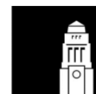

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Understanding the changing television market

Journal:	*Convergence*
Manuscript ID	CON-21-0044.R1
Manuscript Type:	Research Article
Keywords:	television, digital disruption, economics, business model, US, UK, Australia, advertising

Abstract:	The business of television has been transformed by digital distribution and internationalisation. The implications of these changes vary based on a range of structural dynamics such as national scale, language, and pre-existing norms tied to particular macroeconomic conditions, of which, the balance of funding is key. This article looks beyond the general sense of crisis tied to digital disruption to investigate the macroeconomic conditions that shape how national television industries are able to adapt and respond to the disruption. Though disruption is universal, different macroeconomic conditions enable different industrial impacts and possible policy solutions. The article uses comparative analysis of three English language countries with very distinctive television ecologies to reveal the under-acknowledged role macroeconomic features – particularly the advent of new tools for advertising – play in shaping the options and opportunities for national industries going forward.

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Understanding the changing television market: A comparison of the macroeconomy of the US, UK, and Australia

Profound changes in the business of television have been apparent for some time. Although initial 'digital disruption' of television was well imagined in the late 20th century (Fischetti 2001), the technological capability to effectively compress and transmit long-form video files did not become pervasive until a decade into the new century. And despite the technology being available, it took nearly another decade to reorient business strategies in acknowledgement of adjustments to business models and norms of previous distribution technologies.

During this time, the business of television was also being transformed by a march from nation-based industries to complex, multinational organisations. The roots of multinational television trace to its early days through programme trade (Havens 2006; Steemers 2004), despite strongly national structural origins. The emergence of satellite technologies in the 1990s considerably advanced multinational television, although this growing transnationalism was constrained by linear transmission and by regulatory and financing structures that defied satellite's multinational capabilities (Chalaby 2005). Satellite delivery brought significant change in distribution technology and expanded the international dynamics of industry operation considerably. In following decades, production activities also became more multinational as a handful of production conglomerates acquired production companies across many territories (Esser 2017; Doyle 2018). Many of the purchases were motivated by the economics of format licensing and production, but also altered competitive dynamics for scripted production. The most recent mechanism of internationalisation derives from the emergence of multinational internet-distributed services such as Netflix and

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Disney+ that engage in direct-to-consumer service in few or many countries and that in some cases feature multinational commissioning as well.

The long-term structural adjustments in distribution technology and business internationalisation – and the ways in which they intersect – have made it difficult to precisely understand dynamics of change and how and why television industries that transcend national borders, but are still largely imagined as national entities, accommodate this change differently. Often regarded purely as 'disruption', the difficulty of teasing apart the particular dynamics of change encourages simple frames of the phenomena, such as 'streaming wars' and battle royale competition among all forms of video. Such innacurate frames ignore disparity based on different video distribution technologies with varying technological affordances and the use of different revenue models that create distinct markets (Author removed forthcoming). They misperceive the nature of competition and complementarity in the marketplace and can lead policy makers to make short-sighted adjustments or adopt approaches generally unfit for purpose.

The implications of these dynamics of change also differ profoundly by nation. In particular, national scale, language, and policy contexts – including level of commitment to national cultural representation and diversity within the nation – moderate the implications of different macroeconomic conditions. Underlying variation has led the consequences of digitalisation and internationalisation of television to develop unevenly (Steemers, Raats and Donders 2018). Industries in countries with great scale and access to funds, such as the US and to a lesser, but significant extent, the UK, have been powerhouses in transnational trade and house many of the dominant media companies. These industries access considerable foreign revenue that feeds new content financing and allows continued dominance in content creation.

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This article develops a comparison of macroeconomic dynamics to build more precise understandings of how digitisation and expanded internationalisation, as they relate to the production of scripted drama, have altered the foundational norms of some national television industries. Its evidence-based analysis reveals key discrepancies in the macroeconomic foundation of national television industries that affect the nature of digital crisis and possible solutions. Particularly it reveals the extent to which a reconfiguration of advertiser spending has reduced available revenue. This has not transpired because of action or inaction by television industries, but because of the emergence of new advertising tools. Ready advertiser demand for attention gathered by television channels is central to the paradigm of television operation in many countries. However, the emergence of new advertising tools (search; social media) that offer better value for some advertising priorities requires a shift in paradigm that accounts for the decreased advertiser spending available in television markets, as does the emergence of purely subscriber-funded video services. The diminished advertiser spending on television brings sizeable implications for national production levels and channel sustainability. Appreciation of this changed – and nationally varied – economic situation is crucial to devising effective policy responses to new dynamics.

The central comparison focuses on the English-language markets of the US, UK, and Australia, selected for the explanatory value of their blended similarities and contrasts. These countries feature different scale yet a common language. In addition to their difference in size – which is particularly relevant in the production of a good that benefits strongly from economies of scale – they also diverge in their reliance on public funding and the extent of cable/satellite adoption, which introduces variable levels of consumer spending into their national television economies. These differences enable analysis that illustrates the complex variation in how internet-distributed video has challenged industries. Though this case set reproduces the problematic emphasis of English-language dominant contexts in media

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scholarship, it does so abashedly and reflexively. The aim here is not to suggest other countries have similar experiences or that the dynamics of these countries are broadly representative. Rather, their cultural similarity is useful for highlighting the significant differences among them in a manner that indicates the causes of variation across national contexts. The US and UK also do play a large role in the production of global drama and affect sector dynamics, but their situation is no more important.

Our analysis indicates there is not a single cause of television industry disruption; rather, the catalyst of various internet communication technologies has restructured the field differently dependent on pre-existing national norms. As a result, single, one-size-fits all market or policy approaches are poorly suited in response. The analysis illustrates some key reasons that adjustments to macroeconomic conditions produce different implications, however, the required detail of contextualised investigation limits us to a few cases here.

Macroeconomic dimensions, such as mechanisms of funding television, often blend with the extent to which governments use policy levers and financial supports to intervene in industry operation to achieve cultural goals. Indeed, different countries have faced different pressures to enact cultural policy and have regarded the necessity of such policy discrepantly. Our approach to these issues here is more objective and illustrative than normative. Changed technological conditions and shifts from national to multinational business operation necessitate policy modernisation in many countries, and that modernisation is only effective if derived from an understanding of how significantly video industry dynamics have been altered.

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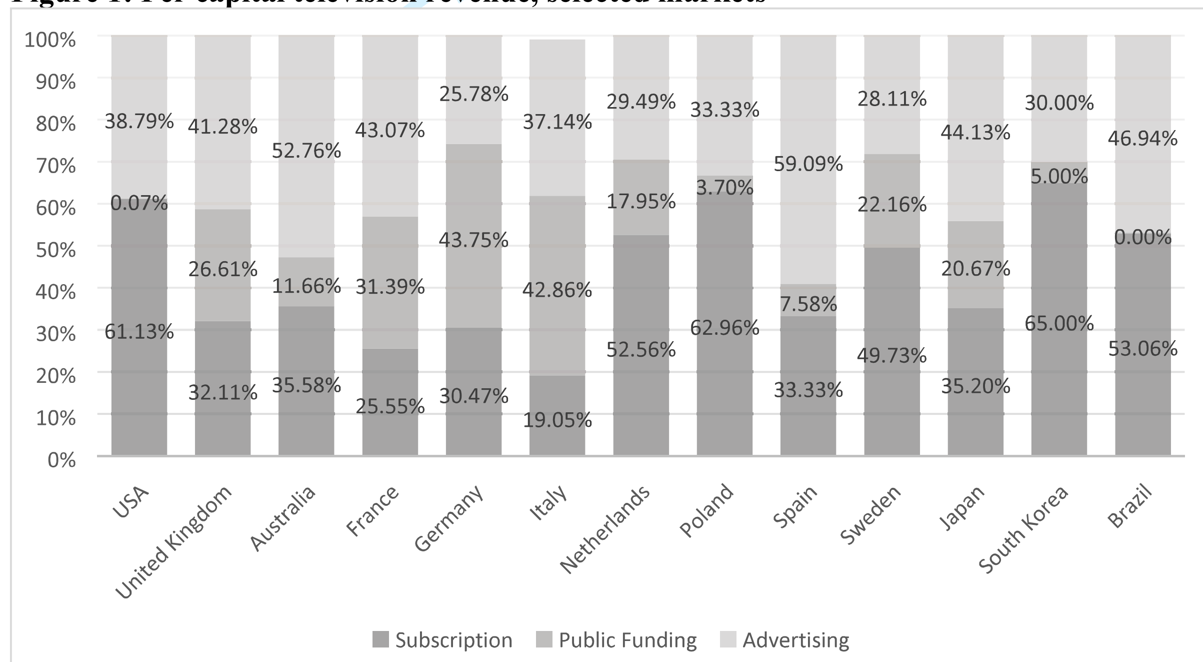
The Foundation of Television Economics in the US, the UK and Australia

It is helpful to begin by appreciating the underlying dynamics of the television economy in different countries, as they explain the varying implications of new distribution technologies.

Figure 1 demonstrates the balance among the three key revenue sources for television providers at the per capita level. Television providers derive revenue from advertising, subscribers, and through public funding.[1] The relative levels of that funding lead them to operate distinctly. Figure 2 illustrates cable/satellite penetration of the primary cases considered here to illustrate ties between subscriber revenue and pay-TV adoption. This data does not include revenue from television production, although it too is an important component of a national television ecosystem. In many situations, television providers and producers are tied in common corporations/organisations. We focus on the providers because, as commissioners, they significantly determine available production spending.

Figure 1: Per capital television revenue, selected markets



Source: Ofcom. 2017. *International Communications Market Report 2017 (IHS Markit)*

Well-known as an outlier, the United States features a resolutely commercial system with nearly no public funding. It also features substantial levels of subscriber funding, contributed to the system primarily through high rates of cable/satellite service adoption at high prices that result from the failure of market dynamics enabled through lax regulation (Author Removed, 2015). In addition to this roughly 60/40 split between subscriber and

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advertiser funding, the profoundly expensive content produced by the US industry is monetised through extensive international trade – a macroeconomic dynamic not represented in the figure. In the last two decades, the US industry has grown more reliant on foreign revenue – both from programme sales and the revenue generated by services offered outside the US – to fund the production costs of the content used in the US market to attract audiences that can be sold to advertisers and attract significant subscriber funding. (It must be noted that domestic sport also plays a key role in attracting both types of revenue yet does not yield substantial foreign or ongoing revenue).

Figure 2: Cable/satellite penetration, 2002–19, US, UK, Australia[2]

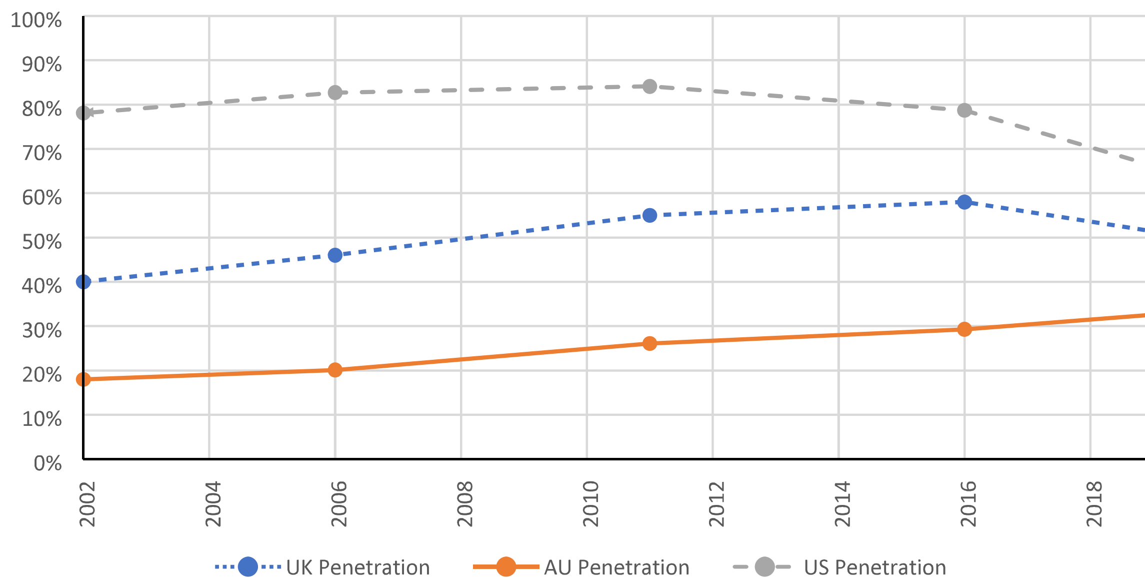

Figure 3: Average cost of monthly cable/satellite in common currency[3]

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In comparison, the UK revenue is more balanced among the three sources. Viewers in the UK contribute roughly half the direct financing through subscriptions to commercial services paid by US viewers, which corresponds to the lower rate of cable/satellite adoption and lower cost of service. Public funds make up the balance of what is paid by US subscribers so that both countries maintain comparable levels of advertiser funding. The UK also maintains a robust sector of foreign sales that returns revenue to UK-based production companies, including larger entities such as ITV Studios and BBC Studios. Since 2013 the UK government has also provided tax reductions to those producing 'high-end television', animation and children's television programmes.

Australia is unusual in this comparison, and relative to many countries likely deemed comparable. It relies quite heavily on advertiser funding, features a moderate public contribution in support of its national broadcasters, and low levels of consumer spending on subscriber fees. Its national broadcaster, the ABC, is modelled on the BBC but its public funding isn't as reliable as in the UK because it is budgeted every three years and not based on a licence fee. Also, the UK broadcast market was founded on public service and has become gradually commercialised since the 1980s. In contrast Australia's commercial broadcasters outnumbered the ABC from the start, dominating Australian television and relegating the ABC and later SBS to secondary positions. As a much smaller country, 25 million in comparison with 67 million in the UK or 329 million in the US, the multiplier of scale (Caves 2000) that operates in the Australian television industry is less effective. Low subscriber funding in Australia results from its low adoption of cable/satellite services. Although subscriber revenue makes up a similarly low percentage of the revenue in France, Germany, and the UK, these countries also have higher levels of public funding.[4] To produce domestic scripted content, the Australian production industry relies on foreign financing (advance sales of foreign distribution rights) to supplement domestic funding sources (that

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include significant tax offsets and direct and indirect funding from government). As a result, revenue from foreign sales mostly stays with those distributors rather than being returned to producers.

This comparison illustrates differing economic foundations of the television industry across three countries. Notably, the data supporting Figure 1 were derived from 2016; it thus predates the substantive adjustment of these television economies in response to internet-distributed services. Since then, the markets have experienced increases in subscriber funding through expanding support of a growing number of largely US-based SVODs (subscriber-funded, video on demand services) and decreased advertiser funding as advertisers shift spending from television to tools such as search and social media. This economic foundation is a key variable in understanding how shifts driven by the arrival and growth of internet-distributed services affect these markets.

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Shifting dynamics in the United States

The television market is largely driven by subscriber spending in the United States. As a result, the key implication there has been the extent to which the multiplicity of subscriber-funded services launched since 2019 (with the acknowledgment that Netflix and HBO Now long preceded them) have provided an alternative to non-competitively priced bundles of cable/satellite service. Subscriptions to such ‘traditional’ services have declined to 67.3 percent of housholds, but when the adoption of vMVPDs is added (not included in Figure 2), the level of service is 87.1 percent of homes.[5]

US content conglomerates aggressively began transitioning the foundation of their business in 2019 as eroding subscriber revenue from large suites of cable channels became too substantial to ignore. Instead, many conglomerates sought payments from subscribers through direct-to-consumer services such as Disney+, Hulu, HBOMax, Peacock, and

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Paramount+ (formerly CBS All-Access). Notably, acquisitions of major content companies made content provision a secondary revenue stream for companies owned by Comcast (NBCUniversal) and AT&T (Warner), which used them in service of primary businesses in internet and mobile service.

Ownership structures are a crucial component of analysis here. US video industries became heavily conglomerated in the 1990s (Holt 2011). The conglomerated ownership structure diminished the industrial distinction of 'broadcast' and 'cable' channels because common ownership prioritised their complementarity. The content conglomerates – particularly Disney, 21st Century-Fox, NBCUniversal, and CBS-Viacom, transitioned their businesses from profit centers based solely on advertising revenue earned from broadcast channels to subscriber fees – augmented by advertising – on cable channels as advertising revenue plateaued and fees from subscribers steadily grew throughout the 1990s and early 2000s.

The vertical integration of this conglomeration also aligned production companies – commonly referred to as 'studios' in the American system – with channels. The dominant financing structure in the US of deficit financing allowed the studios to develop expansive libraries of intellectual property that generate significant ongoing revenue. Conglomeration also had the effect of aligning production companies and their key commissioners under a common owner. Content conglomerates benefited immediately from the advertiser and subscriber revenue of content produced for their owned channels, and they continued to profit from this content as it sold in international markets and different distribution windows. Thus, at the start of substantive internet disruption of television – roughly 2010 in the US – the US content conglomerates remained steady. They used expanding revenue from subscriber fees and sales of IP – in foreign markets and new revenue from licensing IP to emerging SVODs – to offset flat or diminishing advertising revenue.

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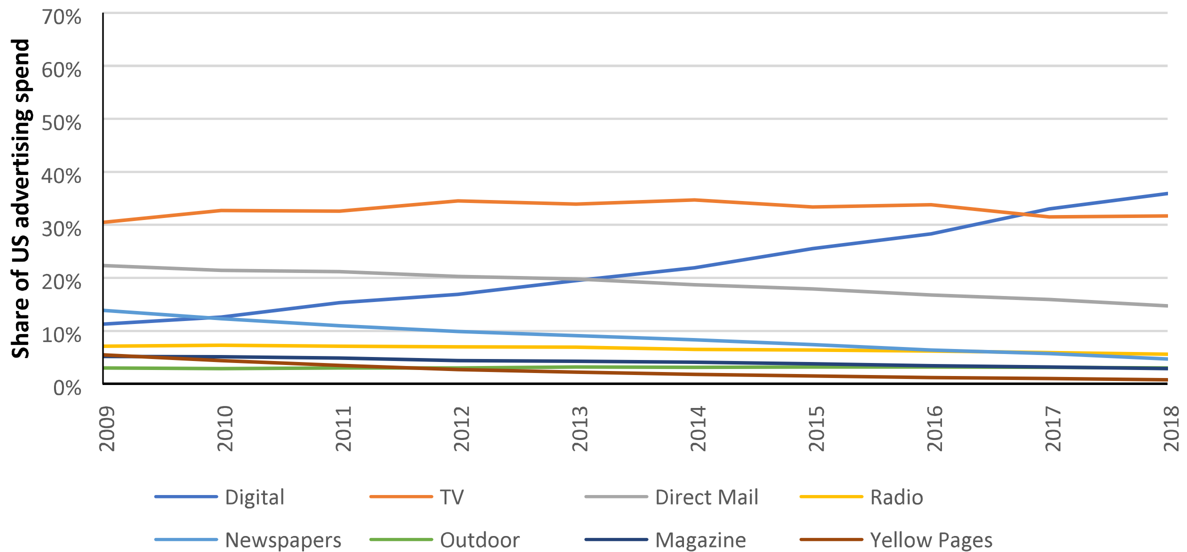
Figure 4: US Total Media Ad Spending Share, by media, 2009-2018 (% of total)



Source: *eMarketer*, Feb 7, 2019

The 'crisis' of digital disruption in the US is quite particular. It is a business crisis for content conglomerates that controlled competitive dynamics over cable and satellite providers. The conditions that allowed content conglomerates to demand terms that steadily increased subscriber spending have been upended, even reversed, as the formerly cable providers – now internet-service providers – dwarf the market value of content conglomerates and are able to discriminate in making their content available (Author removed, 2021).

It is too soon to predict the implications of this new dynamic, especially given a shift in 2021 from US leadership that advocated against net neutrality protections, but it is clear that SVOD services are now imagined as the centerpiece of video production and distribution. A nascent change to the sector involves the extent to which providing video has become a competitive tool in support of other businesses as opposed to a business in its own right. Amazon likely began this trend followed most closely by Apple.[6] But the cross-ownership of service providers such as Comcast (dominant US internet service provider,

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owner of NBCUniversal and Sky) and AT&T (dominant US mobile service provider and owner of Time-Warner) aligns with this trend.

Demand for US content remains undiminished, both in the US and internationally, which supports the ongoing viability of content companies, even if they exist as subdivisions that support corporations seeking retail consumers, technology consumers, or internet and mobile subscribers. The industrial dynamics of how that content flows to audiences outside the US and the implications for other national industries that remain focused on video production as a stand-alone business remains in the early stages of disruption. The uncommon scale of the US economy, the market capitalisation of the content conglomerates and their owners, and their deep libraries of content allow them the solution of launching multinational, direct-to-consumer, internet-distributed video services (Disney+; HBOMax; Paramount+). This is a solution available to few others, although it is also unclear if it will be successful for all, or how content development strategies will pivot as the focus of these companies shifts from creating for linear channels.

The US has long been the 400-pound gorilla in video production and distribution, and internet distribution does not threaten its status, but it is reconfiguring its ecosystem. Notably, the disruption of internet distribution supported conditions that enabled a new type of video service provider – Netflix – to overcome barriers to entry and introduce several significant adjustments to industrial practices with implications throughout the sector. And though several US-based companies offer internet-distributed video in markets around the globe, they should not be assumed as a common sector. The business strategies driving Netflix, Amazon Prime Video, Apple TV+, Disney+, and HBOMax are strongly distinguished by the purpose of video service to these very different companies/divisions and the larger corporations in which they are embeded.

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The privilege of being a 400-pound gorilla, and operating in a resolutely commercial system since its inception, has meant that cultural policy has never been a concern in the US. In many ways, the US 'crisis' is being determined in the marketplace as a clash of capital and commerce. Its lowly underfunded public service broadcaster continues its peripheral role in the sector, mostly offering children's programs, documentary, and educational factual programmes. Content is changing as a result of the shifts in the ecosystem, and commercial imperatives continue to propel the sector to consider the relevance of its content outside the US market and adjust from mass to niche media content strategies. It is not chance that Netflix has aggressively expanded into commissioning content outside the US and decreasingly positions itself as foremost a US company with extensions abroad, instead trying to appear as multinational as its subscriber base. Market pressure of needing global scale, and competing with Netflix's efforts to be less parochial than Hollywood's historic norms, challenge the flagrant US-centricity long characteristic of the sector.

United Kingdom: Declining funding on two fronts

By contrast to the US, the UK is a market that historically has been heavily regulated, but increasingly marketised since the 1990s. UK households access a mix of television services funded by licence fee, advertising and/or subscriptions. The UK's public service broadcasters: the BBC (publicly funded), ITV, Channel 4 and Channel 5 (all advertiser funded), provide access to five free-to-air public service linear channels (BBC One, BBC Two, ITV, Channel 4 and Channel 5), a suite of digital terrestrial channels and VOD players funded by a combination of advertising and licence fee.[7] In addition, more than half of UK households subscribe to cable/satellite television (typically bundled with internet/phone services). Although the majority (67 percent) of overall viewing time in the UK is to broadcast television, linear viewing has been steadily declining, largely replaced by SVOD

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and YouTube, particularly among younger viewers (Ofcom, 2020). Understanding the nature of digital disruption and internationalisation on the economics of the UK television industry involves unpacking the sometimes complex dynamics between these different types of service and modes of funding.

Since 2010, the UK television market has been characterised by real-term declines in public funding and advertiser spending, accompanied by a small increase in subscriber revenue. As illustrated in Figure 1, public funding accounted for more than a quarter of the revenue in the UK market in 2016 and provides funding for the BBC and Welsh-language broadcaster S4C. The income that the BBC received from the licence fee (which makes up 75 percent of its total income) has declined by approximately 30 percent in real terms over the past decade (VLV, 2020). This decline primarily comes from a licence fee freeze from 2010–17 and increased obligations on the licence fee imposed by government.[8] At the same time, commercial broadcasters have witnessed a 13.5 percent decline in broadcast ad-revenues between 2010 and 2019 that has not been offset by a modest growth in their revenues from online video advertising (Figure 5). This is despite the rise of online advertising driving an overall 30 percent increase in the UK advertising market (Ofcom 2020).

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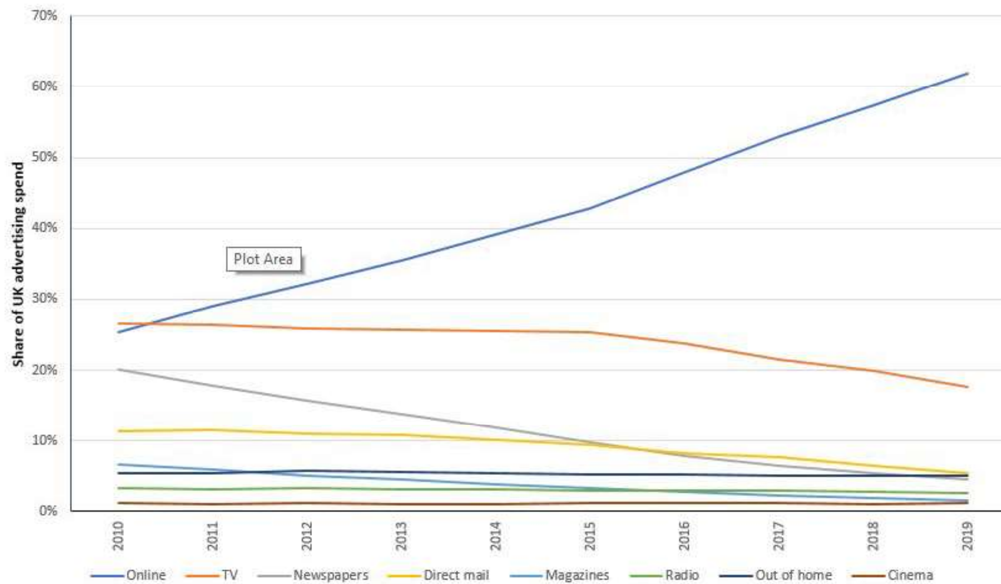
Figure 5: UK Total Media Ad Spending Share, by media, 2010-2018 (% of total)



Source: Ofcom, *Media Nations UK Report*, 2020 p. 92.

The primary area of revenue growth for the UK television market lies in subscription fees. Yet this increase has been driven by US-owned SVODs, Netflix, Amazon and Disney, and makes up a small percentage of overall commercial television revenues (Ofcom, 2020).[9] UK production revenues have also grown steadily since 2012, buoyed by tax breaks and incentives that have encouraged international investment, particularly in high-end television (Oliver & Ohlbaum, 2020). This has benefitted the wider UK production ecology, but driven up costs for UK broadcasters that rely increasingly on third-party and international funding, particularly when producing scripted content (as has long been the norm in Australia). The increased reliance on international finance has led to concerns, particularly in drama, that UK broadcasters will over-focus on productions designed to sell well in international markets at the expense of UK-focused content with little wider export value.

Regulatory structures shape the strategic options for UK broadcasters in the face of this disruption. In particular, the terms of trade set out in the 2003 Communication Act can

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limit broadcasters' ownership of IP and reduce their ability to generate revenues from the sale or distribution of content nationally and internationally (Doyle, 2016). The BBC and ITV have both responded by increasing investment in their studio divisions, although quotas remain on the percentage of productions that they must commission from independents. Channel 4 has fewer options because it was established as a not-for-profit publisher-broadcaster without the ability to generate revenue from IP. This makes it heavily reliant on funding from advertising.[10] Pressures on ad-revenue have led to a gradual reduction in the public service obligations of ITV over the 2010s which has had particularly negative consequences for the production of children's television (Steemers 2017).

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As with the US content conglomerates, the UK PSBs have also moved into direct-to-consumer distribution through collaboration on SVOD service BritBox, which operates in the UK, North America, and Australia and recently announced plans to expand to 25 countries. It is too early to say whether there is enough national and overseas demand from consumers for BritBox to generate sufficient revenues to offset declines in public funding and advertising, or to be a viable alternative to revenues generated from international licensing deals.

The continued viability of the PSBs has implications for the UK's television industry, given that PSBs funded 77 percent of UK primary commissions in 2019, despite increased international investment (Oliver & Ohlbaum, 2020: 16).[11] Given that the BBC is the largest individual commissioner of new content in the UK, and with declining ad revenues for the commercial PSBs, public funding remains a crucial component of the UK's production ecology. It is also a highly cost-efficient way of generating revenue that ensures the production of diverse and high-quality UK content. UK audiences paying the licence fee (£157.50 per year) and an average cable/satellite subscription are still paying only just over half the amount that US audiences spend on on cable/satellite TV (Figure 2), suggesting the considerable value of the UK's public-funding system. However, with younger audiences

choosing SVODs and YouTube over PSBs, there is a danger that the argument for publicly-funded broadcasting will be harder to make in the future. The primary disruption of digital distribution and internationalisation in the UK, therefore, may well be in the challenge it presents to the political argument for PSB. The current political climate could make this situation even more precarious for the UK television market moving forward given the UK government has expressed political hostility to both the BBC and Channel 4 and has been responsible for real-term decreases in public funding for broadcasting.

Pressure from finite advertiser spending in Australia

In Australia, the heavy reliance on advertiser funding and the historically low level of cable or satellite adoption have created a different dynamic yet. According to Ampere Analysis, in 2020 Australia had the highest national rate of Netflix penetration at 63 percent of households (Ampere 2020). Such a result is not surprising given that roughly 70 percent of Australian households relied on free-to-air channels when Netflix officially entered the market in 2015, though it also had a significant level of unauthorized use before that (Lobato and Meese 2016). Most Australians choose among 16 free-to-air broadcast channels from two public service broadcasters (the ABC and SBS) and three commercial companies (Channels 7, 9 and 10) that have expanded these linear offerings with VOD services (advertiser funded in all but the case of those offered by the primary national broadcaster, the ABC).

The marketplace in Australia has been increasingly stressed. The launch of digital multichannels in the first decade of the century – which expanded the free-to-air offerings from five to sixteen – brought no additional revenue but added significant new programming costs for national and commercial broadcasters that now program three-and-more times the number of channels. Moreover, the share of advertiser spending dedicated to television has declined by five percent since 2014 after holding steady for decades at 30 percent of spending (see Figure 4). New advertising tools such as search and social media provide superior tools

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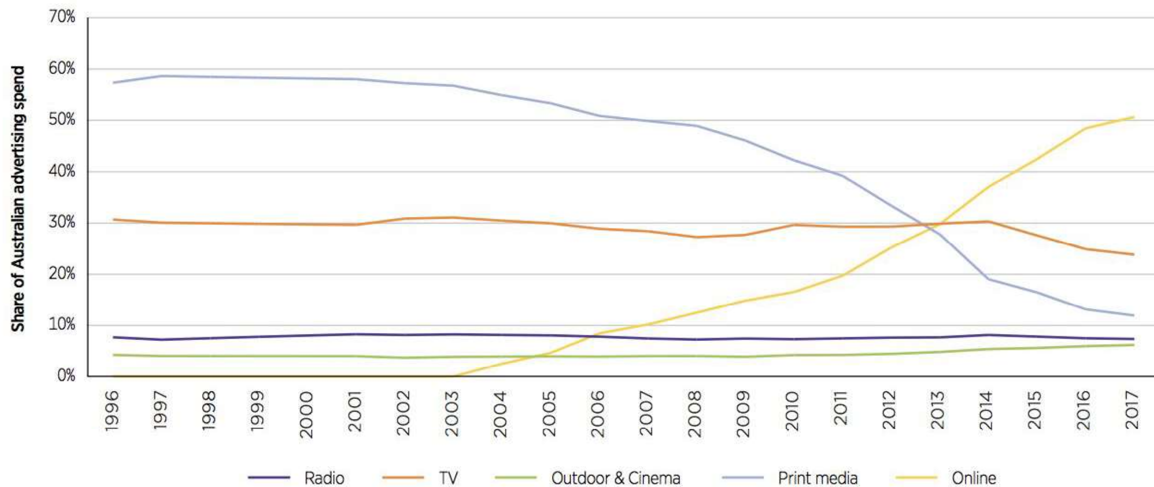
and value to some advertisers, although television remains the primary location for mass market advertising.

Figure 6: Australian Share of Advertiser Spending, 1996–2017



Source: CEASA, ACCC analysis based on stakeholder data.

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Australia's uncommonly low adoption of cable/satellite services has two implications for how it experiences the disruption of internet-distributed video. First, the low rates of adoption allowed the Australian television ecosystem to continue operating under mass media competitive logics much longer than in countries where broadcasters faced ecosystems altered by competition from cable/satellite service in the majority of households. For example, more than half the US population subscribed to cable in the late 1980s, creating a competitive dynamic in which broadcasters had to reorganise their programme strategies in response to niche-targeted channels siphoning away the attention of some of the most advertiser-coveted viewers. The significant conglomeration of the US industry in the 1990s was then a response to maintain profitability amidst this shifting competitive dynamic. But Australia experienced the impact of fragmenting into narrowcast audiences at the same time as internet advertising tools drew funds away from television and internet-distributed video reshaped the broader video ecosystem. Fragmentation was limited – in comparison with markets with hundreds of channels – but significant enough to challenge broadcasters' ability

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to amass large heterogeneous audiences, especially for scripted content. In contrast, the scale of the US market enabled a rise in prestige drama as part of niche strategy, but such efforts occurred in Australia on only a very small scale, initally through the efforts of cable provider Foxtel to distinguish its value proposition, and later by domestic SVOD Stan. This under supply of content likely explains Australians' aggressive adoption of Netflix and fair take up of Stan.

The second implication ties to Australia's over reliance on advertising revenue as indicated in Figure 1. The state of its television economy is particularly precarious given the contraction in advertiser spending. Many other national television ecosystems are relatively more balanced and have been transitioning from reliance on advertiser to subscriber funding over the last two decades. But Australia has limited subscriber revenue coming into the marketplace, and much of it is going to US companies such as Netflix and Disney. Unreliable government funding of public service broadcasting (through direct taxation as there is no licence fee in Australia) also exacerbates the over reliance on advertising. Extra funds were allocated to the ABC in 2009–2012 that helped support considerable growth in domestic drama and children's production. In 2014, however, a one percent reduction was imposed on its operating budget, a cut of $35.5 million. Further cuts between 2014–2020 brought the total funding lost by the ABC to over $783 million, such that its operating budget is now 29.5 percent lower than it was in 1986 (Dawson 2020).[12] Thus, like the UK the Australian market faces diminishing revenue from advertisers and public funds, but its core industry struggles with new costs and new strategies in addition to the diminishing revenue. Though SVODs have increased consumer spending in the sector, most of this revenue has been paid to multinational services that have made minimal investment in Australian production.

Unlike the US and UK, Australian television producers have limited opportunities to sell Australian drama abroad, which also impoverishes the domestic production sector.

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Australian producers cannot afford to produce drama without foreign funding, especially as Australian commercial broadcasters have reduced or stopped their investment in scripted drama. In 2020, broadcaster licence fees combined with direct and indirect state funding subsidies still left producers of high-end scripted drama with a budget shortfall of around two-thirds of their total production budgets. This shortfall has to be made up by a combination of international sales and distribution advances, which means the ecosystem lacks the additional production revenue typical in the US and UK.[13]

The challenges Australian producers face when sourcing finance for their scripted drama series are far from unique. They are also commonly experienced by producers in English-speaking countries with smaller television markets such as New Zealand, Ireland, and Canada. The size of these countries' domestic production sectors sets them apart from the US and UK, whose capacity to distribute drama internationally is unusual. This production dynamic sees television industries in some countries struggling to recover from an over reliance on advertising revenue to fund scripted drama commissions and difficulties in accessing and generating additional income from international sales. Small countries thus increasingly depend on international funding sources that seek 'drama that travels', as well as a reliance on state investment in domestic production through direct and indirect subsidy schemes and via public service broadcasters (where available). Ad-supported broadcasters facing diminished advertiser spending and added costs of programming digital multichannels seek to reduce program costs, which imported English-language drama with demonstrable audience appeal accomplishes.

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SVODs alter ecosystem but not ad-supported market

The struggles of advertiser-funded services highlight an important misconception about the dynamics of competition that result from the development of internet-distributed video services. As new entrants, SVOD services have been blamed as the cause of the financial challenges facing commercial broadcasters. In economic terms, their impact is more complicated.

Figure 1 illustrates three different revenue sources for television. Economist Patrick Aspers (2011) explains the economic definition of a market requires trade of a common thing. Although many different types of service offer video, the good being traded in the core economic transaction varies considerably. In the advertising market, video is used to gather attention, but it is attention that is traded for advertiser spending. In contrast, in the purely subscriber-funded market, video is traded for money from subscribers. Although video operates in each, attention is traded for payment from advertisers in one market and video is traded for payment from viewers in the other. As a result ad-supported television has been most affected by changes in the market for selling attention (not by SVODs), in particular the expansion in competition for advertiser dollars introduced by various digital advertising tools that are often conflated as 'digital' (Figure 3) or 'online' (Figure 4). These services now also supply attention to advertisers and are able to offer them greater value by selling attention in different units. Search sells the attention of those who take action by clicking on specific search results, YouTube sells the attention of those difficult to reach with other media such as teens and young people, Facebook – and other social media – sell the attention of much more specific audiences, and Amazon sells the attention of people looking to buy specific goods.

Of course SVODs' pursuit of attention affects the ecosystem of ad-supported video services, but they do not compete – in economic terms – with services that trade attention for advertising. Somewhat paradoxically, the extent to which SVODs diminish available

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attention serves to decrease the supply of gross ratings points in the market, which makes the remaining attention more valuable. Assuming constant demand from advertisers, this has the effect of increasing the price of attention in the television advertising economy. In actuality, demand for that attention may be decreasing, but it decreases because advertisers have new places to buy attention, not because of SVODs. Advertisers also pay more for attention from certain people – wealthier, younger – and if the most desirable attention exits ad-funded television, this will have significant implications for spending on television on the whole. Thus, purely advertiser-funded video services and purely subscriber-funded video services do not operate in the same market.

These submarket distinctions of the video ecosystem are not new and have been complicated for decades by services based on blending advertising and subscriber funding, such as channels on cable/satellite systems. Because viewers cannot subscribe to particular channels – rather, they access a bundle of channels based on the negotiations of the service provider – channels supported with advertising and subscriber funding have operated under the logics of advertising: they succeed by attracting the most attention. Public service broadcasters not funded by advertising – as the case of PBS, the BBC and ABC here – compose yet another sector.[14] These services often do not function within the market for subscriber or advertiser spending. Commercial services have claimed they 'compete,' but the economic dynamics of publicly-funded, public service media within the ecosystem is more akin to the SVODs. They attract attention that might otherwise go to commercial broadcasters – or to other leisure pursuits – but do not threaten to diminish the key currency in commercial operations: advertiser dollars.

Advertiser-supported services that also have a public service remit, such as ITV, Channel 4, and Channel 5 in the UK, do compete with commercial services for advertisers' dollars.[15] Within the dynamics of the 21st centiury – where new advertising competitors have

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attracted a significant share of advertisers' spending and audiences have spread their viewing among more video services – the misaligned mission (public service) and funding mechanism (provide the attention of consumers desired by advertisers) of such channels is especially precarious. The pursuit of advertiser funding aligns well with commercial aims, but advertiser-funded channels succeed, economically, by attracting attention; optimal attention-levels are rarely achieved with the range of content characteristics sought by public service charters.

The system of advertiser-funded PSBs set up in the UK in the 1950s took advantage of the strong post-war economy, domination of broadcasting by the BBC – which made advertisers desperate for access to the audiences television supplied – and a system whereby all broadcasters operated under broadly the same public service remit. Advertisers' demand for attention allowed this system to continue for decades, but the expansion in unregulated attention providers (fully commercial channels) disrupted the dynamics of the system and produced the incongruity among mission and funding mechanism.

It is only by exploring how adjustments to the macroeconomy of television affect the distinctive markets contained within national ecosystems that the nature of the challenges largely perceived as generalised 'crisis' can be understood. The implications vary for different national economies as the analysis indicates. Advertiser funding is most under pressure; cultural policy cannot reasonably address its steady decline. It is crucial to appreciate this dynamic of diminishing advertiser funding in designing broader policy responses as decreasing public funding at this time can have especially strong implications in countries also highly reliant on advertising. The level of subsidy to the television industry provided by advertisers is unlikely to return, and expecting a continuation of content and production levels with reduced revenue is simply magical thinking. In the US, this will be fought out among media conglomerates vying for stockmarket rewards. Long-storied content

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creators such as Twentieth Century-Fox and Warner Bros. have already been subsumed to a market reconfiguring to new norms, and the industry is remaking itself based on pursuit of subscriber revenue. In countries such as the UK and Australia, the policies that set the conditions of the marketplace must account for the diminished advertising revenue and rescope expectations of public service, especially the extent to which advertiser funding remains a viable source of revenue.

Television Economics for the 21st Century

What can be done then, or is there anything to be done that might emphasise the opportunities of this altered television macroeconomy rather than its limitations? The analysis here illustrates how adjustment to the television ecosystem and the varied markets within it affect the economic foundation and characteristics of norms and practices. The policy framework governing the audiovisual sector in most countries was designed for conditions no longer in place. Modernisation is needed, and those policy reassessments can only succeed if they appreciate the macroeconomic dynamics that structure industry operation and the range of what is possible.

Twentieth century audiovisual policy was designed for conditions of scarcity. Policy in the UK focused on public interest and the social good, but also the creation of a strong production sector. The origins of television in Australia featured low levels of domestic content. As a result, its policy placed priority on local content quotas on commercial broadcasters that safeguarded existing levels. This in turn helped foster a domestic production sector, while government support for a national broadcaster filled the gaps of programming deemed 'market failures' such as public affairs, news, children's programmes, documentary, and niche adult drama, at least in recent decades. Some of these priorities persist, others may be less essential. Diminishing funding is forcing every sector of national television

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ecosystems to strategically align its content strategy with its revenue model, and this is changing many 'norms' of television. The most successful policy responses will acknowledge the need for that alignment.

Advertiser market

Given the contraction in advertiser spending on television – whether linear or AVOD – there is likely to be a reduction in services. Cable channels have begun to shut down in the US. Fewer services competing for the television share of ad spending may make those that remain capable of greater aspiration. Similar to the situation in newspaper industries, examples can be found of ad-supported television cutting costs for decades. The subsequent erosion in the value of that content to the audience manifests as audiences turn elsewhere for their leisure.

A major challenge for advertiser-funded television among content abundance is diminished ability to reliably attract mass audiences. It is rare that content other than sport or reality entertainment achieves audience scale once taken for granted. The lax ownership policy of the US allowed conglomerates to cobble together distinctive niche services to an extent that enabled their continued profitability (notably, many of these conglomerates also gained scale through international expansion once the US market achieved saturation). The societal consequence of ownership concentration is not diminished, but the contraction in advertising dollars makes ownership diversity decreasingly sustainable. In many cases, a multiplicity of cash-strapped services is not likely superior to fewer services with more funding, especially if public-funded services exist to fill gaps.

Subscriber market

The internet distribution of SVODs has led to the over emphasis of technological difference at the expense of appreciating the different revenue model that leads these services to

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different strategies and metrics of success than characterise ad-funded services. Beyond the economic distinction among video services that pursue different aims, other discrepancies among what superficially appear as similar providers of video warrant acknowledgement. First, the extent to which both content and *experience* play a role in differentiating SVOD services is a new aspect of differentiation where content alone provided distinction in the past. SVOD offers a video experience many are willing to pay for and is difficult for linear services to counter. Secondly, analysis must consider the differences within 'content' offerings to better appreciate substitute versus complementary content. Much of what the US SVODs offer are the same US shows available from linear commercial broadcasters and cable channels in nations around the globe. The choice to watch *The Big Bang Theory* on Netflix instead of a domestic broadcaster is driven by experience, the content is the same. In other cases, SVODs and linear services offer exclusive, commissioned content. Different characteristics of exclusive content developed by different types of services – cultually specific fare of national broadcasters versus the strategic pursuit of sensibilities that transcend national borders by Netflix – provide complementarity that encourages some viewers to use a mulitplicity of services. Moreover, the different funding mechanisms have encouraged different program strategies (Author removed, 2020). Subscriber-funded services do not seek mass audiences with each program, but to offer value that encourages payment. That value is often achieved by offering content that appeals to particular passions and sensibilities and may enable greater diversity of representation, which is also a common cultural policy goal. Detailed textual analysis is needed to assess if this is the case; recent analysis of Netflix US commissions begins to track representation and inclusion, though without similar data for other industry sectors only allows the tracking of inclusion at Netflix over time (Smith et al 2021).

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These factors of experience and of the different content valuable to SVODs suggest why they mustn't be regarded as a new form of video to which old policies apply. Goals of 'harmonising' audiovisual policy, as Australian politicians have called for, ignores the meaningful differences among the markets. Subscriber-funded services may warrant some types of regulation, but such actions must acknowledge the ecosystem dynamics. For example, SVODs have been successful in attracting Australian consumer spending. Policy that diminishes the value of these SVODs to consumers risks reducing that expenditure.

Public-funded services

Public-funded services are particularly valuable in the television ecosystem because they can ensure that viewers have choices that commercial services may not give them. The 21st century competitive dynamics have made sport and some reality entertainment particularly valuable to services seeking advertisers, at the risk of crowding out other types of programming. If public-funded services are expected to offer certain types of content or held to a particular remit, these must be central to the metrics used to evaluate them. Too often, metrics of attention are prioritised. To expect public-funded services can provide content that commercial services deem infeasible, yet also attract commercial-size audiences preordains their failure.

Indeed, it is the case that for decades the BBC was able to deliver charter aims and sizable audiences. But the television ecosystem has changed. The abundance of choice offered by more channels not subject to public service remits and the availibility of on-demand access to particular content have irreversibly and profoundly adjusted the foundation of the television ecosystem. The dominant role of linear television culture, and its industrial logics, has diminished. VOD provides extraordinary tools for achieving public service, but the related costs may also require rescoping past priorities.

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Conclusion

Despite a two-decade regime of digital disruption, much remains misunderstood about the implications of this technological reconfiguration for television industries and particularly domestic production. Although some aspects are now better understood, the consequences of second-order impacts – changes in financing and licensing practices and deeper adjustment of the ecosystem among producers and distributors – remain unclear. Nations around the globe – and their policy makers – struggle to reassess blurring lines between television and film into a more general 'video' industry. Regulatory approaches to the broad ecosystem of video built on discrepant revenue models and delivery technologies with varied affordances are confused as a result. This changed context challenges domestic production, the ongoing role of television in what Turner (2018) terms the 'nationing' agenda, and the viability of broader audiovisual policy given the new dynamics. Increased availability of advertiser and subscriber funded video services clearly increases the availability of transnational content. However the extent to which these services improve diversity of representation, including of diasporic and marginalised communities, at a country by country level, is not yet known, despite its relevance to future policy making efforts.

This analysis illustrates how different underlying economic dimensions lead internet distribution to have different implications across three national television economies. Although the catalysts of disruption are common, the core problem varies based on pre-existing ecosystem dynamics. Close analysis of other countries will reveal different dynamics of disruption. Accounts that consider the underlying economic conditions are needed to recognise how internet-distributed services affect national ecosystems that are each peculiar as a result of discrepant origins, priorities, policy approaches, and ownership structures rather than asserting universal claims about internet disruption. Although many countries face what

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may seem like new ‘competition’ from multinational SVOD services, astute and careful accounts of the dynamics of that competition are needed to fully appreciate different economic implications.

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[1] Consistent with what we believe is included in the Figure 1 data, we use 'public funding' to refer to an array of money distributed by governments, whether based on the imposition of a licence fee as in the UK or through funding of the national broadcaster, as the case in Australia. Although likely not included in the Figure 1 accounting, public funding also includes government-allocated funds administered directly by state-funded screen organisations, and indirectly through taxation subsidies.

[2] Compiled from Ofcom (UK), Foxtel (AU), and SNL Kagan/SP Global (US) data.

[3] Compiled from Ofcom (UK), Foxtel (AU), and SNL Kagan (US).

[4] In many cases, public funding supports news offerings that are not the focus of 'television' as defined here.

[5] vMVPDs or 'virtual multichannel video programming distributor' is the term for services that delivery packages of channels using internet technology instead of cable or satellite. These services often went to market with 'loss leader' pricing in an effort to gain share, despite content conglomerates maintaining constant pricing for channels offered via cable, satellite, or internet. See S&P Global, 2020. 'Rapid declines for multichannel subscriptions persist in second quarter.' 14 Aug.

[6] This could also be argued as characteristic of Disney – given its reliance on toy licencing and theme parks – from much earlier, but the company was an outlier until recently.

[7] Two-thirds of UK homes use Freeview, a platform integrated into most TV sets that provides subscription-free access to 85 mostly ad-funded digital channels, including all of the PSBs' digital channels, which are also

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available via cable/satellite. There are also free-to-air minority language public service channels, S4C (Welsh) and BBC Alba (Gaelic).

[8] This has included funding S4C, the World Service and free licence fees for the over-75s, all of which were previously funded by government.

[9] Netflix, Amazon Prime Video and Disney+ are in 43, 35 and 13 percent of UK homes respectively, while Now TV (provided by Sky) and BritBox (a joint venture between ITV, the BBC and Channel 4) are in only 8 and 2 percent respectively (Ofcom 2020: 25)

[10] Channel 4's strategic response has been to focus on increasing revenues from AVOD (through developments in addressable advertising) and campaigning for regulation to address the inequities between the online and broadcast advertising markets.

[11] In addition, the UK's PSBs produce across a far greater range of genres than the major commercial producers (such as Netflix and Sky) which tend to focus their investment on high-end drama and documentary (as well as sport, in the case of Sky and Amazon).

[12] Data adjusted for inflation, see Dawson 2020.

[13] In contrast, the long-running soaps *Neighbours* and *Home and Away* enjoy strong foreign consumption, particularly in the UK. These series account for half of Australian drama production (adult and children's) over the last decade.

[14] Successive governments have encouraged the BBC to generate commercial revenues (through investments in ad-funded UK digital channels, overseas ad-funded/subscription channels/services and licensing/production deals) to offset the need for licence fee increases.

[15] Australia's SBS, like Canada's CBC, is a slightly different case of a broadcaster with very significant public service expectations that is also partially reliant on competing for advertiser spending. The challenge facing these entities is even greater.

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