

TV Film Financing in the Era of “Connected TV”. How do “Legacy” Broadcasters Respond to Market Changes?

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Abstract

This chapter provides an economic analysis of the television broadcasting industry at the convergence of broadcast and broadband connectivity towards “Connected TV”. Connected TV is the new buzzword in home entertainment and includes a wide range of technical solutions that bring linear TV and the internet world together. This chapter explores (a) the changing nature of the TV market in the light of digital disruption; (b) the potential impact these changes may have on financing film; and (c) the key issues affecting the role of public broadcasting who are basically mandated by law to start-up and refund (independent) film productions by means of “mandatory transfers”. By offering two case studies from Germany and the U.K., the challenges of public funding for supporting film production are illuminated. The study also shows that the changes produced by media convergence create a complexity of business models and organizational strategies, in which “legacy” broadcasting maintains a partial immunity to change.

Keywords

Strategies, Change, Connected TV, Digital, Film funding, Future, Financing, Germany, *Netflix*, Public Service Broadcasting (PSB), Television broadcasting, United Kingdom

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1. Introduction: Television in a State of Flux

TV film financing is a growing and relevant topic of academic, public and industry-wide debate, because of the changes produced through convergence that are further multiplied by the rise of new digital technologies (Bonini & Pais, 2017; Freeman, 2017; FutureScape, 2011; Herzog & Karppinen, 2014; Ladson & Lee, 2017; Lange, 2015; Loriguillo-López, 2017; Lowe & Berg, 2013; Papadimitriou, 2017). Essentially, digital technology changes broadcast media – particularly through its impact on production capabilities, distribution platforms and funding models – and yet, surprisingly, the effect of these changes is taking time and the traditional TV industry is proving to be quite resilient toward change. But why is this?

On a general level, the impact is weathered because change has become a constant for media organizations and the media industry (Picard, 2009). For example, the cinema has withstood a range of disruptive technologies during the last century. In hindsight, the greatest threat to the film industry came in the form of broadcast television. The two decades following WWII saw the rapid adoption of television, first in the USA and then throughout Europe. This period coincided with a systemic decline in cinema audiences and revenues as theatrical release was overshadowed by network premiere (i.e. the first broadcast of a film on network TV).

Until the 1990's, cinema was considered to be at risk from a range of technologies that increased the appeal of broadcast television. The adoption of colour television sets in the 1970's, the emergence of VCR technology in the early 1980's, the increase in pay TV penetration in the early 1990's and even the launch of the remote control (cited by director Peter Greenaway as the harbinger of the end of cinema in 1983) have all been accused of sounding the “death bell” for the film industry (Epstein, 2010).

Once the potential impact of digital technologies became clearer, the prospects for cinema's future were considered bleaker still. In 1995, acclaimed academic and digital pioneer Nicholas Negroponte analysed the threat cinema faced from the ubiquity, speed, convenience and lower entry costs that digital online media would exploit to offer a better consumer proposition. The idea of ‘going to the movies’ would become a 20th century anachronism and ‘film’ would become just another part of the ‘content’ mass that would shift seamlessly between platforms and screens. The power of *Hollywood*, in terms of distribution, monetisation and artistic control of its output, would be severely diminished. Negroponte's view also applied to all other established media platforms, in particular broadcast television. This is why noted U.S. academic George Gilder predicted in 1992 that television would be finished – as a platform and as a business – by the end of the 1990's. In contrast, Negroponte held a more optimistic outlook for television's future. While he did not predict its deterioration, he foresaw a shift in thinking: “the key to the future of television is to stop thinking of television as television” (see also Flichy, 1999; Negroponte, 1996, p. 48).

Today, the television broadcasting industry is reaching another tipping point. Driven by new developments in digital technology, transformations provoked by the convergence between television broadcast and internet broadband allows for the boundaries between television broadcasting and the Internet to disappear. Indeed, the internet and the “online video revolution” has also substantially changed how we watch TV. This is due to the likes of *Netflix*,

an American provider of on-demand Internet streaming media services, and other big-name providers such as *Google's* video-sharing platform *YouTube*, or *Amazon's Prime Instant Video*, who are leading the raft of new and innovative TV services. In addition, TV consumers are seen to experience a variety of changes in usage and engagement modes from

- Lean-back, passive to lean-forward active viewing (or a combination of both)
- The use of the remote control to the use of keyboard, infrared, voice and gesture control
- Consuming live broadcasts to time-shifted, catch-up and on-demand TV modes
- Single-screen to multi-screen usage
- From single-person viewing (in the child's room) back to multi-person family viewing in the living room (where virtual co-viewers may be part of viewing experience by means of online social networks).

However, while the majority of viewing is said to stay with the traditional broadcasting networks and their 'big event TV' (such as prime-time event TV and big sporting events broadcasts), the seeds of change for TV broadcasting are planted by above changes.

However, Connected TV is to be associated not only with technology, but also with industrial and institutional structures, as well as with new social and cultural norms that shape and are shaped by converging media. For example, the latest global privacy policy announcement of *Samsung*, the leading provider of so-called "Smart TV" services, states that personal conversations of users will be recorded by the device's microphone and transmitted to third parties. This brings forth criticism for privacy issues and highlights that developments in the markets significantly impact – or intrude – in the social sphere and influence the development of culture in ways that cannot be entirely foreseen.

Yet, the issues surrounding the structural changes in television broadcasting are far from straightforward. The underlying economic relations and forces are highly complex, but their importance to all stakeholders is evident. The question of who will own the television audience and control the user interface remains open, and one important consideration therein will be the role of legacy broadcasters that are facing new competitors from outside the industry, mainly by companies such as *Samsung*, *Apple*, and *Google*.

Nevertheless, at this stage we can posit that "legacy" broadcasting is rather immune to the current challenges for change. While it is experimenting with different kinds of television-like and online video news and entertainment services to reach audiences, especially younger people, it has managed to survive the turmoil rather bravely and has remained in a strong market position.

This is due to the following six reasons: First, while television has had to "stop thinking of television as television" and manage fragmentation of audiences across devices, platforms and providers, its key market asset remains quality journalism and the production and syndication of quality audiovisual news and entertainment content in all its forms and across all platforms; if it is available and of high enough quality, the audience will consume it. That is why every new technology, which threatens to disrupt TV, has so far only contributed to

increases in the total TV audience (currently still defined as viewing to broadcast content on the TV set) and, ultimately, the revenue flow.

Second, it is TV's *analogue* strengths (sharing, connection, storytelling, the power of now and fame in particular) that have helped turn TV into a digital super-medium. Those predicting its early demise assumed new technologies would replace television; instead they have primarily been adopted by consumers to enhance it.

Third, television's success still revolves around the broadcast schedule. For example, viewing broadcast programmes still accounts for more than 90% of all TV viewing in the U.K. (BARB, 2015) and a programme's success in the TV schedules also correlates very highly with its viewing figures for time shift and catch-up. There are a number of reasons for this, including shared viewing; appointments to view; the accessibility of the EPG (Electronic Programme Guide); an increase in live and event programming; and - as is often forgotten - the schedules' ability to reflect the needs of audiences at different times of day. Consequently, the audience does not *migrate* to other platforms or screens, but merely visits them from time to time, primarily driven by the linear broadcast schedule.

Fourth, similarly, the channel and programme brands are becoming more important, not less important. In a choice-filled environment, viewers make instinctive decisions based on emotional prompts and cues, and strong branding help to simplify those choices (Malmelin & Moisander, 2014; Siegert, Förster, Chan-Olmsted, & Ots, 2015).

Fifth, digital technology does not offer a replacement for broadcast television; it offers enhancement for the viewer and an opportunity for TV companies themselves. So far, the focus has been on online and competitive digital media but, in fact, online offers a distribution benefit for broadcasters (maintaining TV's position as a mass reach medium) and social media has been TV's most effective promotional channel. It could be argued, however, that the main benefit of digital technology may be in the improved production capabilities; TV's core product – programming content – becomes higher quality, more flexible and more engaging.

Sixth, finally and consequently, television revenues across all sectors have grown significantly ever since the dawn of the digital revolution. Although traditional sources such as advertising have delivered impressive growth performance, newer forms of revenue (subscriptions; pay-per-view; non-spot advertising; online viewing; data monetisation) are combining to increase profitability and expand the market: hence the emergence of OTT television (currently dominated by *Netflix* and *Amazon*) which is basically delivering more television.

This unexpected twist in the narrative around television's inevitable decline has important implications for the future funding of the TV film industry at many levels. Particularly, the issue of "mandatory transfers", defined as compulsory inter-branch financial transfers related mainly to the financing of film and other audiovisual works, plays a vital role in refunding film for TV. These transfers are seen as a vital tool in refunding film production. Organized by public authorities through binding legal agreements, they ensure a transfer of financial resources from one branch of the audiovisual industry to another. Being indirect by nature, these transfers are mandated by law and can be implemented either by (a) a specific tax

or of a levy financing a national film fund, or (b) by an obligation to invest directly in the production of film. Transfers may be compulsory for one or several of the various stakeholders of film distribution: exhibitors, broadcasters, distributors of home video and audiovisual services, and/or providers of VoD services. As shown by a report by the *European Audiovisual Observatory* regarding the volume of capitalizing film funds in Europe for the period 2010-2015, taxes and levies accounted for by 1 billion euros per year, while direct funding by federal, national, regional or local governments represented only 4 per cent in comparison (Talavera Milla, Fontaine, & Kanzler, 2016). Unfortunately, however, no full data is available for Europe, neither on the total volume of taxes and levies collected, nor on the mandatory investments spent in production, co-productions and pre-sales of films and TV programs. In 2013, they are estimated to have summed up to some 4 billion euros (Lange, 2015).

This chapter is organized as follows: In the next section, we will be exploring the issue of private film financing strategies as applied by “legacy broadcasters” by showcasing finance practices for Connected TV in Germany. In the next section, we shall look at public financing of the U.K.’s film industry and the current and potential roles for public service broadcasting within the current media mix. The final section will draw some conclusions from this wide array of issues and expert opinion.

2. New Business Model Strategies: The Case of “Connected TV” in Germany

“Connected TV”, sometimes referred to as “Smart TV” or “Hybrid TV”, is a good example of the merging of previously distinct media technologies and media forms resulting from digitization and computer networking, and an economic strategy in which TV companies diversify and ‘attack’ the Internet domain (or, alternatively, defend their old territories).

Connected TV is the industry’s new buzzword in home entertainment, which includes a wide range of technical solutions that bring linear TV and the internet together. This is exemplified by TV sets with added Internet connectivity, set-top boxes delivering audiovisual content “over-the-top,” connections to social media and networking services, and the ability to control and interact with gestures and voice commands, and so forth, connected TV may bring these services to large flat-screen TVs that have the processing power to display HDTV or 3DTV.

However, the challenges of ubiquitous content and connectivity to TV create strategic problems for traditional broadcasters that currently seek to refine or update their business strategy or trying to establish a new business model. Fundamentally, technology-driven convergence processes facilitate business model innovation, which means that the organizations need to reconfigure and reinvent how to create value in this new domain (Küng, 2013; Picard, 2011). However, industry insiders have been quick to grasp that commercial mass media would be struggling to find new revenue streams for the converged-media future. They have proposed different strategy perspectives for organizations (Geser, 2012;

Kaufmanns, 2013). On this basis, the executives, supported by a fleet of experts, proposed that the broadcasting industry's future can only be safeguarded by large-scale experiments in product innovation, market development, monetization, business-model venturing, and strategic customer interaction (Accenture, 2011, 2012; FutureScape, 2011; Picard, 2009). For most traditional media companies this represents a major adaptive challenge. Media companies whose primary business models are based on advertising revenues, like television, find it increasingly difficult to reach a mass audience (Landers & Chan-Olmsted, 2004; Maijanen, 2015; Manovich, 2009; Pavlik & McIntosh, 2013).

In particular, challenges such as cooperating with productive audiences and developing ideas for co-production contradicts existing business logics and traditions (Lundin & Norbäck, 2009; Wikström, 2014). Therefore, in this changing market environment, organizations need strategic responses for developing new practices for changing circumstances (Joseph, 2011), such as harnessing innovation (Baumann, 2013) and working with contradicting organizational logics that reflect the complex developments of the market (Horst & Moisander, 2015; Virta & Malmelin, 2017). Furthermore, the market changes entail significant strategic organizational questions such as “How do we best describe the terrain on which we work? or What is the strategy we should use?” (Horst & Järventie-Thesleff, 2016) or actor-centered questions, such as “are you thinking about the technology or the customer?, Will your digital media strategy deliver against your corporate or business level strategy? or Is your creativity coming from the technology or the idea” (North & Oliver, 2014). Together, these questions are important for driving new ideas and strategic responses.

So far, the industry's responses have fallen into three categories: horizontal integration, vertical integration, and the search for new revenue sources (Küng, 2017; Vukanović, 2016).

The strategic rationale behind horizontal and vertical integration is that in a fragmenting market, media companies can only reach a mass audience with a broad portfolio of media assets, each targeted at a different group that can be exploited along the distribution windows. In sum, media companies are trying to re-aggregate audiences by diversifying across types of media and by taking a portfolio approach to content. Moreover, the traditional rights windows, which gave broadcasters almost a monopoly over quality content, have multiplied, and business-to-business revenue models are now being questioned by potentially superior business models which are based on a deeper and more direct relationship with the end consumer.

In the sections that follow, we shall introduce some selected best-practice models of corporate financing strategies in Connected TV in Germany that may be representative of how particular organizations respond to the current challenges they are facing.

The “TVplus” Strategy

In Germany, the age of Connected TV started at the *International Broadcasting Exhibition* in Berlin (IFA) in 2010. Since then, all four major German “FreeTV” networks – ARD, ZDF, RTL, and ProSiebenSat1 – have offered ‘HbbTV’ services. The public broadcasters focus on so-called “Mediathek” services: free, 7-day catch-up video library services, provided by ARD,

ZDF, Arte, “Das Erste”, RBB, *Radio Bremen*, and the “Tagesschau” (the television news service produced by *Norddeutscher Rundfunk* (NDR) on behalf of the German public-service television network ARD). While public broadcasters wish to secure their competitive prominence in the era of connected TV, the web portals of the private TV broadcasters have ventured into building up commercial video on-demand portals, from where TV programs can exclusively be downloaded in advance of the live broadcast on linear TV (e.g., *RTL Now*, *Pro7 Connect*). Both public-service broadcasting (ARD, ZDF, regional PSBs), and private free-to-air (RTL, *ProSiebenSat1*) and pay-TV (*Sky*) networks are seeking to position themselves in the connected TV world in order to leverage their trusted brand names and their portfolio of (premium) content rights. The prime focus is on extending reach with their properties, a business model which industry consultant IDATE called the “TVplus” positioning model, whereby classic broadcast TV is enhanced with VOD and OTT services.

Likewise, Germany’s largest pay-TV operator, *Sky Deutschland*, expanded its platform in order to offer additional benefits to its customers in terms of interactivity and multi-platform experience. In 2007, *Sky* launched *Sky Anytime*, a (catch-up) video-on-demand service that provides instant access to the best premium programming and is free to *Sky+* customers. *Sky+* is a HD receiver and has recording functionalities through the hard disk recorder and the integrated *Sky Guide*. In September 2012, *Sky* announced that *Sky Anytime* and *Sky+* would be merged and rebranded as On Demand. The service offers around 1,000 hours of content featuring 350 movies, 500 series episodes, 150 documentaries and 400 kids’ programs. On Demand is offered free of charge to all *Sky* customers with *Sky+* HD boxes, although access to premium content depends on the subscriber’s package. *Sky+* customers doubled to 929,000 in 2012, meaning that 27.6% of all *Sky* subscribers already use *Sky+*.

In July 2011, *Sky Player* and *Sky Mobile TV* were integrated and rebranded as *Sky Go*. The new platform allows customers to stream live channels depending on the *Sky* TV subscription at no additional cost, limited to two simultaneous devices (online, *iPad*, *iPhone*, *Xbox 360*). *Sky Go* is *Sky*’s answer to the “over-the-top” (OTT) threat, whereby video is delivered over the Internet without a multiple-system operator being involved in the control or distribution of the content, thus ensuring greater flexibility and convenience for its customers. Integrating *Sky Guide* into *Sky Go* enables a whole host of new functions, such as remote programming for *Sky+*. With 33.3 million customer sessions in 2012, *Sky Go* seems to be part of a successful convergence strategy. In January 2013, download service *Sky Go Extra* was launched, allowing up to four users to download their programming to their laptop, smartphones, or tablet to view offline for an additional € 5 per month.

All in all, *Sky Deutschland* is facing hard times. Germany’s pay TV market is strongly underdeveloped and, compared to France and the United Kingdom, only has a market penetration rate of 15 per cent (as opposed to ca. 50% in France and the U.K.). In addition, Internet streaming services such as *LoveFilm*, *Maxdome*, and *Watchever* are directly competing for customers. *Netflix*, the largest player in streaming services, has entered the German market as well, which creates even stronger competition. Snap is *Sky*’s response to these threats. Launched at the end of 2013, the online video library offers 4,000 films and TV series to *Sky* (€ 4.90 per month) and non-*Sky* customers (€ 9.90 per month).

The “Paid-Owned-Earned” Advertising Revenue Strategy

Until now, the TV business has been a fairly linear process: Journalists would gather facts and observations and turn them into stories, which were then committed to be broadcast over the air or via cable/satellite, and finally consumed by the audience. This “pipeline model” is the simplest metaphor for that process, wherein content distribution was organized around the broadcast tower. Now, at the confluence of industry convergence and the increasing penetration of consumers with Connected TV devices and their properties, a new business model is emerging: the “paid-owned-earned advertising” revenue strategy model.

If we believe in the boundary-spanning nature of business models by emphasizing that organizations interact with their environments, which, fundamentally, create requirements for organizations that their managers address in part by adopting their business models (Amit & Zott, 2012), then business models that used to support traditional media companies in the past appear not to work in the digital age. Addressing this business-model innovation gap (Chesbrough, 2010) raises the fundamental question of how commercial broadcast media will manage to survive as traditional sources of revenue (paid display ads, subscriptions, and transaction sales) shrink. Solving this issue is vital, as the legacy revenue model through “paid” (i.e., all forms of advertising for which a media purchase is necessary) and “owned” (i.e., all content assets that a brand either owns or wholly controls) media is failing. Paid advertising has found many outlets, atomized into thousands of blogs, *Facebook* pages, and specialized television and radio stations, so that return on investment is becoming difficult to trace due to audience fragmentation. Social media enhancements are the best drivers of opportunity to complement paid and owned media revenue models. The latter are so-called “earned” media revenue-generation activities and are gained through user-generated content created and/or shared by users. Still, earned media are the most elusive of the three marketing channels (Altimeter, 2012).

The examples of RTLII’s *Berlin – Tag & Nacht* and ProSiebenSat.1’s *Dirty Dancing Double Date* suggest that social media enhances the television viewing experience and reconnects the medium with the typically hard-to-reach younger segment that can be monetized by advertising forms. In that context, earned and shared media support the traditional revenue models (advertising and viewer payments) which are still crucial in financing platform development.

Broadcasters that are able to secure a key position in commercial models for Connected TV, or even lead the development of such commercial models, could potentially become the dominant power in the next television revolution as Connected TV gradually replaces traditional television. Broadcasters may still mainly operate as value chain companies following the pipeline model, but enduring innovation in digital technology will have an impact on the distribution and consumption of television content. Along with digital television technology, platform operators have started packaging channels in their platforms and providing enhanced interactivity and enriched customer services such as electronic program guides, video on demand, games, and information and transaction applications.

The “Platform” Strategy

German consumer electronics manufacturers such as *Samsung*, *LG Electronics*, *Sony*, *Sharp*, *Panasonic*, and *Grundig* are the strongest opponents to traditional broadcasting in the Connected TV era. They position themselves as downstream players and pursue backward integration strategies by slipping into the role of portals and aggregators of content and services. Scholars in internet and media economics call this model the “platform” model (Rochet & Tirole, 2003; Rysman, 2009). Likewise do IPTV and cable TV operators such as *Deutsche Telekom*, *Kabel Deutschland*, *Unity Media*, and *Vodafone*. Similarly, DVB-T (through Germany’s largest distributor of audio-visual media *Media Broadcast*) and the satellite network operator ASTRA Germany, a subsidiary of SES, a world-leading satellite operator with a fleet of 49 geostationary satellites, also create portal offerings, hoping to exploit the market of web content on the TV set. *Sky Deutschland* has secured the German rights to the second season of Netflix’s original drama series *House of Cards* and will show it exclusively on its *Sky Go* mobile TV and *Sky Anytime* on-demand services. *Sky* has been broadcasting the complete second season of 13 episodes from February 14 on *Sky Go* and a day later on *Sky Anytime*, parallel to the U.S. launch on Netflix. *Sky Go* subscribers have been able to view the show on the web, iPad iPhone, iPod touch, and the Xbox 360, while *Sky Anytime* has been making the show available via the *Sky+* HD DVR on-demand. *Sky* has also been making the first season of *House of Cards* available on *Sky Go* and *Sky Anytime*. Additionally, the consumer electronics giant *Apple*, very much a technology pioneer, leverages its competencies and market experience in order to establish a Connected TV innovation platform aimed at complementary products and services.

In general, for players who have adopted a positioning devoted to seamless access to all content across devices, the television remains the central entertainment-delivery screen in the home, and is therefore the unified point of access for all digital content, regardless of provenance (broadcast stream, VoD, catch-up TV, Web, etc.). *Google TV* is a prime example of this strategy.

The “TV App Store” Strategy

Overall, there is a growing consensus that apps will replace TV channels as part of a natural evolution, as they will provide coherent branding and smooth user interface across the different associated services and companion devices. Adopted by *Yahoo!* Connected TV and *Samsung* Apps, the “TV app store” positioning model seeks to carry apps as substitutes to TV channels over to the TV set for the distribution of internet services. TV sets and STB manufacturers such as Samsung which manufacture end-user devices to display, store, and manage content also offer Connected TV portals. They aim at monetizing the TV viewing by integrating more interactivity (gaming, social media) into the viewing experience (which IDATE named ‘TV app store model’); in all, this cluster is much challenged by a multiplication of standards and inexperience in the content market.

Parallel to its main competitor *LG Electronics*, *Samsung* launched its first Connected TV system (named “Smart TV”) in 2007, integrating the internet and social media into television sets and set-top boxes. Initially, the service was rolled out under the name *Power Infolink*—an RSS feed service with content supplied by *USA Today*. *Samsung*’s ‘Smart TV’ service enabled the viewer to receive information from the internet while at the same time watching linear television programming. *Samsung* later launched its *Internet@TV* and unveiled the upgraded version including 3D technology.

Samsung’s ‘Smart TV’ service offers free (or for-fee) download of applications from its *Samsung Apps Store*, in addition to existing services such as news, weather, stock market, *YouTube* videos, and movies. In addition to social media services like *Facebook*, *Twitter*, *Skype*, and *Spotify*, *Samsung Deutschland* has closed partnerships with local content providers including *Die Welt*, *Bild*, *Audi*, *Maxdome*, and the *Berliner Philharmoniker*. By the end of 2012, *Samsung* announced a multiyear partnership with *Yahoo* to add an interactive layer to the television experience. By means of widgets, *Yahoo!* Connected TV now provides interactive content like trivia, additional show insights, commerce or playable games to turn passive consumers into engaged viewers. This partnership also pens up opportunities for new forms of advertising by extending traditional 30-second commercials into immediate actions. With the *Yahoo*-enabled commercials, advertisers can embed calls to action for downloading apps or digital media, providing coupons, ordering samples, reading reviews or viewing product information via their Connected TV. In return, *Yahoo* provides detailed insights and statistics to track and measure the performance of TV campaigns. The strategies described above are summarized in Table 1.

Table 1: Strategies for Connected TV in Germany

Strategy	The “TVplus” approach	“Paid-Owned-Earned” Advertising	The “Platform” approach	The “TV App Store” model
Focus	The prime focus on extending the reach with the properties.	Combination of three kinds of advertising in a mixed-strategy.	Acting as aggregators of content/ services or providing portals for others	Using apps as substitutes to TV channels over to the TV set for the distribution of internet services

In summary, this research demonstrated that the demand for video entertainment has helped producing a more diverse and resistant market for film content. Moreover, and in consequence, it offers plenty of opportunities for independent filmmakers and other service providers to get a foot into the digital domain.

3. The Role of PSBs in Supporting Film. The Case of the United Kingdom

Knowingly, public service broadcasting (PSB) is an important source for film funding. In Germany, for example, the national and the regional governments equally share the costs of film support (Milla, 2010). Furthermore, Milla (2010) explains that the regions have created different regional cinema boards fostered by their respective regional broadcasters and local governments. At the national level, two main institutions (the *Federal Cinema Board* (FFA) and the *Federal Commissioner for Culture and Media* (BKM) support film development. Importantly, the TV channels also need to make “mandatory investments”, which are regulated by the Agreement on Broadcasting among the German regions (“Rundfunkstaatsvertrag”).

Although statistics indicate a stable future for the film industry in the U.K., with a more diverse business model and a potential increase in demand from the new platforms, there is still a need for public funding to ensure UK producers can maintain their share of voice in an increasingly crowded market-place. The *British Film Institute's Statistical Yearbook for 2015* identifies the leading public funding sources for British Film production, development and education.

Table 1: Public Funding for U.K. Film by Source: 2011/2 – 2014/5

	2011/12		2012/13		2013/14		2014/15	
	£mill	%	£mill	%	£mill	%	£mill	%
National Lottery	51.6	14.1	65.4	18.0	71.7	18.4	62.8	15.2
DCMS Grant to BFI, ACE & NFTS	41.7	11.4	27.9	7.7	30.6	7.8	33.0	8.0
National Broadcasters	27.7	7.6	30.8	8.8	26.1	6.7	25.6	6.2
Development Agencies	11.1	3.0	9.4	2.6	9.2	2.4	12.7	3.1
European Union	6.6	1.8	6.8	1.8	10.0	2.6	8.7	2.1
Wales, NI & Scotland Governments	4.9	1.3	6.7	1.8	10.1	2.6	8.1	2.0
Arts Council England	1.3	0.4	4.4	1.2	7.2	1.8	6.8	1.6
Central UK Government	7.4	2.0	5.8	1.5	4.8	1.2	3.6	1.3
Total Public Sector Selective Investment	152.2	41.6	157.3	41.3	169.9	43.6	162.5	39.3
UK Firm Tax Relief	214.0	58.5	206.0	56.7	220	56.4	251.3	60.7
Total Public Sector Funding	366.2	100.0	363.3	100.0	389.9	100.0	413.8	100.0

Although the combined amounts are only a tiny fraction of the size of the U.K. film industry as a whole, overall public investment in UK film production has shown healthy increases in recent years. In 2014/15, the latest period for which we have data, an estimated £413.8 million of public funding was made available, of which 69% went directly to production financing and the rest predominantly to education and distribution support. This was 7% up on the previous year.

The principle source of public funding was film tax relief (valued at 56% of the total) which is set to increase even further as a result of new tax breaks announced in the U.K. Government's Spring 2015 budget and approved by the EU in August 2015. It offers to provide tax relief of 25% for U.K. films of all budget levels and has the potential to increase the value from film tax relief beyond 56%, which could have a knock-on effect on the other principal sources of public funding. According to U.K. government figures (<https://www.gov.uk/government/news/record-year-for-uk-film-industry-tax-relief>), the 2015 calendar year saw a record £251 million tax relief value delivered and that had to investment into the U.K.'s film industry of £1.5 billion (the second highest amount since records began in 1994, according to the *BFI - Statistical Yearbook 2016*). More than 80% of that investment was attracted from overseas and, significantly, platforms such as *Netflix* and *Amazon Prime* were cited as major investors. British Film Institute figures show that the majority of this growth (£728 million) was based on high-end TV productions in the U.K. in the year to the end of June. This is indicative of a greater blurring of the lines between film and television in terms of content.

In 2015 the U.K. independent production sector's revenues hit an all-time high of £2.8bn, boosted by £851m of foreign investment, including money from *Netflix*, *Amazon*, HBO and other broadcasters. The future of the independent sector appears to be inextricably linked with television and public funding is helping generate record investment levels.

The other key sources of funding include the *National Lottery* (18%) and government via grants from the *Department of Culture, Media & Sports* (DCMS) to the *British Film Institute*, the *Arts Council England* (ACE) and the *National Film and Television School* (NFTS).

The *National Lottery* is a good example of television's indirect influence on U.K. film funding; without the peak-time draw on the main BBC channel and the high-profile promotion and advertising on the commercial TV channels, it is doubtful that the National Lottery would have been quite so successful (and therefore as generous in its contributions to the arts in general and film in particular). That contribution amounts to more than £640 million helping to fund 190 UK-originated films in the last nine years alone.

Television also plays its part via more direct financial contributions to public financing, not least because of the strong public service broadcasting tradition in the U.K. The two U.K. public service broadcasters contributed a combined £26 million in public funding over the course of 2013-14, although this was 15% down on the previous year and even slightly below the total for the year before that.

The future of such funding will depend on a number of factors. The potential privatisation of *Channel 4* (and eventual fate of *Film 4*) and the *BBC* charter renewal (creating budgetary constraints) are the two most salient threats. Indeed, the whole debate around the role of public service media institutions when the commercial market for (broadcast) television can provide an increasing array of channel and programme choices may also spread to the need for public funding of all forms of video content, including film. However, that appears to be a threat for the medium to longer term; the current infrastructure supporting public funding of UK film is keeping pace with the increasing size of the industry itself. What is unlikely to happen is that television will seriously diminish as a revenue source and distribution channel for film content (however that is defined). When we look at overall investment in the production of U.K. film for the commercial market the public service broadcasters again play a very important part, mainly via their commercial arms of *BBC World* and *Film4*.

Both *BBC World* and *Film 4* have invested in a wide range of U.K.-based film productions in recent years and have appeared to have benefitted both the U.K.'s film industry and their own financial performance as a result. In the case of *Film 4*, an occasional break-out success (such as *Slumdog Millionaire*, *The In-Betweeners* franchise and *Four Weddings and a Funeral*) has helped to sustain a raft of lesser-known, lower budget but cutting-edge productions over the years, such as *Shame*, *Tyrannosaurus* and *Under The Skin*. Across 2012-14, *Film 4* has claimed to invest in 50 British productions with an estimated budget of £189 million overall. Key examples include *The Duke of Burgundy*, *The Inbetweeners 2* (based on the *Channel 4* comedy series) and *Jimmy's Hall*.

Table 2: Leading Public Investors in U.K. Film Funding 2013-15

Public Funder	Number	Budgets, est. (in £m)	Examples
British Film Institute	102	264	2,000 Days on Earth, 45 Years, Suffragette, A United Kingdom
BBC Films/BBC	85	272	The Lady In The Van, Philomena, A Testament of Youth
European Agencies	58	323	Only Lovers Left Alive, The Salvation, The Danish Girl
Film 4/Channel 4	50	189	American Honey, Dark Horse, Macbeth
Scottish Agencies	25	28	What We Did. . ., Una, The Sunset Song
Creative England	24	28	Spooks, Norfolk, Adult Life Skills
Welsh Agencies/S4C	23	37	Ethel and Ernest, The Canal, Under Milk Wood
Irish Film Board	23	47	Brooklyn, The Lobster, Serial Killer
Northern Ireland Screen	18	33	I Am Belfast, High Rise, The Survivalist
English Regional Agencies	26	90	A Royal Night Out, '71, Await Further Instructions
Creative Europe	15	23	City of Tiny Lights, The Beautiful Fantastic

Source: BFI Statistical Yearbook, 2015

Across the same two-year period, BBC Films – or the BBC channels - invested in 85 productions, with an estimated total budget of £272 million and including *The Lady In The Van*, *Philomena*, and *Testament of Youth*. Combined, public service broadcaster investment in British film production is higher in volume (135 films) and estimated budgetary totals (£596 million) than the *British Film Institute*, combined European agencies or the aggregate investments from the U.K.’s regional/national development boards.

Of course, the examples above refer only to the funding and investment revenues emanating from the public service television institutions. Commercial broadcasters – notably ITV and *Sky* – also invest in original U.K. film production in a variety of ways and the emerging OTT operators such as *Netflix*, *Amazon Prime* and new player *We Are Colony* (focussing on lesser-known independent films) are all beginning to create content specifically for the UK market. In particular, the battle for viewers and revenues between the pay TV giants (*Sky*, *Virgin Media* and *BT Vision*) and the emerging OTT challengers is likely to increase the value placed for original film content across their combined platforms.

Meanwhile, we are already witnessing some interesting case studies showing how the traditional film and television silos are merging together and how new funding opportunities are arising. For example, Shane Meadows’ *This Is England* production, funded by *Film 4*, went on to get a three-series commission for *Channel 4* following the lives of the main characters over the next decade. Taking a different approach, *Sky* commissioned a whole series of short films by first-time directors called “Christmas Crackers” which were designed to offer viewers on demand, one-off short stories around nostalgic themes. Or we have movies such as *Northern Soul*, appealing to a very specific community (in this case, followers of underground soul music in the 1970s) which was financed via crowd-funding and then went on to receive distribution deal on the *Sky* platform. We are also seeing more investment from commercial brands as they seek to move away from traditional advertising towards a content marketing approach. All of these examples are demonstrating new opportunities for U.K. filmmakers, away from the traditional sources of traditional routes to theatrical release via commercial or public funding.

4. Discussion and Conclusion: Where do we stand now?

As legacy medium, TV film broadcasting was expected to face strong declines in revenues through the emergence of digital online technologies in the 1990’s but, two decades into the digital revolution, revenues at a macro and micro level are remaining stable. The theatrical release, which is the mainstay of the film industry, is showing steady revenues and audience numbers. However, the emerging digital video revenues cannot yet outbalance the decline in physical format sales. At the same time, new funding and investment opportunities are offering more independent producers a way into the market, as evidenced by the increasing number of businesses making up the U.K. film industry.

The resilience of the television industry parallels the development of the film industry, as digital technologies offer enhancement of production standards, more effective distribution channels and a more diverse funding model for business. The challenge for the AV industry

will be to stop thinking of film as part of a silo and start looking at it as part of a wider content proposition.

The continuing strength of television has been a major element supporting film during these challenging times, both as a distribution channel as well as increasingly a commercial investor and source of public funding.

According to the *European Audiovisual Observatory*, however, the income from levies and taxes through legally binding transfers from public funds to TV broadcasting has constantly decreased since 2011, by almost 120 million euros by 2014, down to 952 million euros. This has mainly been due to the sharp drop in contributions from broadcasters (790 million euros in 2011 compared to 682 million in 2014). While being of lower importance, video industry contributions still shrunk even more dramatically, to 46 million euros in 2014; a 32.6 per cent decrease in 2010 (Talavera Milla et al., 2016). While the legal legitimacy of these transfers now seems well established, the efficiency of the financing of funds by taxes or levy seems to be suffering from the overall stagnation of the sector, and mainly those of the television revenues in France and in Germany.

In the U.K., the established free-to-air TV networks were joined by the pay-TV providers in the early 1990's and, more recently, by the emergence of OTT platforms such as *Netflix* and *Amazon Prime*. In both periods of competitive disruption in the television industry, we have seen film content become a prime battleground, increasing investment in U.K. film (and television) production. This is blurring the lines between these two traditional silo businesses, although the latest production investment data compiled by the BFI suggests this is benefitting the U.K.'s production sector, especially at the high-end level.

Although it is expected that public funding levels will be subject to uncertainty in the medium to longer term, all the evidence suggests this will be compensated for by an increase in the investment and funding commitment from the increasingly competitive private sector. The tax incentives announced by the U.K. government in April 2015 are already having an impact on the overall investment in U.K. film production, the important role of the U.K.'s strong public service broadcasters are playing a significant supporting role.

The stability shown by the current TV film market can also be explained by the openness and increasing variety of funding models (Bonini & Pais, 2017; Freeman, 2017; Ladson & Lee, 2017; Loriguillo-López, 2017; Papadimitriou, 2017). From this research we learn that greater participation of the audience in possible funding opportunities strengthens the market and produces greater interest in the content (Freeman, 2017). This research shows that different forms of funding may be on the rise (see e.g. Ladson & Lee, 2017; Loriguillo-López, 2017; Papadimitriou, 2017), which will, in turn, lead to new organizational management strategies down the road.

Further research can expand on several important aspects concerning TV film funding. For example, research could look into differences across contexts, cultures or organizations. We may well find different organizational strategies of successful implementation across countries and organization specific ways of reacting towards ongoing market changes. Furthermore, as the level of digitization differs across contexts, we may find a multitude of

successful strategies or – in contrast – rather few successful moves that could be similar across contexts. Furthermore, we may want to investigate if there are different stages through which organizations move and possibly different solutions for the actors concerned. Overall, this highlights the need for future research and the growing importance of the topic, also for comparative international studies.

In conclusion, the study shows that the demand for video entertainment has helped producing a more diverse and resistant market for film content. Moreover, it identifies four strategies that are employed by actors to respond to market changes. These are (1) “TVplus” approach, in which you extend reach with existing properties; (2) “Paid-Owned-Earned” Advertising that is a combination of three advertising income streams into a mixed strategy; (3) “Platform” approach, where the actor functions as aggregator or portal provider; and (4) “TV App Store” model, where apps are used to substitute TV channels for accessing internet services and content. Overall, this shows the varied responses of the established actors and highlights that there are significant opportunities for independent filmmakers and other service providers to get a foot into the digital domain. Nevertheless, corporate strategies and business models will require permanent review for the foreseeable future to address the current processes of media convergence and its effects on market structures and competitive dynamics, because the ecosystem for Connected TV services is continuously emerging and providers are trying out different business models for refunding film production. What is not in doubt is that the production of high quality, filmed entertainment is showing increasing returns overall as video becomes the predominant form of media consumption.

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