

## 51<sup>ST</sup> EPRA MEETING

### WEBINAR: Understanding key market trends in Covid-19 times

<u>Date:</u>	29 May 2020
<u>Duration:</u>	90 minutes
<u>Session Chair:</u>	Johanna E. Fell, EPRA Vice-Chairperson
<u>Questions manager:</u>	Jean-François Furnémont, Wagner-Hatfield
<u>Content producer:</u>	Asja Rokša - Zubčević, Wagner-Hatfield
<u>Speakers:</u>	Gilles Fontaine (EAO); Florence Hartmann (EBU-MIS)
<u>Sharing experience:</u>	Sébastien Lécou, CSA (FR); Kevin Bakhurst, Ofcom (UK); Bernardo Herman, CSA (BE), Johanna E. Fell, BLM (DE)
<u>Background paper:</u>	<a href="#">EPRA/2020/02</a>
<u>Video:</u>	<a href="https://www.youtube.com/watch?v=R6OOml4vR1k&amp;feature=emb_title">https://www.youtube.com/watch?v=R6OOml4vR1k&amp;feature=emb_title</a>

The Covid-19 crisis has forced the EPRA team to adapt to the new circumstances. One positive outcome of this is that it helped fulfil an objective featuring in EPRA's draft 3-year strategy, i.e. developing innovative formats to facilitate the exchanges within the network, such as meetings in the form of webinars.

The first-ever [EPRA webinar](#), which was joined by around 60 attendees from 31 different member authorities, was opened by EPRA Vice-Chairperson Johanna E. Fell. After a brief reminder about the webinar's etiquette by Jean-François Furnémont from consultant company Wagner-Hatfield, Johanna E. Fell introduced the two speakers. The aim of the webinar is to report on the first effects of the Covid-19 pandemic on content production, distribution, consumption and funding and on the market as such and to tentatively formulate long-term predictions. Policy aspects are not covered; they will be on the agenda of the autumn session.

[Gilles Fontaine](#)<sup>1</sup>, Head of Market and Information Department at the European Audiovisual Observatory, cautioned that it is still early to try and identify precisely the impact as data is not available yet. However, the EAO has already made some preliminary observations and attempted assumptions on long-term effects. This crisis raises two questions: *are we dealing with just a punctual crisis or a long-lasting impact? Is this impact a disruption of rather an amplification of existing trends?*

**Identifying short-term effects:** Gilles presented a picture of the first short-term effects on the whole production content chain, from funding to distribution, by identifying the impacted segments:

- 1<sup>st</sup> (severely) impacted segment: TV advertising revenues, especially during lockdown despite an increase of TV consumption, mostly affecting commercial but also public broadcasters
- 2<sup>nd</sup> (severely) impacted segment: cinemas, as they had to close and will reopen with drastic sanitary conditions.
- 3<sup>rd</sup> impacted segment: public service media funding. Even if, for the moment, public funding appears to be resilient as annual budgets are not cut in the short term, other types of funding such as advertising are impacted.
- 4<sup>th</sup> (less) impacted segment: pay-service subscriptions such as SVOD and linear pay-TV. Linear pay-TV is not really impacted owing to one-year contract conditions (not possible to rescind), and to the inclusion in Internet bundles. However, the crisis has not created a boost in subscriptions - in contrast to SVOD subscriptions.
- 5<sup>th</sup> (less) impacted segment: digital and physical home video. No data is available yet. One assumption is that physical home video may have been impacted with the closure of shops while digital home video sales may have increased, but it is not possible at this moment to know if the digital sales compensate the loss in physical sales.

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<sup>1</sup> Gilles Fontaine's PPT presentation is available at this link: <https://www.epra.org/attachments/understanding-key-market-trends-in-covid-19-times-presentation-of-gilles-fontaine-eao>, his discussion paper here: <https://www.epra.org/attachments/exploring-the-impact-of-the-covid-19-crisis-on-the-european-audiovisual-sector>

In conclusion, the first two segments are severely impacted while the others are more or less resilient.

**The mid-term perspective:** do we risk facing a more systemic impact?

- 1<sup>st</sup> segment: TV advertising revenues are linked to the economic health of a country. In case of recession, it is the most impacted segment. By contrast, online advertising is suffering less and there is a risk of advertising shifting from TV and radio to the online sector.
- 2<sup>nd</sup> segment: will people go back to cinemas after developing a taste for SVOD and despite the strict sanitary conditions? Smaller cinemas or distribution companies might not survive, and they play a key role regarding the production of content and movies.
- 3<sup>rd</sup> segment: public funding is threatened by the risk of future austerity measures to respond to the crisis.
- 4<sup>th</sup> segment: pay-services subscriptions face the risk of shortage of cinema films. Linear pay-TV could also be affected by the long-term contract expiration coupled with a possible increase of a cord-cutting effect as SVOD services are cheaper. This could lead to a decrease of the revenues for content production.
- 5<sup>th</sup> segment: over the last 12 years, the home video sector has been facing a decrease of physical sales which is not compensated by online sales so it will probably keep going this way.

All segments which contribute to original content production will be negatively affected by the crisis (except SVOD). There is also a risk of bankruptcy of distribution and production companies and of a decrease of the levies from public and commercial broadcasters and cinemas. This could severely impact high-end content production and broadcasters could be forced to rebalance their production budget in favour of less quality content and to limit their capacity to invest leaving the SVOD sector as the leader in content production.

**To conclude**, Gilles Fontaine highlighted that all the resources of legacy players are at stake: TV advertising revenue is the highest risk factor for the sector, public funding will be key to the resilience of the audiovisual sector and the cord-cutting effect is likely to accelerate. However, the increase in revenues from SVOD is not likely to compensate the losses suffered by the other players and might affect European high-end content production. This crisis is not to be seen as a disruption but rather as an accelerator of pre-existing trends – a fragile economic balance for players and a shift of market power from traditional actors to SVOD and from European to global players.

#### **Discussion:**

*What can policy makers do to avoid this shift?*

GF: it is necessary to make a distinction between the emergency measures taken in response to the Covid-19 pandemic and the long-term measures responding to systemic issues. Policy measures can be effective at several levels: the advertising market should be a priority to avoid a transfer of revenues to online advertising and thus a leak of the money out of content production funding; public service media and public funding are key to maintaining high-end content production; co-production should be encouraged to counterbalance SVOD investments.

*What about non-EU markets? Are the trends the same everywhere in Europe?*

GF: There is no data concerning non-EU markets for the moment. Regarding the European market, it is difficult to make a global assessment as the situation varies a lot depending on the country. For instance, cord-cutting will be less accelerated in Nordic countries where SVOD is already strong than in France where penetration rate is still pretty low.

*To what extent are broadcasters able to generate advertising via their online platforms to compensate for the loss of TV advertising?*

GF: in theory they could but it is important to keep in mind that one minute of TV advertising generates far higher revenues than one minute of online advertising.

*How long can we accept that SVOD subscription is cheaper than linear pay-TV?*

GF: Cross-subsidization is a matter for competition authorities!

[Dr. Florence Hartmann](#)<sup>2</sup>, senior analyst at the EBU Media Intelligence Service, presented current European market trends in times of the Covid-19 crisis from the point of view of public service media (PSM). The unprecedented crisis has generated uncertainty for months and years to come. Based on early data received from EBU members, it is, however, possible to provide an overview of the short-term effects and a first forecast of longer-term effects.

**Overview of the pre-crisis situation and existing challenges:** the market is increasingly busy with global players and non-PSB actors. Operating revenues are decreasing for PSM (a mere 0.3% growth for PSM while Internet and global players saw their revenues growing by 122%). PSM, by nature essentially national actors, now have to compete with non-purely audiovisual, very diverse international players. However, with regard to content production in Europe, PSM and private broadcasters continue to play a key role, especially in high-end production where PSM contribute 67% of the high-end production.

#### **The effects of the crisis:**

**Performance:** there is a clear disconnection between the performance and the economic challenges. PSM performance has been impressive during the crisis, both for traditional and online services, as people turned to trusted providers. The lockdown has had a strong effect on audiences, creating a shift in media consumption. However, as was already the case before the crisis, streaming platforms such as Netflix and Disney+ were the big winners. Will this trend continue after the quarantine?

**PSM funding:** Europe will be confronted with the worst economic recession since the 2<sup>nd</sup> World War and GDP (Gross Domestic Product) will drop by 5-10% in 2020 in the EU zone. All media will suffer from the losses in advertising revenues as happened with the 2009 crash. As the forecast on advertising revenues changes weekly, it is difficult to predict developments over time. However, it transpires that whereas the months of March and April were a disaster for some EBU members, May was even worse in terms of advertising revenues. Europe will potentially be the most-hit region in the world as regards revenues.

As a result, while public funding was already stagnating or even decreasing for the last ten years and still recovering from the 2009 crash, an EBU survey<sup>3</sup> among 39 organisations in Europe reveals that 79% of PSM expect an impact on their funding due to the crisis, with 1/3 expecting a significant impact on revenue while only 1/5 do not expect any future decrease of their revenue (PSM not relying on advertising revenue or with strong and sustainable state funding). The average decrease in revenue is expected to be around 5.6% compared to 2019 and up to 20% for the most impacted. The impact is likely to be more profound in Southern and Eastern Europe. This preliminary estimate must, however, be viewed with caution.

PSM also worry about public income in the longer term. Licence fees, normally a stable source of revenues, can be hit by the economic recession and the difficulties of citizens to pay the fee. PSM funding through State budgets may also be impacted, especially when it is linked to the macro-economic environment or depends on annual agreements.

**Opportunities raised by the crisis:** PSM responded true to their Public Service mission and demonstrated their crucial role, while accelerating their digital transformation and supporting the European creative sector. However, opportunities will depend on the sustainability of the PSM, which has been severely challenged by the current crisis.

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<sup>2</sup> Florence Hartmann's short PPT presentation is available at this link:

<https://www.epra.org/attachments/understanding-key-market-trends-in-covid-19-times-the-psm-perspective-presentation-of-dr-florence-hartmann-ebu-mis>

Her full presentation is available here: <https://www.epra.org/attachments/european-audiovisual-market-trends-in-times-of-crisis-the-psm-perspective>

<sup>3</sup> At the time of the webinar, the results of the survey have not been published yet and shall remain confidential.

## **Discussion:**

*Will the increase of audience help PSM to raise more public funding?*

FH: Hopefully, the key role played by PSM during the crisis (as supplier of trusted content, supporting the creative sector in Europe) will prevent the introduction of austerity measures. However, there is a real risk. For instance, in Germany, a proposal to increase the licence fee after 10 years of stagnation was on-going before the crisis, but the proposal is now back in the political discussion and might be cancelled.

*Do you agree with Gilles Fontaine's analysis that the crisis is an acceleration of trends rather than a disruption?*

FH: The trends are indeed accelerating. Streaming actors were already getting stronger before the crisis. Advertising revenues were also already hit by a transfer from TV to online advertising. The call for decreasing advertising revenues of public radio/TV has not created any transfer to commercial channels but has benefited the online market - the crisis is likely to enhance this trend.

*What is the role of the EBU in terms of support during the crisis? Is there any action at EU level?*

FH: The EBU is very actively trying to support its members by putting in touch broadcasters, accelerating the exchange of programmes as the creative sector has been severely impacted. The EBU is also exchanging with the European Union to explain the impact on PSM and to try and coordinate the actions of the members at the European level.

**Summary by the Chair:** This crisis acts as an accelerator of already existing trends, even if it is still too early to clearly assess the impact. Awareness of the situation must be brought to the policy makers to establish a framework which will help European players to stay strong in Europe.

## **Sharing experience – EPRA members contribution:**

*Sébastien Lécou, CSA-FR:* the CSA has been monitoring the situation during the crisis and [publishes figures on a bi-monthly basis](#). As in many other countries, the CSA observed a large increase of TV audience (one hour more per person per day) especially regarding fiction and news programme. However, the audience rapidly decreased after the end of lockdown (*In France, lockdown measures progressively began to ease as of 11 May*), thus ending the positive effect of the crisis on TV audiences, even though the audience figures for young people are still a bit higher than usual (which may be explained by the fact that schools and universities are still closed). An increase in SVOD consumption was also observed: the market share of SVOD (7% before the crisis) reached 12.4% during the lockdown. Post lockdown, the SVOD market share is still 11 %.

With regard to advertising revenues: TV broadcasters faced a 62% decrease during the lockdown. Post lockdown, they still suffer from a 55% decrease. Radio broadcasters were more seriously impacted (- 66%) but they appeared to benefit from a faster recovery at first (-30/40% post lockdown). However, the recovery has now stopped (still -30% weeks after lockdown).

*Kevin Bakhurst, Ofcom – UK:* Ofcom has launched [a rolling survey](#) during lockdown. As a result, it appears that 92% of people were accessing news at least once a day during these times, with the BBC services being the most used (more than 70%) while social media interest has decreased from 49% audience share to 37%. Regarding content, 43% of the respondents came across misinformation about Covid-19. Quite early, Ofcom wrote to all broadcasters to inform them that they will be flexible in their monitoring until the end of the year and encouraged them to explain their difficulties. However, no flexibility will be applied regarding editorial standards. Indeed, Ofcom fined three broadcasters owing to misinformation, especially focused on the link between 5G and Covid-19.

Owing to the lack of visibility, it is difficult to plan for the future, but the crisis also offered an opportunity to develop collaboration between broadcasters to create productions and guidelines. The production sector is slowly starting again but a lot of content was lost, thus impacting programme schedules. However, new ways of working were tested (remote working, changes in work processes...) and it is timely to look at what can be changed in the regulatory field as well: what can Ofcom do to help and support the audiovisual sector?

*Bernardo Herman, CSA – BE:* The CSA has initiated [its own internal consultation](#) in the French speaking part of Belgium. Similarly to other countries, the audiovisual sector was severely hit with economic losses (25 to 85% depending on categories). Commercial TV and radio were the most impacted, especially in April. Thematic channels such as sports channels suffer up to 80% losses and encounter problem of liquidity. Content production was reduced by 50%. For news channels, the increase in audience (as people have turned to trusted channels) did not compensate for the economic losses. The CSA asked broadcasters to share proposals for exit scenarios: the most requested measure was public grants, such as credit facilities or recovery grants for film productions, and a postponement of the deployment process of digital radio. At this moment, a plan aimed at supporting all the actors of the production chain - authors, distributors, cinemas... - is discussed; it includes various measures to also tackle pre-existing issues such as the status of the artists.

*Johanna Fell, BLM – DE:* Upon the request of the regulators, all media were classified as essential and thus added to the list of sectors which should be better protected in case of deep recession. Moreover, the licensing regime being still very traditional, the regulators decided that they would propose a simplified and temporary notification process form on their website to enable the possibility to automatically stream content for a limited period. This measure will be available until the end of August. So far, this process was used for religious, educational or cultural services and drive-in cinema for instance. It is also worth noting also that the temporary framework for state aid measures to support the economy during Covid-19 released by European Commission mid-March and applying until the end of December has eased the possibility to provide financial help to broadcasters and the creative industry. State governments and the regulators are setting up support funding schemes for the sector.

Further experiences and questions shared via the chat function:

*Valentyn Koval (NCTRB UA)* shared the industry data for Ukraine (as reported by the leaders of the industry):

- TV advertising on a national level dropped by 50%
- TV advertising on local markets are predominantly non-existent
- Radio advertising on a national level dropped by 70%
- OOH advertising on a national level dropped by 80%.

*Marie-Therese Lilleborge (NMA NO):* In Norway, there is a rise in the consumption of news, and a solid rise for traditional news providers, such as PSM - both NRK (state public service media provider on all media platforms) and TV 2 (private public service broadcaster on television). The public turns to these sources and marks them as the most trusted news providers. The Norwegian Government is about to launch a temporary economic support scheme to editorial journalistic media, totalling 300 million NOK (approx. 29 million €).

*Marcel Betzel (CvdM – NL)* wondered how regulators should respond to the vulnerable situation of media service providers, asking whether NRAs should be more lenient towards the sector when it comes to monitoring compliance and enforcement. Additionally, he was curious to know whether ERGA members had already been faced with calls from the sector to act more leniently.

Conclusion: Johanna Fell informed the attendees about the next steps (the presentations of the speakers will be available on the EPRA website, as well as a summary of the webinar and [a video](#)) and thanked the speakers and attendees, wishing to see them again soon in person.