



# **COBA 2012 Economic Impact Report**

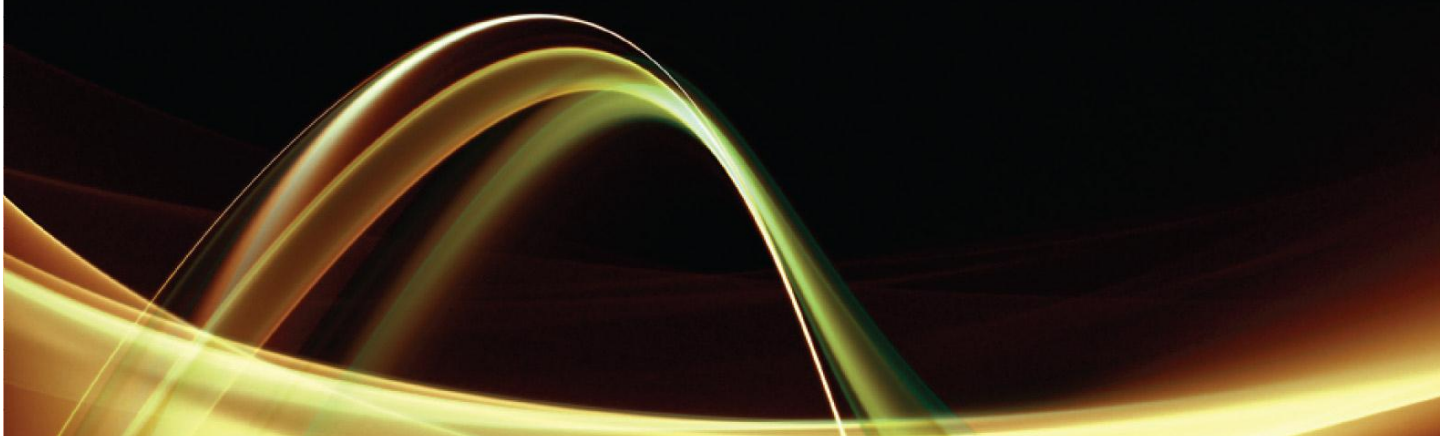
**The Contribution of the Multichannel sector to  
the UK Economy**

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A report for COBA  
prepared by Oliver & Ohlbaum Associates Ltd

September 2012

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# 1 Introduction

The Commercial Broadcasters Association (COBA) is the UK industry body for commercial broadcasters. Its members include all of the major non-public service broadcasters, as well as smaller broadcasters who provide targeted programming to niche audiences.

COBA members are:

- BSkyB
- Chinese Channel
- Discovery Networks
- Fox International Channels
- MTV Networks UK
- NBCUniversal International
- QVC
- SBS Broadcasting
- Sony Pictures Television
- Turner Broadcasting
- UKTV
- The Walt Disney Company

COBA members include a range of broadcasters, including UK-based businesses and multinational broadcasters. COBA members make an important and growing contribution to the UK economy, notably in terms of investment in UK content and UK employment, and through utilising the UK as a media hub both for their European operations and for commissioning content for other markets.

## 1.1 Key findings

Key findings from the COBA Economic Impact Study include:

- Members invested more than £600m in UK content in 2011, of which nearly £500m was first run.
- Investment in UK content has increased by more than £140m since 2009.
- Over a third of originated content investment goes towards supporting the independent production sector.
- Almost 70% of independent investment is spent with smaller producers.
- Almost 9,000 people are employed by COBA members in the UK.
- UK employment has increased by more than 1,000 people since 2009.
- Spend on non-domestic channels based in the UK contribute around £400m to the UK economy.
- COBA members contributed £4.2bn in total in Gross Value Added to the UK economy in 2011<sup>1</sup>.
- In addition to the investment made directly by the UK channel businesses, further investment into UK content is made by other companies in multinational groups. COBA members invested in excess of £60m in UK content at group level in 2011, not captured in the expenditure of the UK channel businesses.
- The UK is the leading European media hub for COBA members. In addition to their UK channel businesses, much of their European operations are based and broadcast out of the UK. Non-domestic channels targeted at other European markets are much more likely to be situated in the UK than any other European country.

## 1.2 Scope of the economic activities of COBA members

The scope of the economic activities of COBA members includes their UK channel businesses and non-UK channels operated and distributed out of the UK, using the UK as a media hub:

- Through their UK activities, COBA members have a direct economic impact through their expenditure on UK content, investment in people, operational costs and services.
- COBA members include UK-based broadcasters, as well as global broadcasters who are utilising the UK as a media hub both for their European operations and for commissioning content for other markets.
- For non-UK channels operated in and broadcast out of the UK, cash expenditure and wage costs are included as direct contributors to the UK economy.
- Additionally we have looked at the investment into UK content at group level. Most of COBA's members are part of global multinational businesses and as such structures are not always strictly separated between UK and non-UK activities. Some UK commissioning and purchase of rights is run at group level outside the UK. Where the UK channel businesses contribute towards total UK content investment for the right to broadcast the content on their UK channels, their share of contribution is measured in the UK channel business.
- Where investment is made (either by the UK channels or at global level) into UK content that is not for broadcast on UK channels this has still been measured, but captured separately to the UK operations. This is because, though it contributes to the UK economy, the relationship between the COBA members' UK activity and the value generated is less direct than commissioning programs for UK channels.
- Expenditure outside the UK, and its related value added created, is excluded from the total Gross Value Added (GVA) set out in the economic impact below.

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<sup>1</sup> The GVA measured in this report only refers to the broadcast activities of COBA members. It excludes non-broadcast activities such as studio facilities and ISP activities.

## 2 Measuring the economic impact

A number of economic impact studies have been undertaken in recent years within the creative sector. It is a widely recognised method to assess the impact players have within the creative industries and on the wider UK economy as a whole.

The study “Economic Impact of the UK Screen Industries” by Cambridge Econometrics and Optima (a joint venture between Oliver & Ohlbaum and David Graham Associates) for the UK Film Council in 2005 formed the basis of a number of other studies.

For our approach to estimating the economic impact of COBA members on the UK economy we gathered quantitative and qualitative data via questionnaires and interviews directly from COBA members and reviewed a number of economic impact studies for methodologies and relevant multipliers, including:

- “Economic Impact of the UK Screen Industries”, 2005, by Cambridge Econometrics and Optima for the UK Film Council
- “The impact of Channel 4 on the UK independent sector, creative industries and the economy”, 2007, by PwC for Channel 4
- “The BBC Trust Conclusions: The economic impact of the BBC on the UK creative and broadcasting sector”, 2008, by PwC
- “The Economic Impact of the BBC: 2008/09” by Deloitte for the BBC,
- “The Economic Impact of Sky on the UK”, 2012, by Oxford Economics for Sky

The multipliers used have been widely applied in a number of economic impact studies in the creative sector. There are Type I and Type II multipliers. Type I multipliers measure the impact between direct investment and indirect impact only, whereas Type II multipliers measure the impacts from direct investment to indirect and induced. We have incorporated both types in order to isolate each individual category of effect (direct, indirect and induced). Indirect impacts tend to be a strong addition to the direct impacts and induced impacts tend to be a relatively weaker addition to the direct and indirect impacts.

To assess the total contribution to the economy we therefore look at four main areas:

**Direct impact** – this is expenditure by COBA members constituting the Gross Value Added (GVA) contribution to GDP, employment and tax revenues generated in the UK.

**Indirect impact** – these are the impacts generated in the immediate supply chain as a result of procurement of goods and services by COBA members. Indirect impacts are the value added created at suppliers, the number of jobs supported and tax receipts generated and are estimated by applying relevant multipliers to the direct impact numbers.

**Induced impact** – these are the impacts generated from spending by COBA employees and employees in the immediate supply chain on consumer goods and services and are estimated by applying relevant multipliers to the direct impact numbers.

These first three areas constitute the estimated total GVA for the UK economy as a result of the activity of COBA members.

The fourth and final area we have looked at is investment from outside the UK. This is not included in the GVA, but is discussed separately as it still constitutes important investment into the UK economy.

## 2.1 Direct Impact

Firstly we estimate the direct impact. This is money flowing into the UK economy through expenditure on UK content, distribution of channels, sales & marketing, infrastructure & overheads, wages and taxes. It accounts for the value to the economy directly attributable to the operations of COBA members.

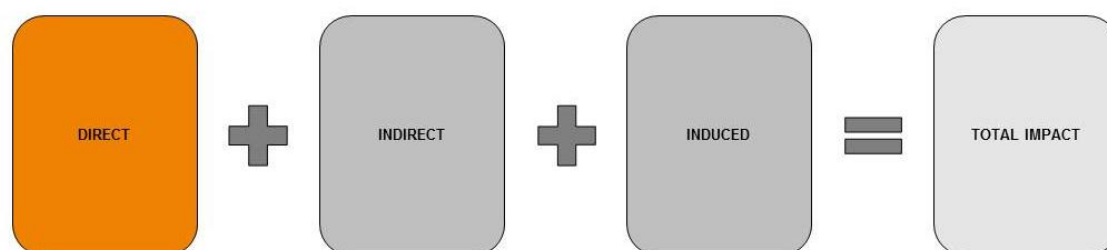
## 2.2 Indirect Impact

Next we estimate the indirect and induced impacts. The wider indirect and induced impacts are estimated by applying multipliers to the direct expenditure. The indirect impact is the impact of COBA members on the GVA of companies in the immediate supply chain that supply goods and services purchased by them.

## 2.3 Induced impact

Induced impacts arise on the GVA of companies outside the immediate supply chain, as a result of the expenditure of COBA members' own employees and employees in the immediate supply chain on goods and services.

Figure 1: Gross Value Added (GVA) - UK economic impact elements



## 2.4 Investment from outside the UK

The fourth and last area looks at the investment into UK content at group level. This investment is not accounted for in the GVA, but is dealt with separately. Although this expenditure is not necessarily for broadcast on UK channels, it still forms part of the groups' integrated business ecology and constitutes significant investment into the UK economy and creative sector.

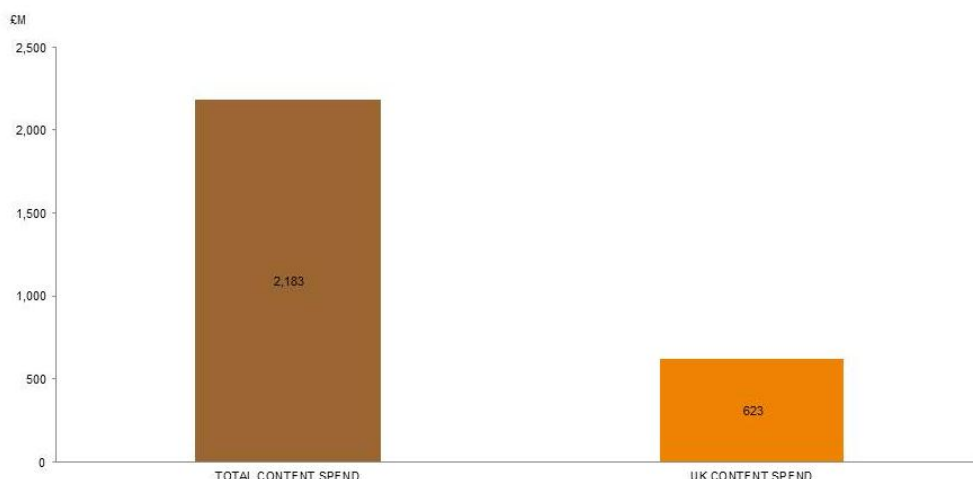
**COBA members invested  
more than £600m in UK  
content in 2011**



## 3 Investment in content

### 3.1 Direct impact – UK content

Figure 2: UK channel content investment 2011



Source: COBA members, Oliver & Ohlbaum analysis

COBA members spent almost £2.2bn on content investment in 2011. Of this, just under a third (£623m)<sup>2</sup> was spent on UK content in the form of in-house productions, external commissioning of originated content and co-productions. In addition, there was investment in UK secondary rights, i.e. the purchase of rights to broadcast repeats of content commissioned by other broadcasters and previously aired on other channels. Investment also goes into reversioning of non-UK content – both English spoken and non-English spoken - to adapt it to the UK broadcast market.

Content investment has been broken down and recorded according to the following categories:

#### UK content investment

UK content investment contains the following categories:

In-house original commissions – first run licence fully funded programming

External original commissions – first run licence fully funded programming

Original commissions co-funded/co-produced - first run licence partly funded programming

Repeats of UK commissions – UK secondary licence for programmes that have previously been shown as a first run broadcast on another channel

<sup>2</sup> The actual total is likely to be slightly higher as this number excludes any allocation to the UK of underlying rights purchases.

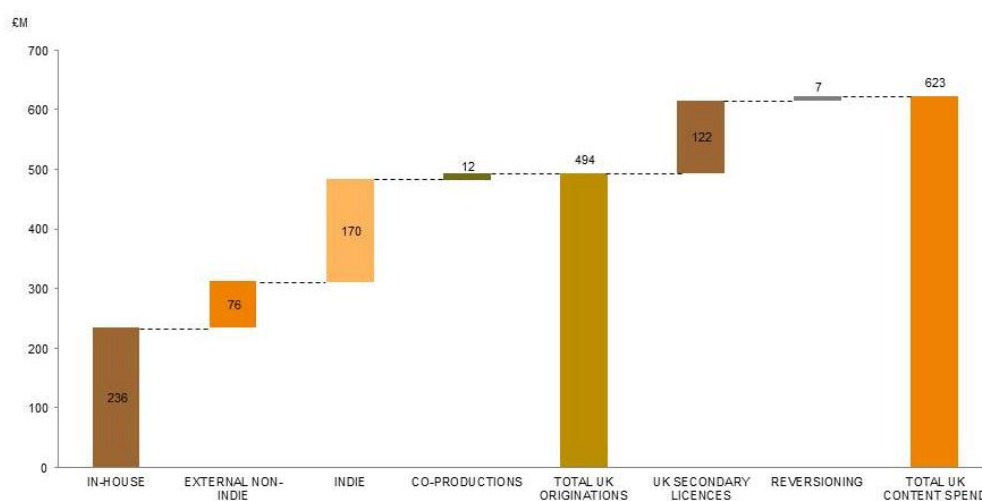
Non-UK content investment

Non-UK content investment contains the following categories:

Non-UK original commissions – first run licence for programmes commissioned outside the UK

Non-UK acquisitions – first run and repeats for acquisitions originating outside the UK, including intra-group non-UK programmes

**Figure 3: Investment in UK content 2011**



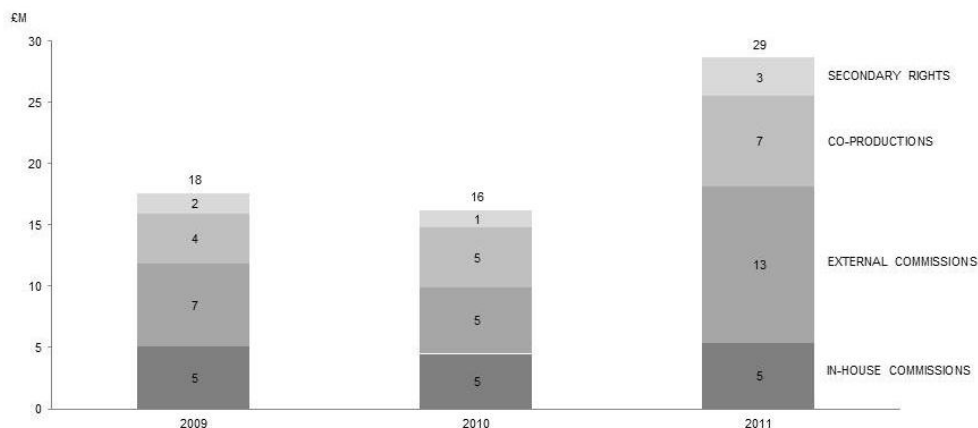
Source: COBA members, Oliver & Ohlbaum analysis

Investment includes sports production costs, but not rights.

It has not been possible to provide detailed breakdown for each genre in order to protect the anonymity of channels operating within specific genres. We have however looked into investment into children’s programming in more detail.

Investment in UK children’s content rose from £17.7m in 2009 to £28.6m in 2011, a rise of 26% CAGR.

**Figure 4: Investment in UK children’s content 2009-2011**



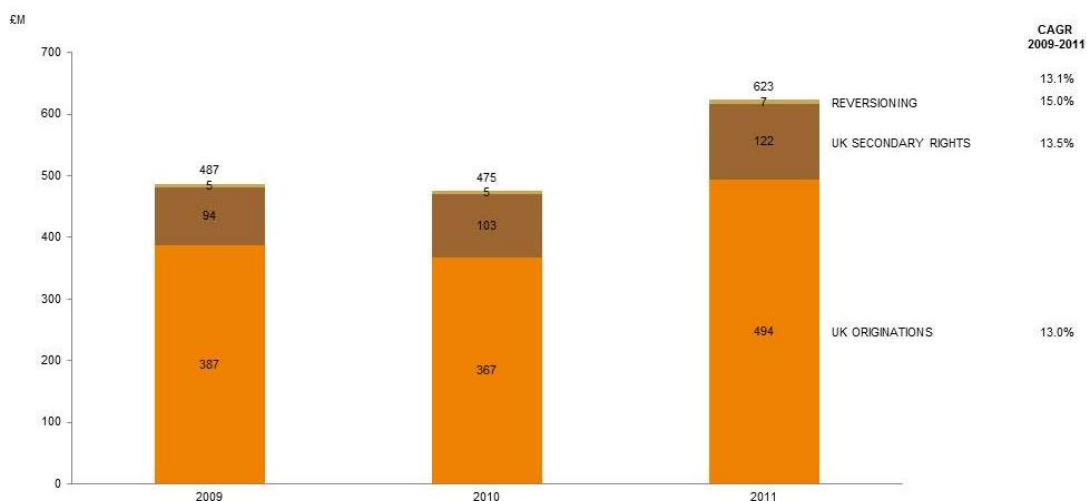
Source: COBA members, Oliver & Ohlbaum analysis

Investment in new UK children’s commissions (in-house, external and co-productions) rose from £16.0m in 2009 to £25.5m with investment in secondary UK rights rising from £1.7m in 2009 to £3.1m in 2011.

### 3.2 Investment in UK content is growing, up 27.9% since 2009

Investment in UK content has grown 27.9% between 2009 and 2011, or around 13% CAGR, rising from £487m to £623m.

**Figure 5: Investment in UK content 2009-2011**

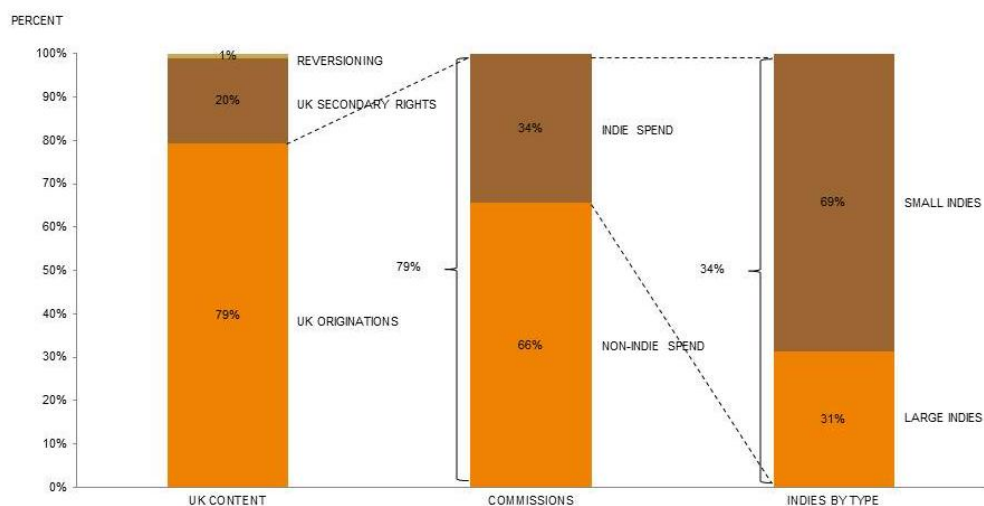


Source: COBA members, Oliver & Ohlbaum analysis

### 3.3 COBA members support the indie sector and smaller producers

Spend on first run UK originations amounted to £494m in 2011 of which over a third was spent with independent producers. More than two thirds of this independent spend goes towards supporting the SMEs.

Figure 6: Investment in UK originated content by source 2011<sup>3</sup>



Source: COBA members, Oliver & Ohlbaum analysis

<sup>3</sup> Large indies are categorised as the following independent producers and their related companies: Talkback/Fremantle, Shine, All3Media, Endemol, Zodiak, Shed/Time Warner. Although changes in ownership means all companies are no longer indies as of 2011, the list of companies has been retained for consistency over the period. Time Warner took a controlling stake in Shed end 2010 and Shine was acquired by News Corp mid 2011.

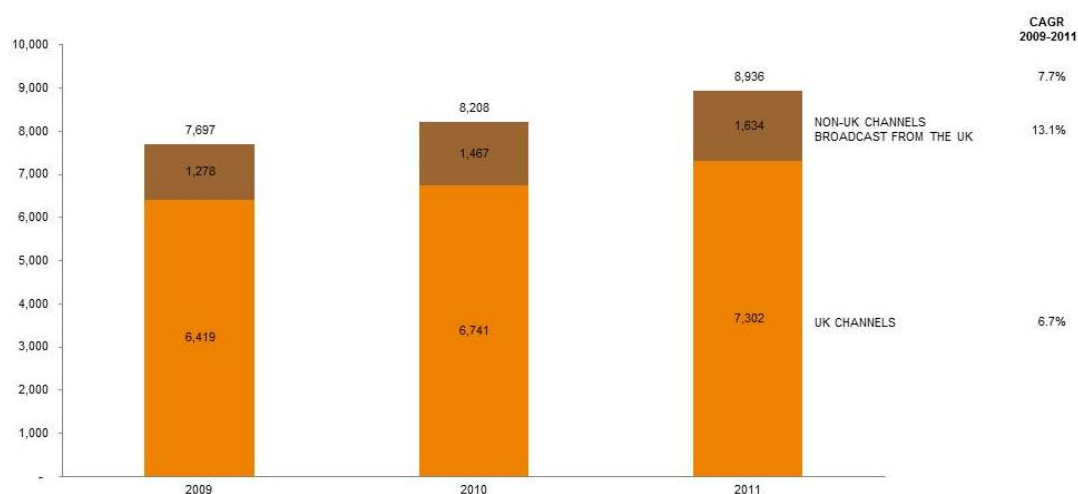
**COBA members employ  
almost 9,000 people in the  
UK**

## 4 Other direct effects

### 4.1 COBA members employ almost 9,000 people

COBA members employ around 9,000 people in the UK. Employment grew by over 1,000 between 2009 and 2011. There are two sources of employment within the UK – the UK channel businesses themselves, but also significantly non-UK channels that are based and broadcast out of the UK. In addition, for some non-UK channels broadcast outside the UK, the majority of staff is still located in UK media centres.

**Figure 7: UK employment 2009-2011**



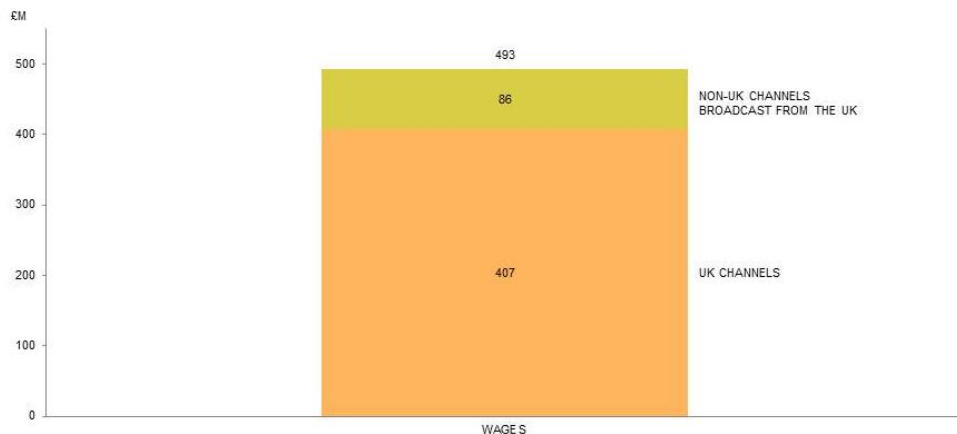
Source: COBA members, Oliver & Ohlbaum analysis

The majority of jobs are with the UK channels, although employment related to non-UK channels has seen even higher growth.

The wage bill for these employees paid in the UK came to almost £500m in 2011, with around a fifth of this for employees on non-UK channels.

Using employment multipliers, in addition to the nearly 9,000 people employed directly by COBA members, their activities and direct investment are estimated to have supported additional employment of almost 47,000 people in their supply chains. These people in turn support further employment across the UK through their spending of wages on goods and services.

**Figure 8: UK employment 2009-2011**

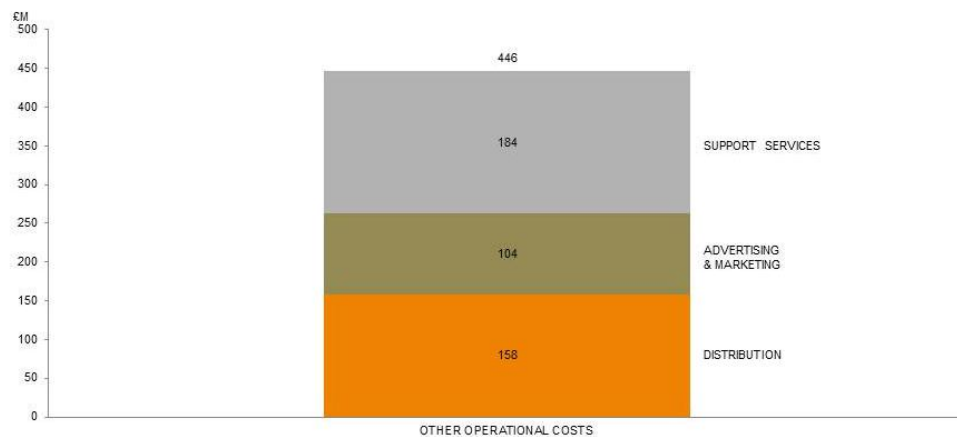


Source: COBA members, Oliver & Ohlbaum analysis

## 4.2 Other expenditure

Other expenditure generated in the UK includes the cost of channel distribution, advertising and marketing and the use of support services totalling almost £450m.

**Figure 9: Other operational costs 2011**

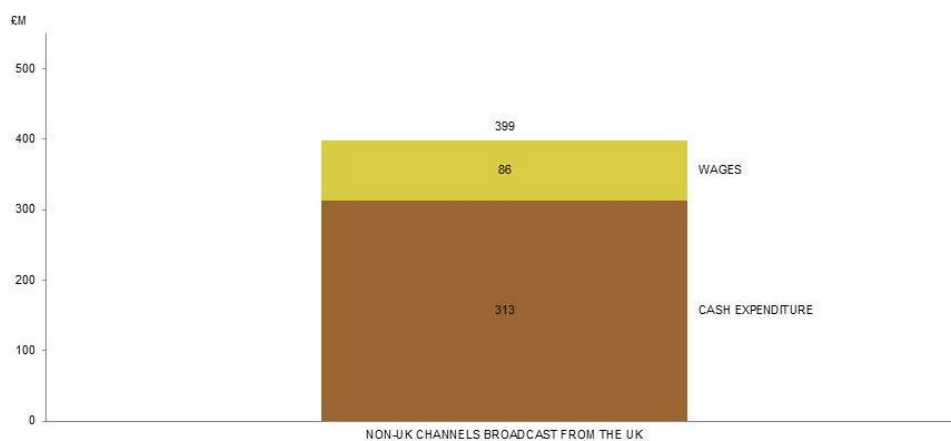


Source: COBA members, Oliver & Ohlbaum analysis

## 4.3 Direct impact - non-UK channels based in the UK

Non-UK channels based and broadcast in the UK bring significant investment to the UK economy, both in the way of cash expenditure on these channels, as well as wages paid in the UK, amounting to around £400m.

**Figure: 10 Spend on non-UK channels based in the UK 2011**



Source: COBA members, Oliver & Ohlbaum analysis

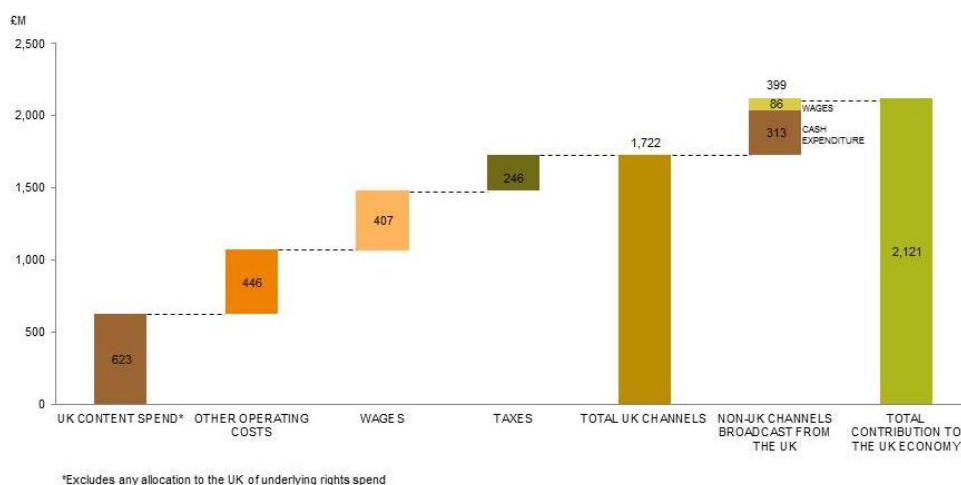
#### 4.4 The direct economic impact of COBA members

We estimate that the direct impact of COBA members on the UK economy in 2011 was just over £2.1bn. The direct impact can broadly be divided into investment in UK content, operational costs, wages and taxes.

Investment in UK channels was just over £1.7bn in 2011, of which more than a third was investment in content and a further half on wages and other operating costs. Spend on non-UK channels based in the UK, in the form of cash expenditure and wages, contributed another £0.4bn.



**Figure 11: Direct investment into the UK economy 2011<sup>4</sup>**



Source: COBA members, Oliver & Ohlbaum analysis

## 5 Indirect impact

Through their UK activities, COBA members have an economic impact both directly through their expenditure on UK content, investment in people, operational costs and services, as well as more widely through indirect and induced effects in the creative sector and beyond.

Applying the multipliers to the direct investment of COBA members, we estimate a further indirect impact of £1.3bn.

## 6 Induced impacts

Induced impacts arise on the GVA of companies outside the immediate supply chain, as a result of the expenditure of COBA members' own employees and employees in the immediate supply chain on goods and services.

The induced impact of COBA members' activities is estimated at £0.8bn, taking the total estimated impact on the UK economy to £4.2bn.

<sup>4</sup> Excludes any allocation to the UK of underlying rights spend

**The multichannel sector  
contributes over £4bn to  
the UK economy**

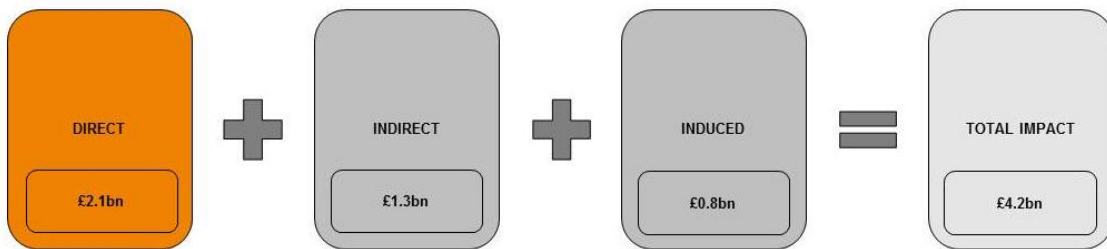
# 7 The total contribution to the UK economy

## 7.1 Total contribution to the UK economy in 2011

COBA members are estimated to have contributed £4.2bn to the UK economy in 2011. £1.7bn is in the form of direct investment from their UK channel businesses. An additional £0.4bn is from their UK media hub activities, i.e. non-UK channels that are distributed out of the UK where channel expenditure for distribution and the like and wages for people employed in the UK are still paid in the UK, thus contributing to the UK economy.

We estimate a further contribution of £1.3bn in the form of indirect impacts and another £0.8bn of induced impacts generated from the direct investments undertaken. This takes the estimated total GVA of COBA's members to the UK economy to £4.2bn.

**Figure 12: Direct, indirect and induced contribution to the UK economy 2011**



In addition to the £4.2bn contributed to the economy COBA members also play an important role as employers, supporting 9,000 jobs directly in the UK. In addition, the employment of a further estimated almost 47,000 people was supported in the supply chains of COBA members. A further positive effect on employment would take place by these people spending their wages on goods and services.

## 8 Group level investment in UK content

In addition to the investment made directly by the UK channel businesses, further investment into UK content is made by other companies in multinational groups. (For example, this could be by either US-based channels or at corporate level for groups with operations in the UK). Where the UK channel businesses contribute towards total UK content investment for the right to broadcast the content on their UK channels, their share of contribution is measured in the UK channel business and is included in the data shown in Chapter 3.

Investment at group level in UK television content is considerable. COBA members invested in excess of £60m in UK content at group level in 2011, not captured in the expenditure of the UK channel businesses.

Examples of this non-UK investment in UK content include:

- Discovery's BBC co-productions including *Planet Earth*, *Man on Wire*, *Life*, *Frozen Planet*
- Discovery's co-production *Werner Herzog: On Death Row*
- HBO's *Game of Thrones*, mainly shot in Northern Ireland<sup>5</sup>
- *Downton Abbey*, a co-production through NBC Universal owned Carnival Films, filmed in the UK

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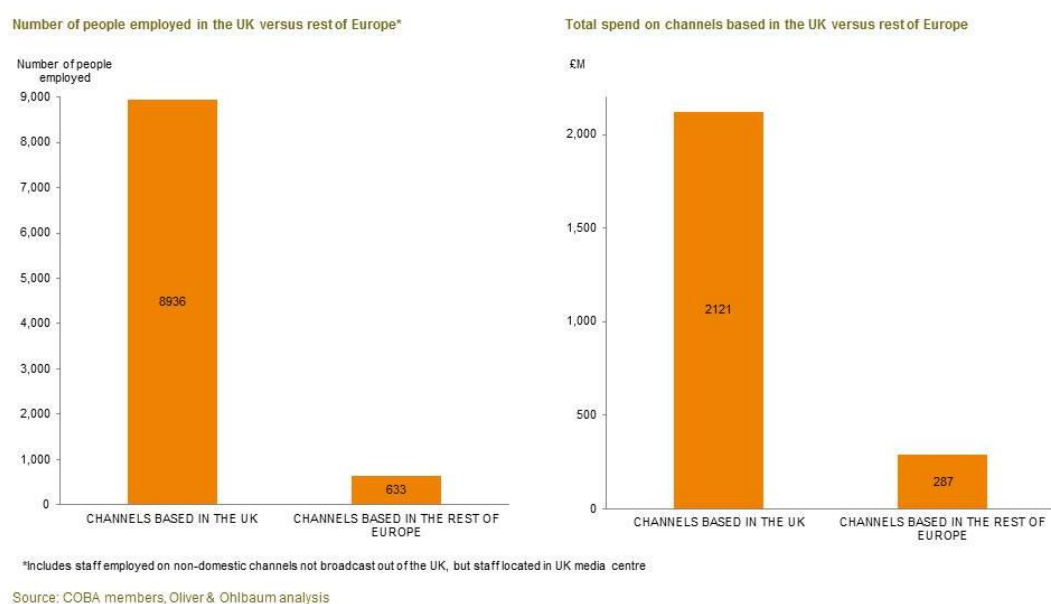
<sup>5</sup> According to news articles, Industry Minister Arlene Foster has revealed that the series generated a direct spend in the Northern Ireland economy of £43m. The series received funding of £6.5m for the first two seasons from the Northern Ireland Screen fund (supported by Invest NI) and the European Regional Development Fund. "Game of Thrones" is returning to Northern Ireland for a third season

**The UK is the leading  
European media hub for  
COBA broadcasters**

## 9 The UK is an important media hub

The UK is an important media hub for COBA members. In addition to their UK channel businesses (i.e. channels targeted at the UK market), much of their European operations are based and broadcast out of the UK. Channels targeted at other European markets outside the UK are much more likely to be situated in the UK than any other European country.

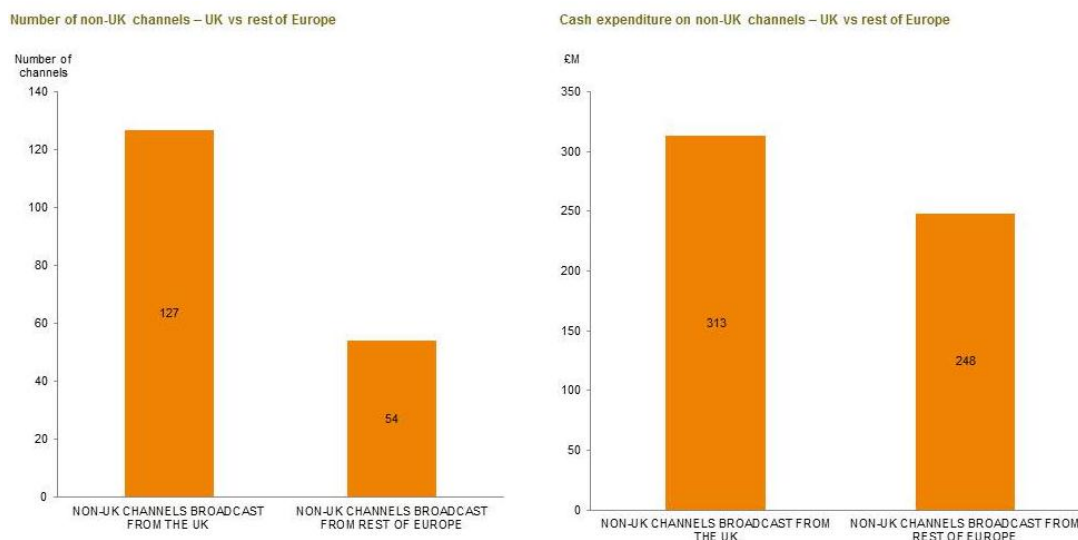
**Figure 13: Employment and spend on channels based in the UK versus rest of Europe 2011**



COBA members have around 2.5 times as many non-domestic channels based and broadcast out of the UK as are based and broadcast within the rest of Europe.

Significant expenditure on these non-domestic UK based channels flows into the UK economy, both in the way of cash expenditure on these channels and in the form of wages paid in the UK, amounting to around £400m. This compares to less than £300m for the rest of Europe combined.

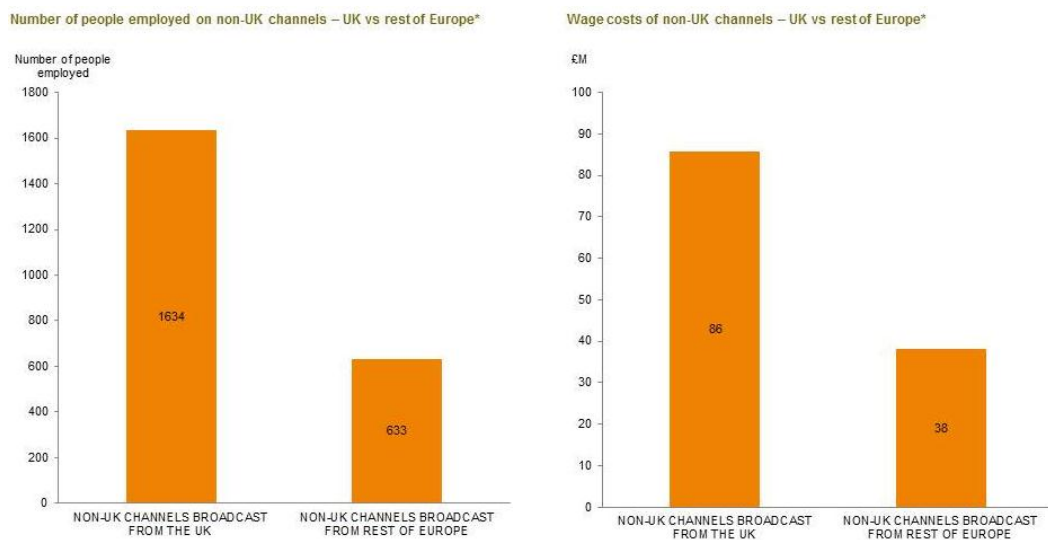
**Figure 14: Number of non-UK channels and cash expenditure – UK based versus rest of Europe 2011**



Source: COBA members, Oliver & Ohlbaum analysis

Non-domestic channels based in the UK employ more than 1,600 people compared to just over 600 people in the rest of Europe.

**Figure 15: Employment and wages non-UK channels – UK based versus rest of Europe 2011**



\*Includes staff employed on non-domestic channels not broadcast out of the UK, but staff located in UK media centre

Source: COBA members, Oliver & Ohlbaum analysis

## Disclaimer

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