EXPANSION AND LIMITS IN EU TELEVISION MARKETS:
AUDIENCE, ADVERTISING, AND COMPETITION ISSUES

ROBERT G. PICARD
Media Group

DISCUSSION PAPER

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1 INTRODUCTION

The television industry in Europe has undergone one of the most wide-ranging and rapid market transformations in modern times, spurred by policy liberalisation that removed monopolies granted public service broadcasters or had highly limited domestic commercial television operations.

The pace of liberalisation varied in European nations but by the 1990s its transforming effect led to explosive growth in the number of domestic commercial broadcasters. This growth has dramatically altered competition in television markets by increasing the supply of channels and programming nationally and locally (Silj, 1992; Council of Europe, 1998; Davis, 1999). In addition, cable and satellite services became widely available, additionally increasing competition for audience attention and advertising expenditures at the European, national, and local levels.

The proliferation of channels has resulted in changes in audience and advertiser behaviours. It has changed audience patterns, forced advertisers to reconsider their strategies and expenditures, and created significant new issues and problems in television financing across Europe. It has changed the nature of competition in markets and is forcing channel managers to seek and adopt new strategies and approaches to programming and financing.

This paper explores developments in the television market in European Union member states and the underlying economic and financial relationships that are affecting commercial broadcasting as markets become more competitive and audiences and advertisers adjust to the new environment. It then seeks to explain the implications of these changes to the future of the television industry and the changes that will occur as digital television further alters broadcasting markets in coming years.

2 ISSUES IN CHANNEL AND PROGRAMME SUPPLY

The changes in supply of channels and programmes are evident to anyone who watches television, but the size and speed of the growth have been unprecedented. Most of that growth has resulted from the introduction and expansion of commercial terrestrial television and the increased availability of commercial cable and satellite channels.

Despite the importance of commercial television to viewers and as a contributor to national and EU economies, no accurate statistics on the supply of channels or programming in the European Union are available. Eurostat, the European Audiovisual Observatory, national statistics offices, and private consultancies and research centres are not able to provide an accurate counts of the number channels, the number of hours they broadcast, or the expenditures they make on programming. The data available are rarely provided in forms that permit trend analysis and are generally provided only in discussions of broadcasting in individual nations. The data on supply tends to be spotty and is often incomparable across nations.

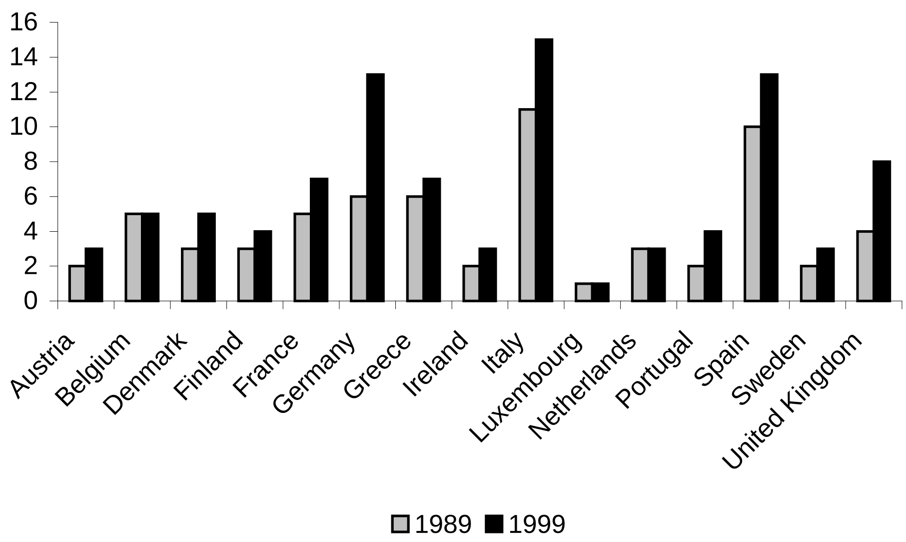
A good deal of the difficulties arise because there is no standard reporting of television broadcast operations. Some nations report broadcasting based as channels, while others use number of stations. Further, there are differences in criteria for reporting national, regional, and local broadcast operations. Data are further complicated because nations have different methods that include or exclude terrestrial, cable, satellite, and foreign channels.

This data confusion is illustrated in data provided by the European Audiovisual Observatory. In 1998, for example, their national data reporting indicates that there were 409 national channels operating within the EU. Their 2000 data, however, shows only 180 national channels were broadcasting (European Audiovisual Observatory, 1998 and 2000). If this were true, it would represent an epic wave of death among television channels.

The most authoritative statement on the supply of channels in Europe, for example, is an EU report on compliance with the Television Without Frontiers Directive, which states that the number of TV channels rose from 220 in 1996 to 580 in 2000. This represents a 260 percent increase in four years (European Commission, “Third Report….”, 2001). The report, however, does not indicate how this count was made and whether these are based on terrestrial channels, cable, or satellite channels and how it accounts for local and regional channels.

A count of EU terrestrial channels made by the author based on national data reported in MediaMap (1990 and 2000) indicates that overall supply of terrestrial channels at the national and regional level rose 44 percent. In making the count, local channels are not included because of inconsistencies in counting, and regional channels are included as one channel to account for Germany’s ARD regional channels and UK’s ITV regional channels. This choice was made to make the available data on the 15 nations comparable because other nations tended to count regional channels as one channel. Based on this method, increases can be seen to have occurred in 12 of the 15 EU nations (Figure 1).

Figure 1. Supply of Terrestrial Television Channels in EU Nations, 1989 and 1999



The author’s count also shows that the percentage of channels that are private commercial operations rose from 26 percent to 46 percent during the ten- year period.

Whatever the extent of the increased supply of channels, it is obvious that increasing the number of channels also produces an increase in the supply of programme hours offered. Many channels operate 12 hours per day, whereas others provide 18 hours or 24 hours of programming.

This increase in programming is significant because it affects demand for programme supply, increases the availability of programming for use by audiences, and increases the supply of advertising time available to advertisers.

As with statistics on channel supply, EU statistics on programming supply are highly limited. Eurostat, national statistics agencies, the European Audiovisual Observatory, and research consultancies do not provide data on the supply of television broadcast hours. In addition, in order to meet the requirements of that supply of hours of programming, expenditures for programming must obviously increase. Again, data on overall programme expenditures in the EU is also unavailable from the official and private statistical sources.

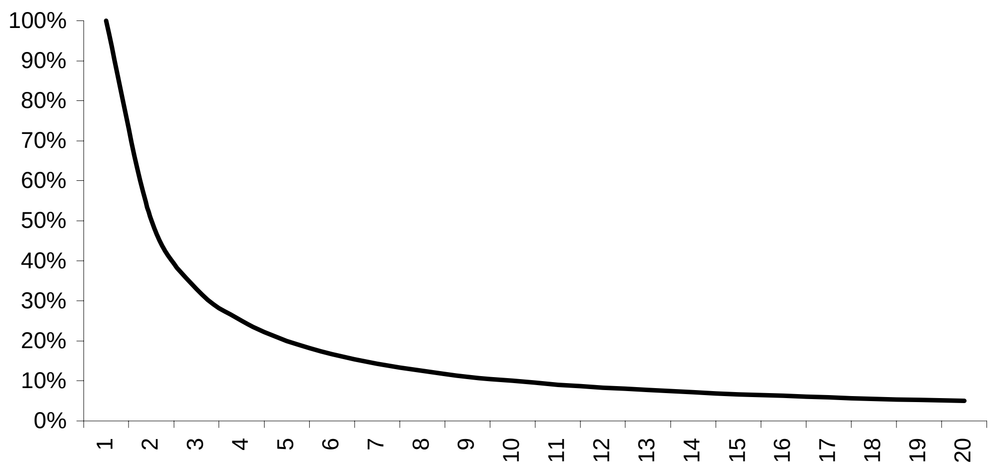
The changes in supply that are occurring, although still not well documented by statistical sources, are significant because each increase in the number of channels and hours of programming increases competition and creates a widening of ownership and sources for programming. Throughout Europe at the national level the number of channels has changed from none or a very limited number of commercial channels to multiple commercial channels. The smaller nations tend to have at least 2 domestic national channels and larger nations as many as 4 to 7 times that number.

The increase in channels has produced significant competition among the stations and has affected both audience and advertising demand and advertisers' behaviour.

3 ISSUES IN AUDIENCE DEMAND AND BEHAVIOUR

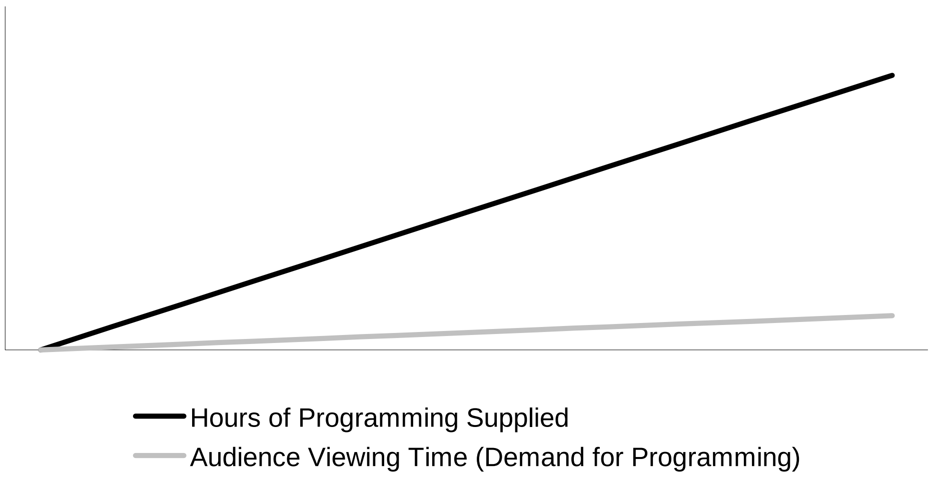
An increasing number of suppliers of a product or service and the concurrent increase in supply of the good itself are typically associated with increasing demand and consumption of that product. This relationship, however, is not as close in television consumption as it typically is in other industries. In television, increases in channels (suppliers) and hours of programming (the product) tend to fragment the audience rather than significantly increase consumption. This has the effect of reducing the average size of the audience for each channel as illustrated in Figure 2.

Figure 2. Average Audience Declines as Channels Increase



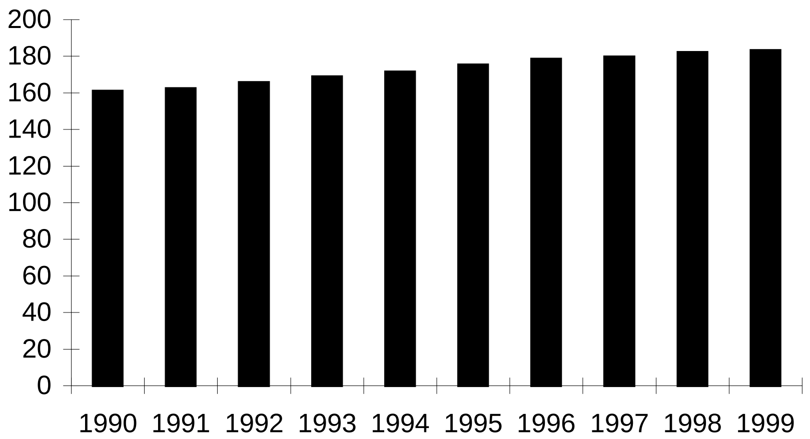
The causes of this declining demand are related to audience size and time expenditures. Both are relatively stable in the short- and mid-term. Thus, when additional channels are added, it typically does not alter overall audience size and overall demand remains relatively constant. Additionally, time spent on television remains relatively consistent in the short term, so providing more channels and hours of programming does not significantly increase consumption of television programming. This creates an oversupply of programming compared to demand measured in viewing time as illustrated in Figure 3.

Figure 3. Supply of Television Programming and Demand for Programming



The slow growth of viewing is seen during the 1990s. Average daily viewing in the EU nations rose only 13.7 percent, a total of 22 minutes, over the decade (Figure 4).

Figure 4. Average Daily Viewing Time (Minutes) in EU nations, 1990-1999



Data Source: Compiled and calculated by the author from time data in *TV International Sourcebook 2001*. London: Informa Media Group, 2001.

Because of programme choice models used in broadcasting, each channel tends to provide a range of programming and the range of types of programs offered among channels tends to be similar. These factors split viewing among the channels but most individuals concentrate their viewing on a few. Barwise and Ehrenberg (1988, p. 63) underscore this point saying “where a country has several channels, each tends to be watched by many people for a part of their viewing time. Smaller channels not only have fewer viewers but also attract less of these viewers’ viewing time than the larger channels”. This situation leads to competition among channels to draw viewers from their competitors (Owen and Wildman, 1992).

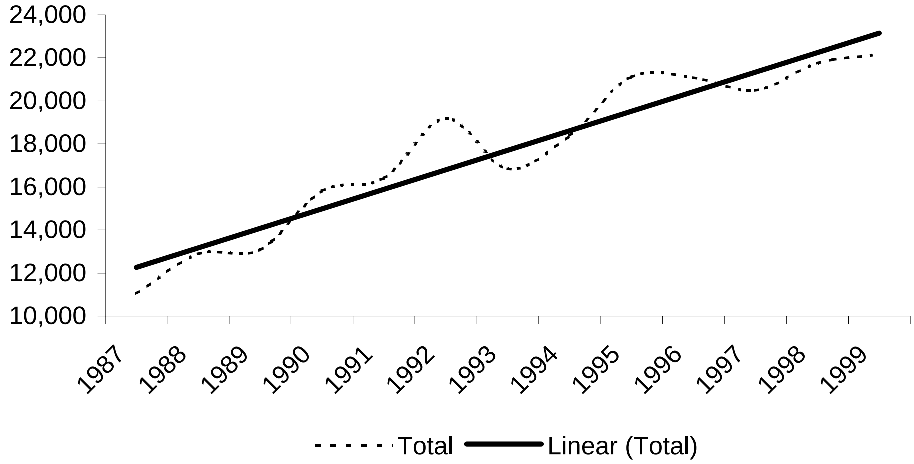
Although oversupply can exist in other industries as well, the oversupply of channels and programming is a particular problem for television because it is a dual product for which content is marketed to audiences and audiences are marketed to advertisers (Picard, 1989). The oversupply of channels and programming is created because audience consumption does not increase proportionally fragments the audience among suppliers, reduces financial resources available to broadcasters, and increases competition among broadcasters.

This is problematic both in terms of advertising demand and in terms of product quality and development.

4 ISSUES IN ADVERTISING DEMAND AND ADVERTISER BEHAVIOUR

The increasing channels and broadcast hours that are now available have also increased opportunities for advertisers to reach the large audiences produced by television. They have responded by increasing expenditures for television advertising. Demand for television advertising in the EU increased significantly in a linear trend in constant currency from $11 billion in 1987 to $22.2 billion in 1999 (Figure 5).

Figure 5. EU Television Advertising Expenditures and Trend, US$ million (constant)

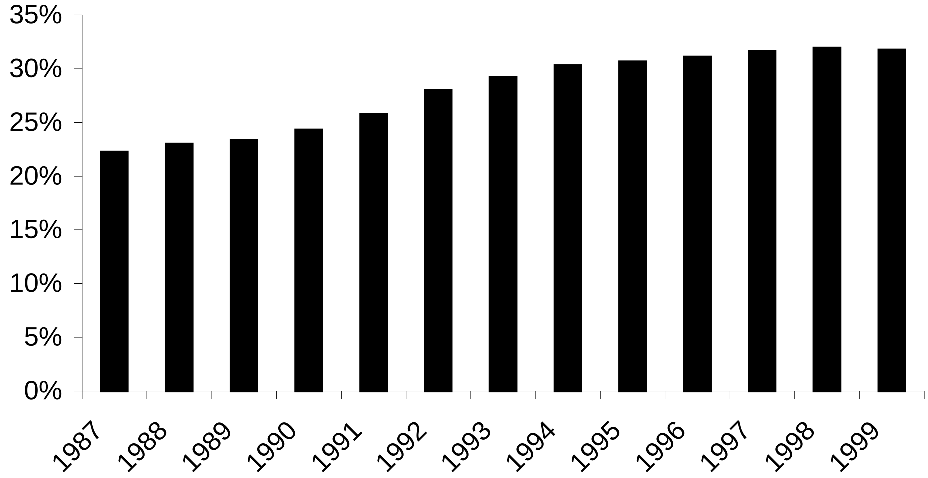


Data Source: Compiled and calculated by the author from expenditures reported in *World Advertising Trends*, NTC Publications, 2000. 1995 index for constant prices

The increase in monetary spending also represented a change in the share of total advertising expenditures allocated to television. That amount rose from 22 percent in 1987 to 32 percent in 1998 (Figure 6).

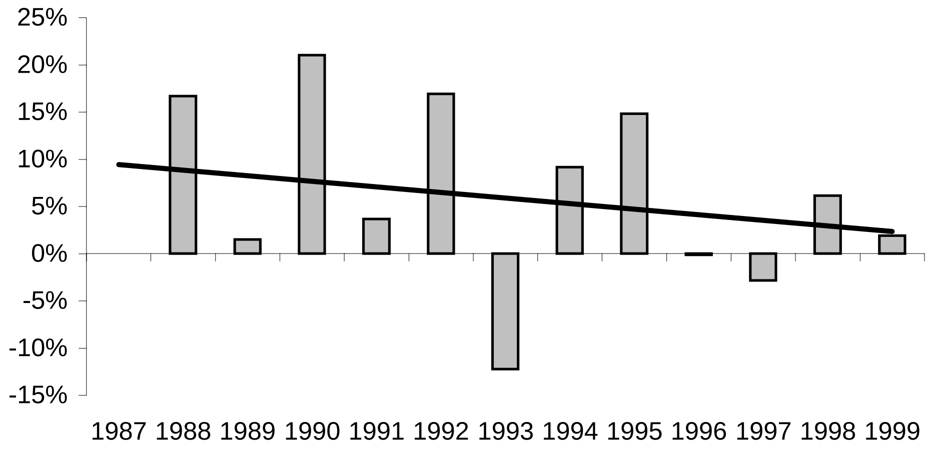
The growth in advertising expenditures has been welcomed in the industry but it has masked fundamental problems that are beginning to affect channels across Europe. This is especially evident in the real (constant currency) growth rate for advertising (Figure 7).

Figure 6. Television Share of Total Advertising Expenditures, Percentage



Data Source: Compiled and calculated by the author from expenditures reported in *World Advertising Trends*, NTC Publications, 2000.

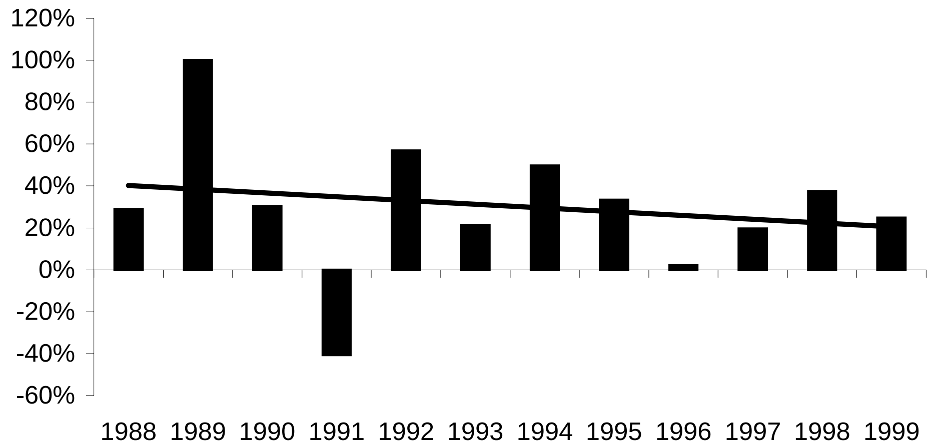
Figure 7. Real Growth Rate of EU Television Advertising and Linear Trend



Data Source: Compiled and calculated by the author from expenditures reported in *World Advertising Trends*, NTC Publications, 2000. 1995 index for constant prices

Not only does the real growth rate of TV advertising evidence a downward trend, but the amount of the real growth of total advertising expenditures that were spent on television have also declined (Figure 8), with the majority of new expenditures going to other media.

Figure 8. Percentage of Additional Advertising Expenditures Allocated to TV



Data Source: Compiled and calculated by the author from expenditures reported in *World Advertising Trends*, NTC Publications, 2000. 1995 index for constant prices

The slowing growth rates of advertising, combined with the skyrocketing number of channels and smaller audiences, is having the effect of reducing income per channel, thus putting significant financial pressures on channels.

This reduction in average advertising expenditure per channel is inevitable unless the growth rate of advertising expenditures exceeds the growth rate of channels, as illustrated in Figure 9.

Fundamental to this decline is the issue of the effectiveness of television expenditures, which is measured by the industry in terms of price per viewer. The price that advertisers are willing to pay for the audience provided by an individual channel is primarily related to the size of that audience. Television advertisers are willing to pay a higher price for a larger audience, partly because the cost (usually expressed in cost per million viewers) tends to decline with size, until one reaches premium audience prices for events such as the World Cup, Olympic Games, etc. This issue of price, cost, and effectiveness is illustrated in Figure 10.

Figure 9. Average Advertising Expenditure Per Channel Declines if Expenditure Growth Does Not Exceed Growth of Channels

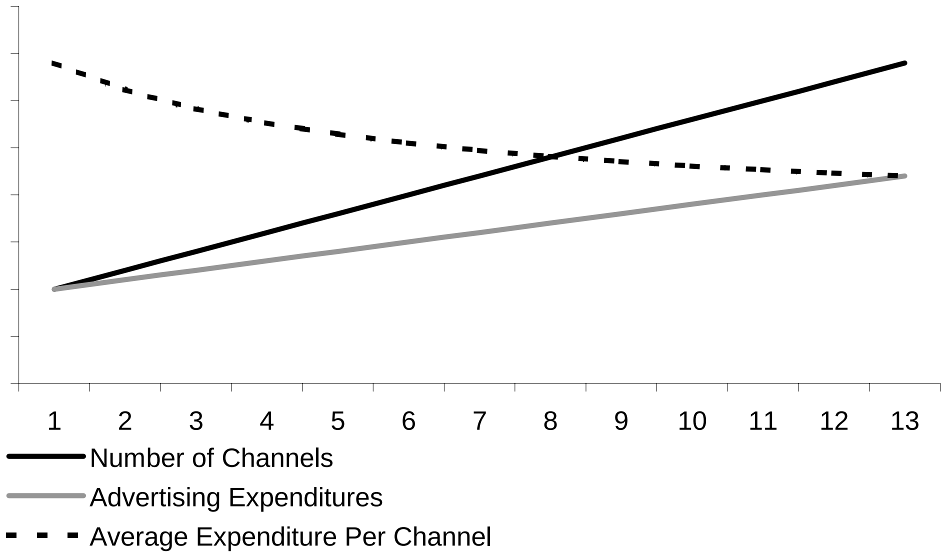
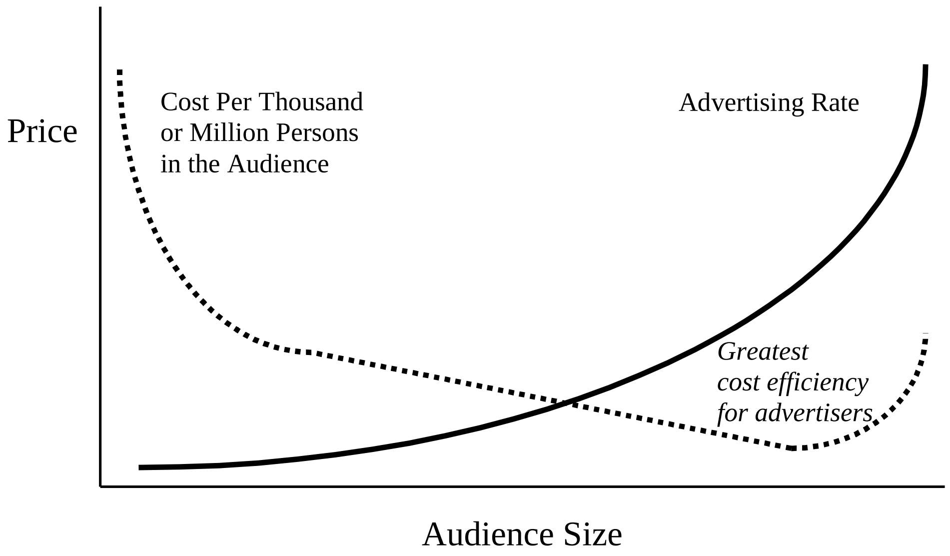


Figure 10. Relationships between Audience Size and Advertising Pricing

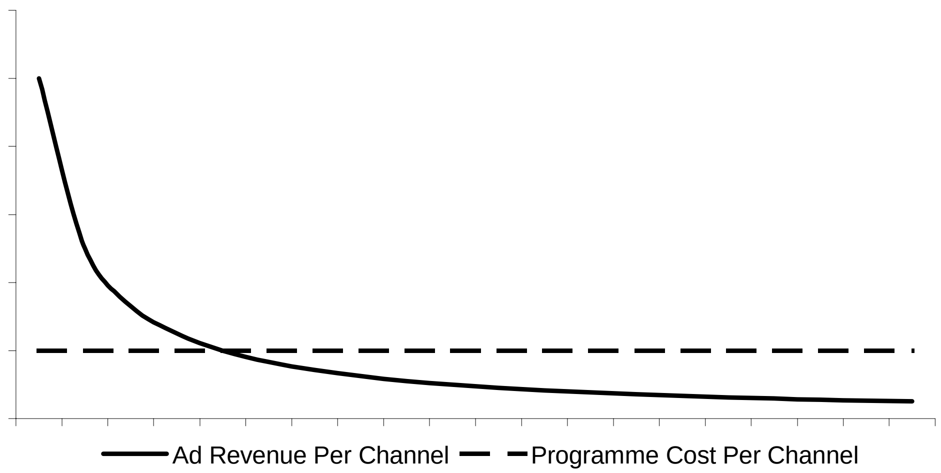


5 ISSUES OF AUDIENCE, ADVERTISING, AND PROGRAM COST

The financing of television channels becomes problematic as the number of channels increases in a market because of the relationships between audiences and advertising revenue.

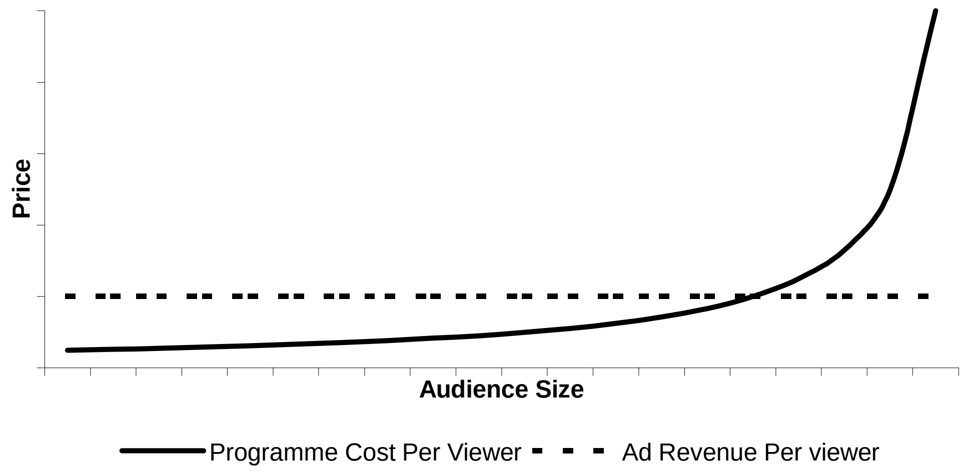
The average programme cost per channel remains stable because hours of broadcasting tend to be similar among channels and because of the fixed costs of internal production and the costs of acquired programming. Average advertising revenue declines, however, with size of audience. At some point, depending upon the specific market characteristics involved, advertising revenue can no longer cover the costs of programming as illustrated in Figure 11.

Figure 11. Average Advertising Revenue and Programme Costs as Channels Increase



This issue is compounded by the fact the average advertising income per view remains stable as audience size increases but the average programme costs per viewer increase because costs are spread across fewer viewers as channels increase and because greater expenditures must be made to gain and keep audience with more attractive programming. This relationship is illustrated in Figure 12.

Figure 12. Average Programme and Average Ad Revenue per Viewer as Channels Increase



Brown (2000, p. 4) has noted that these factors squeeze profits and that "in practice, competition among channels will eventually result in each market determining the number of channels it can support with some channels incurring losses and ceasing operations and/or declining profits deterring further entry."

These financial pressures force most broadcasters to find ways to reduce programming cost. In self-productions, typical methods of cost reduction include using fewer cameras, fewer expensive personalities, studio instead of location taping, production of inexpensive game shows, café programs, and children's shows, and increasing the number of times a programme is broadcast. In purchased programming, costs are reduced by acquiring syndicated rather than original programs, purchasing series that have lower average cost per programme than separate productions, and increasing the number of times programmes are broadcast.

6 IMPLICATIONS

The audience, advertising, and costs models presented here, along with trends in the development of audiences and advertising, indicate that the EU market overall is moving nearer toward the economic limits for expanding commercial channels based current business models, programming practices, and public policies toward commercial broadcasting.

National and EU policies have increased the amount of domestic and transnational channels available through terrestrial, cable, and satellite broadcasting. Each new channel provided has increased competition for audience time and attention and it has concurrently increased competition for available advertising expenditures. The competition levels will be increased dramatically in the future when the widespread introduction of digital television provides new channels at national and local levels throughout Europe.

Competition in commercial television increases the availability of program types at any given time. This increase in choices affects audience size and viewing habits, advertiser choices, and programming investments and decisions.

Audience demand, evidenced in viewing time increases, has been increased by the growing supply during the past decade. These gains, however, have produced only about 2 minutes per year in additional average viewing time. The increase over the decade represents, essentially, that viewers today watch one more half-hour programme per day than they did in 1990. These increases, then, do not represent radical changes in temporal expenditures and viewing habits that can equalise the supply of channels and broadcast hours. The result is fragmentation and smaller audiences per programme.

As viewing possibilities increase with additional channels in the future, the fragmentation and decline of average audiences can be expected to increase and intensify. This will produce situations in which many channels will have to survive with audience shares of 5 percent or less.

Although advertisers are interested in television audiences, it is unlikely that investments in television advertising will increase dramatically in the short- and mid-term because advertisers would have to forego other media advertising and marketing. This would include foregoing expenditures for traditional media and also for various marketing expenditures for new media such as interactive television, mobile communications, and Internet marketing.

Another important limitation on the growth of television advertising results from the European Union's Television Without Frontiers Directive that limits the amount of broadcast time that can be used for advertising purposes and controls how programmes are broken up by advertising. The regulation stipulates that that no more than 15 percent of daily broadcast time can be used for advertising and no more than 20 percent of the broadcast time in a given hour, a maximum of 12 minutes (European Commission, 1989).

Currently most stations are at or close to the limits in terms of advertising time, so they will be unable to broadcast additional advertisements as a means of increasing turnover. The only way to increase turnover is to increase demand, represented in the prices that advertisers are willing to pay, a difficult situation given declining average audience.

If advertisers choose to increase television expenditures, they will have to be satisfied with smaller audiences for each broadcast advertisement. The scenario of increased expenditures for television advertising would also require that advertiser ignore their concerns with existing audiences and the effectiveness of current TV advertising spending. Although it is difficult to foretell future behaviour, it is clear that a choice by advertisers to accept higher prices for smaller audiences, and to increase their proportion of advertising spending to match the increase in channels, will require a reversal of their behaviour in the 1990s.

These problems will be compounded in the coming years by digital television, a technology that effectively quadruples the potential for television channels. The introduction of digital television will further fragment audiences, leading to even lower average audiences, reducing desirability of audiences provided by channels to advertisers of consumer products who want to reach mass audiences, and creating even greater cost pressures on programming. This can be expected to force changes on commercial television channel operations and to lead to pressures for public policy changes as well.

In the highly competitive environment that is emerging, some stations will seek to maintain their market advantages by strategies designed to maintain positions as market leaders in terms of audiences. To do so, they will increasingly implement programme investment strategies designed to maximise audiences in the most profitable day parts and to minimise programming costs in day parts less desirable to advertisers. At the same time, they can be expected to use control strategies designed to minimise staff costs and the costs of their own productions. Conversely, they will increase expenses for marketing as they attempt to maintain and improve their market positions at the expense of other channels.

One can expect to observe efforts by commercial channel operators to multicast channels, that is, to operate several channels simultaneously from the same location to achieve savings in administration, sales, operations, and marketing. Similarly, one can expect channel operators to seek multiple ownership of local channels in the same nation and within the EU to achieve savings in administration, sales, operations, programming, and marketing.

The economic demands on operators, combined with the needs of parliaments and ministries to keep channels operating once they are authorised, will present significant challenges to efforts to restrict media concentration.

The expansion of channels will further increase the demand for inexpensive programming, particularly syndicated programming. As noted in the review of compliance with the EU directive that channels broadcast a majority of European works, compliance is highest for public broadcasters and well-established commercial channels. Newer commercial channels rely most heavily on imported syndicated programming, particularly programming available from the U.S. (European Union, 2001).

Efforts to promote production of European programming are providing new programming but growth in available programming is far below the growth rate for analogue channels and the dramatic jump in channels that will occur when digital television is introduced across the EU. It should also be noted--from a critical view--that the EU programming requirement may be useful as industrial policy designed to spur growth in EU production, but it is not widely promoting “European” culture. The most successful European programmes have mimicked U.S. programme types and production techniques, and given viewers different domestic versions of programmes such as “Big Brother”, “Survivor”, and “Do You Want to be a Millionaire?”

New channels will require very inexpensive programming and this will lead to increased reliance on syndicated American programming until European producers are able to provide sufficient amounts of syndicatable programmes. When sufficient European programmes are provided, they will undoubtedly mimic the most successful genres of U.S. export programming, such as action shows, infotainment programmes, and situation comedies. In order to keep costs down, these will most often by produced for export in English and shown with local language subtitles in smaller nations whose fragmented audiences are likely to make it economically difficult to support dubbing. Some broadcasters in larger nations may be able to still generate sufficient audience shares to afford dubbing.

The larger nations with significant domestic production (France, Germany, Italy, Spain, and United Kingdom) will be able to produce programming in their native languages and then market these in syndication throughout Europe with subtitling or dubbing, depending upon resources available.

The financial needs of stations will likely increase channel owners’ and advertisers’ pressures for increased ability to broadcast programming fully sponsored or even produced and owned by advertisers and other commercial entities themselves. These may take the form of additional tele-shopping, programme length commercials, or topical shows based on advertisers’ products or the topics of magazines who wish to use television as a means of brand extension for their print editions or Internet-based products. These types of programming provide forms of revenue that are not directly tied to the advertising budgets of traditional advertisers.

Broadcasts of these types of materials are currently limited by domestic and EU regulations, so it can be expected that operators will pressure policy makers to alter definitions, time restrictions, and other limits as broadcasters seek additional sources of revenue.

One can also predict that the increase in commercial channels will lead to cross-border networks developing within the EU. These will link together larger commercial channels to jointly produce and share the costs of original programming and to sell advertising based on their EU-wide audience. Although this process will help solve some of the economic problems faced by some channels, it will also promote inequity among stations. This will have the effect of promoting large commercial operations that operate with significantly different economies than smaller non-affiliated channels at the local, national, and European levels.

Current domestic television policy in most EU nations has attempted to create commercial channels with equal opportunities at the national level and has not fully determined the role of local channels. The pressures created by increasing channels will force policy makers to develop different visions of the roles of, and potentially different policies for, local channels and national channels and for channels with larger and smaller audiences at the national level.

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About the Author

Professor Robert G. Picard, manager of the Media Group, Business Research and Development Centre, Turku School of Economics and Business Administration, is one of the world's leading academic specialists in media economics and management. Picard is author and editor of fourteen books, including *Evolving Media Markets: Effects of Economics and Policy Changes*, *Economics: Concepts and Issues*, *The Cable Networks Handbook* and *Press Concentration and Monopoly*. He was founding editor of *The Journal of Media Economics,* which he guided it through its first decade of operation.