PRODUZENTENSTUDIE 2012

Key facts on the German film and television production sector

Summary

The "Produzentenstudie 2012 – Key facts on the German film and television production sector" was developed by the Hamburg Media School (HMS) and market researcher Goldmedia. In the following article, which was written for the "Funkkorrespondenz" in December 2012, Oliver Castendyk and Klaus Goldhammer summarised the key findings of the survey. Oliver Castendyk, 52, is director of the Research Centre for Audiovisual Production ("Forschungs- und Kompetenzzentrum Audiovisuelle Produktion") at the Hamburg Media School. Klaus Goldhammer, 45, is CEO of Goldmedia and a lecturer at "Freie Universität Berlin". The survey was published as a scientific monograph at the end of 2012.

The "Produzentenstudie 2012 – Key facts on the German film and television production sector"

by Oliver Castendyk and Klaus Goldhammer

I. Introduction

Is there anything left that we do not know about the reception of films yet? Market shares and viewing figures for television programmes are measured minutely and are broken down according to age, gender and, if required, according to household income, nationality, education and other features. Cinema goers are studied nearly as detailed. Regularly, rankings and top 10 lists are published for media producers to keep track of their own performance. The cognitive process of the reception of audiovisual productions is not neglected either. The viewer's eye-movement when looking at advertisements has been closely studied for many years. There are statistics on how to time cinema release, DVD distribution and TV premieres for the best results. Even the best ratio of popcorn prices to entrance fees in cinemas has been calculated. Hence, the economic key facts about television broadcasters, cinemas and distribution enterprises are well-known. We are familiar with the turnover and budgets of all the TV-stations and with their number of employees. We have detailed information on ticket sales and the number of cinema screens in Germany.

What does remain uncharted territory is the sector that provides the content: the audiovisual production sector. The last major survey analysing the German production market was carried out over 10 years ago. In 2001 the study was issued by the media authorities of Germany's federal states and executed by the German Institute for Economy Research (Deutsches Institut für Wirtschaftsforschung (DIW)). Since then the yearly total turnover of the sector for audiovisual production in Germany could only be guessed. With regard to the television production alone, these estimations ranged from €1.6bn to €4.4bn. Furthermore, the data regarding the sector's employment, which is collected every 3 months by the Federal Employment Agency (Bundesagentur für Arbeit), is interpreted in very different ways. Comprehensive, empirical analyses of costs and return on investment have not even been attempted yet.

Therefore, the German Producers Alliance (Allianz Deutscher Produzenten – Film & Fernsehen) encouraged a fundamental survey on the German production sector. The resulting research project, "Produzentenstudie 2012 – Key facts on the German film and television production sector 2011/2012" (hereafter referred to as „Produzentenstudie" or simply „study"), was conducted by the Hamburg Media School and Goldmedia and was funded by the German Federal Film Board (Filmförderungsanstalt (FFA) together with a majority of the regional film funds (FFF-Bayern, Film- und Medienstiftung NRW, Medienboard Berlin-Brandenburg, nordmedia, Mitteldeutsche Medienförderung, Filmförderung Hamburg Schleswig-Holstein) and 2 regional media authorities (Bayerische Landeszentrale für neue Medien (BLM) und Medienanstalt Berlin-Brandenburg (MABB)).

II. Method

For the study 1,250 businesses, specialised on audiovisual production (that had been active in 2011), were identified and contacted; 31 per cent of these enterprises took part in the survey. The survey was split into 2 questionnaires. The 1st collected key facts about the businesses, like turnover, net margins and production output in hours. The 2nd questionnaire asked about the 1st project that the company had completed in 2011: It inquired about costs per minute, subsidies and distribution of rights. In addition to the survey, data of the yearly turnover tax statistics ("Umsatzsteuerstatistik") based on the advance turnover tax returns made in 2010, and the structural survey of the Federal Statistical Office ("Strukturerhebung", similar to the Annual Business Survey of the Office for National Statistics in the UK) have been deployed. Additionally, the authors of the study interviewed market participants and media experts.

III. The producers – size and definition

The "Produzentenstudie" identified 1,700 active businesses in Germany that have turned out audiovisual production on a noteworthy scale in 2011 (in the study, a minimal yearly turnover of €150,000 had been set). In the following, these businesses will be referred to as producers.

Of the 1,700 enterprises, 900 are the so-called producers in the traditional/narrow sense – the 'core' producers. 600 of those are specialised on the production of television programmes. 300 are producers whose main source of income is cinema productions. Crossovers are relatively rare: On average TV producers only generate 4 per cent of their turnover with feature films. Conversely, cinema producers only make 9 per cent of their revenues with the production of TV content.

The other 800 businesses are producers in a broader sense – the 'other' producers. These are producers of advertising spots, corporate and image films. Also producers who provide footage to the broadcasters but neither have the overall control over the content nor hold the creative and operational responsibility are classified as 'other' producers.

As an example: The footage of Formula 1 broadcasts on RTL (a commercial TV channel) is supplied by Wige Media. They are seen as service providers, whose footage is incorporated into an in-house production. The group of 'other' producers also includes teams for electronic newsgathering (ENG), as long as they are employed by the channel as a business and not as freelancers or employees. As with the companies that provide the channels with the footage only, the ENG-material is assimilated into an in-house production.

Contrary to the 'other' producers, the 'core' producers carry the complete risk of overages – as well as the sole creative and organisational responsibility – for the production. This is why cinema and television producers gain intellectual property rights to their productions (§ 94 of the Copyright Act) and usually apply a reduced 7 per cent VAT rate to their bills. In contrast, 'other' producers will add 19 per cent VAT for their service, even though in individual cases 7 per cent could be justified.

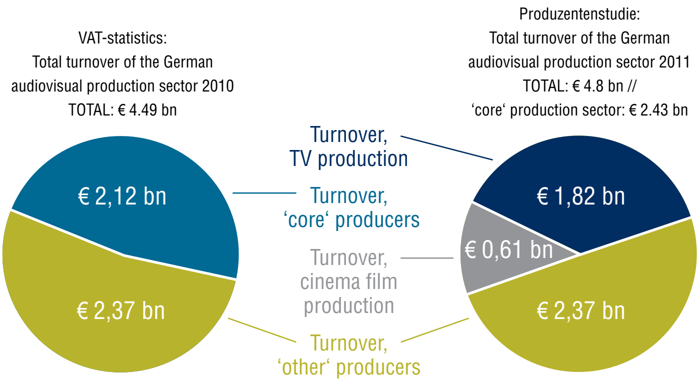
IV. Revenues

1. Available Data

As stated above, estimations concerning the production sector's yearly turnover differ immensely. The reasons for that are straightforward: Few enterprises do publicise their turnover and the broadcasters do not break down their programme spend according to in-house, co- and external productions. Public broadcasters do at least distinguish these in their output of first-run programmes (output per year in minutes). Private channels do not even release this information.

2. German Production turnover in 2010 and 2011

The total turnover of the entire audiovisual production sector in 2011 was €4.8bn. €1.82bn came from television productions; €610m cinema producers generated. €2.37bn 'other' producers turned over.



The responses were up-weighted based on a segmentation of companies by turnover band. A comparison with the yearly turnover tax statistics for 2010 (the 2011 statistics had not been published at this point yet) proved the study's results to be very realistic.

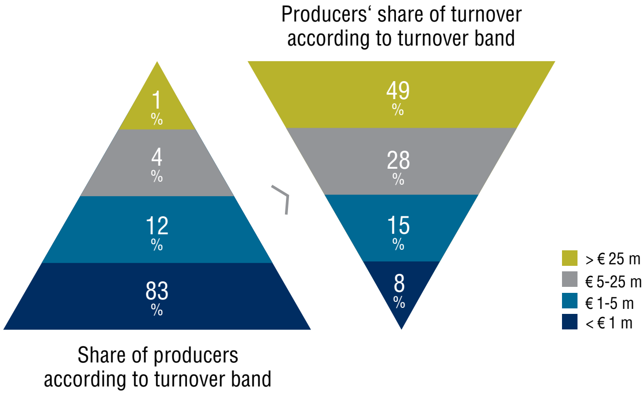
In comparison, the data of the turnover tax statistics (advance returns) is only a little lower because the Federal Statistical Office only considers taxable transactions. Hence, revenues like cultural subsidies or international licence revenues are not regarded as taxable turnover and therefore are not included in the VAT-statistics. However, since economically and financially these revenues are part of the business income, the study did take them into account.

The study's turnover comprises the entire production market (both 'core' and 'other' producers) and includes every company that had specified in the questionnaire that the majority of their income was generated with the production and commercial exploitation of audiovisual material and not with other media services, like postproduction.

3. The distribution of turnover in the "core" production sector 2010

On the basis of the turnover size bands in the turnover tax statistics of 2010, the sector's distribution of turnover can be deduced. However, the statistics do not show the whole picture since they do not include some revenues (e.g. subsidies and foreign revenues) and do not register small businesses with income under €17,500.

The triangular market structure that presents itself is typical for many economic sectors.



While 83 per cent of the businesses turn over less than €1m a year and are only responsible for 8 per cent of the 'core' producers' total turnover in Germany, 1 per cent of production companies (roughly 25 enterprises) generate nearly half of the overall turnover.

4. National and International Revenues

In stark contrast to many other economic sectors in Germany, the film and television production market is a predominantly national one. As the survey respondents stated, the production companies mostly supply German clients with films and television programmes. For three-fourth of film producers and 4 out of 5 television producers, 90 per cent and more of their revenues originated from German sources. Only 4 per cent of cinema producers and 3 per cent of TV producers stated that more than 70 per cent of their income came from foreign companies or licence holders.

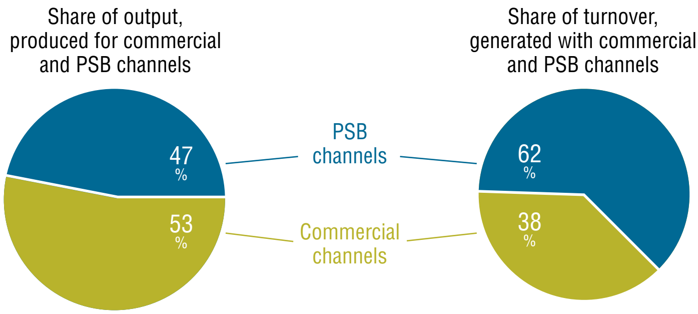
V. Output of external commissions

1. First-run external programmes by channel groups

By means of encoding and analysing the programmes of the major television channels – the public service broadcasters (PSBs): ARD (including all 9 regional public broadcasters) and ZDF; and the commercial channels: ProSieben, kabel eins and Sat.1 (belonging to the ProSiebenSat.1 Group) as well as RTL, RTL II and VOX (RTL Group) – for one week in 2011, the channels' output of all first-run programmes for the year was projected. Since such a projection is afflicted with insecurity, further data was used to validate the results.

2. Output and Revenues: Public service broadcasters (PSB) versus private TV-channels in minutes and €

The broadcasters are the main clients for German producers. Regarding the volume of commissioned external productions, ZDF and ARD/Das Erste (without the regional public programmes) each roughly broadcast 100,000 minutes a year, RTL/RTL2/Vox conjointly around 170,000 and Sat.1/ProSieben/Kabel1 230,000 minutes. This means that the private channels taken together commission more from external producers, but per channel the programmes of ZDF and ARD/Das Erste contain a higher proportion of external commissions. Furthermore, although the output of first-run external productions of all public service broadcasters (including the regional programmes) is still a little lower than that of the commercial broadcasters, the turnover that producers generate with each presents a different picture.



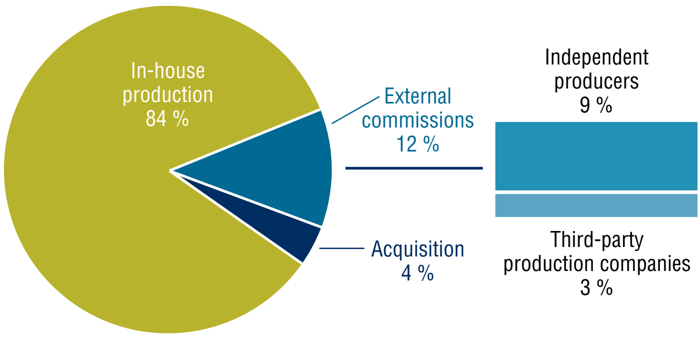
Private TV channels seem to commission more low-cost programmes then their PSB counterparts. Both, output and turnover are very important variables for the production market: With regard to economic considerations, turnover is more relevant, with regard to quotas, output is.

3. Distribution of first-run external and in-house commissions

The study focused on the channels' first-run originations, divided into in-house and external productions, and their programme acquisitions. Additionally, the study distinguished between external productions that were given to true independent producers and those that were realised by third-party production companies, i.e. those tied to the commissioning broadcaster. A producer is tied to a broadcaster when the TV channel or the business owning it (as provided for in §§15 German Stock Corporation Act, "Aktiengesetz") holds at least a 25 per cent stake in the production company (see § 28 German Interstate Broadcasting Treaty, "Rundfunkstaatsvertrag"; § 3 II No 3 media law of North Rhine-Westphalia).

On the ARD/Das Erste, one third of all first-run programmes in 2011 have been external productions. Two-thirds were in-house productions and acquired programmes. From the external productions another third was produced by companies tied to ARD channels, two thirds were delivered by independent producers. The 9 regional broadcasters have always had a much lower share of external productions due to a very high proportion of in-house productions. The TV programme analysis confirmed this fact:

Regional public broadcasters: Output of first-run originations and acquisitions in 2011 in %



Analysing the first-run programmes of ZDF, the share of external production was 32 percent. 61 percent were produced in-house. As with the ARD and its regional programmes, a third of ZDF's external commissions were realised by production companies, economically linked to the ZDF, and two-thirds were made by independent producers.

The high proportion of in-house productions of German PSB channels is due to the fact that nearly all news and current affairs as well as factual programmes, but also some entertainment and drama programmes, are produced by the broadcasters themselves. In the programmes of the commercial channels the share of in-house productions is much lower, since they do not even produce news programmes internally.

Faced with higher costs for in-house productions at the BBC and ITV and in order to secure a varied independent production sector in the UK, the British government had introduced a quota, limiting the in-house productions of the BBC and other PSB broadcasters.

With regard to production companies that are tied to broadcasters, the study also proved that they do not only produce for their stakeholders. In 2011 the third-party production companies only generated 57 per cent of their revenues with productions for their linked TV channels. In this respect, the German market is a lot more open and permeable than the US-American one for example, whose broadcaster-related production companies nearly solely produce for channels and other companies within their corporate group.

VI. Profitability

1. Net margins of German producers

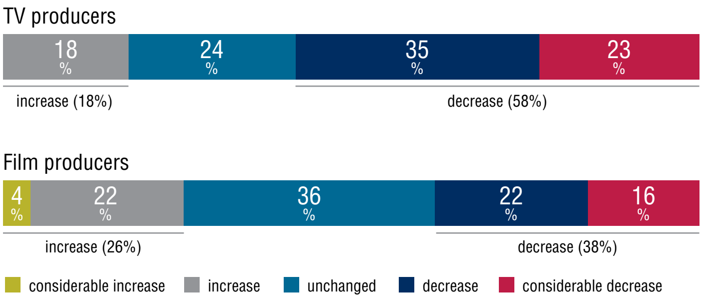
The net margins (= turnover ./. income before tax) of the German film and cinema producers in the year 2011 left a lot to be desired:

18 per cent of all producers operated at a deficit, 22 per cent worked on low net margins between 0 and 2.5 per cent. If the low margins of up to 5 per cent are also included, it can be stated that more than half of the producers had critically low net margins in 2011. Unlike the industries of manufacturers of consumer goods, for whom margins from 2.5 percent to 5 per cent would already be considered good business, the film and television production sector is project-based. The danger of one project failing completely is considerably higher than it is with manufacturing an individual car, a can of tomatoes or a laptop. Net margins for project-based businesses therefore generally have to be higher in order to counterbalance occasional big-budget productions getting out of hand. Hence, margins under 5 per cent are still considered critically low for the production sector.

2. Development of net margins

A further result that will concern German producers: Since 2002 the net margins have declined considerably.

Development of net margins since 2002



The problem of decreasing profitability hits every business in the television production sector: large and small, third-party and independent production companies.

From interviews with experts it became clear, that both the private channel groups – RTL and Pro-Sieben-Sat-1 – reduced the budgets for commissions after the collapse of the advertising revenues due to the global economic crisis in the year 2008. Consequently, the producer had to agree to budget cuts (less props, lower pay for the production staff, etc.) and/or had to offer more low-budget and fewer high-budget projects. Since German producers usually receive a set percentage of the budget as a fee, the lower programme prices and the shift to cheaper genres automatically meant lower net margins. In the meantime, both the private channel groups managed to stabilise their margins again: Whereas they were receding in 2008, they reached 12 to 15 per cent in the following years again.

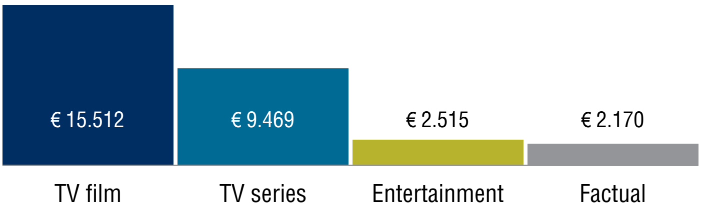
VII. External commissions: Costs, Cost development and Cost pressure

Corresponding to the decline in profitability, the production costs for external commissions have decreased. In the following, the average production costs are differentiated according to genre, since genres naturally cost differing amounts. The average genre costs are expressed in prices per minute.

The gap between the genre costs of fictional programmes (TV film, comedy and drama series and soaps) and non-fictional programmes (factual, entertainment and news and current affairs) is immense.

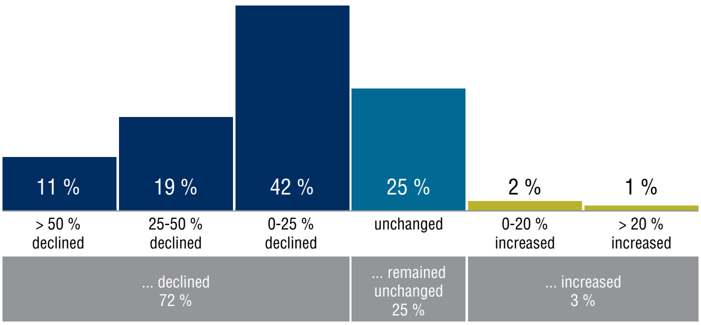
The costs within the non-fictional programmes do vary a lot more than within fiction. Production costs for factual programmes can be as low as €1,000 per minute. For elaborate entertainment shows, on the other hand, expenses can reach the costs of a TV series.

Average genre costs per minute in €



In order to trace the trend in production costs, the "Produzentenstudie" had asked the survey respondents, how the costs per minute for external commissions had developed since 2006. The result: only 3 per cent of the producers recorded an increase in their genre costs per minute over the last 5 years. Every 4th TV producer recognized that prices per minute of their projects had remained unchanged. The overwhelming majority of 72 per cent, however, claimed that genre costs had fallen. Every 3rd company even stated that costs had dropped by more than 25 per cent. The study did not distinguish between commissions from PSB channels and private channels.

Share of television producers, for whom genre costs per minutes have ...



But again there are genre-specific differences. The non-fictional programmes seem to be more affected by decreasing prices. Not only have channels changed their programme scheme to cheaper formats, but also within these genres – for example within factual entertainment – the producers had to agree to a very serious increase in efficiency.

1. Case Study "Tatort"

According to the 15th report of the German commission for determining the financial needs of public service broadcasters (Kommission zur Ermittlung des Finanzbedarfs der Rundfunkanstalten (KEF)), the costs per minute of an external production of the ARD crime series "Tatort" in 2003/2004 was around €16,200 (15th KEF-Report, p. 139-145). Per episode this means a budget of €1.43m. Since 2004 the costs seem to have decreased slightly: The "Tatort"-projects in the study's sample and the budget estimations by experts indicated a drop by roughly €150,000 down to €1.27m per project.

How do producers cope with these falling budgets? According to our experts, by cheaper producing: production processes were tweaked, postproduction nowadays costs less because of digitalisation, budgets for costumes and props were cut. Compared to "Tatort" productions in the 1990s, lavish stunt scenes have become scarce, too. Finally, shooting time has been reduced from an average of 28 to 23 days. Only "Tatort" episodes that are produced in-house still have more days for filming.

2. Cost pressure through insufficient financing

Cost pressure is not only generated by TV channels dropping the price. Even if the budgets, the TV channels are willing to provide, remained stable, the costs of the producers do not. Through the 2nd part of our survey, this fact was confirmed: For 17 per cent of external productions in our sample, the producers complained that they had to carry a share of the production costs, even though officially the project concerned was labelled as "fully financed" by the broadcaster. With regard to this, there are clear differences between the public service broadcasters and the private channels: PSB channels only covered the full amount of calculated production costs in 80 per cent of the times. A private TV channel carried the full budget for 93 per cent of the projects, it commissioned.

This development signals a turning away from the model of the fully-financed external production, where the TV channel pays 100 per cent of all costs plus a set production fee. Moreover, certain project-based costs (for example research for and development of other projects that are not broadcast in the end) and additional increases in costs are no longer covered by the set overhead rates that the PSB and the commercial channels provide.

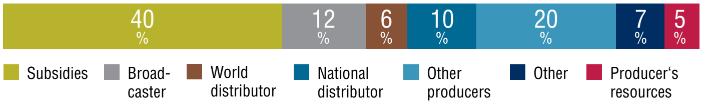
VIII. Financing

1. Cinema Film

The production costs of a theatrical production are covered by various sources of revenue: Subsidies, sale of licences to the TV channels prior to production, minimum guarantees from national and world distribution and investments by co-producers.

If you take the production costs of all cinema projects in the study's sample and add the various sources of finance together, the following picture results:

Cinema - average financing modell



40 per cent of the production costs for feature films in 2011 were paid by the Federal Film Board (FFA) or regional film subsidy instruments. The producer him-/herself provided less than 5 per cent – either in form of cash, a loan from the bank or by making a provision.

TV channels contributed 12 per cent financing to German cinema productions in 2011. However, this share is not evenly distributed: only 58 per cent of all cinema films received funding by the broadcasters at all. For these projects the average share of co-financing by a broadcaster was 27 per cent.

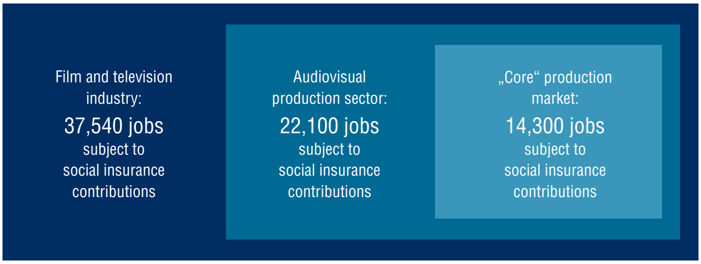
It needs to be added, that it is mainly the PSB channels that fund cinema productions and thereby constitute a relevant factor for the financing of cinema films. Only every 10th cinema project that was co-financed by a broadcaster in 2011 received funding from a private channel or a 100% subsidiary, like Seven Pictures.

2. Television film

Within German television productions nearly all originations, in-house and external productions, are completely financed by the broadcaster. Only for co-productions the costs are – similarly to cinema films – split between different sources of finance: the broadcaster, subsidy board, world distribution and co-financiers from abroad. Subsidy instruments are very important to these co-productions, even though the money put into TV productions is less than 15 per cent of the funding granted to cinema productions. In the case of a television project receiving film subsidies, the subsidies' average share amounted to 21 per cent of the entire production costs. Nevertheless, in the context of the €1.83bn total turnover of the television production sector, public funding was less than €30m, which is only 1.4 per cent of its revenue. This finding illustrates that cinema productions are much more dependent on public funding than television programmes.

IX. Employment

Without including national teleshopping programmes, German broadcasters comprised 44,000 employees and freelancers in 2011 (according to ALM (ed.), "Wirtschaftliche Lage des Rundfunks in Deutschland 2010/2011", p. 557 ff.). German production companies, specialised on making TV programmes, only employed 16,000 people in total. If you only compare the jobs subject to social insurance contributions, the broadcasters had around 25,900 employees and television producers 12,150. In the entire film and television industry – including 'core' and 'other' producers, the facilities sector and also distribution and cinemas – 37,540 people were employed in 2011 and subject to mandatory social insurance contributions. An employee pays mandatory social insurance contributions out of his pay check, if his/her job is based on an employment contract and pays more than €400 a month.



Within the "core" production market, i.e. only cinema and television production, 14,300 men and women had jobs that mandated social insurance contributions. This amounted to 65 per cent of the entire audiovisual production market – which also includes advertising, ENG reporting, etc. – and to 38 per cent of the film and television industry in total. It needs to be pointed out that the "Produzentenstudie" also took into account owners of the companies and people in minor employment as long as social insurance contributions were still paid through that job.

Despite differences in the methodology, a comparison with the DIW-survey from the year 2001 shows that employment within the 'core' production market has shrunk. This holds true in particular for the regular members of staff: In 2000 they accounted for 12,050 employees within the production sector. 11 years later, there were just above half the amount of the jobs left.

X. Rights and revenue distribution

The fundamental value that 'core' producers generate are the intellectual property rights to their audiovisual productions. Hence, what a filmmaker is worth is largely dependent on the long-term film rights that his/her company holds. The distribution of rights between producers and their business partners within a vertical market therefore belongs to the central parameters of any production market.

The discussions about sharing rights between broadcasters and television producers started in the late 1990s under the heading "Terms of Trade". In the debates the traditional system of rights distribution which had emerged during the time of sole public television in Europe was strongly attacked. The old system is based on a so-called buyout model with a set rate of additional payment (cost-plus model). According to this, the broadcaster commissions a programme and covers all of the projected production costs. The contractor receives a set overhead rate of 6 per cent and a set profit rate of 7.5 per cent. In return the producer has to transfer to the broadcaster all secondary and tertiary rights to the production. This is called a total buyout.

However, the result of the survey shows that nowadays rights to external commissions are occasionally shared. In our sample, for 20 per cent of the programmes commissioned by private and for 15 per cent commissioned by PSB channels, the producer retained certain ancillary rights.

Another financial incentive for the producers to make their product more successful and more attractive to other markets and enable other forms of rights exploitation is a bonus system. This means the production company receives a special payment if certain success parameters are fulfilled, like reaching a certain audience share. The survey respondents stated that bonuses are only common when working with private channels.

Granting a share in the revenues generated through secondary and tertiary rights exploitation is another incentive. The German Producers Alliance was able to secure a share in revenues from international sales of a production and from ancillary rights in the codes of practice with ARD and ZDF.

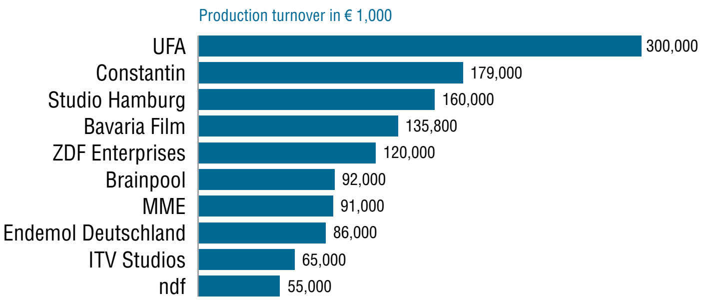
Despite the fact that ARD and ZDF had agreed to this arrangement, it was only met in a third of all cases. RTL group and ProSiebenSat.1 on the other hand refused to agree to these terms of trade, but the study indicated that revenues from international distribution or ancillary rights were shared with the producers in some cases. Experts saw the reason for this contradiction in the favourable conditions going along with international format trade.

XI. Top 10

The study offers a ranking of the production companies (consolidated) with the highest rates of turnover. Turnover here means solely the revenues generated through production and rights exploitation of films and television programmes produced by the company itself. Turnover generated through subsidiaries have been attributed to the consolidators according to their share within that production company.

Representations of the top 10 so far always included all revenues of a company as this is the way the electronic ”Bundesanzeiger” (the German business register) publishes them. This holds true for the top 10 ranking “Die zehn größten deutschen Produktionsfirmen 2012” by the Institute for Media and Communication Policies (Institut für Medien- und Kommunikationspolitik (IfM)) for example. But production companies like Studio

Top owners / consolidators according to production turnover



Hamburg GmbH generate large amounts of their revenues with activities apart from the production and commercial exploitation of audiovisual material (e.g. technology, studios, distribution, etc.). Additionally, the Produzentenstudie, unlike the IfM, allocates revenues of a company to the respective mother company. For example: Since ZDF Enterprises owns 50 per cent of a strong Bavaria-subsidiary the turnover has partially been added to that company's turnover. The IfM, on the other hand, had assigned the entire revenues to Bavaria Film. For this reason Bavaria Film is lower and ZDF Enterprises higher in our ranking compared to their positions in the IfM list.