28^{th} Voorburg Group Meeting on Services Statistics

Tokyo, Japan
October 7^{th} - 11^{th}, 2013

Mini presentation on "Television programming and broadcasting SPPI in France"

ISIC 4.0 : 602
NACE rev.2 : 60.20

Alain Gallais
Denis Gac
Insee, France

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Introduction

This paper provides a brief overview of the SPPI calculated and disseminated in France for NACE Rev. 2 class “60.20 - *television programming and broadcasting activities*”.

1. Classification

The European class “60.20 - *television programming and broadcasting activities*” in NACE rev.2 corresponds to two sub-classes: 60.20A (generalist TV channels) and 60.20B (thematic TV channels) in the French classification NAF rév.2, but we do not compile indices at this sub-class level.

Table 1: European and French classifications of activities for TV broadcasting

NACE 2008	**description**	**NAF rév2**	**description**
60.20	Television programming and broadcasting activities	**60.20A**	Broadcast of general-interest television programmes
		60.20B	Broadcast of thematic television programmes

The European classification of products by activity CPA 2008, identical to the French classification CPF 2008 is the following:

Table 2: European and international classification of products for TV broadcasting

CPA 2008	**description**	**CPA 2008**	**description**	**CPC v2**
60.20.1	Television programming and broadcasting services	**60.20.11**	On-line television programming and broadcasting services, except by subscription	**8463**
		60.20.12	Other television programming and broadcasting services, except by subscription	
		60.20.13	On-line television subscription programming and broadcasting services	
		60.20.14	Other television subscription programming and broadcasting services	
60.20.2	Television broadcasting originals	**60.20.20**	Television broadcasting originals	**84612**
60.20.3	Television channel programmes	**60.20.31**	Television channel programmes, except for subscription television	**84622**
		60.20.32	Subscription television channel programmes	
60.20.4	Television advertising time	**60.20.40**	Television advertising time	**83620 +83632**

Source Eurostat Ramon, Insee

As for publishing, the main difference between CPA and CPC is the treatment of advertising in the activity, heterogenous from the other products. In any case, the financing or not of TV channel by advertising is a main feature of the activity and of the SPPI to be established (BtoB *vs.* BtoC, connected with activity 73.12).

2. Pricing unit of measure

At first reflexion, we can define the unit of "volume" produced by this activity as the product of a time of programme by the size of the audience achieved, adjusted on both the quality of the programme and the structure of the audience.

At second reflexion, we can see that this definition assumes a user value orientation (the size of the audience is not directly linked to the cost of the programme or the equipment of the TV channel) and a subjectivity for both qualities envisaged. Some quality programmes do not find an audience… Some TV channels seem free, which could make the notion of "volume" economically insignificant… The subscription to TV channels is generally not proportional to time of actual audience…

But in a most common case of private TV channels sponsored by advertising, we can read such an objective definition by Patrick LE LAY in July 2004, at the time chief executive of TF1 (major French TV channel):

"*There are several ways to tell of television. But, in a "business" perspective, let us be realistic: basically, our job in TF1 is to help Coca-Cola, for instance, to sell its product. […] Now, in order that an advertising message is perceived, we need that the brain of the television-viewer is available. Our programmes have vocation to make it available: i.e. to entertain it, to relax it in order to prepare it between two ads. What we sell to Coca-Cola, it is some time of available human brain. […]*
Nothing is more difficult to obtain, but this availability. It is there that the change is permanent. We need to look permanently for the programmes that work, follow the fashion, surf on trends, in a context where the information is accelerating, multiplying and banalising… […]
Television is an activity without memory. If we compare this industry to automobile, for instance, for an auto-maker, the creation process is much slower; and if his vehicle is a success, he will at least have some time to savour it. We, we will have even no time for that! […] The gamble is every day on the audience figures. We are the only product in the World where we know our customers for each second, after a delay of 24 hours."

This definition is also compatible with what the "free" public TV channels want to achieve (read on http://www.francetelevisions.fr/engagements/principes.php):

"*Public television is in charge to inform, teach and animate the democratic debate, as well on the national level as on the local or international levels. It proposes to all a large choice of quality cultural programmes but also sportive, patrimonial and artistic events, which gather our country. Concerned about talking at each moment to all kinds of public, but also to cultivate its difference, France Télévisions develops a global strategy of programming, relying on a logic of bundle, with channels becoming necessarily complementary."*

Of course, the notion of quality of the programme is not the same between these two declarations of intents. The television-viewer could have a common perception of the intrisic quality of a TV channel, but he is not in all cases the (formal) consumer.

This unit of volume should guide us for the definition of the unit to, price, in spite of the variety of modes of financing.

The distribution methods and financing systems are recognized by the official CPA 2008 classification. The kinds of programmes (sport, culture, entertainment, news…) can be considered as a secondary meaningful classification.

3. Description of the French market conditions and constraints

3.1 A brief history of TV sector in France since 1945:

Table 3: a brief history of French TV sector

1949	creation of **RTF** (radio television Française) state controlled
1964	Creation of **second channel** (black and white)
1976	**TF1** (first historical channel) in colors
1984	creation of **Canal +,** privately-owned national general interest television, pay, focusing on cinema and sports. First private toll channel in France
1986	**TF1** becomes a private company
1992	establishment of **CanalSat** bouquet satellite television initially launched in analog version in 1992 and in digital in 1996.
2000	creation of “**France Television**” public holding with 7 public channels
2005	creation of **TNT (**Télévision Numérique Terrestre/ Digital Terrestrial Television) with 14 new channels, to begin
2006	The bouquet "**CanalSat"** absorbs its direct competitor TPS
2009	advertising is removed from the public service channels between 20h pm and 6am.
2011	switch to all digital
2012	arrival of six new channels TNT, clear, and high definition
2012	arrival of **Bein Sports** (of Qatari investments) that will compete Canal + in its niche, Sport (specially soccer)
2013	End of January 2013, there were 32 national and 48 local channels in TNT. In addition, end of December 2012, there were 205 national and 106 local channels reported or under agreement with the CSA for broadcast on other networks channels (cable, satellite, ADSL, fiber, mobile ...).

3.2 The public regulators

TheTV channels cannot broadcast what they want, as they want, and the television business is not totally free. If this activity is not completely controlled by the state as it was the case thirty years ago, the television business is still monitored and the general context was determined by the law in 80s, by creation of **CSA** (Conseil Supérieur de l'Audiovisuel/ Audiovisual Higher Council) by the law of 30 September 1986, amended several times, gives it broad responsibilities, including:

- protection of minors,
- respect for the pluralistic expression of opinion currents,
- organization of election campaigns on radio and television,
- rigorous treatment of information,
- allocation of frequencies to operators,
- respect for the dignity of the human person,
- consumer protection.

It appoints also the presidents of public channels

In addition, the Board is responsible to "ensure the defense and illustration of the French language and culture" on the air.

Strong arm of the state in its audiovisual policy, the **CNC**'s (Centre National du Cinema/National Center for Cinema) main tasks are to support, regulate and promote the film and audiovisual industries (by levying taxes on entries into the movie theaters, on the television revenue, on VOD and video and redistributing them as production and creation aids to the audiovisual and cinematographic sector). The expected amount of those taxes is about 700 millions € in 2013.:

3.3 The special conditions and restrictions

French regulations pursues a general objective of supporting and developing the French and European audiovisual creation. This regulation is based on two main principles:

1. broadcasting quotas

- of cinematographic works: a broadcasting quota imposes a part of original French language films and / or European in the total number of films released, a quantum that frames their presence on television by limiting the number of films (and the number of release of each film) that channels can broadcast, and the prohibition of cinematographic works some days, at certain times, to protect the exploitation of films in movie theater
- of audiovisual works: television services publishers must spend in the total time devoted annually to the broadcasting of audiovisual works, at least 60% to the broadcasting of European works and at least 40% of the distribution works of French original expression,during the primetime.

2. obligations of contribution to the production of movies

- These services must devote at least 3.2% of net turnover of the previous year for the production of European films and 2.5% of net turnover must involve original French films. This rate can reach 12% for Canal +, pay-TV channel specialized in distribution of cinematograph films

Other obligations are more general and relate to the accessibility of programs (audio description, subtitling ...), respect for political pluralism, respect for the French language, the guarantee of the freedom of opinion of listeners and viewers...

3.4 The number of French TV channels

CSA distinguishes among television channels, between which transmit on the wireless (hertzian) network (the CSA affecting a transmission frequency of the channel) and those that emit by other networks (cable, satellite , internet, mobile, broadband): in this case, operators distributing services through these networks must make a declaration to the CSA.

Table 4: number of French TV channels

80 hertzian channels	7 free national hertzian public channels	
	17 free national hertzian private channels	
	8 pay national channels	
	48 local channels	
216 non-Hertzian channels, under agreement or declared	cable	one operator Ypso (Numericable), now holds more than 90% of the market. The number of households connected to cable TV is now between 3.3 and 3.7 million
	satellite	Canal Sat sells its satellite offerings, including Canal +, with over 4 million individual subscribers in France.
	broadband	ADSL TV is marketed by the major internet service providers (ISPs) in the so-called "triple play"solutions, combining high speed internet access, local and national telephone
	mobile phone	The project on track before 2008 has seriously suffered from the crisis. The project is more or less abandoned by the CSA.
	optic fiber	This emerging sector can offer deals with internet access at very high speed (up to 100 Mbit / s) and television and telephone. Approximately 15,000 households benefit from such offers in the Paris region and in the city of Pau.

3.5 The future of digital TV, and challenges for French statistics

Accesses to TV have considerably evolved in recent years, since the TV hass switched to digital. For instance:

- **catch-up TV**: all free national channels have a website providing public catch-up TV programmes. Access to these sites is free (TF1 Replay Pluzz, M6 Replay). Revenues from the TV replay are generated by the insertion of advertisements like video spot before the program ("pre-roll"), during the program ("mid-roll"), or, more rarely, after the viewing ("post roll");

- **TV on demand** (part of Video On Demand): concerns the recent audiovisual works (fiction, documentary, animation) for which the catch-up period is complete and for which VoD rights for were signed by the beneficiaries. The works are downloaded by streaming (rental), provisional download (subscription) or final download (Canal Play, TF1Vision, Itunes, Club Video SFR, Orange 24/24Video). Taking account of these highly specific activities in sector surveys is still unclear, the border with the telecommunications or Internet portals still remains random. And some operators like iTunes are unknown in the French business register, and escape to our statistics;

- **Community video sites** (YouTube, Dailymotion) allow visualization of TV programs as well. The monetization of these services is not yet proven;

- for the moment, there is not yet **direct broadcasting on the web by subscription** in France (*i.e.* by French operators). But it seems that it is possible in the near future to find such TV subscriptions on the web by streaming (Viacom-Sony agreement in the U.S.);

- A **digital TV service**, for which access is free for the end user, takes an essential part of its revenue from advertising revenue. Thus advertising is the whole (or almost whole) source of revenues for catch upTV on internet sites and community video, a substantial portion of sales on "triple play managed networks" now comes from the remuneration by telecom operators.

These services, accurate but not clearly identified through industry surveys, are difficult to integrate in the measurement of prices for television services, especially when the revenue back to the TV channels does not transit *via* commissions on advertising.

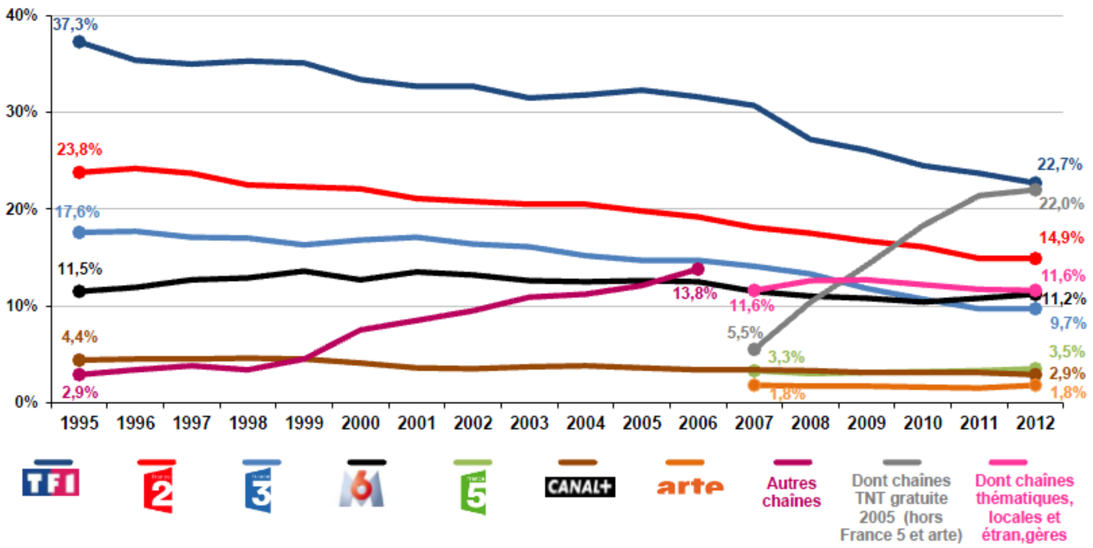
4. Measure of turnover/output

4.1 Outside Insee

Several actors (of which most known is Médiamétrie) measure the activity or intensity of the presence of a chain of television in French audiovisual landscape extent, in first approximation through the audience of this chain, most commonly translated in audience share (PDA).

Since 1995, there has been a steady decline in the audience for traditional channels (those that existed in the 80s), and a very sharp rise in thematic channels (sports, cinema, youth ...) and especially the free Digital Terrestrial TV channels since 2005.

Chart 1: annual audience share of TV channels since 1995



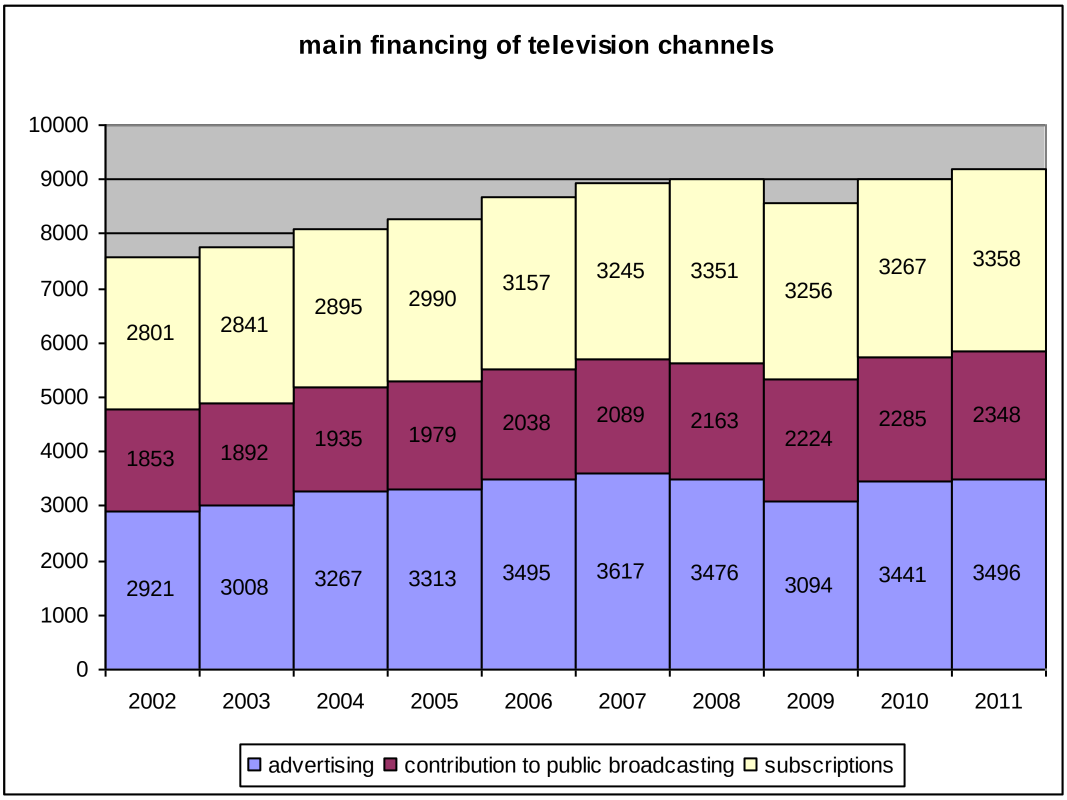
source Mediametrie

If **the audience** is a reliable variable, and available very quickly (often the next day), short-term information on the advertising resources of tv channels is not: they are still expressed in "raw" values and it is well known that the “net” advertising rates ("net" after discounts and rebates), are very different from "raw" values published by professionals (sometimes up to 50-60% lower).

The CNC calculates and reports interesting items on the financing channels, distinguishing three main types of revenues (including but wrongly revenues bouquets via satellite, which does not correspond to the nomenclature of 6020, but to the 6130 satellite) which show:

- the sharp decline in advertising revenues at a time because of the crisis,
- but also the effect of the government's decision in 2009 to ban advertising on public channels after 20:00, which was not compensated by additional revenue from the general budget.

Chart 2: sources of income for French TV channels



source CNC

4.2 Insee Structural Business Statistics

The annual sector survey ESANE says that the turnover of the sector reached almost 10 billion € in 2011, mostly carried out by generalist channels (78 %):

Table 5: French SBS data for this sector

60.20 TOTAL	2010	2011
turnover (000 €)	9 355 145	9 681 220
number of companies	180	183
salaries	20 837	21 549
personnel costs (000€)	1 627 633	1 638 957
EBITDA (000€)	1 647 857	1 697 128
added value (000€)	3 370 076	3 624 060

60.20A generalist channels	2010	2011
turnover (000 €)	7 690 746	7 604 540
number of companies	26	21
salaries	14 359	16 342
personnel costs (000€)	1 262 395	1 341 458
EBITDA (000€)	1 602 294	1 583 694
added value (000€)	3 138 880	3 218 976

60.20B thematic channels	2010	2011
turnover (000 €)	1 664 399	2 076 680
number of companies	154	162
salaries	6 478	5 207
personnel costs (000€)	365 238	297 499
EBITDA (000€)	45 563	113 434
added value (000€)	231 196	405 084

Source Esane 2011

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Which gives for the production of the product, in correspondence with the classification CPA 2008:

Table 6: French SBS data for these products

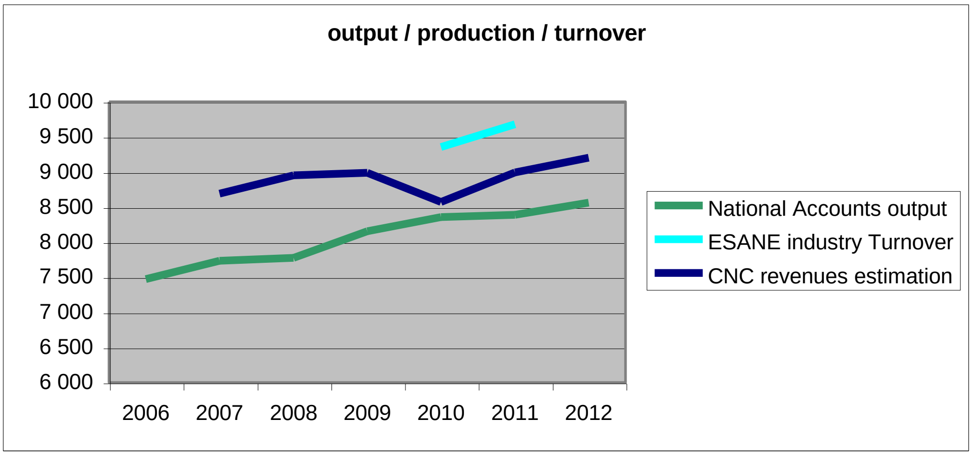
cpf rev2	descrition	turnover 2011	%
60.20.11	On-line television programming and broadcasting services, except by subscription	3 188	0,03
60.20.12	Other television programming and broadcasting services, except by subscription	2 452 380	26,48
60.20.13	On-line television subscription programming and broadcasting services	0	0,00
60.20.14	Other television subscription programming and broadcasting services	1 611 314	17,40
60.20.2	Television broadcasting originals	0	0,00
60.20.3	Television channel programmes	1 230 699	13,29
60.20.40	Television advertising time	3 432 177	37,06
no indication		531 095	5,73
Total		**9 260 852**	**100,00**

Source Esane 2011

5. National Accounts concepts and practices

Measuring the output of this industry by National Accountants is relatively simple and locks directly on the measurement of turnover from Structural Susiness Statistics ESANE. Anyway, there is some amount of "double counting" that NA subtract from the total turnover, as well as a reclassification of a part in subsidies on the product.

Chart 3: Turnover and ouput of TV broadcasting according to SBS, CNC and NA



The final consumption expenditures are easily evaluated, and the commodity flow is balanced on intermediate consumption (basically: advertising time).

Table 7: general balance of the commodity flow

	2012 amounts	operations
supply	8 565	production at basic price
	498	taxes on product
	9 063	**TOTAL SUPPLY**
use	5 099	intermediate consumption
	3 552	household final consumption
	412	administration final consumption
	9 063	**TOTAL USE**

For volume and price, the commodity flow relies only on CPI ("redevance" for public TV + subscription), although the income from advertising is majority and could have been deflated more properly by SPPI from 73.12 by kind of media.

For upcoming "base 2010" anyway, the National Accountants have been informed that a SPPI BtoB was existing in product 60.20, but quite recently (since 2nd quarter of 2011).

6. Pricing methods and criteria for choosing various pricing methods

The variety of types of business income of this sector requires as many methods of pricing. Basically, we have identified 3:

6.1 Television advertising time

A customer who wants to buy an advertising message on a TV channel pays this space to an ad reseller (or ad broker), who himself has bought this space to TV channels. This one payment remunerates two services: this of the reseller (or media marketer), whose job it is to be in relationship with advertisers or advertising professionals, which we will record "net", and that of the TV channel, whose main role is to produce content, broadcast it, and thus create some audience in order to attract advertising customers and to increase the unit price of advertising time.

Scheme 1: interlocked services of TV broadcasting and avertising

Customer A	→	**Media marketer**	→	**TV Broadcaster**
Pays 1000 € to the media marketer for one minute on the TV at 8.00 pm		Keeps 200 € for service and returns 800 € to TV channel that broadcasts the commercial spot		Cash income of 800 € from customer A

The information needed to calculate the price of television advertising time was collected by the SPPI surveys on activity 7312. Indeed, the 7312 corporate revenues come from different media/activities, such as television channels but also newspapers/publishing (see the other French minipresentation of this meeting).

For the TV media marketers , we had priced:

Unit prices of advertising space to advertisers	(P)
Commission rates for ad marketers	(C*P)
Then sale price of advertising by TV channels	(1-C)*P

6.2 Final consumption of public broadcasting ("redevance")

The "contribution to public broadcasting", called "redevance" ("license fee") until 2009, finances agencies and television broadcasting (FranceTelevisions, Arte France, Radio France Overseas, Audiovisual Group Outside of France, National Audiovisual Institute).

One contribution is due per household (in spite of possible several TV sets in the main house or in other secondary residence) and a common payment is made at the same time as the housing tax. The same exemptions in terms of housing tax are applied (mainly based on age and income level). Full reimbursement by the state of fee waivers is enshrined in law.

Non-exempt household pays 131 € in 2013, a hotel 131 € for a position, and a bar 524 €. Rates are decreasing for hotels and bars with the number of TV sets owned.

But the revenues received by public broadcasting are not fully correlated to the change of the individual contribution (revenues are divided among several beneficiaries, the Government is not obliged to distribute all, and more more it compensates exemptions, which may vary from year to year depending on the budget voted).

Considering that all households have at least one TV station or having access to a television (the official figure is 97 %, this rate probably being an insurmountable threshold), we estimate that the price of the television service public (the public television channels) is equal to the average price paid by a French household, regardless of its mode of reception:

Price = Service fee paid to public TV channels / number of households in France

6.3 Specific incomes

We have identified 2 kinds of specific incomes :

- **incomes for pay TV** :
  - **ADSL:** triple play offers (or triplay) allow access to television. The Internet service provider mediates between the final client and the television broadcaster. TV channel perceives an income from the Internet Service Provider;
  - **Satellite:** the best known and most important is Canal +. A subscription for a new subscriber and five exclusive channels currently costs 39.90 € / month. But offers at lower prices exist, discounts are offered to former subscribers. The price that should be tracked is the average price paid per subscriber of Canal + alone (without any additional option to access satellite channels for example). This is determined in a very confidential mode;
  - The different types of income are not exclusive of each other: the public channels may also receive advertising revenue (except after 20:30 in the evening), as well as pay TV.

- **Other incomes**
    - All channels do not have the technical resources to broadcast their programs. Similarly broadcasters (bundles, for example by cable or satellite) are anxious to put in their bundles the best possible programs, able to attract households, and therefore advertisers. Program makers then sell their programs to these broadcasters, and are paid for it;
    - In the same way, the Internet Service Providers, or even mobile phone operators, provide access to TV and therefore reward in return program makers. This method of payment is often for some channels the only method to collect revenue (Eurosport, LCI ...).

The amount of the annual contract with a TV channel for its introduction in a bundle is the right way to approach this price.

6.4 Examples of price series

Public broadcasting (France Télévision) calculated in office from public information.	**Global budget of France télévision divided by number of households**
A Pay-TV	average revenue per user - "ARPU" base 100 in 2009
EUROSP… France	EUROSP…F annual fee for distribution by Canal + Distribution (pay TV) EUROSP…F annual fee for distribution by Orange (internet and mobile phone provider) EUROSP…F annual fee for distribution by Numericable (cable operator)

Advertising:

TTT PUBLICITE	Net turnover for ads spaces sold from Monday to Wednesday 6:00-8:00 pm in Euros
TTT PUBLICITE	Total duration of advertisements broadcast in seconds (excluding blue and generics)
M7 PUBLICITE	Net turnover on the quarter - Sunday 12:00-14:00
M7 PUBLICITE	* cumulative duration of advertising spots (in the quarter) Sunday 12:00-14:00

7. Quality adjustment

The problem of constant quality for TV programming and broadcasting services, in an economic sense, should be addressed to the economic agents who buy this service. A quality of a private TV channel financed by advertising may be different from the quality of a private TV channel financed by subscription, and both of them different from the quality of a public TV channel financed by the public budget and in charge of specific tasks.

The quality adjustment for sales of TV advertising time should be above all the size of the audience, but some results suggest that the structure of this audience plays a role (housewifes <50 years? Children? but we do not have figures that we could test for quality adjustment).

For public broadcasting, in lack of specific quantitative or qualitative indicators, the audience size (cumulated by hours) should be a logical adjustment criterion. If the public TV is less and less watched, in spite of its more and more varied supply, its price index should be adjusted upwards.

The same criterion should be convenient for private TV channels with subscription, too.

Insee calculates price indices for advertising industry corrected by the media audience for the 7312 branch, but does not disseminates them, neither for the 60.20 industry, as the attempts of adjusted indices seem sometimes more jerky than the non-adjusted ones.

8. summary

The TV broadcasting market is increasingly embedded with other activities such as TV on mobile phone, TV on internet, etc. The access to TV programs becomes multiple and transactions between operators are more and more complex.
For the moment, the four major sources of income still remain advertising, subscriptions, public levy and sales of programs to bundles broadcasters.
The assessment of the quality remains a sensitive subject that has not really led to solutions in France, even if the calculations on the audience of channels are made, without leading to acceptable results.