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Model Survey of Audiovisual Services - Finnish Experience

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MODEL SURVEY OF AUDIOVISUAL SERVICES - FINNISH EXPERIENCE

1. INTRODUCTION

This paper comments on the statistical relevance and applicability of the French Commission of Service Accounts proposal for the product classification of audiovisual services.

The Finnish model survey concentrates on module 1, product classification.

The survey was launched in March 1992 with reference to year 1991.

2. AUDIOVISUAL SERVICES IN FINLAND

The domestic market for audiovisual services is small although it grew rapidly in the 1980's. In spite of the deep recession in the Finnish economy, the turnover of audiovisual service companies increased from 3.0 billions FIM in 1989 to 3.3 billion FIM in 1990 according to the Register of Enterprises and Establishments.

There are 220 film producing enterprises in Finland. Over 80 percent of these are small enterprises with fewer than 5 employees and there are no companies with more than fifty employees. The enterprises operate mainly on the domestic markets; geographical and linguistic reasons limit our exports. The turnover of motion picture and videotape companies was 387 million Finnish marks in 1990. The public production subsidies amounted to nearly 10 percent of the turnover.

The number of film exhibition companies is around one hundred. 85 percent of these are small enterprises with fewer than 5 employees. The total turnover of these companies was 360 million FIM in 1990. There is only one enterprise with more than two hundred employees. Its share of the total turnover was more than forty percent in 1990.

The turnover of cinemas has decreased almost thirty percent in real terms during the past ten years. By changing their offering, the cinemas and film agencies have sought to respond to the falling number of cinemagoers. The cinemas have tried to improve their profitability by cutting down the cinema network.

13 new companies offering motion picture production, distribution and projection services started up and 32 closed down in the year 1990. In 1991 40 new companies started up but approximately 90 companies closed down. The number of bankruptcies almost trebled from 1990 to 1991.

The offering of television and radio services has increased in Finland over the past two decades, particularly in the 1980's.

In 1990 there were 95 TV and radio companies in Finland. Their total turnover amounted to 2.6 billion FIM. A large proportion of the TV and radio services are produced by a state owned company, the Finnish Broadcasting Company (YLE), with 5600 employees. The revenues of this company are mainly TV-subscriptions which are obligatory payments for all TV owners. YLE accounts for about sixty percent of the total turnover. In 1990/91 YLE sent out 100 hours a week on the two national channels.

Another large television company is the commercial television company MTV Finland with more than four hundred employees and a turnover that amounts to twenty percent of the total turnover of the branch. MTV Finland transmits about twenty hours a week on the two national channels. It has, however, also been offering programmes on the third television channel, Channel Three Finland, operating since 1987. At the beginning of 1993 MTV is to transfer all its transmissions to this third channel.

The overall television offering has also increased due to the spread of cable television networks. The first cable television companies started up in the early 1970's. The number of connections grew considerably at the beginning of the 1980's. By the end of 1991 there were 32 cable television companies and 770 000 households were connected to a cable television network. The turnover of the cable television networks has increased from 13 million FIM (at 1990 prices) in 1980 to 313 million FIM in 1990.

Local private radio companies started up in the late eighties. Their turnover was 215 million FIM in 1990. In March 1991 there were 63 local private radio stations. Almost 70 percent of the local private radio companies were considered to be risk-bearing investments in 1991. In 1990 the companies' total turnover increased by 23 percent, in 1991 it decreased by 7 percent. In 1991 the profits of the companies were not sufficient to cover their capital costs and

the liquidity of the companies has deteriorated sharply.

Six new radio broadcasting companies started up in 1990 and 7 closed down. In 1991 ten new companies were established but approximately twenty closed down.

Facts about Finnish audiovisual service companies in 1990.

(Source: Corporate Taxation Register)

Cost structure (% of turnover):

	Film production	Film exhibition	Radio and television
Personnel costs	34.1*	15.9*	45.0*
Material and supplies	22.9	39.1	7.6
Rents and leases	8.8	9.7	3.5
Other costs	29.7	28.5	38.1
Operating margin	4.5	6.7	5.8

*Wages and estimated employers' compulsory contributions to social security schemes.

3. THE SCOPE OF THE FINNISH SURVEY

Audiovisual services include ISIC classes:

- Motion picture and video production and distribution (ISIC 9211)
- Motion picture projection (ISIC 9212)
- Radio and television activities (ISIC 9213).

In the Finnish standard industrial classification motion picture and video production and projection belong to the same class and production is separated from these services.

The survey questionnaires are of two types, one aimed at enterprises in ISIC 9213: "radio and television broadcasting". This includes products in CPC class 9613 as well as in classes 96112 and 96113. Class 96113 is asked radio and TV companies because a large Finnish enterprise in ISIC class 9213 has revenues from this class.

Some enterprises belonging to ISIC 6420, the main activity of which are programme transfer services, also

produce their own programmes (these enterprises received the questionnaire).

The second questionnaire is aimed at enterprises in ISIC classes 9211 and 9212: "motion picture production", "motion picture distribution and projection" and includes products in CPC classes 9611 and 9612.

The questionnaires were planned together with the Finnish Film Foundation and YLE. Some companies were visited for further comments.

Special attention was paid to the language of the professionals in the audiovisual field in order to present the items correctly.

All companies with 10 or more employees were interrogated. A sample survey was carried out for smaller enterprises. 172 enterprises received a questionnaire. 57 companies responded, 49 questionnaires were accepted (only two small companies reported that their accountancy was not sufficient to produce any answers at such a detailed level. Four companies received no revenues during 1991, one had closed down and one was declared bankrupt).

Accepted questionnaires as percentage of total number of enterprises, personnel and turnover 1990:

	Enterprises %	Personnel %	Turnover
Film production	10.8	19.5	21.0
Film exhibition	15.5	70.4	58.8
Radio and television	17.9	80.7	96.0.

The answers were accepted primarily according to the respondents' statements (even if they reported that the figures included some other services produced). The companies, especially movie theatres, seemed to have no major problems with the inquiry. Some enterprises did, however, have problems in classifying some of their production into certain classes properly.

A large Finnish group of enterprises with 80 movie theatres in ISIC class 9212 has an internal turnover which is larger than the one reported in its profit and loss account. Because the internal sales are equal to the internal purchases in variable expenses, these are eliminated from the official profit and loss account. We were, however, able to get these figures from the enterprise's internal accountants. Other, smaller, motion pictures distributing or projecting companies have no internal services.

4. MODIFICATIONS TO THE CPC CLASSES

Despite the fact that the French proposal for the model questionnaire is very detailed we decided to make some of the questions even more precise in order to be sure of our conclusions. Some of the classes in the model questionnaire are not relevant in Finland. These classes are omitted or replaced by other questions.

CPC 96112J: Pre-sales and sales of rights on television or video programmes to non-resident entities.

We asked pre-sales (96112J1) and sales (96112J2) of television or video programmes to non-resident entities separately. However, no companies reported revenues from pre-sales (96112J1) and the revenues from sales (96112J2) were negligible.

96112K: Production of television and video "programmes in flow".

This question and 96133A - "Commercialisation by television companies of 'programmes in flow' produced on own account" - was thought to cause confusion among the respondents. For this reason we asked only 96112K. The radio companies were, however, asked 96133B.

96112P: Revenues linked to derived sources of exploitation of programmes.

Instead of asking this question, which includes the revenues from sales of label rights for reproduction on clothes etc, which do not exist in Finland, we asked enterprises how much of their revenues come from sales of 'archive material', e.g. inserts (96112R1). In the French proposal for product classification this revenue belongs to "other production revenues" (96112R).

96132A: Television tax received.

We modified the questionnaire by asking the public subsidies budgeted for the television services and licence fees separately. The public subsidies budgeted for the television or radio companies are aimed at producing educational programmes for schools, tape recordings for the blind etc. These subsidies differ in nature from the licence fees.

96132D: Subscription and payment for cable network.

The fee for connection to a cable network is paid by the house-owning companies and households.

The subscription payment for a cable network is paid by households for watching the channels.

The difference between these payments is important, because when an enterprise starts up, the connection fees feature large in its revenues. When the enterprise is fully operative the importance of subscription fees becomes larger. For this reason we asked the revenues from connection fees (96132D1) and from subscription fees (96132D2) separately.

96132G: Other revenues from television or cable network.

The rental payments received from the use of the network were asked separately (96132G1). These revenues differ from other revenues (96132G2), the revenues from building the network or the renting out pay-television devices, etc.

The enterprises were asked their revenues from other business activities not included in the questionnaire in order to check how well they had understood the questions. This question was also asked to check the extent of enterprises' secondary activities.

5. REMARKS ABOUT THE MODULES

Section 1: Revenues from services in connection with promotion or advertising

These revenues accounted for forty per cent of the film producing enterprises' total revenues. 7 enterprises received "revenues from production on order of advertising movies" and 4 from "production on order of other movies".

The respondents had no difficulty answering these questions.

Section 2: Revenues and own account production from services in connection with motion picture production.

- Revenues of producers from distributors on motion picture works

This class accounted for 5.7 per cent of the film producing companies' total revenues. There was one company in ISIC class 9212 with "revenues of producers from distributors on motion picture works" (CPC 96112A). This large group of enterprises stopped producing motion pictures in 1991.

The other revenues in section 2 were of minor importance.

No companies reported production of motion picture works added to immobilisations. The reason for this can be that their accountancy does not provide adequate information on these revenues. This class should not, however, be omitted.

Section 3: Revenues and own account production from services in connection with television and video programme production.

- Sales of rights on television or video programmes to resident entities

This class' accounted for eighteen percent of the total revenues of the film producing companies and less than one percent in ISIC class 9213.

30 % of the respondents in ISIC class 9211 had some revenues from this class. Only one of them produces mainly television and video programmes.

The other revenues were of minor importance. These questions caused no problems.

Radio and television broadcasting companies reported no "revenues of producers from distributors on television works" (CPC 96112G). However revenues from this class may occur in the future.

Section 4: Revenues from other services in connection with production.

These revenues accounted for 19 percent of the total revenues in ISIC class 9211 and one percent of the total revenues in ISIC class 9213.

- Revenues from archive material

96112R1: 'Archive material' includes sound effects, nature films and so on used as a part of other programmes. Film producing companies got four percent of their total revenues and twenty percent of the revenues in section 4 from selling their archive material. For this reason we think that this question is relevant.

Section 5: Share on movie rentals distributed by other distributors.

These revenues accounted for thirty percent of the motion picture distributing and projecting companies' total revenues. The majority of these revenues were

revenues from distributing motion picture works to movie theatres on the national territory. The share on movie rentals distributed by other distributors as well as other revenues in section 5 were of minor importance

The share of the "revenues from services in connection with motion picture distribution" accounted for two percent of the total revenues of the radio and television broadcasting companies. Television companies get revenues from distributing motion picture works to other resident television companies.

Radio and television broadcasting companies reported little revenue in section 5. However in the future this section may become more important.

Section 6: Revenues from services in connection with video tape distribution

The share of the revenues from "transfers, concessions or distribution of television and video works to resident entities" was five percent of the total revenues in ISIC class 9212. The other classes in this section were of minor importance.

Section 7: Revenues from motion picture projection services

These revenues accounted for seventy percent of the revenues of film exhibition enterprises.

Instead of asking separately the share of "retail trades of sugar confectionery and beverage" (CPC 63100) we asked other incomes from motion picture projection services. Four respondents received rental payments for the use of the cinema and three respondents from retail trade in sugar confectionary and beverages. Two of the respondents reported these revenues in the last question of the questionnaire: revenues from other business activities. This problem can be avoided by adding an explanatory note.

Section 8: Revenues from radio services

- Radio tax received

Our public television company YLE was not able to divide its revenues between radio and TV activities (we have no radiosubscriptions in Finland). YLE solved this problem by dividing its licence fees and other allotted revenues in a fixed estimated proportion.

YLE's "radio tax received" includes the estimated shares of public subsidies budgeted for services and licence fees.

The question from section 10, "commercialisation by radio companies of own account produced works" (96133B), was included in this section. Radio companies were asked the question concerning revenues linked to sponsorship an mecaenate (96132E). Both of these classes were interesting but of minor importance.

The revenues from renting of broadcasting time (96131C1) were separated from other revenues from radio services (96131C2). The revenues from renting of broadcasting time are, however, of minor importance and can in the future be included in other revenues from radio services. The majority of other revenues resulted from the allotment of YLE's television revenues. These revenues consist mainly of rental payments for the use of the network.

Two companies could not separate revenues from pay television and other revenues from TV or cable networks.

Section 9: Revenues from television services

Two modifications to this section were made (see page 5). The modification of CPC 96132D was answered without difficulty and we think that the division of this class was justified.

The second modification was made to CPC 96132G, other revenues from television or cable network. This class was divided into two subclasses, rental payments from the use of network (96132G1) and other revenues from TV or cable network (96132G2). Due to the fact that rental payments from the use of network account for 7 percent of the total revenues, we think that this breakdown is justified.

Section 11: Revenues from other services

The radio and television companies' most important source of revenues in this section (two percent of the total revenues) are "services to related parties not included above". These revenues are research and development charges and management fees. They do, however, also include revenues from e.g. renting of devices and rental payments.

Operating subsidies are an important means of financing the production of motion pictures. They account for 5 percent of the motion picture producers' total revenues (the share of public production subsidies is 4.3 percent of the total revenues).

The enterprises answered these questions without any difficulty.

Revenues from other business activities

These revenues account for 7 percent of the total revenues in ISIC class 9212 and 8 percent in ISIC class 9211.

Four movie producers got revenues from this class. They reported revenues from publication activities and consultancy, production of cinema advertisements and multivision programmes.

Motion picture distribution and projection companies got revenues from e.g. storage and warehousing services (ISIC 6302).

Modules 2-5, 10 and 11

Our annual survey concerning income statement and balance sheet data does not include audiovisual service companies. We have, however, produced some data from the Corporate Taxation Register concerning 1990.

Unfortunately the Finnish data is not detailed enough to produce the information required in these modules.

Modules 6-7

Finnish television programmes are exported almost exclusively by YLE and MTV Finland. No statistics are available on exports by outside, independent producers. According to the Finnish Film Foundation the exports of independent producers amount to approximately 6 million FIM annually.

YLE exports television programmes in two ways, by engaging in international exchange within the broadcasting unions and by selling programmes abroad. The majority of YLE's exchange programmes, which are supplied free of charge for use by other broadcasting companies, are shown in the other Nordic countries. In 1991 a total of 133 hours of YLE programmes were shown in the Nordic countries.

Since the showing of programmes abroad involves the broadcasting companies in considerable costs, the position and operating principle of international programme exchange is probably to be amended.

Sales of YLE programmes abroad cover both the company's own programmes and programmes by outsiders for which it has obtained the foreign selling rights. Over the past ten years between 60 and 100 hours of programmes have been sold annually, the figure for 1990/91 being 82

hours. In terms of marks this has amounted to FIM 1-2 million. Most sales have been in the documentary, children's and animation categories.

In 1991 MTV sold 118 hours of programmes abroad. Most of the programmes sold have been nature programmes.

As of the beginning of 1992 MTV and the Finnish Film Foundation embarked on a joint project entitled FinnImage to sell Finnish television programmes and full-length films and programmes by both MTV and the independent producers abroad.

The value of imports is approximately 30 million FIM annually according to the Finnish Film Foundation.

Module 9

The respondents were asked module 9. Many enterprises, especially the film producing ones, had some difficulty in answering the questions concerning their employees because they could not give detailed numbers of their non permanent workers. Many of the respondents did not have the energy to answer the questions concerning employment numbers per trimester. These questions seem to be too detailed for any practical purpose.

Employment figures concerning full and part time employment and the distribution between males and females can be obtained from other sources (the Finnish Film Foundation, Employment Statistics).

6. CONCLUDING REMARKS

The results of the pilot survey were mainly positive. Because the questionnaire was carefully designed and special attention was paid to the language used by the professionals the enterprises had no great difficulty in answering the questions correctly. The classification is, however, too detailed to be appropriate to our small domestic markets.

The pilot test questionnaire was very detailed. We asked the respondents to approximate their revenues if no detailed revenues were available from the companies' accountants.

In practice we must modify the French proposal's classification so that certain classes are unified to a less detailed level. However, this will be done in a way that allows comparisons between the Finnish data and data gathered in other countries.

One possible way of aggregating the film producing as well as the motion picture distribution and projection companies' revenues could be that:

- in section 2 we aggregate all pre-sales and sales, 96112B - 96112E2, to a single question: "pre-sales and sales of motion picture works"
- in section 3 we ask 96112J as it was in the French suggestion: "Pre-sales and sales of rights on TV or video programmes to non-resident entities".
- in section 4 "revenues from archive material" is added.
- in section 5 questions 96113B-96113D will be aggregated: "revenues of distributing motion picture works"
- in section 6 96113F and 96113G will be aggregated to: "revenues from transfers, concessions or distribution of TV and video works".
- sections 7 and 11 will not be modified and revenues from other business activities can be asked separately.

One possible way to aggregate the revenues of the radio- and television broadcasting companies revenues is:

- in section 3 to combine 96112H and 96112I: "Pre-sales and sales of rights on television or video programmes to resident entities". CPC 96112J as it is in the French proposal. Instead of asking the production of TV and video programmes and the production of these programmes added to immobilisation (96112K and 96112L) separately, they will be included in "other production revenues".
- in section 5 CPC 96113C "revenues of distributing motion picture works from resident editors of video cassettes" and 96113D "revenues of distributing motion picture works from non resident entities" form a single class: "other revenues of distributing motion picture works".
- section 6 contains only one question; "revenues from transfers, concessions or distribution of TV and video works"
- radio and television tax received (96131A, 96132A2) form a single class: "Radio and television licence"

fees". "Public subsidies budgeted for services" (96112A1) will be asked separately.

- "commercialisation by radio companies of own account produced works" and "revenues linked to sponsorship and mecaenate" (CPC 96133B, 96132E) will be included in 96131C - "other revenues from radio services"

- "subscription and payment for cable network" (96132D) as it is in the French proposal. "Revenues linked to sponsorship and mecaenate" (CPC 96132E) will be included in CPC 96132G "other revenues from television or cable network".