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INFORMATION AND COMMUNICATION SERVICES - THE CASE OF AUDIOVISUAL AND ADVERTISING SERVICES

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INFORMATION AND COMMUNICATION SERVICES
THE CASE OF AUDIOVISUAL AND ADVERTISING SERVICES

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Among the many statistical issues concerning NICT, their supply and use, some deal with services. The statement about statistics and indicators for infrastructure and the worldwide information society made by the ICCP Committee² urged « *to prepare, to test and publish a common set of standardized indicators and definitions, in order to appraise in a better way the situation of the spreading and the use of equipments, telecom infrastructures, and services and contents*. It was added that « *As most efforts have been devoted to the first two issues, a special attention has to be drawn on the third item.* » Therefore, the ICCP Committee has recommended to « *increase national and international efforts, present and future, in favour of the elaboration of statistics and indicators so that they include the three following topics : the spreading and the use of equipments, telecom infrastructures, and services and contents*».

Previously in charge of the « information services », the « Service Juridique et Technique de l'Information et de la Communication (SJTI) » extended its scope to communication services in 1995 ; the same year, an « observatory of advertisement » was created. At the moment, audiovisual accounts are under completion and an advertising account has been launched which will provide preliminary results within a few weeks. The approach followed for the construction of these accounts is briefly described below ; they are proposed as tentative attempts to answer the demand previously mentioned.

1. AUDIOVISUAL ACCOUNTS³

In terms of economic statistics, the audiovisual sector is rather small : its value added reached about FF 30 billion in 1995, not more than 2 % of the value added of all market services. Though small, this sector is often considered as a sector of strategic interest, in so far as the information society is concerned ; several professions linked together by complex relations contribute to the production and dissemination of audiovisual services. The sector is badly known : a lot of statistical figures are published here and there, but, most of the time, these are partial and inadequate data.

The audiovisual accounts aim at a full and relevant description of the sector and of the relations between

¹ A.Gely is Chief of the Observatory of Advertisement, and P. Greiner is Chief of the Mission for Audiovisual Statistics at SJTI.

² Cf. document OECD/GD(96)93, § 2.6.

³ The audiovisual accounts are being carried out jointly by the SJTI and the CNC.

the sector and its environment. Therefore, the measurement and the follow up of the monetary flows circulating between the components of the sector and between the sector and the rest of the world are the main objectives of the exercise.

The approach is based on the experience of satellite accounts, already used whenever it is necessary to get a more detailed economic picture of a domain, than that given in the core national accounts. The approach is based on a detailed description of the various channels through which audiovisual services are produced and provided to the market.

The validation of the results is in progress, and the data mentioned in this document are provisional.

1.1 - General framework of the account

The domain under review in this account is designed on the basis of the four traditional channels : cinema, TV, video and production on order⁴, that is to say the NACE activities 92.1 and 92.2, except the radio services.

In line with the main objective of the account, the audiovisual sector has been broken down into eight « sub-sectors » or « activities », namely movie production, TV programmes production, films production for promotion, supporting activities, movie and video distribution, movie projection and video tapes production.

The account of the audiovisual sector aggregates the accounts of the eight activities. The rest of the economy consists in the non-audiovisual enterprises, the financial sector, the Public Government sector, the households and the rest of the world.

The accounts of the whole sector describes the audiovisual operations of enterprises, the main activity of which is audiovisual ; it is close to a sectoral account.

The audiovisual activities performed by enterprises which do not belong to the sector, are neglected ; so are the non-audiovisual activities of the audiovisual enterprises, which, according to the last Enterprise Annual Survey, account for 2.7 % of their total turnover only. The accounts of each detailed activity are clearly « branch accounts », with the exception of TV-channels for which a sectoral account has been designed, including all the operations performed by this agent.

The main sources of data are the Enterprise Annual Survey, conducted by the INSEE in collaboration with the « Centre national du Cinéma (CNC) » and the SJTI ; the administrative data managed by the CNC are also used.

1.2 - The final audiovisual production (FAP)

The account of each activity listed above covers, in a consistent manner, all the monetary flows between it and the other audiovisual activities, the other enterprises, the households, the rest of the world and so on. The account of the whole sector which is shown below, aggregates the eight activity accounts. Such a totalization includes, of course, many double countings. The total production of the audiovisual sector obtained in such a way reaches FF 74.5 billion in 1995. Roughly speaking, this total can be considered as the total turnover of the audiovisual enterprises.

⁴ Commercials and films ordered by enterprises and institutions.

TABLE I - ACCOUNT OF THE AUDIOVISUAL SECTOR IN 1995

Summary table of all transactions of the various audiovisual activities (Millions of FF - VAT excluded Provisional figures)

Current resources			Current uses		
100		76	20		71
101	Total production	74	20	Intermediate consumption (=202+310+320)	45
110	Services provided by the supporting industries	6 854	20	Purchases of audiovisual products in France	23
120	Cinematographic production	5 654	21	- of supporting industries	343
121	Capitalized production of films	2 682	0		
122	Return from box office	368	22	- of cinema producers	739
123	Film sales to channels	1 317	0		
124	Film sales to video	102	22	of which: purchases of supporting services	502
125	Receipts from abroad	385	1		
126	Other receipts of cinema production	799	23	- of audiovisual producers	2
130	Audiovisual production	9 605	0		128
131	Capitalized production of TV programmes	3 737	23	of which: purchases of supporting services	1
132	Sales of "flow"TV programmes to channels	2 288	1		479
133	Sales of "stock"TV programmes to channels	2 235	24	- of commercial & institutional producers	656
134	Receipts from abroad	367	0		
135	Other receipts of audiovisual production	977	25	- of distributors	1
140	Production on order	2 906	0		610
141	Commercials	1 735	25	of which: purchases of supporting services	293
142	Institutional films	1 171	1		
150	Distribution	5 258	25	of which : upstream transfers to film & programme producers	934
			2	- of cinema exhibitors	1
			0		871
			26	of which : upstream transfers to distributors	1
			1		719
			27	- of video-publishers	1
			0		442
			27	of which: purchases of supporting services	917
			1		
			27	of which : purchases of films and programme rights	525
			2		
			28	- of TV broadcasters, of which	14
			0		366
			28	purchases of french film rights	1
			1		715
			28	purchases of foreign film rights	1
			2		250
			28	purchases of french programme rights	2
			3		413

Summary table of all transactions of the various audiovisual activities (Millions of FF - VAT excluded - provisional figures)

(continued)

151	Distribution of films to exhibitors	1 719	28 4	purchases of foreign programme rights	527
152	Distribution of films to channels	1 648	28 5	purchases of "flow" programme in France (=132)	2 288
153	Distribution of films abroad	312	28 6	consumption of in-house produced programmes (=189)	2 928
154	Other receipts of film distribution	697	28 7	purchases of supporting services	2 216
155	Distribution of TV programmes	882	28 8	royalties from cable-operators to channels (=184)	550
160	Cinema film projection	4 767	28 9	other purchases of audiovisual services	480
161	Box office	4 282	30 0	Final Audiovisual Production (FAP=101-202)	51 353
162	Other receipts of cinemas	486	31 0	Purchases of audiovisual services abroad, of which :	3 712
170	Video	3 858	31 1	upstream transfers by distributors of box office receipts	577
171	Tapes for sale	3 504	31 2	upstream transfers by distributors on TV & video films sales	844
172	Tapes for renting	354	31 3	upstream transfers by distributors on programmes sales	349
180	Broadcasting receipts	35 606	31 4	Purchases abroad of films & programmes, by channels	895
181	Audiovisual fee	7 169	32 0	Purchases of non-audiovisual products	18 960
182	Subscriptions to terrestrial channels	7 693	34 0	Gross Value Added (=101-202-310-320)	28 682
183	Subscriptions to cable and satellite	2 294	34 5	Amortization of tangible and intangible assets	8 686
184	Royalties from cable-operators to channels	550	34 9	Net Value Added (=340-345)	19 996
185	Royalties from abroad cable-operators	186	35 0	Operating expenses	26 000
186	Advertisizing receipts	12 616	36 0	Wages and salary contributions	13 921
187	Sponsoring receipts	666	36 9	Remuneration of proprietary rights (wages)	1 334
188	Other receipts of broadcasting	1 504	37 0	Taxes	3 051

Summary table of all transactions of the various audiovisual activities (Millions of FF - VAT excluded) Provisional figures

(continued)

189	In-house production of programmes	2 928	38	Gross operating surplus (=340+190-360-369-370)	12 390
			0		
			39	Remuneration of proprietary rights (non wages)	209
190	Production subsidies- of which	2 015	39	Interest	3 085
			1		
191	cinema (distributors and exhibitors)	162	39	Corporate income tax	1 733
			2		
192	TV channels	1 841	39	Other operating expenses	2 666
			3		
			39	Gross accounting result(=340+190-350)	4 697
			9	(=100-200)	
			40	Net accounting result	-3
			0		989
500	Capital resources	6 049	60	Capital uses	9 204
			0		
510	Gross operating result	4 697	61	GFCF in films & programmes	6 529
			0		
520	Equipement subsidies, of which	1 654	62	GFCF in tangible products, of which	2 675
			0		
521	cinema	787	62	exhibitors	695
			1		
522	audiovisual	835	62	channels	1 073
			2		
530	Other receipts and changes in stocks	-302	70	Debt change (=500-600)	-3
			0		155

But this aggregate is somewhat larger than the production really provided outside of the sector. Are included :

- the final sales outside the sector, corresponding to the box office, the receipts of the channels, the sales of video tapes and of films on order, the exports, all of these amounting to FF 51.3 billion in 1995 ;
- the production of some services purchased by others, but within the audiovisual sector itself e.g. the distribution of films or of TV-programmes by producers and distributors to the channels, the rental of films by exhibitors to producers and distributors ; these flows are intra-consumptions within the audiovisual sector ; the total amounts to FF 23 billion, i.e. one third of total production !

The production generated by the sector named the Final Audiovisual Production (FAP) is thus equal to the total final sales outside the sector, or to the difference between total production and intra-consumptions.

The FAP can be aggregated and is a relevant indicator of the contribution of every sub-sector to the whole audiovisual production. The share of production activities (movie, TV and production on order, supporting industries) represents 41 % of the FAP of the whole sector, instead of 33 % of total production ; on the other hand, the relative weight of dissemination activities e.g. distribution, movie-theatres, TV channels

and video publishers falls from 67 % to 59 %.

Table II - Principal results by activity (FF. Millions and %)

	supporti ngindust	cinema producers	TV program	commercia ls	distrib u	cinema exhibitors	video	TV broadcast	Audiovisu al
1-Total production	6 854	5 654	9 605	2 906	5 258	4 767	3 858	35 606	74 508
%	9	8	13	4	7	6	5	48	100
2- Final production (FAP)	6 511	4 915	7 476	2 250	3 647	2 896	2 416	21 240	51 353
%	13	10	15	4	7	6	5	41	100
3- Net final production	6 259	2 646	3 638	2 118	3 502	2 402	2 381	19 721	42 667
%	15	6	9	5	8	6	6	46	100
4-Gross value added	3 371	3 373	4 925	1 255	1 281	1 946	1 824	10 707	28 682
%	12	12	17	4	4	7	6	37	100
5-Net VA	3 119	1 104	1 087	1 122	1 136	1 452	1 789	9 188	19 996
%	16	6	5	6	6	7	9	46	100
6-Wages	2 668	971	1 995	943	457	913	304	5 669	13 921
7- Gross accounting result	-20	1 615	1 991	177	375	-50	115	495	4 697
8- Net accounting result	-272	-654	-1 847	44	230	-544	80	-1 025	-3 989

1.3 - The capitalized production of audiovisual works and the net production

The audiovisual sector produces basically two categories of products :

- commercials, institutional films which are ordered by government agencies or by enterprises for their internal or external communication actions, and the so-called « television flow programmes » which are broadcasted once and once only, such as TV news, entertainment, set programmes, sporting events, variety shows, and so on. All these are produced, in most cases, by specialists and directly sold to the client, a channel or an enterprise. The accounting treatment of these products does not raise any problem : in 1995, the production of commercials was valued at FF 1.7 billion, the production of institutional films at FF 1.2 billion, the production of « flow programmes » at FF 2.3 billion ; this last figure does not include the in-house production of channels which is about FF 2.9 billion ;

- the second category includes « works » strictly speaking, also called patrimonial works. Not only do movies have to be taken into consideration here, but also the audiovisual programmes which can be broadcasted several times, such as fiction TV movies, serials, soaps, documentary films and so on ; these programmes are called « stock programmes » because they are considered by their producers as assets. In fact, these programmes are **intangible** assets : they can be distributed or broadcasted over and over again, and any supplementary distribution or broadcast will generate new revenues. Therefore, they are not sold, but accounted for by their producers as a capitalized production. In the future, the producers will not sell the programmes, but only the rights to use them for exhibiting, broadcasting or reproducing into video-tapes, within delimited territories and over some precise periods.

Therefore, these « capitalizing » producers' activities are twofold :

- on the one hand, the creation of the works as intangible goods, is treated as a **capitalized production** for

own account and a contribution to gross fixed capital formation ; it is valued at cost prices, about FF 2.7 billion for films and FF 3.7 billion for stock TV programmes ;

- on the other hand, the commercialised production includes the sale and the renting of the rights concerning the completed works ; it is a **production of services**, the amount of which has been estimated at FF 2.8 billion for movies and roughly the same for audiovisual programmes.

Such a way of valuing the activity of cinema and « stock programmes » producers is already consistent with the basic principles of business and national accounting. The basic hypothesis is that all of these new products are « **lasting assets** » which will generate significant revenues in the future.

Broadly speaking, this hypothesis is true, when considering cinema ; the lifespan of a film exceeds several years, principally through supplementary broadcastings on televisions. But, for most of the stock TV-programmes, the assumption that every new product has the nature of a lasting asset is largely theoretical in France, because there is no second-hand market for such programmes. In most cases, these programmes are bought **once for all** by TV channels, generally with the right to broadcast them two or three times over a period of three or five years, after which, the « career » of the programme is over. Therefore, some experts criticise this method of valuation, according to which the new products of the year are, at the same

time, capitalized and sold ; for them, this is, clearly, a double count which results in an hypertrophied description of the real activity of audiovisual producers' activity.

Various solutions to this problem have been experienced. The most convenient method seems to be the one which takes into account the real depreciation of the capital assets due to their use. This depreciation is nothing but the amortization of the capital, which has to be determined according to the real lifespan of the assets, or, in other words, to the declining potentiality of the assets to provide further revenues. Owing to the many existing statistics about cinema, it has been rather easy to estimate such a schedule, as far as movies are concerned ; but, in regard to the other audiovisual programmes, figures have been mostly made up.

At the moment, as a provisional result, it is stated that about 92 % of the total amount of receipts produced by a given audiovisual programme are received as soon as the work has been completed. Therefore, the amortization is almost equal to the capitalized value of the product, that is to say the net production is deduced from the gross production by deducting almost all the capitalized production (CP). For 1995, figures are the following :

- for movies, the depreciation amounts to FF 2.2 billion, although the CP amounts to FF 2.7 billion (81 %) ;

- for « stock programmes », figures are respectively 3.7 for depreciation and 3.7 for CP (99 %).

The cost of the depreciation of tangible assets have been valued too, essentially for the channels, the cinema exhibitors and the supporting activities. The total depreciation of tangible and intangible assets reach an amount of FF 8.7 billion. The **net final audiovisual production** (FAP) reaches then 51.4 - 8.7 = FF 42.7 billion.

As the cinema and stock TV programmes capitalizing producers are primarily concerned by the weight of depreciation, their net FAP is almost halved, from FF 12.4 billion to FF 6.3 billion. Therefore, the contribution of production activities to the whole audiovisual sector falls to 34 %, whereas the contribution of the disseminating activities rises to 66 %.

Of course, the net value added, the net operating surplus, etc have been calculated too (see Table I above). But the main conclusion of this first exercise is that, when dealing with the investment of audiovisual

works, it is necessary to define clearly the nature of production, in order to get a relevant description of the economy of this sector.

2. TOWARDS AN ACCOUNT OF ADVERTISEMENT

Although publicity professionals have to be specialists of the slogan and of the catch-phrase, their activity and the service they provide cannot be summarized into a lapidary definition. At the moment, no universal definition of the industry, of the product and of the profession exists, except of course the one implicitly included in statistical classifications. Is such a statistical approach relevant? Certainly for the purpose of national accounts. But it does not fit all the economic questions raised by the publicity professionals.

In so far as the main issues of interest for these professionals could be explored, two topics emerged :

- a demand for the measurement of the whole market of the « external communication of enterprises », in order to specify the share of this market held by advertising professionals. The share of advertisements disseminated through the mass media and that disseminated by other media, sometimes called respectively « above or under the line » media, are key indicators ;
- the advertising agency acts as an intermediate between a client, the advertiser i.e. the enterprise concerned with a communication project, and the medium which will transmit or disseminate the message. The first one, the client, who has to optimize his ad budget between various media and vectors is eager to know about the efficiency of the campaign designed by the advertising agency. At the same time, advertising revenues are a major source of income for the media ; the media itself is thus interested in the success of the advertising campaign.

Because of these basic considerations and others, a lot of private statistics are issued on a yearly, quarterly, monthly, weekly ... and even daily basis about the audience, the volume of announcements ordered by advertisers, and more rarely about the budgets involved.

Thus, the first mandate given to the « statistical observatory of advertisement » created in 1995, has been to :

- analyse the consistency and the reliability of these figures, in comparison with official sources, primarily the enterprise annual survey conducted by the INSEE ;
- to design a framework and propose a consistent set of basic statistics which could clarify some misunderstandings.

A scientific committee grouping officials, professionals and academic people has been set up by the observatory ; at the moment, a general agreement has been reached about the design of two basic tables.

The first one will describe the economy of the product, according to the following scheme.

Advertiser	Originator, producer and vector			Target
The size of the advertising market is equal to the total amount of their expenses	Creation	and/or material realization	and/or paying the vector for dissemination	Addressee of the advertising message and aim of the communication plan

The starting point of the account is the delimitation of the demand of advertising services : the hypothesis is that the whole expenditure of the advertisers measures the size of the « advertising and external communication » market, whether these services are provided, totally or partially, by professionals of the advertising sector or not. One can argue that some internal costs may also be supported by the advertisers, in so far as internal and external communication services may be self-provided, outside of the market.

All the available data are then collected in order to :

- value the « advertising product », defined as *the whole set of external communication actions ordered by advertisers, mainly towards targets located on the national territory*⁵ ; the description of the « product » should be detailed enough so that the elementary items could be re-grouped in various ways ;
- describe the direct counterparts of the expenditure of advertisers on the market, that is to say the activity of the producers who play a part in the realization of the advertising service, as the creation and related activities e.g. consultancy, the material realization and other supporting services, and the forwarding and dissemination of these messages.

The first table will be published at an aggregate level and a detailed one for the main vectors, whenever it is relevant. As far as possible, the counterparts will be broken down more finely e.g. into the commissions of the media representatives, the providers of space ...

Of course, the consistency between expenses and revenues should be ensured.

Besides, a sectoral table will permit to analyse the revenues of the enterprises, whether or not their main activity is advertisement. To ensure the consistency between the « branch » table and the « sector » table, it will be necessary to breakdown the revenues according to their origin, the advertising market, the non-advertising activities provided by the enterprises under review, and to isolate double countings.

⁵ According to the definition, such expenses include the commissions of advertising agencies, media representatives and providers of space, the technical costs and if any, the fiscal and parafiscal levies, although these levies are not, of course, part of the revenues of the advertising providers.

Table 2 - Valuation of the advertising market based on the turnover of enterprises

Turnover of enterprises	Double counting	Non advertising activities	Activities abroad
contributing to the creation of the message, their material realization, their dissemination	sub-contracting purchase for resale		advertising messages delivered mainly abroad

After deduction of double counting, non-advertising activities, and activities for abroad, the net turnover made on the national territory should be equal to the advertising expenses of enterprises broken down in the first table. A complementary set of tables will provide the same consistent set of figures, at a more detailed level e.g. for the printing-houses and the advertising agencies.

Some concluding remarks.

1. For two industries which are closely related, two different kinds of accounts have been designed : the audiovisual accounts are, at the moment, of a macro-sectorial type, i.e. a magnifying glass on a small sector which is not visible in the core national accounts. The advertisement accounts are rather different : the point of view adopted to implement them refers to the « external communication function » of the enterprise. The basic reason for this comes from the different natures of the sectors and of the demands : the advertising sector is a business service industry and the priority of the professional's demand goes to the measurement of the degree of externalization⁶ of the communication function of their clients, the enterprises ; of course, such a question is quite different for the audiovisual sector ; the in-house production is of secondary interest.

2. The audiovisual sector is rather small, in economic terms : there is an imbalance between the weight of the activity and the social and political importance of the sector. Thus, economic statistics will not be sufficient and other indicators will be needed, dealing with a description of the supply of the contents, the audience and so on. This remark can be extended to other information services industries.

3. Due to the availability of data, the basic period chosen for the audiovisual accounts is 1989-1995 ; for the advertisement accounts, the basic year is 1995. At that date, the new services, in the sense of NICT, could be neglected. Some rapid changes have occurred in the past two years, mainly in the audiovisual sector, and the previous assertion is certainly no longer true. When these new services are important enough, they will be taken into account, if they are properly classified ! A problem may arise with new

⁶ Roughly speaking, less than half of the market is held by professionals of the advertising sector.

multimedia services provided on the Net. From our point of view, only part of these new services, the ones with contents, are to be taken into consideration here.

Besides the list of NICT activities, it would be useful to have some clarification and international harmonization, if necessary, about the notion of communication; legal definitions will give useful references in that matter.