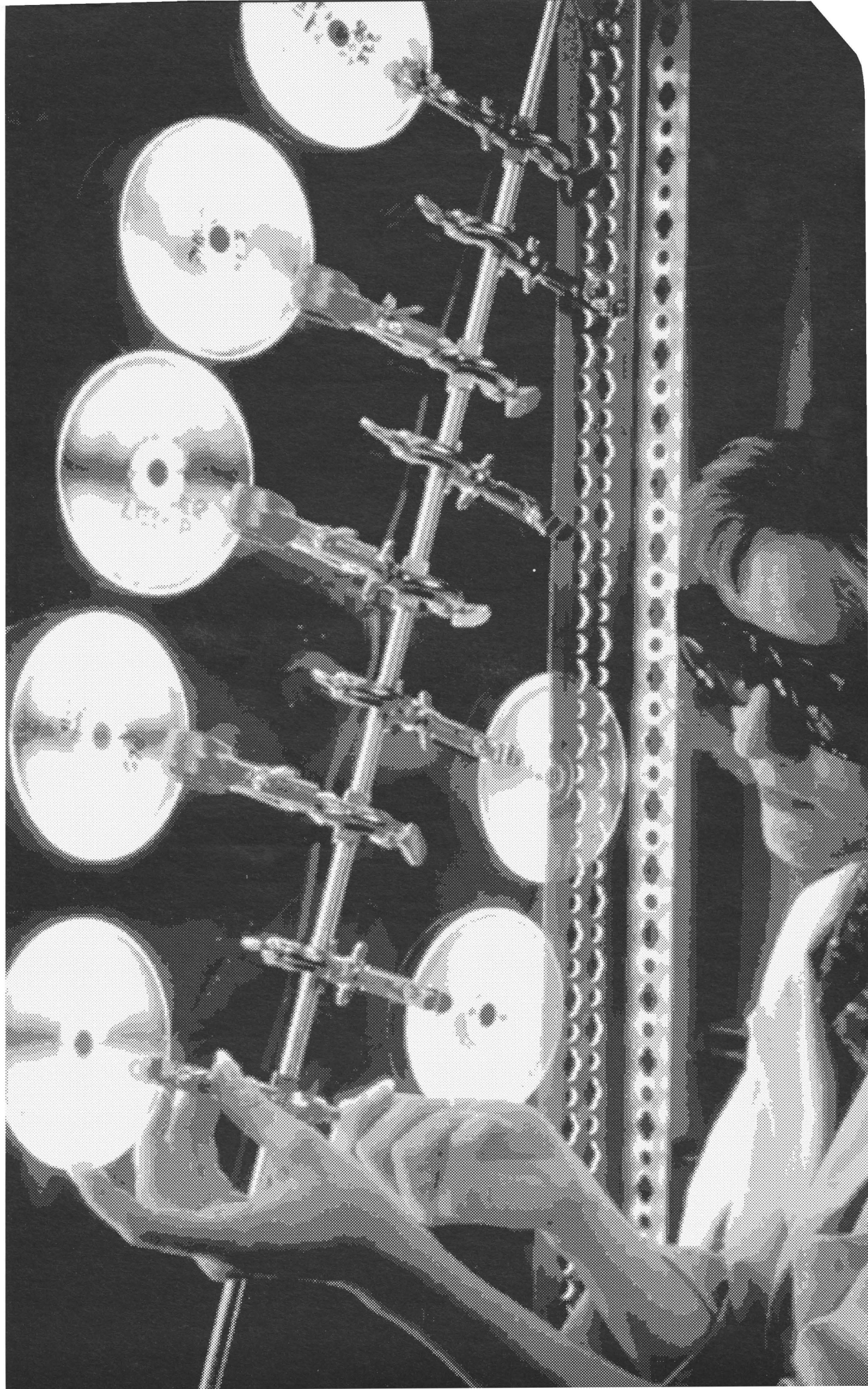


# The audiovisual industry



The audiovisual industry is an extremely dynamic sector marked by strong growth. With West Germany heading the field, the three largest countries continue to be the major markets, although the industry has begun to take off in certain Southern Community countries. The period 1989-1995 should see an increase in the average annual growth rates for the audiovisual sector in respect of all the major EC countries, except Great Britain, which is also set to lose out in terms of volume, its former position as market leader now going to Germany.

### Description of the sector

Audiovisual products can be defined as being images and sounds which are stored, recorded and transmitted for a wide range of purposes, more especially for educational purposes.

They can assume various forms (e.g. film reels, video cassettes, broadcasts). The audiovisual industry embraces the following sectors: film production (NACE 971), film distribution (NACE 971), the cinema (NACE 973), together with radio and television services (NACE 974).

### Current situation

Since 1982, the EC audiovisual industry has experienced significant growth. Television, which only ten years ago was almost exclusively controlled by the public sector, is now largely privatised. Those mainly involved in the EC television scene are private operators. For the first time, it was confirmed in 1989 that taking the 18 Western European States overall, the number of private channels exceeded those under public management.

Market growth was borne out by an increase in advertising investments made in

all the various media forms, especially television. This injection of advertising funds was chiefly due to the deregulation and privatisation of the EC television market.

This trend also materialised in a net increase in Community household expenditure within the audiovisual field, a spin-off being a significant increase in the amount and variety of available material made possible by the arrival of certain new media options such as cable and video. More specific to the EC are the cinema and public television fields; the share of household income formerly allocated to these more conventional media options has reached a standstill (and is on the decline in the case of the cinema). This expenditure, which until recently accounted for the total household audiovisual expenditure, now only constitutes a fraction of this budget.

### Resources of the sector

**Advertising** The recent privatisation of the sector explains the sharp rate of increase in investment made in television advertis-

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**Tableau 1**  
Audiovisual industry  
Investments in TV advertising

(Billion ECU)	1982	1989	1995	82/89 (¹)	89/95 (¹)
BR Deutschland	0.66	1.27	3.74	10.0%	19.7%
España	0.44	1.38	3	18.0%	14.0%
France	0.62	1.64	2.46	15.0%	7.0%
Italia	0.73	1.98	3.51	16.0%	10.0%
United Kingdom	1.55	2.8	3.97	9.0%	6.0%
Total 5 Countries	4.00	9.07	16.68	13.6%	11.3%
Total EC	4.82	10.67	19.17		

(¹) Average rate of growth

**Table 2**  
Audiovisual industry  
TV fees

(Billion ECU)	1982	1989	1995	82/89 (¹)	89/95 (¹)
BR Deutschland	1.63	2.5	3.32	6.0%	4.8%
España	0	0	0	0.0%	0.0%
France	1.05	1.1	1.1	0.5%	0.0%
Italia	0.78	0.95	1	3.0%	1.0%
United Kingdom	1.07	1.8	1.85	8.0%	0.5%
Total 5 Countries	4.53	6.35	7.27	3.5%	2.3%
Total EC	5.46	7.47	8.36		

(¹) Average rate of growth  
Source: IFPI

**Table 3**  
Audiovisual industry  
Cinema attendance

(per million tickets sold)	1982	1989	1995	82/89 (¹)	89/95 (¹)
BR Deutschland	124.5	109	135	-1.9%	3.6%
España	156	78	83	-9.4%	1.0%
France	201	121	123	-7.0%	0.3%
Italia	195	95	101	-9.8%	1.0%
United Kingdom	60	90	110	6.0%	3.4%
Total 5 Countries	737	493	512	-5.6%	0.6%

(¹) Average rate of growth  
Source: IFPI

**Table 4**  
Audiovisual industry  
Cinema expenditure

(Billion ECU)	1982	1989	1995	82/89 (¹)	89/95 (¹)
BR Deutschland	0.41	0.42	0.52	0.3%	3.6%
España	0.33	0.19	0.18	-7.5%	-1.0%
France	0.92	0.53	0.55	-7.5%	0.5%
Italia	0.55	0.38	0.36	-5.0%	-1.0%
United Kingdom	0.43	0.35	0.48	-3.0%	4.6%
Total 5 Countries	2.64	1.87	2.09	-4.5%	1.9%
Total EC	3.18	2.20	2.40		

(¹) Average rate of growth  
Source: IFPI

ing over the last few years.

This growth in expenditure is set to generally slow down between 1990 and 1995 in accordance with various national situations: Spain, for example, which has only recently authorised private television broadcasting, has one of the greatest potentials for growth within the European market. Germany is of course a special case: the arrival within the market of over 16 million East Germans, whose purchasing power in terms of 1995 remains difficult to assess, will undoubtedly add to the dynamic growth of this market, the medium-term annual rate of growth already being very high. Between now and 1995, the French and British markets will see the increase in television advertising investments stabilise at around 6-7%.

#### Fees paid to public television companies

Payment to all Community public television companies is in part made in the form of fees paid by the viewers themselves, with the notable exception of Spain, such fees already being substantial in Great Britain and Germany and becoming more and more difficult to evade. Given the increase in competition (whether free-of-charge or, in the eyes of the users, offering sufficient benefits as to justify a subscription fee) subscribers are less willing to pay the fees imposed. Thus, in respect of the major EC countries, there is little hope of any increase in nominal television fees and accordingly a reduction in the share of such fees in household budgets: in 1989, they accounted for more than half of household audiovisual expenditure but will only account for around 33% of such expenditure in 1995. Once again, the consequences of German Unification will also be clearly felt in the medium term: with a future German public television network merger on the cards, the

fees payable by East Germans were increased in September 1990 in order to put them in line with the amounts paid by subscribers in the Federal Republic. Such a measure will increase the resources of a public network which besides being more extensive will also be more costly.

**Cinema attendance** During the eighties, the sharp drop in cinema-goers was a pan-European phenomenon. However, in 1989 it looks as if this trend will end and that cinema attendance figures will begin to stabilise: the number of tickets sold is slightly up this year in certain countries.

By 1990, forecasts predicted that overall household cinema expenditure was set to stagnate. In the years ahead, there will be further reductions in the share earmarked for cinema attendance within such expenditure, which will have stabilised at around 10% by 1995. Despite the drop in ticket sales during recent years, France remains ahead of the EC field in terms of money spent on cinema attendance. This is not the case in Italy where the big screen has ceased to be the popular, traditional distraction to such an extent that Italy now lags behind Germany (where growth in this field has largely been due to East German interest) with regard to overall cinema expenditure.

**New media options** Whilst the structure and pattern of the EC television market are experiencing certain changes, the developments taking place in rival media forms are without precedent: new media options which had a negligible impact in 1982 (cable, pay-as-you-view television, video) now rival the television relay networks for their viewers. These activities are still suffering certain growing pains but, having experienced one or two delays during their initial European launching

**Table 5**  
**Audivisual industry**  
**Percentage of households with videos**  
**(against households with TVs)**

(Billion ECU)	1982	1989	1995	82/89 (*)	89/95 (*)
BR Deutschland	2	41	60	54.0%	6.6%
España	0	30	62		12.9%
France	5	30	66	29.2%	14.0%
Italia	1	15	60	47.2%	26.0%
United Kingdom	13	78	80	29.2%	0.4%

(\*) Average rate of growth  
 Source: IFPI

stage, with the speed of "take-off" varying from country to country, they now look set to develop rapidly over the next five years. These new media options now occupy a large share of European household budgets: the amount spent by households on video and cable services far exceeds that spent on cinema attendance. Between now and 1995, in terms of proportionate household expenditure, the growth trends for such options will be meteoric; in particular, videos are expected to exceed the 30% mark within five years. These are sectors in which supply motivates demand, their future economic growth depending largely on the strategy adopted by those at the helm of the audiovisual industry.

**VIDEO** Bearing in mind regional inconsistencies, the percentage of households with videos varies from country to country but overall the figure which emerged in 1989 was in the region of 15%. By 1995, such inconsistencies should have virtually disappeared given that by that time the majority of the EC countries will be at or much nearer their maximum levels of video penetration (70 to 80% according to country).

Overall, there has been a sharp increase in video expenditure: taking the EC countries as a whole, the average annual growth rate will be in the order of 18% between now and 1995. In this connection,

the current dominating position of England should be noted: the British are already major video software consumers: there has been a deflection of expenditure from the cinema, which the British public has long shunned, towards videos. In addition, the supply of English-speaking video products from the U.S.A. has stimulated demand. In countries which are currently not so well equipped, such as Spain and Italy, there is strong growth potential for this type of expenditure. However, in terms of volume, France and Great Britain should continue to be the most appealing markets. As for Germany, there is strong equipment potential here, the development of which relies in part on the growth in East German purchasing power over the next five years.

**CABLE** The introduction of cable broadcasting in the U.S.A. has revolutionised the audiovisual scene. On the other side of the Atlantic, cable broadcasting heads the public media field and is an all round rival for the commercial television relay network. Although the development of cable is likely to make its mark within the EC, this activity has very different conditions to contend with in Europe, more especially a much more fragmented market, together with contrasting cultural and legal differences. Cable development is governed by the political and legal environment of the host country in a far more restrictive



**Table 6**  
Audiovisual industry  
Video expenditure

(Billion ECU)	1982	1989	1995 (*)	82/89 (*)	89/95(*)
BR Deutschland	0.18	0.38	1.07	11.3%	18.8%
España	0.08	0.22	0.9	15.5%	26.5%
France	0.16	0.39	1.3	13.6%	22.2%
Italia	0.02	0.2	1	38.9%	30.8%
United Kingdom	0.35	1.4	1.7	21.9%	3.3%
Total 5 Countries	0.79	2.59	5.97	18.5%	14.9%
Total EC	0.95	3.05	6.86		

(\*) Estimate  
(\*) Average rate of growth  
Source: IFPI

manner than that governing video installation or even pay-as-you-view television. Network installation conditions and obtaining local authorisation rely on what are often centralised decisions made by public authorities which can take some time to actually materialise. It is this factor which distinguishes this market from the other audiovisual sectors by virtue of firstly the general, relative underdevelopment at Community level and secondly, the vastly contrasting national situations which prevail. Only the Northern areas of the Community have a strong cable network. France and Germany however are a good illustration of the way in which the political environment and commercial strategy can influence this situation: both countries initiated their respective cable networks in 1982. Today, five million Germans as against only 250,000 French subscribe to cable television.

The other major Community countries, including Great Britain, have also been faced with stagnation in the cable broadcasting field.

The development of cable broadcasting has been slow and occasionally hazardous. In France, the cable network plan was a failure; in England, cable installation has been a laborious exercise; and other countries such as Italy have no cable installations at all. In Spain, cable and direct satellite reception is effected in primitive ways which do not fall within the scope of the regulations and administrative provisions. Only German and the Benelux Countries have achieved a really significant, cable-based volume of activity. West Germany stands out as being the only country for which the cable connection rate is likely to have exceeded 50% by 1995. However, a reduction in this figure is envisaged if the underdeveloped former

**Table 7**  
Audiovisual industry  
Projections  
Percentage of households with cable TV  
(against households with TV)

(Billion ECU)	1989	1995 (*)	89/95(*)
BR Deutschland	27	50	10.8%
España	5	14	18.7%
France	1.2	7.3	35.1%
Italia	0	0	
United Kingdom	1.1	10	44.5%

(\*) Average rate of growth  
(\*) Estimate  
Source: IFPI

East Germany is taken into account.

Thus, despite a few false starts, cable television remains an activity with strong growth potential, particularly in France and Germany.

**Pay-as-you-view television** Pay-as-you-view television is a programme broadcasting network aimed at responding to new, domestic, audiovisual demands: it is a media option principally targeted at consumers of large-scale listening potential programmes (feature films and sport). In the first instance, this activity has significant potential within the Community market, given that it has not yet exploited all the technical and commercial options available, such as decoder interactivity which affords viewers a pay-per-view or individual programme purchase facility. Like cable, the future of pay-as-you-view television within the EC will depend on the state of the competition and strategy of those already involved in this field. In 1989, the sector was at a turning point in terms of its development, and internationalisation remains the principal challenge for current pay-as-you-view channel operators. Pay-as-you-view television is currently in a generally dynamic situation. The French pay-as-you-view channel, Canal +, which within France has achieved a certain degree of development through its successful market penetration and borne out by its profit levels, recently established new footholds in Germany and Spain, and has already proved popular with the French-speaking Belgian community where broadcasting first began in 1989.

In England too there is a certain amount of development potential with the newly-merged BSB and SKY channels. There has been no sign of such initiatives in other markets, such as Italy.

## The audiovisual industry within the leading Member States

**France** In France, the audiovisual industry is fast expanding, accompanied by the usual setbacks and problems: in the television field, the income from advertising which took off with the arrival of private channels is progressing at an impressive rate. The success of TF1 was at the expense of the public channels. These were restructured in 1989, having suffered an identity crisis which the government attempted to remedy by making Antenne 2 and FR3 joint leaders within the sector. In terms of the overall French audiovisual market, the success of Canal + was unrivalled: currently the leading Community pay-as-you-view television channel, it now exports its expertise and capital abroad.

After the failure of the cable network plan, the audiovisual sector experienced a revival, and very high growth rates between 1989 and 1995 are envisaged. Subsequent to a sharp drop in income, cinema takings would appear to have stabilised and consolidated their market share.

**Germany** The major event of the 1989-90 period was the unification of Germany. This also presented an additional challenge for what was already a complicated audiovisual market in view of the federal structure of the country. However, within this new demographic and political context, rapid increases in promotional investment are envisaged, together with an investment "run" on the part of promoters rushing to stake their claims in the attractive East European markets. Given that purchasing power varies enormously, we shall have to wait a few years until the advertising market and related expenditure begin to be structured in a consistent manner over the country as a whole. In addition to its economic dynamism

**Table 8**  
Audiovisual industry  
Cable/Pay-as-you-view TV expenditure

(Billion ECU)	1982	1989	1995 <sup>(1)</sup>
Cable	0.04	0.3	0.81
Pay-as-you-view			0.84
BR Deutschland	0.04	0.3	1.65
Cable	0	0	0.05
Pay-as-you-view			0.27
España			0.32
Cable	0	0.042	0.35
Pay-as-you-view	0	0.73	1.38
France	0	0.772	1.73
Italia	0	0	0.03
Cable	0	0.06	0.45
Pay-as-you-view	0	0.015	0.14
United Kingdom	0	0.075	0.59
Total 5 Countries	0.04	1.147	4.32
Total EC	0.05	1.35	4.97

<sup>(1)</sup> Estimate  
Source: IFPI

and considerable growth potential, Germany has succeeded in keeping a tight rein on the expansion of its audiovisual economy and the development of new media options. This control is marked by the involvement of the regional authorities (the "Länder") which exercise their influence on regional cable broadcasting and television relay networks. However, the wariness displayed by the Federal States during the early stages of the liberalisation process has relaxed, and the system now appears to be ready to operate with a higher degree of profitability.

Thus, in contrast to the other European countries, the installation of cable television in West Germany has been carried out according to plan, and represents a golden opportunity within this market.

**Italy** The Italian airwaves are saturated with images. The overdevelopment of the unappealing television relay network, launched in 1976 with the co-existence of both public

and private channels effectively leaves little room for any other media options: cable and pay-as-you-view television are all but embryonic and the Italian audiovisual market is extremely haphazard. In parallel with this, Italy has experienced an unprecedented decline in cinema ratings. Such a situation could augur well for the pay channels, given that the effect of existing pay channels on household budgets is negligible. The pictorial plethora which is currently flooding the market would not appear to encourage the development of cable broadcasting although the future of the video industry is bright.

**Great Britain** The British market continues to augur well for the Community and is currently undergoing major restructuring, despite the clouds which hang over its future. The British audiovisual industry has time to grow accustomed to the co-existence of both the private and public sectors and has reached a stage of development

which calls for a redistribution of market forces.

In the television relay network field, the effects of the White Paper published by the government in late 1988 containing plans for the reform of the audiovisual industry have yet to be seen. This draft makes provision, inter alia, for the public sale of the ITV network (a regional, independent television network), the creation of a fifth television relay network in 1993, together with a redefined financing system in respect of the BBC and Channel 4.

Certain difficulties have been encountered in the installation and organisation of the cable network. In contrast, pay-as-you-view television is already widespread and very popular, with the two market leaders, BSB and SKY Channel, having recently merged.

**Spain** Bearing in mind the complete disruption of the Spanish communications sector, the development potential of this country is extremely attractive. Economic growth is stimulating activities within the audiovisual sectors and, perhaps of even greater significance, in 1988 Spain ended 30 years of public monopoly in the television field. It now has two private television relay channels, coupled with one pay-to-view channel of general appeal. There is every likelihood that further changes to the audiovisual scene in the months to come will materialise through the intensified centralisation of the broadcasting institutions. Spanish households spend very little on audiovisual forms of entertainment; the public channels are not financed by the collection of fees and there has been a sharp decline in cinema attendance. To date, video and pay channel expenditure has also been fairly insignificant. This being the case, substantial financial re-

sources are available for the development of new consumer habits. Videos and pay-to-view channels are set to be the first to capitalise on this situation and the projected growth rates within these sectors are high.

**Northern EC countries** Despite the fact that they may not hold great significance in terms of volume, these countries (particularly Belgium) act as veritable "research laboratories", indeed as pioneers of the continent vis-à-vis any number of fields. Belgian households, 90% of which are cable-networked, have a range of audiovisual products at their disposal, the like of which is unrivalled within the EC. Thus, qualitatively speaking, these markets are worthy of note, given that the patterns observed could well exemplify the new European media trends to come.

### **Technological developments**

As regards technological innovations, with 1995 in view the Community should primarily focus its attention on the establishment of high definition television. This process of technical evolution promises to be more complex than any previous changes such as the switch from black and white to colour. The revolution in definition standards is linked to another technological development which is set to be all pervasive throughout the 90s, namely the launch of new types of satellites. Community satellites have experienced technical and commercial problems, a factor which has led to a significant reduction in their public impact.

Transmission by satellite is expensive and, to date, users have not been prepared to absorb the costs incurred. The same applies to reception equipment which complies with the new definition standards: until the price comes down, the 16/9 televi-

sion sets currently on the market will have little appeal.

The EC audiovisual industry of the nineties thus forms the backdrop for a number of profound, long-term, technological changes (such as the switch to colour - it is envisaged that the TVHD changeover will take some twenty years) which will correspond to a costly investment, not only for the sector itself but also for those household budgets which will not be in a position to pay the price.

### **EC cooperation within the audiovisual sector**

In terms of audiovisual programmes, the Community is faced with a staggering commercial imbalance: nearly 72% of programmes purchased by Community Members come from the United States whilst only 2% of the audiovisual products broadcast across the Atlantic are of Community origin. At a time when all the EC countries agree that the audiovisual industry is indeed a fast expanding sector (projections for this market assessed at 25 billion ECU in 1990 are that it will be worth 35 billion ECU in 10 years time), EC programme producers and distributors are deriving little benefit from such phenomenal growth.

Coupled with this external imbalance is the uninspiring exchange programme within the Community itself. Not only is there a lack of Community programme exports but also 90% of these programmes never cross the frontiers of their country of origin. The Community production sector is one which is highly fragmented, dominated by small firms which lack any cohesion or common strategy.

To compensate for such inadequacies, the European Commission, together with the

governments of the major countries involved, have launched a number of support programmes for EC producers. It is envisaged that such programmes will encourage cooperation between those working in the audiovisual fields within the EC and reduce dependence on supply from outside the Community, particularly supply from the USA, as well as Japan in respect of certain specific sectors such as animation.

However, private operators are also reacting and forming alliances, stirred into action not only by the regulations but also by the demands of a market in which productions are becoming increasingly costly, forcing Community groups to work together in order to form a production entity capable of rivalling the great Hollywood machine.

The implementation of Community co-operation is accordingly based on two distinct aspects: the public aspect with the initiatives launched, firstly, by the European Community and, secondly, by the various national public channels, together with the private aspect encompassing most of the major multi-media groups involved in the Community market, with Silvio Berlusconi leading the field.

### **The public aspect**

**REGULATIONS** In 1989, the European Commission adopted the "Cross Frontier Television" Directive requiring broadcasters within the Member States to devote a majority share of their air time to Community programmes.

**COMMUNITY AID STRUCTURES** These have been grouped together under the corresponding umbrellas of the MEDIA 92 programme (Measures for encouraging the development of the audiovisual industry)

try) which was devised by the EC in 1986, together with the audiovisual EUREKA programme which was launched in 1989.

**MEDIA**, initially launched as an experimental programme, has now reached its main stage of implementation: between now and 1995, it is envisaged that 250 million ECU will be earmarked for the programme by representatives of the Twelve. The primary objective of those organisations which rely on MEDIA is to improve the environment of companies involved in the audiovisual industry without directly intervening in any production. They are concentrating on assisting with the promotion of programmes throughout the Community and in respect of independent producers, supporting the distribution of their productions; they are also encouraging multilingualism by offering aid and assistance with dubbing and subtitling (via BABEL, the European Fund for Multilingualism). MEDIA also has structures and incentive funds for assisting with the production and development of scripts (Cartoon, the European Script Fund).

The aim of audiovisual Eureka is to encourage and support the analysis and formation of structures for the 1992 European Audiovisual Scene. It has prompted the creation of three workshops dealing in turn with firstly, the programme industry, secondly, economic trends, and thirdly, the legal context relating to the industry.

In conjunction with this, public television stations within the Community are taking steps to join forces: six have already formed the European Co-production Alliance aimed at encouraging the production of fiction series.

**The private aspect** Whilst the public structures are offering their support to the

smaller companies which form the threads of the Community audiovisual fabric, the major private groups with their commercial broadcasting flagships such as TF1, Rete Italia, Canal +, are joining forces to form joint economic entities in the fields of production, broadcasting, distribution and the acquisition of rights in respect of audiovisual works. **PRODUCTION AGREEMENTS** Rete Italia, plus the other subsidiaries (such as Rete Europa) within the Silvio Berlusconi Group, TF1 and Beta Films (Leo Kirsh), together with the Maxwell Group and Chargeurs Réunis, have joined forces to form a commercial television European consortium. The primary objective of the Luxembourg-based company is to produce Community series for television.

Another major private move for a Community merger in the audiovisual co-production field has come from Granada Television in England, WDR in Germany and the Hachette Group in France. The chief aim of this new structure is to produce television films for international consumption.

**AGREEMENTS BETWEEN BROADCASTING COMPANIES, COMMUNITY NETWORKS** After the relative failure of the pan-European satellite channel concept, cooperation between broadcasting companies is accompanied by an ever growing number of partnership agreements and formations of subsidiaries within the various EC countries. Canal + lost no time in establishing itself as a leading player in the field by creating a number of foreign subsidiaries, including Canal + GmbH which was set up in Germany in conjunction with Leo Kirsh. Following in its footsteps were CLT and Fininvest which set up Télé 5.



**Table 10**  
Audiovisual industry  
89 household expenditure

(Billion ECU)	D	E	F	I	UK	5 countries	EC	Market Share	1995	Market Share
Fees	2.5	0	1.1	0.95	1.8	6.35	7.47	53.10%	7.27	33.70%
Cinema	0.42	0.19	0.53	0.38	0.35	1.87	2.2	15.60%	2.09	9.70%
Cable	0.3	0	0.042	0	0.6	0.402	0.47	3.40%	1.69	7.80%
Pay-as-you-view TV	0	0	0.73		0.015	0.745	0.88	6.20%	2.63	12.20%
Video	0.38	0.22	0.39	0.2	1.4	2.59	3.05	21.70%	5.97	27.70%
Total	3.6	0.41	2.792	1.53	3.625	11.957	14.07		19.65	
Total EC	4.24	0.48	3.28	1.8	4.26	14.07			22.59	

Source: IFPI

**Table 9**  
Resources of the television industry  
exclusive of tax

(Billion ECU)	1989	1995 (*)
France	2.3300	3.29
BR Deutschland	3.4525	6.23
Italia	2.4350	4.26
United Kingdom	3.9000	5.36
España	1.0350	3
Total of 5 Countries	13.1525	22.13

(\*) Estimate  
Source: IFPI

TF1 and RETE ITALIA differ from other Community broadcasting companies in their aggressive policies for international diversification.

**PROGRAMME DISTRIBUTION AND THE ACQUISITION OF RIGHTS** In this connection, the German Leo Kirsh Group stands out, having instigated countless Community alliances, more especially in respect of the Paris-based company, Tricom S.A., with TF1 and Fininvest, together with Mercury International Films, Munich, again with TF1, as its partners.

### Leading players within the European audiovisual market

The pan-European economy of the audiovisual sector is dominated by a small number of international groups which have financial interests in the various branches of the communications market: the press, broadcasting relay networks, cable television and video.

Among the principal multi-media Com-

munity groups, we would mention the following:

- ❖ Silvio Berlusconi's Italian group, Fininvest, which in 1989 recorded a turnover of 10 billion ECU;
- ❖ the CLT (Compagnie Luxembourgeoise de Télévision) '89 turnover: 230 million ECU;
- ❖ Leo Kirsh's German group ('89 turnover: 290 million ECU);
- ❖ Havas ('89 turnover: 2.7 billion ECU);
- ❖ Hachette ('89 turnover: 4.2 billion ECU);
- ❖ Robert Maxwell's British groups ('89 turnover: 1.6 billion ECU) and those of the Australian, Rupert Murdoch.

These groups are linked by a complex financial participation cum shareholding network.

### Outlook

In general, the audiovisual sector will continue to be extremely dynamic during the years to come, with an overall rate of growth of more than 6% looking ahead to 1995.

There will be no shortage of resources: over the 1989-1995 period, and based on constant rates, the resources of the television relay networks are set to rise by more than 70%. The new media forms also have considerable funds at their disposal having now got over the teething stage and established their operating structures. In terms of the overall structure of the sector, cer-

tain profound changes are needed, namely the private television networks need to be developed and absorbed, cable installations established, new communication satellites implemented, pan-European regulations within the context of the "Cross frontier Television" objective prepared and the East European countries gradually integrated into the European audiovisual scene.

Compiled by: BIPE

Since the arrival of the compact disc in 1985 there has been positive growth within the recording sector. In certain EC countries, demand has begun to be saturated but with the expected influx of new products on the market, this positive trend should continue.

### Description of the recording sector

The recording sector encompasses:

- ❖ artistic creation;
- ❖ recording media production (vinyl records, cassettes, compact discs);
- ❖ transport;
- ❖ final distribution.

Some recording companies cover the whole range of activities, more specifically Polygram and CBS; others focus their attention on the artistic recording sector, concluding agreements with distributors and independent producers and entrusting their media production to outside firms.

The basic trend is for downstream management, which in this well developed market is the best way to obtain maximum added value, as opposed to the tendency to externalise artistic creation, sharing the risk of new artists (particularly in respect of variety acts) with independent producers.

### Current situation

**Overall sales** In 1982, the compact disc arrived on the market. From the outset, demand was strong and exceeded all expectations.

Throughout 1989, compact discs remained the driving market force with an average 56% sales increase recorded between 1988 and 1989. However, cassette sales held up well, with a 6% increase in volume. Overall, there was an average annual 2.73% market increase over the 1980-89

period; however, this growth rate embraces two highly distinct phases: the 1980-86 period which was characterised by a reduction in constant ECU turnover for the recording industry, followed by the 1986-89 period characterised by an upturn in the market, with an average annual rate of growth of 14.7%.

The compact disc market began to stabilise, particularly in the major EC countries, with an increase in sound recording sales of only 6% between 1988 and 1989.

**Sales per country** A factor which is important in explaining the relative sales levels is the extent to which households within each country are electronically equipped.

- The British market appears to be the main consumer within the EC, accounting for nearly 30% of Community sales, for which there are several underlying reasons:
  - ❖ the large number of households equipped with hi-fi and compact disc players, coupled with a steady consumption of compact discs (approximately 45 million);
  - ❖ a highly developed cassette recording market (approximately 84 million cassettes sold i.e. 1.5 times more than the German market and twice the French market);
  - ❖ a less marked decline in the vinyl 45 market, together with the popularity of CD singles;
  - ❖ the quality of the retail distribution network: there was a 9% growth rate in the disc/record market between 1988 and 1989.

**Table 1**  
Recording industry  
Turnover of recording companies in relation to sound recording sales

(million ECU)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Current price turnover	1 786	1 931	1 949	1 874	1 902	2 080	2 192	2 511	3 175	3 376
Constant price turnover	2 492	2 454	2 269	2 050	1 985	2 080	2 111	2 351	2 988	3 176

(<sup>1</sup>) Average annual rate of growth  
Source: BIPE and IFPI

Behind Great Britain comes the German market, with around 20% of households being equipped with compact disc players and 65% with hi-fi equipment.

However, this market seems to be slowing down slightly in terms of turnover trends in the recording industry (only a 3% increase), due more to the decline in cassette sales.

– A rapid 28% increase was recorded within the French market: it's however high growth margins are characteristic of this market, given that sales were 40% down on those recorded in the United Kingdom, the European leader in this respect. This strong growth has however occurred within a context of substantial diversification in terms of the musical entertainment offered by the radio and TV networks and mainly stimulated by a reduc-

tion in the VAT rate from 33.33% to 18.6% in December 1987.

– Italy ranks fourth. However, the level of sound recording sales here amounted to half that of France due to the limited number of households equipped with HI-FI and compact disc players. There has been moderate growth in Italy (7%): vinyl sales continue to hold up well and compact discs are rapidly becoming popular.

– The Netherlands are remarkable, given the extent to which households are electronically equipped and their steady sound recording sales. The presence of Philips partly explains this situation.

– Characteristic of Spain, Belgium and Greece is their strong market growth (+37, +29 and +20% respectively). However, it is interesting to note that in Spain, vinyl sales are continuing to rise by 16%.

Based on the stage of development of each market, both in terms of extent and volume, four groups of countries emerge: Group 1, the United Kingdom and Germany, is made up of countries which hold a significant share of the European market but where growth appears to be slowing down. These are well developed markets

**Table 3**  
Recording industry  
Extent to which European households were electronically equipped in 1989

	HIFI	CD
Belgique/België	76	19
Danmark	N/A	15
BR Deutschland	65	20
España	N/A	3
France	35	17
Italia	20.4	6.5
Nederland	85	47
Portugal	28.7	0
United Kingdom	70	20

Source: SIMAVELEC

**Table 2**  
Recording industry - Sound recording sales within the EC

	1988 in ECU	1989 Turnover	1988-1989 Growth rate	Market shares
Belgique/België- Luxembourg	70 983	91 256	29%	2.70%
Danmark	52 230	59 872	15%	1.77%
BR Deutschland	695 652	719 754	3%	21.30%
Hellas	27 617	33 198	20%	0.90%
España	168 641	230 649	37%	6.80%
France	534 945	684 744	28%	20.20%
Ireland	17 528	20 073	15%	0.50%
Italia	265 395	283 027	7%	7%
Nederland	190 000	221 388	17%	6.50%
Portugal	27 643	21 729	-21%	0.60%
United Kingdom	927727	1011136	9%	29.90%
<b>Total</b>	<b>3 174 600</b>	<b>3 376 826</b>	<b>6%</b>	<b>100%</b>

Source: BIPE and IFPI

where compact discs have been available for a longer period of time.

Group 2 is a large market but one which has not as yet exhausted its growth margins. In the main, this group includes France where the compact disc arrived at a particularly favourable time, coinciding with a reduction in VAT and the granting of authorisation for television promotions. Relatively speaking, this market also includes the Netherlands where the high number of electronically equipped households goes hand in hand with strong



growth and, finally, Belgium where households are also well equipped and where there is rapid growth.

Group 3 relates to markets (Spain,

Greece, Ireland) where sales are well behind, but where compact discs could give rise to rapid increases in the turnover of the recording industry.

Group 4 encompasses several small markets which are making slower headway:

here, Italy is behind in terms of technological innovations compared with the other Community countries.

It is faced with a serious piracy problem and the development of the market is still focussed on vinyl. Portugal is the only country which has recorded a constant ECU decline in its market over the period under consideration.

The strategic problems facing the recording industries within these four groups come in different forms.

**Sales by medium** Between 1988 and 1989, there was a 15% decline in vinyl sales within the EC. However, Table 4 shows that those countries which are behind in terms of Hi-fi equipment continue to record sustained growth in their sales of long-playing records: Italy, Greece and, above all, Spain. Between 1988 and 1989, the cassette market appeared to be fairly buoyant (+6%) but the growth rate is not standard taking the EC countries overall. The compact disc is the star of the recording industry, with a 56% growth rate being recorded between 1988 and 1989.

### Recording companies

Within the EC, the market is dominated by the "big names" in the recording industry i.e. CBS, Polygram, BMG, EMI and Warner International.

**Table 4**  
Recording industry  
EC vinyl record sales in 1989

(per thousand sold)	Single sales	1988-89(1)	sales LP	1988-89(1)
Belgique/België-Luxembourg	6 550	6%	2 391	-19%
Danmark	777	-18%	4 799	7%
BR Deutschland	25 800	-18%	48 300	-17%
Hellas	N/A	N/A	5 010	4%
España	1 871	17%	20 563	16%
France	35 550	-17%	16 173	-17%
Ireland	523	-5%	607	-23%
Italia	3 390	-31%	16 219	5%
Nederland	4 200	-50%	4 300	-49%
Portugal	385	-56%	1 899	-27%
United Kingdom	56 400	-6%	37 900	-25%

(1) Growth rate  
Source: BIPE and IFPI

There is fierce competition between these American, Japanese and European group subsidiaries and, to date, the information as to the national market shares held by these various companies has not been very reliable. The orientation of their strategies relies on two different concerns:

#### Downstream, to expand the market

This strategy consists of an increase in the number of points of sale and the downstream integration of producers within specialist chains (Cf. Virgin and the Mega Store), the diversification of points of sale and a reduction in the number of distribution networks (development of record/disc sales using Minitel, automatic distributors), the intensification of promotion policies...

**Upstream, to boost supply** In terms of upstream production, the problem facing producers hinges on the creation of independent labels to encourage the emergence of new artists and to solve the problem of exhausting the creative supply.

#### Employment prospects

The analysis of permanent employment prospects within the recording industry (i.e. excluding artists, performers and technicians who are also employed elsewhere, and focusing on jobs with record press-

ing/copying firms, recording studios, producers and distributors) shows that there has been a steady reduction in employment since 1977. However, since 1987, the arrival and popularity of the compact disc has had beneficial effects on the sector overall.

### Market prospects

#### Development factors

**CD EQUIPMENT** Despite the increase in sales of compact discs in countries such as the United Kingdom and Germany, the extent to which households are equipped with compact disc players is still relatively low (20% in 1989) which leads to the assumption that the increase in compact disc sales will continue (with more moderate

**Table 5**  
Recording industry  
EC cassette sales in 1989

	Cassette sales	1988-89(1)
Belgique/België-Luxembourg	2 604	38%
Danmark	1 799	5%
BR Deutschland	58 100	-3%
Hellas	3 135	-5%
España	27 240	17%
France	40 128	29%
Ireland	2 476	17%
Italia	23 910	5%
Nederland	3 200	-33%
Portugal	2 456	-24%
United Kingdom	84 100	4%

(1) Growth rate  
Source: IFPI

**Tableau 7**  
Recording industry  
Employment within the sound recording field 1980-1989

(thousands)	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Employment	128	125	122	118	115	111	107	103	110	118

Source: IFPI

**Tableau 6**  
Recording industry  
EC compact disc sales in 1989

(thousands)	CD sales	1988-89
Belgique/België-Luxembourg	7 114	58%
Danmark	3 056	27%
BR Deutschland	63 400	62%
Hellas	435	118%
España	4 920	98%
France	40 972	58%
Ireland	330	66%
Italia	10 282	45%
Nederland	26 400	48%
Portugal	636	46%
United Kingdom	45 400	55%

(\*) Growth rate  
Source: BIPE

growth) as and when households acquire a compact disc player.

It is envisaged that there will be a sharp increase in equipment levels in France, and above all in Italy and Spain where the markets will expand rapidly, given the substantial reduction in the price of compact disc players.

THE ABSORPTION OF COLLECTION RE-FURBISHMENT. Certain major countries which in the early 1980s experienced a rise in the popularity of compact discs well before the others, are beginning to see a downturn in their overall compact disc sales due to households ceasing to refurbish their collections. In France, a household vinyl record collection amounts to

approximately 100 sound recordings.

The average number of compact discs of a given household equipped with a CD player is 37. By 1995, it is estimated that the effects of households refurbishing their collections will have been absorbed.

THE APPEARANCE OF NEW MEDIA OPTIONS. There is a wide range of media available: alongside the broadcasting media which continues to be controlled by the producers (e.g. compact disc videos which the market is taking its time to launch) are rival media options such as DAT (digital audio cassettes).

Producers see DAT as a threat to the rights of artists and producers alike due to the private copyright restrictions.

The agreement concluded in June 1989 between the EC and Japanese public sound recording and electronics industries adopting the SCMS copyright protection system paved the way for the launch of DAT. Arm in arm with DAT are rewritable and recordable CDs as well as, more recently, DCCs (ditigal compact cassettes) which will also be developed in the years to come and have a particular impact on the conventional analog cassette.

**Outlook** Despite market development within certain smaller countries, the relative erosion of markets within the major countries is likely to lead to a slowdown in European market growth overall. In the medium term, the European market can look forward to an annual growth rate of 5%.

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