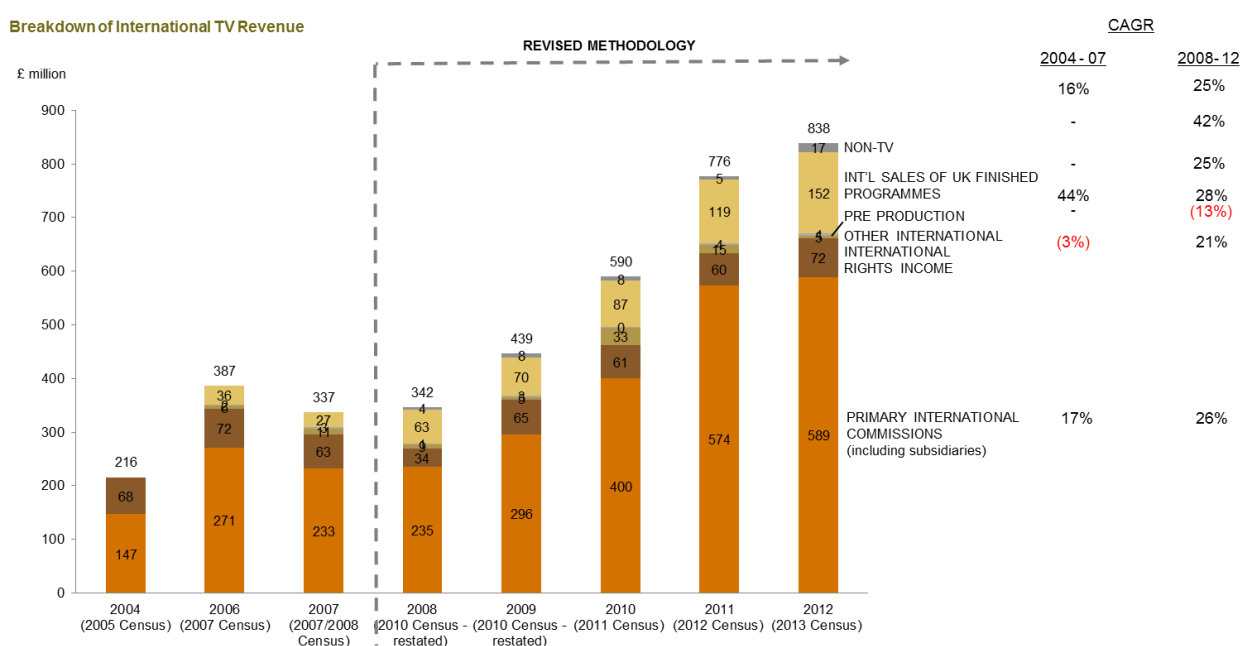
⁵ Source: Deloitte, Mergermarkets

Perhaps more with an eye to profit rather than the sustainability of the UK PSB system, nevertheless the market driven allocation of capital to the independent sector in recognition of its growth prospects during this period is what has underpinned its subsequent transition from a relatively weak domestic industry to a global leader in content development, creation, and commercial exploitation.

3.1.4 Securing a presence in overseas markets

Moving beyond the international demand for UK finished programming and some sporadic successes in selling programme ideas to overseas networks, the period from 2008 onwards has seen the investments made in developing overseas subsidiary networks start to pay off significantly for some UK producers. In particular, the larger UK indies groups have all managed to secure a presence in overseas primary commissioning markets, with revenues to the UK independent sector as a whole from this activity reaching £589m in 2012.

Figure 9: Investment in overseas growth brings strong growth⁶



Again, this investment in building sustainable production businesses in major overseas markets has generated benefits that flow back to the sustainability of the UK content industry, including:

- Greater diversity of funding for UK production companies, resulting in a greater ability to accept risk on individual projects
- UK companies able to further build up their libraries of IP assets from outside the UK market
- Strong commissioning relationships with overseas broadcasters translating into an ability to bring overseas commissions to the UK market (as has recently been the case with several productions in the UK)

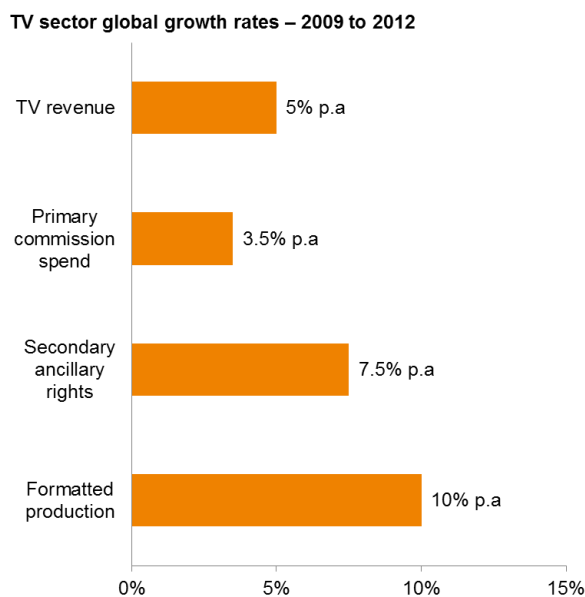
It is perhaps no coincidence that the reduction in UK primary commissioning revenues seen by the independent production market over the last few years has coincided with a period of expansion overseas, as UK indies have sought to sustain their growth in the face of increasing cost pressures in the UK market. Overall, the reputational benefits of having successful UK producers creating high profile shows in other markets has been very positive for the UK creative industries and for the UK's position as a leading international creative hub.

⁶ Source: Pact Census 2013

3.1.5 Cementing a leading position in global IP trade flows

With a strong position in the UK market, supported by PSB terms of trade and production quotas, and a growing presence in international production markets, the UK independent production sector is increasingly driven by its positioning within the IP trade flows that exist between major TV markets. As individual markets have become more open to outside IP and production relationships, the trade flows between markets have been a key driver of industry growth – something that the larger UK producers are market leaders in.

Figure 10: The importance of rights trading in supporting industry revenue growth



Note: Data excludes expenditure on news and sport programming**inc. originations and syndicated programming
Source: OBS, SNL Kagan, Company reports, Oliver & Ohlbaum Analysis

The larger UK indies now own and operate a global network of businesses developing and producing new programme ideas in markets around the world, taking owned formats from one market to others and trading in associated rights. Given the importance of rights trading across markets, having access to these capabilities is a differentiator for many of the large UK independent producers and one of the reasons why others have been interested in acquiring or investing in them.

Even the US studio / network groups are trying to catch up with the leading UK independent production groups in this regard and have come relatively recently to the fact that growth in trading between markets is outstripping that within any individual market and takes place across a range of IP categories. This competitive advantage is one that is to some extent self-reinforcing and the UK indies are the ones that have largely capitalised on the opportunity first. That said, it should also be recognised that at the heart of many UK indies remains a reliance on the UK commissioning market as the primary source of their new IP and hence their relationship with UK audiences and broadcasters remains a key component of their success.

3.1.6 Diversification of revenues has made the UK content ecosystem more robust

All of these expansion activities over the last ten years have served to make the UK independent production sector a more diverse group of businesses across a number of dimensions, including:

- Diversity in market exposure and risk
- Diversity in genre focus and style
- Diversity in international scale, scope and focus

The product of this diversification for the UK market is a much greater ability to withstand short-term shocks, whether that is to a particular market or to a particular genre trend across markets. The UK independent sector has always been highly adaptable to market conditions, but the transformation of the sector into asset owning, outward looking, entrepreneurial market leaders in their field has added a robustness to cyclical market factors and that has in turn added to the robustness of the UK content industries overall.

For example, the incentive to continue investing in UK content is strong as it remains a well regulated and strong commissioning market from which producers have a proven ability to generate attractive IP. By increasing the diversity of revenue streams within the UK and across international markets, producers are able to sustain this investment and support short-term broadcaster cost cutting by investing through a domestic downturn. At a time when the UK PSB model faces mounting threats from the continued growth in multichannel viewing and the fragmentation of demand across online platforms, producers' ability to fund productions based on domestic and international rights revenues is an important sustaining factor in helping the UK PSB groups to continue to fund their relatively high cost / high quality output across a range of genre and representing a diversity of tastes.

4 The strengths of the UK regulatory system in sustaining creative investment and driving exports

As illustrated in the previous sections of this report, the UK content market is comprised of many inter-related and inter-dependent parts, including a strong network broadcasting sector and a highly diverse independent production community. To some extent, each is now dependent on the other, with broadcasters relying on UK indies to generate high quality new IP and bring the best of global formats to the market while indies rely on the range, diversity and scale of UK commissioning networks to enable them to get new ideas on screen and to large audiences.

However, given the strength of UK commissioning broadcasters in controlling how money is spent on new original content, in order for both sectors to flourish a mechanism was required that allowed each to share equitably in the financial benefits arising from UK programme IP. The main aim of such a mechanism was to enable a strong and diverse independent production community to become established in the UK market and to find an equilibrium point that:

- Allows all parties to share in the benefits of trading commercially valuable IP in the UK and across overseas markets;
- guards against broadcasters finding other ways to exert their market power on the production sector, for example by reducing spend or volumes of commissioning; and
- provides the right incentives to keep large independent production companies anchored in – and contributing to – the UK content market.

Having identified the need for change, the danger was that the resulting regulatory interventions could come with a high regulatory cost, both in terms of the monitoring and policing of outcomes but also in terms of the extent to which any restrictions place limits – intentionally or not - on aspects of innovation, creativity and trade. Happily, the situation in the UK avoids most if not all of these potential problems. In fact, one particular advantage of the UK regulatory model that links the PSB networks and the independent production sector is that it works efficiently and with relatively low cost. Essentially, in return for their PSB benefits, including allocations of broadcasting spectrum and EPG positioning, the PSB networks agree to be subject to a minimum quota for independently produced output and a pre-negotiated set of commercial rules that can be applied to each commission – the PSB terms of trade.

Together these comprise:

- A quota for the minimum level of commissioned hours that they must deliver through independent producers (usually set at 25%, but with higher levels of competition allowable at the BBC through the WOCC and at Channel 4 which must commission 100% via indies or 3rd party broadcasters);
- an ownership definition for what constitutes an independent producer that excludes UK broadcasters from anything other than a minority stake (25%); and
- a negotiated terms of trade deal that specifies the revenue sharing between commissioning PSBs and independent producers in each rights window and stipulates that the long-term ownership of the resulting IP resides with the producer.

At a 25% quota, the PSB networks retain sufficient scale and scope in their in-house production operations so as to see little real impact whereas the presence of a sustainable slice of the programme supply market available to independent producers gives them the security from one year to the next to be able to invest in building operations and developing new IP (and for external investors to have confidence in the sustainability of the sector that they are buying into). The sustainable presence of independent producers in the market also helps to drive a set of incentives for innovation and cost control as well as encouraging producers to develop a range and diversity of output to differentiate themselves from one another. This competition can also positively impact on broadcaster's own in-house operations, helping them to get more produced for less.

The regulation relating to PSB groups and the independent production sector also incentivises producers to look to export opportunities for income growth. With a stable trading base in the UK market provided by PSB terms of trade, the upside for UK indies is in the international demand for the resulting IP commissioned, tested and refined in the UK market. This demand has helped to boost independent production sector revenues and margins to the extent that the sector is now able to reinvest significantly beyond the level that UK production fees alone would have allowed for ten years ago.

Without the three main components of the UK independent sector regulations – i.e. production quotas, ownership rules and terms of trade - in place in the market, there would be considerable risk to many UK indies. The pressures which drove the adverse market conditions in the late 1990's still exist today to a large extent. The majority of original content expenditure still comes from the four main PSB network groups and the BBC and ITV still have strong incentives to maintain in-house production divisions.

In recent years we have seen that the market forces towards broadcaster / producer vertical integration remain strong, as demonstrated by News Corporation acquiring Shine Group, NBCU acquiring Carnival and Monkey Kingdom and ITV continuing to acquire producers internationally. To some extent we are witnessing the major broadcast groups reasserting their control and influence across key production markets through this activity. All of this suggests that the regulatory protections currently in place, keeping independent producers separate from major broadcasters and allowing them to compete for business on the basis of owning the resulting IP remain as relevant today as they did ten years ago.

5 The UK independent production sector today

The last ten years has seen a transformation in the scale, scope and structure of the UK independent production sector as the major content markets in the world have opened up to international trade and producers have been able to compete for a greater share of UK commissioning. By embracing this opportunity – and having the funds and skills to capitalise on it – the sector has grown by over £1bn during the last 10 years. It has continued to diversify and grow through the recent recessionary years from 2008 onwards. It is poised to continue its evolution as global markets recover.

In making this journey from a fragmented service industry to global leaders in IP creation, UK independent producers have become an essential part of the UK content ecosystem, bringing new ideas to commissioners, providing the funds for additional development activities and in many cases part financing productions. In doing so they help to bring creativity and diversity of ideas to UK screens and provide incremental financing to make those ideas happen, helping UK commissioners to keep a tight control on the costs of production and helping to maintain on-screen investment through periods of cyclical pressure.

The sector's ability to bring additional sources of finance into the UK content ecosystem is directly derived from its success in overseas markets, whether sourced from the profits on overseas commissions or on the international sale of UK finished programming or trade in formats and other forms of intellectual property. As UK producers have expanded overseas, their scope to invest in productions has increased and benefited UK broadcasters, particularly the commercial PSB groups who have managed to maintain investment on-screen through a substantial advertising recession and in the face of on-going erosion of viewing.

Today, the UK is seen increasingly as a creative hub for international productions as well as being one of the most vibrant domestic TV commissioning markets. Key to the sustainability of this reputation for quality and creativity remains a strong and vibrant independent production community, supported in its efforts to attract business to the UK by the recently introduced production tax breaks that help the UK to compete on a more even basis with other production markets.

In terms of scale, the most recent Pact census of the UK independent production industry estimated that the sector generated £2.7bn in turnover in 2012. This represents an 8.3% compound annual growth rate since terms of trade were introduced in 2004, though the underlying story is a more complex one. From 2004 to 2008, the independent sector grew strongly as broadcasters were opening up to more independent productions and terms of trade were providing the industry with the asset base against which new forms of investment could be attracted to fund growth. This period also saw a number of private equity funded consolidations taking place in the UK market, building the foundations of today's super-indies. Through this combination of investment and market liberalisation enabling more aggressive growth strategies, all major revenue streams grew, including high margin rights income which helped to boost overall sector net margins.

By 2008, the UK independent sector had grown to over £2bn in turnover, driven by taking a rising share of a growing broadcasting market, both at home and internationally. The credit crunch in 2008 saw the beginning of a significant divergence within the sector, with pressure on UK broadcasters' budgets leading to a reduction in the independent sector's income from primary UK commissions at the same time as investments in overseas commissioning markets were beginning to pay off. As a result, the story through the credit crunch period is one of many UK indies looking overseas for growth, both in terms of exporting UK IP and in establishing production bases in key markets while retaining the flexibility to shift to where the demand is.

This investment in building a position in overseas markets has also been part of a wider move by many independent producers to build trading networks around the world, allowing more efficient routes to trading and sourcing IP amongst the main international TV markets. To some extent, this has led to greater polarisation in the sector between the global so-called super-indies, large multi-territory producers and those who retain a sole focus on the UK commissioning market. However, in each sub-segment, the presence of international trade opportunities remains and adds value to UK content creation by improving the margin on some commissions such that it can be reinvested in the next round of programming ideas.

In 2012, the combination of sector investment, global markets growth and recovery in the UK commissioning market appears to be yielding dividends for UK producers. The latest Pact census results show a return to growth in independent producers' revenues from the UK primary commissioning market, reversing the trend of the last three years and reflecting both the intent of the main commissioning broadcasters in the market and the emergence of new sources of investment from multichannel broadcasters. At the same time, the levels of various international trade activities across different forms of rights and new programme commissions have been maintained in the face of a renewed phase of competition from the US networks, looking to re-assert themselves as the main players in transatlantic production relationships.

The combination of these factors – returning to growth domestically and having built a sustainable position in overseas markets – has seen 2012 showing a return to high levels of sector growth, strongly leading out of the wider market recession. In doing so, the independent production community has shown itself to be flexible, adaptable and robust, playing an essential role in the UK market and occupying a leading position on the international stage.

5.1 An essential part of the UK content ecosystem

The activities and interventions that started the modern UK independent production sector were always intended to build something that contributed strongly to the success of the UK content ecosystem. The idea of creating the right conditions in which independent producers could grow, invest and flourish was borne out of the concept that a strong independent sector would enhance plurality and diversity on UK screens and provide a market mechanism to promote innovation and new ways of working in the face of the largely monolithic, vertically integrated broadcaster-producers that existed at that time.

Arguably, the independent sector has delivered all of this and more, contributing to rapid innovation in new original programmes, promoting the range and diversity of IP that finds its way onto UK screens and supporting new business models for funding original content ideas. Delivering this innovation efficiently has been a key factor sustaining the UK PSB network model in recent years – particularly the commercial PSB networks who have been most challenged by the downturn in advertising and the long-term erosion of their viewing audiences by multichannel and online services.

The aggregate impact of a successful UK independent production sector on UK content investment is a strong one but also one where many of its elements are often hidden from view. This includes a direct financial contribution in a number of areas, including:

- A direct investment in gap finance on productions (estimated at around £85m per annum)
- Bringing co-production partners to UK commissions (typically between £75-£100m per annum)
- Direct investment in R&D to bring new content to market (around £25m-£35m per annum)
- Providing working capital to production in advance of broadcaster payments (including providing upfront finance in return for PRTS income)
- Facilitating distribution pre-sales finance

In combination, these create a leveraged position in the UK market, where companies can use the export trade generated by UK IP to reinvest in developing new ideas and supporting UK broadcasters to control costs by sharing some of the financial burden of new commissions. Beyond this direct financial contribution to UK content development and production, the presence of a strong and vibrant independent creative community delivers a wide array of indirect benefits, including:

- Providing competition to broadcaster in-house production departments in terms of creative ideas and innovative ways of working
- Bringing the best of international IP and ways of working to the UK market via adapting formats and learning from operations in other countries
- An international trading network, including relationships with the main commissioning broadcasters in other territories, which facilitates risk sharing on projects
- Promoting the UK's position as a leading creative market and using overseas commissioning relationships to bring productions to the UK

Together, these factors have helped keep the UK commissioning market open and competitive rather than siloed, have enabled PSB networks to avoid cost inflation in commissioning and, in some instances, innovate new ways of avoiding investment cost which has helped the sustainability of the PSB model in the face of competition from the multichannel and online sectors, and has helped to create a larger, internationally recognised skill base in the UK and a platform from which UK creative talent can export its skills.

5.2 Providing new sources of funding to UK commissions

One of the most direct ways in which the independent sector contributes to the UK content ecosystem is by bringing new sources of funding to bear on UK original programming. This ‘producer finance’ is a common feature in the UK market today, with an increasing number of productions relying on some form of direct economic contribution from the independent sector. This can be broken down into three broad categories:

- Cash-flow finance for productions
- Deficit finance for productions supported by international rights sales
- Deficit finance for productions supported by at-broadcast revenue streams (e.g. PRTS)

In each case, these contributions help broadcasters to offset some of the risk on individual commissioned projects and – in aggregate – across their portfolios as a whole. This is something that has been enabled by producers’ efforts to diversify and expand their revenues beyond the traditional UK primary commissioning market to encompass other sources including, importantly, international rights trading. The importance of independent producer’s being able to trade in IP rights is twofold: first, it is a way in which UK generated and commissioned IP can generate additional revenue outside of the traditional domestic market primary and secondary windows, and; second, this rights income tends to have a high margin relative to production work, meaning that although winning new commissions still drives the majority of sector revenues, rights trading makes a disproportionate return in terms of net margins and cash-flow.

In practical terms, the rights income from past commissions can be deployed to offset some of the cost of new commissions, whether through delaying a broadcaster’s need to fund production activities (i.e. allowing them to pay closer to transmission and thereby reducing their own annual working capital requirements), or by actually reducing the overall cost to the commissioning broadcaster by investing up-front in a production on the expectation of making a return later on subsequent rights trading and IP ownership. This ability to recycle revenues from one production into the development and commissioning of others across the independent production sector has been a key sustaining factor for PSB network investment in original content through the recent economic downturn. Without producer deficit finance and R&D support, UK PSB groups would have had significantly less scope to make their budgets stretch as far as they have in recent years and without a highly competitive independent sector helping to innovate and keep production costs down, the cost per hour of UK originations may well have been much higher in some genre than it is today.

In this way, it can be seen that the advantages awarded to independent producers in allowing them long-term ownership of programme IP in the UK market also returns material commercial benefits to the broadcasters who can share in the related revenue growth from IP rights trading via producer funding of new UK commissions. As long as UK commissions continue to generate valuable IP that can be sold internationally, this virtuous circle of IP development and exploitation in the UK should provide both a sustainable equilibrium of investment and risk sharing plus a strong incentive for the larger, international indies to remain based in the UK.

5.3 Creating competition and incentives for the best creative talent and ideas

The presence of a strong independent production sector in the UK also has an important effect on the nature of creative competition – both for talent and ideas. With commissioning spend still largely controlled by four – now becoming five – UK organisations in the BBC, ITV, Channel 4, Channel 5 and now BSkyB, the risk was always that, left unchecked, the market would tend towards a few vertically integrated silos of production activity. In a large and differentiated TV broadcast market such as that in the UK, many of the commissioning networks compete with one another only indirectly and hence the competition for ideas and talent within genre is relatively weak.

The presence of independent production companies who can operate internationally as well as between and across the main UK commissioning broadcasters has opened up a new dimension of competition in

the UK market, with producers working for many different networks. This brings multiple benefits to the market including:

- Competition for the best talent and ideas within genre between UK networks
- Competition for creative talent across markets
- The resulting benefits in the cross-pollination of ideas between broadcasters and markets
- The ability to derive new 'best practice' approaches to genre commissioning and production by learning from a broader range of experiences

Competition has also created a range of important incentives within the independent production community that have wider benefits for the UK content industries. Amongst these incentives is the greater entrepreneurial freedom for production talent to work independently in the UK and the associated commercial incentive for them to innovate both in terms of new ways of working that allow them to do more for less and in generating the next round of blockbuster IP that can be successful for UK networks and can travel to other markets. While broadcasters also retain an incentive to develop IP and work efficiently, they also tend to have competing priorities. The presence of the UK independent production sector serves to reinforce the drive to take more creative risks and invest in new ideas outside of the core UK broadcast network market.

5.4 Bringing leading IP to the UK market

A significant part of the A/V content production and broadcast business model now is concerned with the development, sourcing and exploitation of IP in the form of licensed programme formats. Part of this activity is focused on bringing proven international formats to the UK market where they can be adapted and brought to screen. The attraction of using formatted shows in network schedules is that – to some extent – it removes some of the development overhead for new commissions and reduces the risk of failure. Though not something that is universally true, carefully selected formats tend to bring a greater guarantee of success and prime-time formats have been one of the key success stories of recent years, with international shows such as *I'm a Celebrity* and *Big Brother* helping to underpin commercial PSB schedules.

The UK independent production community plays an important role in sourcing new formats and in developing existing formats for the UK market. With their international scope and scale, large indies are actively seeking new forms of IP and new opportunities for formatted shows, helping to bring the best of international original ideas to UK broadcasters. Formatted production also holds the possibility of greater cost sharing between different commissioning broadcasters in different countries, as in some cases the set investment and studio capacity can be shared for shooting different versions of the same format for different countries. Again, independent producers have been at the forefront of these innovations in cost sharing and more efficient programme making as their international scope incentivises them to work across borders.

5.5 Investing in UK IP to make it internationally successful

The other side of the formats trade is also a strong feature of the UK independent production sector, with UK indies investing in developing new IP to generate the next new formats to travel overseas. One of the strengths of the UK broadcasting market – and particularly the PSB segment of the market – is that it maintains a high annual spend on original content and that this spend is spread across a wide range of new creative ideas, from one-off shows and short series to longer running franchises and their spin-offs.

The range and depth of new ideas coming to screen in the UK market creates a strong test-bed for programme innovation and has helped the UK to become one of the top format generating markets in the world. This trade in turn provides an additional source of long-term value to producers that can be recycled into future programming investment. Recognising the strong international demand for UK content, producers are highly motivated to develop and deliver different types of formatted shows - whether scripted or non-scripted – in conjunction with UK broadcasters and with the aim of securing future licensing revenues that can support the next wave of development activity. In some formats, UK

broadcasters may also be partners in the underlying IP, leading to additional revenue streams flowing in to UK content investment and investors.

5.6 Innovating new content-based offerings and digital services

As viewers are presented with many more media options in the market – for example, across connected TV services and online platforms - content aggregators are being challenged to find new ways of engaging audiences and extending their commercial business models. The independent production community continues to be at the forefront of this new wave of innovation in content markets, both in terms of TV production indies diversifying into new media and many more new media specialists coming into the market.

The increasing activity in digital commissioning and online services has already broadened the definition of what an independent producer is beyond traditional TV and film. UK independent production companies now also includes those producing A/V content exclusively for online channels and content-led technology companies creating new apps and platforms around programming brands. In both of these areas, the market opportunity is for a set of small, highly innovative UK start-ups to come to market with new ideas and ways of reaching and engaging audiences. With a connected future being the inevitable destination for the UK content market, the ability of the UK independent production sector to embrace these opportunities and lead in innovation across connected platforms is an important new frontier in sustaining the UK's competitive advantage in the content industries.

5.7 A global leader in original programming and rights

UK independent TV production is one of the few industry sectors where the UK can claim to be home to many of the global leaders. This is not only in terms of scale, but in terms of global footprint, ownership of market leading IP and position in global trade flows.

Many of the leading international formats of the last ten years could have been stamped 'Made in the UK', from *Who wants to be a Millionaire?* to the *Pop Idol* franchise. The creative talent base and knowledge that has developed in the sector based on these early forays into the formats market have also directly benefited UK broadcasters, with the BBC and ITV Studios also having developed successful international formats such as *Come dine with me*, *I'm a Celebrity...*, *Top Gear* and *Strictly*. A 2009 study completed by O&O highlighted the strong competitive position that the UK occupied (and continues to occupy) in the global trade in formats as both a leading importer and exporter of formats.

Figure 11: Estimated net trade in formats by country, 2006-2009⁷

	Country	2006-2009 estimated net trade (hours)
Net Exporters	United Kingdom	+8,100
	The Netherlands	+6,300
	The USA	+5,000
	Japan	+650
Net Importers	Australia	-1,500
	France	-2,000
	Germany	-3,200
	Italy	-4,500

⁷ Source: The Wit, Oliver & Ohlbaum analysis

More broadly, the international appetite for UK original programming remains strong, as evidenced by the continuing year on year increases seen by independent producers in their sales of UK finished programmes to overseas networks. In 2012, the Pact census estimates that this revenue stream alone has grown from a very small base in 2004 to being worth over £150m in 2012. While this might appear small in relation to the overall size of the UK market, rights revenues from finished programme sales can be a very high margin activity for rights owners, so the marginal contribution from these types of revenues sources is high and important in sustaining profitability and supporting producers' ability to provide funding to new commissions.

5.8 Helping the UK to compete as a creative hub

The last ten years have seen a dramatic opening up of global TV markets. While this has been to the benefit of UK producers, particularly those well enough capitalised to fund overseas expansion during the last decade, it also means that the UK content industry today operates within the context of a highly competitive international market for ideas, talent and investment. To compete in such a market, the UK needs to maintain its traditional areas of strength while developing a new range of skills and expertise for the connected content market that is emerging.

The UK has a long-standing reputation for quality and innovation in television, driven by the BBC and ITV, the inclusion of Channel 4 in the 1980's and the emergence of a strong digital multichannel industry underpinned by satellite and cable platforms. However, in order to compete as a creative production hub amongst other rival countries, the UK needs to maintain a sizeable and sufficiently flexible skills base in TV and digital production such that international productions can access leading UK talent and production resources, something that the independent production sector delivers. This position is also underpinned by the UK's regulatory regime and a PSB content ecosystem which supports creative investment and allows producers to build businesses based on owning some of the products of their creative endeavours.

Of particular importance in this area is the relationship between the US and UK television markets. For many UK producers, the US is the obvious first place to target for international expansion, with the returns from having a US 'hit' potentially very large indeed. But of equal importance is the increasing prevalence of US productions coming to the UK market to be made, building a new source of revenues for the UK economy. This is largely driven by recognition of the quality of the UK independent production sector and the relative cost efficiencies that it can offer relative to producing in the US market.

By offering market leading skills, talent, creativity and efficient ways of working the UK independent production sector has already demonstrated that it can compete internationally and that these attributes are attractive to overseas broadcasters, aggregators and rights owners. With the new wave of digital indies building their reputations in the market, the UK has the opportunity to continue this leadership as TV goes through its next digital revolution across connected platforms and services. Again, an independent production sector that is free to compete will be a key element in securing the UK's position in the future digital economy.

6 The next ten years – a new period of innovation and change in content markets

The ten years since 2003 have already seen a great deal of change in the UK content market, with the transition to digital broadcasting completed in 2012 and the introduction of internet and mobile phone content access and distribution models moving onto connected TV sets, set-top boxes and tablet PCs, affording content owners many more routes to market. As these new routes to market compete for share of viewers' attention and time, more fragmentation can be expected, eroding the high reach / share PSB network model further, but also allowing new models of content creation and exploitation to come to market. However this eventually plays out in the market, the next ten years is likely to be a period of significant change and one that will require creativity, adaptability and innovation in order for the UK to continue leading in how the content markets are shaped and to cement the place of the UK creative industries within that.

6.1 The forces driving change within and across A/V content markets

Looking forward, the enduring need for a strong independent production sector can be demonstrated with reference to some of the macro shifts that are expected to happen over the next ten years. The scene is already set for the expansion of IP-based A/V content services across the home, whether on tablet, PC, mobile or connected TV set and this will inevitably mean that industry players will need the flexibility to adapt as the balance of revenues and consumers' time migrates between rival services and content offerings. Added to this, the UK market can expect increasing competition in the market internationally for the best IP and creative talent, particularly from the US network groups who are refocusing on their own international opportunities.

6.1.1 A new phase in the globalisation story

The UK independent production sector and, by their own activities and by association, UK broadcasters have all benefited from being quick to capitalise on the expansion of global trade in TV programme IP over the last 5-10 years. While local content markets have grown only modestly during that period, international trade was growing annually by double digit percentages, helping to sustain the UK content market at a time when indigenous sources of content funding were flat or in decline.

More recently, we have started to see a resurgence of the US network / studio groups investing in overseas production operations. Companies such as Sony, NBCUniversal and Warner Bros. now own several UK indies and are building a strong presence in key trade flows, particularly the route that takes UK IP to the US market. While the impact of these moves appears to have been benign to date for the UK content industry, the longer-term risk is that an increasing proportion of the programme supply base from independents is eroded, either through overseas ownership or by overlapping operations pushing acquired producers outside of the UK's ownership-based definitions of a qualifying 'independent' company.

More significantly, the next phase in the globalisation of the content industries is likely to include the continued growth of global platforms and services, including those provided by the likes of Google, Facebook, Amazon, Apple, Microsoft and Sony. Added to this are the new OTT service providers, such as Netflix, and the platform-neutral channel providers such as YouTube who have built scale rapidly across markets. The potential therefore exists for a radical change in how content is consumed over the next ten years and the challenge is to maintain the position of UK creative companies within that changing landscape.

6.1.2 The rise of new intermediaries within TV

A key force driving change across A/V content markets is the rise of new forms of intermediary, whether at the level of connectivity provision, content platforms, content aggregators or other consumer services. Though change in the TV industry is typically slow, the mass TV audience contains many sub segments and some of these are already changing the nature of their relationship with TV content. However, the balance of power shifts, the potential exists for a substantial reimagining of the TV and A/V content value chains, possibly to the detriment of some existing key UK players.

The main risks arising from the presence of new intermediaries are twofold:

- That they create a new dimension of fragmentation across viewing, undermining the unique reach that has traditionally supported commercial PSB funding; and
- that some services also have the potential to overlay themselves within the remaining volume of TV viewing and in doing so taking a share of TV advertising or transactional revenues that would have traditionally found their way back to commissioning broadcasters and hence content investment.

But change also brings opportunity and the UK independent production community are already innovating and embracing the potential of new routes to market and new digital capabilities around the TV viewing experience. Broadcasters are also adapting to this change, looking to new connected and opt-in services that allow them to increase consumer engagement and offer new digital products to advertisers. Importantly, the majority of the new services coming to market still place content at the heart of their consumer propositions. But the issue of who will pay for high quality original content if the UK's FTA

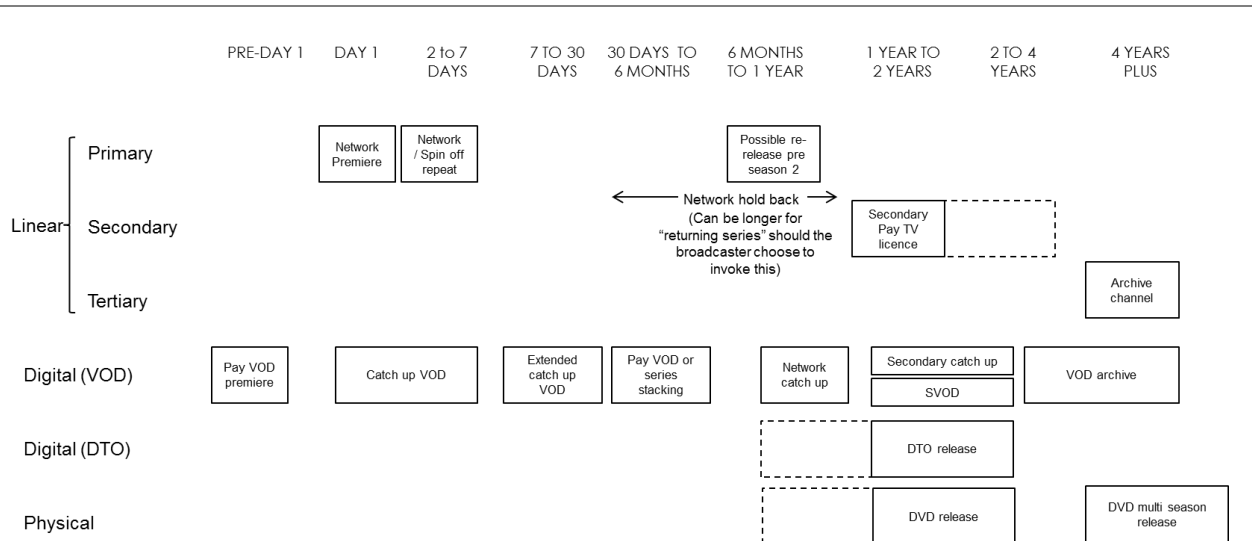
network broadcasting model starts to fail will remain an important one and will likely be a key concern for regulators and policy makers as the content market evolves.

6.1.3 The pressure for radical change in copyright law

Added to the pressures of increased global competition and market fragmentation, some of the changes in how people consume media are also adding pressure to change the way in which rights are packaged and sold in the market. As illustrated earlier in this report, the growth in international rights trading has been a key driver for the UK independent production sector over the last ten years and has helped broadcasters to find new sources of finance to support new commissioning activities. This includes a generally accepted structure of selling rights into different defined rights 'windows', usually defined by the scope of service and proximity to original transmission for any given right.

For example, UK primary rights under terms of trade cover a defined set of rules for broadcaster network repeats and catch-up service use. These definitions leave room for other UK secondary rights to be sold in the market, either to different types of video on demand (VoD) services or to alternative network groups.

Figure 12: Example 'rights windowing' in the current A/V content market



However, the growth of global content platforms has led to increasing pressure for rights windows to be standardised and conflated so that a simpler set of rights can be awarded on a global or regional basis. While this would facilitate global platforms such as Google or Facebook in growing their services consistently across markets, such a move could threaten the principles under which current levels of secondary and tertiary rights values are determined in the market.

This is important as it has been the opportunity to trade in rights that has been a key driver of industry revenue growth in recent years and which delivers the high net margin income that enables producers to deficit finance new productions – and in doing so, directly supporting the wider broadcasting market. The risk is therefore that any change in the system of rights trading undermines these revenue flows in favour of global aggregators, damaging the equilibrium that exists in funding new content in the UK market.

6.2 Sustaining success and adapting to the new opportunities

With multiple challenges to the current sustaining equilibrium of UK content funding likely over the next ten years, the UK creative sector will need to ensure that it retains the scale, flexibility and scope to respond. In particular, the dominance of traditional TV broadcasters looks likely to be challenged, something that could disrupt the ways in which UK original content has historically been funded. Under such a scenario, the value and importance of a strong UK independent production sector – including the numerous digital indies within Pact’s membership – will be amplified, both in terms of helping to sustain the broadcast content model through a period of transition and by being at the forefront of change in the market towards new digital forms and formats of consumption.

UK indies are already leading the market in terms of multimedia innovation and adapting content to the possibilities offered by new digital platforms and services. Whether driven by new media specialists such as Monterosa or traditional TV producers diversifying into new content areas such as Endemol and All3Media, UK indies are leading in TV’s response to changing in consumer habits and interests. By having invested in building international scale and scope, UK indies are also well positioning to work with the emerging set of global platforms on new content ventures and are not bound by a singular focus on developing ideas for the UK market. As such, the strength of the UK independent production sector should be an important factor in securing the UK’s continued competitiveness and attractiveness as a global creative hub and as a leading market for sourcing new creative IP.

At the same time, as global rights trading by indies has already been shown to be a contributory factor in sustaining the economics of UK domestic broadcasters, so exposure to – and co-development of – new ways of engaging viewers across international markets should continue to benefit the UK broadcast sector by importing the best forms of innovation, keeping the UK broadcasters at the front of market developments and continuing to diversify revenues and risk within the UK creative sector.

6.3 Why terms of trade remain a critical part of the UK content ecosystem

While the UK content market might be entering a renewed period of change, the presence of PSB terms of trade in the market remains a stabilising and reinforcing force. Specifically, by continuing to guarantee UK indies the opportunity to trade in the creative IP that is built in the UK, terms of trade confers a number of benefits within the UK content market, including:

- Maintaining the flow of funds derived from international rights trading that has helped to support UK commissioning broadcasters through previous market downturns;
- continuing to support the reputation of the UK creative sector as one where the benefits of innovation can be owned and exploited ;
- providing an important anchor factor that keeps many international indies based and operating in the UK broadcast market;
- creating a link between current and new digital content models by continuing the incremental flow of funds that allows indies to invest in R&D activity; and
- supporting a strong a diverse independent production sector as traditional forms of content funding and consumption come under pressure and are subject to shifting consumer tastes and preferences.

In many ways, the presence of a strong and diverse independent production sector, anchored in the UK market but operating internationally, will become a more important source of competitive advantage for the UK creative industries over the next ten years. By promoting innovation and retaining the ability to fund innovation through rights trading and international activities, the UK indie sector can continue to deliver the skills and IP that make UK creativity renowned throughout the world and that attracts content investors to the UK market in increasing numbers.

