

**TV TRENDS**

# The Way Forward for the UK Television Market in 2017

**2017 promises to be a momentous year in world affairs and in television. Article 50 will be triggered, beginning the UK's departure from the European Union and the US has a new administration. With a dramatically changed political and economic environment, there are questions about how this year will shake out for the UK television industry.**

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*The television sector is set to change more rapidly than ever this year.*

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At an FTI-hosted Breakfast Briefing in mid-January, Jonathan Allan, sales director at Channel 4; Claire Tavernier, owner and managing director at StoryTechLife; David Bouchier, chief digital entertainment officer at Virgin Media and Toby Syfret, TV research analyst at Enders Analysis discussed six potential developments in 2017:

- Television Advertising – will the market hold up despite economic concerns related to Brexit?
- More great British drama is in store, but are there potential risks here?
- Fox is poised to buy Sky, but will Karen Bradley trigger an Ofcom review that could place approval in the latter half of 2017? Also, how will the ultimate merger transform the television landscape in the UK and Europe?
- There is a new BBC Charter, but is Ofcom ready to take on the new responsibilities this coming April?
- Channel 4 had a strong 2016, but will 2017 find the broadcaster either privatised or leaving London?
- ITV has hired Spencer Stuart to develop a succession plan, but is the company more likely to be sold in 2017?

## **Television Advertising – will the market hold up despite economic concerns related to Brexit?**

After the Brexit referendum passed in June 2016, many industry experts reduced their forecasts for the UK advertising industry in 2016, carrying that into 2017. However, as 2017 begins, the television advertising markets have held up despite initial pessimism.

Jonathan Allen of Channel 4, acknowledged that they had explored “Armageddon-like scenarios,” post-Brexit, but he now believes that this year will be broadly flat. “Advertising is as much about confidence as it is about economic indicators,” he pointed out. “The momentum in the economy will keep going. I’m not bullish but I think it’ll be OK.”

“We haven’t yet had Brexit so we don’t know what effect it will have,” said Toby Syfret of Enders. He pointed to the importance of the next IPA Bellwether Report, which is researched and published by Markit IHS on behalf of the IPA, the professional body for practitioners in advertising and marketing communications. It draws on original data drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy. “When changes occur they can be pretty sudden. If there *are* alarm bells they’ll probably sound between April and October.”

The influencer market is growing fast which also will have consequences for TV advertising. Claire Tavernier reminded the seminar. “You’ve got a toy review on YouTube with a group of five year old kids because kids this age don’t watch TV now. Certain demographics, especially younger audiences, are moving away from the traditional 30 second spot.”

## **More great British drama is in store, but are there potential risks here?**

British TV drama is riding high with programmes such as the BBC’s *War and Peace* and *The Night Manager* (which won 3 Golden Globe awards in January), ITV’s *Victoria* and *National Treasure* on Channel 4 all enjoying critical acclaim and drawing large audiences. The same is true of *The Crown*, which debuted in November on Netflix and earned the producer Left Bank Pictures and the show’s star Claire Foy for her portrayal of Queen Elizabeth II Golden Globes. Many of these shows were made possible through co-production funding arrangements with large US media and entertainment companies, for example A&E Networks and AMC Networks.

Highly anticipated programmes for 2017 also involved co-production funding arrangements. The current BBC show *Taboo* starring Tom Hardy was produced by Ridley

Scott’s Scott Free Productions (UK) and co-funded by the BBC and Sonar Entertainment, which has sold the US rights to FX airing around the same time. *Guerrilla*, a mini-series featuring Idris Elba and portraying political activists in 1970s UK is an ABC Signature Studios (Disney) production with funding coming from Sky Atlantic (UK) and Showtime (US). Other producers include Idris Elba’s UK-based Green Door Pictures, Fifty Fathoms, Productions also in the UK and Stearns Castle (US).

Sky will debut *Riviera* this summer, which has been commissioned across the five Sky platforms in the UK, Germany, Italy, UK and Ireland and will be distributed globally by Sky Vision, Sky’s distribution arm.

Some have observed that these new models mirror funding arrangements that parallel what the film industry has been doing for years. For example, Stephen Cornwell of the Ink Factory, the company behind the estimated \$30million production of *The Night Manager*, told Screen Daily in 2016, “We financed the series like an independent film.” It was a co-production between the BBC and US-owned AMC Networks (also BBC America’s joint venture partner in the US) that involved pre-sales to key European territories and tax incentives in the UK and Spain where the show was filmed. The Ink Factory along with Demarest Films provided equity funding.

“Film style financing is exactly the sort of structure that we’ve had to put in place because we don’t have the money that Channel 4 or Sky has to produce drama,” said David Bouchier. “But what we do have is a pan-European footprint and a best in class production business in the UK.”

While players like Liberty Global and Sky have outlets for their programming investments, there may not be enough demand globally to fully fund the large number of dramas currently being produced in the US as well as in the UK. From the audience, Jane Millichip, managing director at Sky Vision, expressed concerns. Although she didn’t want to be seen as a “naysayer,” she argued that funding for drama is “not quite as healthy as has been suggested.”

She said: “Ambitions are growing, budgets are growing and international deficits are growing faster than the market. While Jane thinks “drama is healthy at the moment”, she believes the market needs to “start paying attention to the growing deficit problem. It used to be the case that international sales were your profit but now they’re your core funding and so unless we can invent more territories we’re heading for unrecouped advances. We need fresh funding in the mix.”

## **Fox is poised to buy Sky, but will Karen Bradley trigger an Ofcom review that could place approval in the latter half of 2017? Also, how will the ultimate merger transform the television landscape in the UK and Europe?**

With James Murdoch becoming Chairman of Sky in January of 2016 and the pound declining precipitously against the dollar following the EU referendum, it seemed certain to many that 21st Century Fox would make a bid for Sky in 2016. In December 2016, it was announced that 21st Century Fox had formally made an £ 11.7 billion bid to take full control of the 60.9% that it does not yet control.

It is likely that this year the merger will secure the appropriate approvals in the EU and in the UK. This is for a number of reasons. First, 21st Century Fox structured the deal in a way that makes it difficult for opposing shareholders to block a merger. Second, it is likely the EU will green light the merger in March as it approved the initial merger attempt in 2010, having decided that there were no concerns about horizontal competition.

A recent Enders paper, "21st Century Fox and Sky seeking merger clearance," anticipates that the EU approval will be granted in March, with the UK review to commence thereafter in the office of Karen Bradley, the Secretary of State at the Department for Culture, Media and Sport (DCMS). Exactly when the merger closes in 2017 is up to Ms. Bradley. Within ten days of notification by the EU, she will need to determine whether to issue a European Intervention Notice (EIN) which would then require review by Ofcom.

On one hand, many of the issues that surrounded the merger in 2011 are gone. 21st Century Fox and News Corp which now holds all the Murdoch newspaper interests were formally split in 2013, reducing concerns about media control. In addition, the nature of the news business has changed significantly since 2011.

On the other hand, the DCMS will probably receive this notice at the same time as the triggering of Article 50. Enders Analysis believes that "probably she will issue an EIN because the threshold for intervention is low, it is the easier path to take and does not prejudice the outcome of the investigation."

Assuming that the deal does go through, Sky will have access Fox's extensive, valuable content and it will be interesting to see how this takeover impacts the Fox Networks across Europe and how the combined company leverages its size, programme offering and vertical integration to become a leading player across Europe.

A major factor in this takeover is the fate of set top boxes. "What are the technologies of the future?" asked Toby Syfret. "Everything will, at some point, be in the Cloud. This represents a massive challenge for big content producers and distributors. James Murdoch is working towards that future. Sky, for instance, has Now TV, which could launch in other territories where Sky has no DTH presence; Spain, for example, about which there was some press speculation in August".

## **There is a new BBC Charter, but is Ofcom ready to take on the new responsibilities this coming April?**

The new Royal Charter means that the BBC faces major changes in 2017. These include the arrival of a new Chair, Sir David Clementi, a former deputy governor of the Bank of England who led an independent review of the governance structure of the BBC which shaped key recommendations in the "A BBC for the future: a broadcaster of distinction" White Paper.

There is also the introduction of regulation by Ofcom as a result of the abolition of the BBC Trust and the creation of a new unitary board with government appointees sitting alongside BBC officials.

From an FTI perspective, it will be interesting to see which areas Ofcom covers in its oversight of BBC and how light or heavy its touch is. The regulator will need to put the right people into place to satisfy this extension of its remit. In particular the BBC's size and its position as a publicly funded body differentiate it from the other organisations that Ofcom regulates and will present the regulator with new challenges.

An important issue for the BBC is the requirement set out in the White Paper for the Corporation's output to be "distinctive, high quality and impartial." In fact, the White Paper refers to "distinct" or "distinctiveness" 50 times, according to the Guardian. The question now for both the BBC and Ofcom is to define "distinctive" in practical terms and to translate it into programming. Work needs to be carried out here to explore this idea not just within the BBC itself, but among producers and audiences.

"The new regime should find a definition of "distinctive," pointed out Toby Syfret, while David Bouchier observed: "From our point of view it would be a good thing to have an experienced and vigorous regulator of the BBC."

"Distinctiveness," and many other aspects of the Corporation's output and business plan will be affected by the decision to allow independent producers to bid to make all of the BBC's output other than news, converting

its in-house production department into the independent BBC Studios. In April BBC Studios will be able to start developing business and generating revenue by creating shows for other channels.

ITV and Hollywood studios have produced programmes for other networks for some time now. However, alongside the opportunities that this innovation offers the BBC and production companies the BBC's requirement to create programming that is "distinctive," will present additional challenges to the Corporation and its new Chair.

### **Channel 4 had a strong 2016, but will 2017 find the broadcasters either privatised or leaving London?**

In 2016, CEO David Abraham's vigorous public campaign against privatisation as well as the broadcaster's continued strong performance led to the government backing off from a full privatisation. However, 2017 will likely lead to other conversations about the broadcaster's future.

It is understood that Karen Bradley has asked for a review of all commercial options facing Channel 4. It's been suggested that privatisation could be avoided by a re-location to Manchester or Birmingham. However, such a move could adversely affect the on-going operations of the broadcaster, which enjoyed another strong performance in 2016. In addition, it now has over 13 million UK citizens registered on its All 4 platform and has become a leader in leveraging data for enhancing advertising sales.

Privatisation or even a partial sell off could cut the amount spent on programming from the 2015 record figure of £629m, as shareholders would have to be satisfied and profit margins improved. The channel might not be in as good a position as it has been to create experimental programmes. In addition, a move to Manchester or Birmingham could cause problems with commissioning and for ad sales, as London remains a centre for the television market nationally and internationally.

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"One of the impressive things about Channel 4 is the way in which it's single minded about delivering its remit and innovative about generating advertising," said Toby Syfret. On the issue of privatisation he added: "It would be nice if its current owner could appreciate that. The privatisation idea was at the start of this Parliament and with Brexit the time frame is now very tight. I think that it will be pushed away."

### **ITV has hired Spencer Stuart to develop a succession plan, but is it more likely to be sold in 2017?**

At the beginning of 2017, it was announced that the board of ITV had retained executive recruitment firm Spencer Stuart to consider options for replacing both CEO Adam Crozier and CFO Ian Griffiths. The company said that there were no plans for Mr Crozier to leave and that the decision to retain Spencer Stuart was taken under consideration of his seven years in this position. While speculation exists as to whether ITV will be sold in 2017, most industry observers concur that Mr Crozier has done well to reduce the company's reliance on spot advertising through its acquisition strategy. Now the challenge is to identify and exploit other sources of revenue.

"This could be a good time to buy but the question is 'who wants to buy it?'" said Toby Syfret, noting that ITV is the biggest commercial broadcaster in Europe. "It appeals to content creators. An interesting player is Liberty Global, which increased its stake from 6.4% July 2014 to 9.9% a year later. Intuitively that puts them on the starting blocks ahead of the others."

## **Conclusion**

Against a background of continuing political and economic uncertainty, new developments in technology and an evolving regulatory regime mean that the television sector is set to change more rapidly than ever this year. Add to this mix ever more demanding consumers and both the threats and the opportunities for all players in the television industry are greater in 2017 than almost ever before.

#### **About FTI Consulting**

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