AUDIOVISUAL PRODUCTION IN SPAIN

FEWER RESOURCES, SAME PROBLEMS, NEW CHALLENGES

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1. The context of the audiovisual industry: between adapting to the economic crisis and the development of Internet

Between the years 2007 and 2014, advertising investment in television was almost halved, falling from 3,467 million euros to 1,821 million. In addition, the cut in public funding meant that only the overheads of the channels could be covered. That leaves production investment hanging in the balance, and the structures which are in place for making the change to television with higher audience figures divided between general channels and specialist ones, as a consequence of the development of Digital Terrestrial Television (DTT).

On the other hand, the monthly subscription fees for pay-per-view television have stabilised giving those channels a considerable competitive advantage when it comes to obtaining broadcasting rights. However, the arrival of Netflix challenges the monopoly of pay-per-view TV and it is yet to be seen how it will affect the rest of the general channels. The catalogue of Hollywood' majors is in the hands of Imagenio-Digital+, which belongs to Telefónica, the leading mobile phone operator and Internet provider. So too are the vast majority of the rights for sporting events so their offer is likely to be more appealing than that of Netflix which only owns the rights to programmes which have been overly exploited.

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The good news for audiovisual production is that, as a result of their global and local strategies, both Digital + and Netflix are compelled to invest in audiovisual production to gain access to the market and strenghthen their position in other markets by means of synergies, for example in Latin America or the Hispanic market in the USA.

The television sector's industrial structure in Spain has gone from opening up to new operators, thus welcoming in the age of wealth, to concentration during the crisis. The mergers/take-overs of traditional players (Mediaset and Planeta) with the newcomers (Prisa and Mediapro-Globomedia), added to the loss of market share suffered by public TV channels, has led to a concentration of the market in which these two companies account for 90% of the advertising market. These mergers have brought about considerable reductions in costs: redundancies, salary cuts, smaller investments in production and fewer foreign programmes being bought (particularly series and films). All that coupled with an ever-increasing tendency towards out-sourcing which has also served to shrink production costs.

The arrival of new operators (La Sexta and Cuatro) produced a considerable increase in production investment and inflation in sports broadcasting rights and in the costs of purchasing the rights of US products. After the economic adjustment, things have gone back to normal and the market has become rational again. Two problems have, however, been left to be resolved: in one respect, Spanish communication groups borrowed heavily and now owe a lot of money, in another the production sector has been incapable of establishing itself financially and industrially to become part of the global market. There wasn't enough time. That may be the reason why it is necessary to boost not only resources but also business size and to get away from a fabric of weak producers who are too dependent upon TV channels. It may also be necessary to give a boost: over half the population watch films on internet, but nearly 90% do so without paying for it (Infocent, 2015)

2. Regulating audiovisual production

Spanish audiovisual production is based on a regulation which encourages the channels to invest in independent production, and in a system which supports and protects the cinema industry. Traditionally, these have been the basic pillars of the Spanish industry.

The law obliges TV operators to contribute in advance to the funding of European feature films, TV films and series and documentaries and animated films and series. The figure is 5% of their company tax results from the previous year. For companies providing public audiovisual communication services which are either nationwide or regional, the figure is 6%[1]. The funding of these audiovisual projects may take the form of a direct involvement in production or in acquiring the rights to broadcast them.

Historically, public funding for Spanish cinema has come in the shape of subsidies to pay off investment. This meant that the State accounted for 15% of total box office revenue, up to a limit of 1.5 million euros per film as long as it did not exceed 50% of the cost of the film itself, or 75% of the producer's investment. In order to facilitate the entry of young directors, policies were also drawn up to help projects (before production and filming began). Similarly, there are subsidies of up to 1 million euros for projects which are significant from a cinematographic, cultural or social point of view. Subsidies of up to 30,500 euros are also given to short films.

In recent years, tax rebates for investments in audiovisual production have been the norm when it comes to attracting private capital. The producer and financial co-producer of feature films, fiction or animated series and documentaries who are of Spanish nationality receive a tax rebate which consists of a tax deduction of 20% of the cost of the film. It is applied to the Company Tax Forms in the case of companies or Income Tax Forms in the case of individuals.

In any case, all these incentives and direct financial aids for production have been insufficient because the total amount which was used for this purpose has always been scarce (depending on the year it has always varied between 80 million and 50 million euros nationally). The regions have their own system of aids but the quantities are very low – around 15 million euros altogether.

This panorama of aids for amortisation is going to undergo a radical change when the Royal Decree – Law 6/2015, which was published recently, comes into effect. It includes the introduction of a new line of pre-production aids for feature films which replaces and eliminates the aids for amortisation which had been operational until now. In practical terms, these have functioned more as guarantees for the funding of the costs of feature films than as instruments of promotion. The weaknesses of this system of amortisation have been exposed during the period of economic crisis and has underlined the structural flaws in the industrial fabric of the cinematographic industry in Spain – which has suffered the small size of its companies, the low average rate of production, its chronic under-capitalisation and, as a consequence, the high dependence on public aids and third-party funding.

It is particularly striking that public policies in Spain have had nothing to do with digital convergence and the expansion of Internet. Firstly, because there is no control of pirating and, consequently, Spain heads the lists on an international level, and secondly, because of the lack of an online distribution strategy which would allow the sector to reach markets which would have been unthinkable in the analogical era, reaching only market niches. This work has been left to private initiative and, because of the size of the companies themselves, it has been insufficient.

The problem with public policies when it comes to audiovisual production is always the dilemma between concentration and individuality, between diversity and homogenisation, and between stimulating the creation of industrial fabric with financial muscle to compete on the international stage or helping a wide base of very weak companies with no financial clout: large companies or smaller companies with greater opportunities for new creators or with fewer entry barriers to produce. In the case of the cinema this is a key factor. In the case of television production it is very similar. The tangled network of channels and production companies in few companies with the ability to compete financially, or an excessive degree of competition which makes it impossible to create a strong business fabric with higher profits and an international strategy. All of that in a society with a high digital divide which means it is necessary for public policy to maintain public television services even in the face of the tsunami of Internet.

3. The Spanish cinema industry

3.1. *The rise and fall in audience figures*

Basically, the market for video has disappeared, cinema-going is waning and cinema essentially relies on television and direct aids. Internet viewing has rocketed. Public aid, both at a national and a regional level and television investment in the cinema industry has halved, the number of people going to watch Spanish cinema has been falling, although there was an up-turn in 2014 thanks to the success of several films. In fact, the 5 most viewed films in 2014 accounted for 73% of revenue. The success rate is very low and most films do not recover their original investment. Most years, the figure for attendance at Spanish films varies between 10 and 15 million. (see table 1).

TAB. 1 – *The cinema industry in Spain 2003-2014*

	2003	2010	2011	2012	2013	2014
Spanish films produced	110	200	199	182	231	216
Spanish films premiered	108	138	147	131	158	140
Total audience figures (millions)	137.5	101.6	98.3	94.2	78.7	87.9
Cinema-goers for Spanish cinema (millions)	21.7	12.9	15.5	18.2	11	22.4
Total revenue (in millions of euro)	639.4	662.3	635.8	614	506	518.1
Share of Spanish cinema (percentage)	15.8	12.1	15.6	19.5	13.9	25.5
Subsidies ICAA (millions of euro)	55	92.4	90.8	45.9	36.9	61.8

Source: Based on data from ICAA.

Television channels invest around 90 million euros in Spanish cinema, whereas direct subsidies amount to around 60 million – one third less than before the onset of the crisis. Subsidies from regional governments currently total around 20 million euros. It is hoped that these three figures will increase in the near future as Spain reaps the benefits of economic recovery.

The cut in subsidies and investment from television channels has brought about a reduction in the number of films being produced. But even more importantly, most of the films which are being produced have a more artisanal production which rules them out of commercial arenas. According to our estimates, based on the figures from the ICAA, films produced by new producers cost, on average, 1.1 million euros – this figure is doubled for the rest of films (see Graph 1). The latter have a high standard deviation, as a third cost nearly 4 million euros, and almost two-thirds are made at a cost of just over one million euros. It is hardly surprising given that investment has been halved.

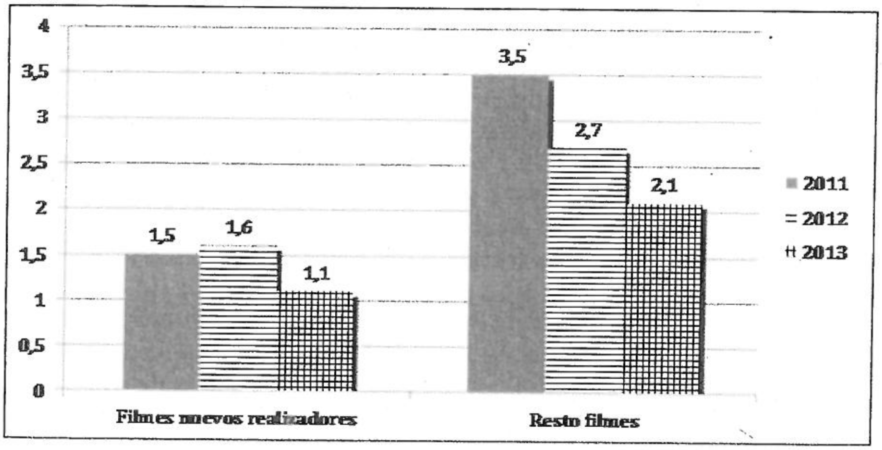

FIG. 1 – *Cost of Spanish films (2011-2013) Millions of euros*
Source: Based on figures from ICAA

Almost 25% of Spanish films never reach the cinemas. If they are never premiered in the cinema they struggle to generate enough attention on traditional media or social networks. Consequently, demand for/from platforms in the future becomes more and more scarce. Even with the ones which do manage to premier, most of them do not have any real amortisation and promotional planning.

We can highlight two contradictory trends which are a result of the mega offer of films on all platforms: on the one hand, there is a slight inflationary tendency which raises the budgets of films and series which aspire to stand out from the rest. On the other, there is a down-grading of budgets and working conditions in an audiovisual industry which is in a more and more precarious situation.

With this waning in investment it is becoming more difficult for the Spanish cinema industry to face its traditional problem of developing global distribution for all cinemas and markets. There is a spiral which is difficult to break and which a 20% tax rebate will not break – recovering any investment, given this production panorama, is highly unlikely.

3.2. Funding Spanish films

The mechanisms for funding the cinema industry may be studied as three concentric circles. In the first circle we have the films' own funding and capital which comes from co-producers who want to be part of the adventure which is film-making and be part-owners of the project from the outset. Almost 75% of Spanish cinema is funded solely by this circle, as a cooperative (consequently a large part of the filming crew will only be paid if it turns out to be a box office success), and with deferred payments to auxiliary industries, meaning that the film is financed and almost amortised on the day of the premier.

In the second circle we have public subsidies for projects or aid given by other bodies such as *Film Commissions,* which were created to promote filming in any given region. This normally comes in the shape of tax deductions for the production company and help to facilitate filming in certain locations or contracting local services. In Spain, aids for projects reach a small sub-group of films (around 30 per year), because they are only available for films – either documentaries or experimental – with particular cinematographic, cultural or social value. Either that or they involve new-comers to film-making (those who have shot fewer than three films).

In the third circle we find those companies whose activity, according to the legislator, may generate negative externalities for the cinema industry although their presence is beneficial. Basically, it refers to TV operators who may cause cinema attendance to fall by broadcasting films. TV companies are the main source of funding for European cinema, and the ones who keep it alive. A small élite of Spanish cinema – around 5% of films – depends on that income (some 75 million euros in 2012), with producers and TV companies investing heavily, in addition to considerable revenue from pre-sales to foreign markets. These films are a high risk for their producers, and they are the determining factor when establishing the market share of our films.

In order to facilitate funding along the three circumferences, the banking sector forwards the quantities which have been promised to producers by means of short-term loans. Because many players in the industry are not eligible for efficient lines of credit, politicians facilitate access to soft loans.

So the Spanish cinema industry finds itself at a difficult crossroads with resources which have been cut by half, leading to the destruction of large part of its productive fabric, and has made it even more difficult – as if that were possible – to compete with US films in both national and international markets (Pardo, 2007). Spain's autonomous regions have supported the cinema industry by means of the creation of clusters or projects – which the crisis has shown to be designed following flawed stategies. The ambitious Ciudad de la Luz project has demonstrated that in addition to good facilities and an appropriate climate, other factors are key. Other initiatives such as the Atlántico de Canarias Film Set, based on fiscal incentives, appear to reap better results.

Reality shows us that support for animated films has also failed to create a solid business fabric for production with international distribution channels. The incentives from different public administrations together with private funding have generated the odd success story which shows the way to go in order to reach a relevant percentage of revenue outside Europe.

4. Television production

In the figure 2 we can see the evolution of investment in audiovisual production of the group of television channels between 2008 and 2015. In this period, the figure has gone from 474 million to 328 million euros, which constitutes a cut of 30.8%. The economic crisis and Internet are the reasons behind this reduction.

Almost all audiovisual production in Spain is outsourced. The channels produce news programmes and live sports broadcasting, in one way or another.

We have taken audiovisual production to be production as a whole, without including the cost of news programmes, rights to sports programmes, the purchase of foreign productions (imported programmes). As such, we have considered two sections: fiction and other programmes. In the «fiction» part we have included series, films and TV-movies. In «other programmes» we have considered reality shows (more and more popular in recent years), quiz shows and talk shows. Between two large sections we have studied national production carried out by public and private channels which broadcast in the region plus regional and autonomous TV companies. Each one has differing costs as they are aimed at smaller markets or target audiences.

As can be seen, the most important section is fiction (series plus cinema). In fiction (cinema plus series) Spanish TV channels have invested 350, 249 and 247 million euros in the years 2008, 2011 and 2015. The total investment in «other programmes» was 124, 79 and 81 million euros respectively.

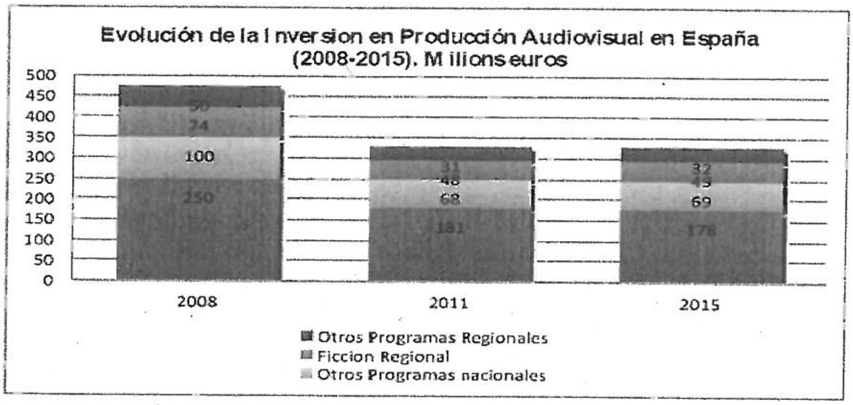

FIG. 2 – *Evolución de la inversión audiovisual en España (2008-2015) Millions euros.*
Source: Infocent 2015

Audiovisual production in Spain is supported mainly by national freeview television broadcasters. Due to their size, pay-per-view channels have not had enough revenue to finance a sustained production with the required profitability, particularly when it comes to fiction and large-scale entertainment shows.

The economic situation has affected the sector's players in different ways – the worst hit are the weakest links in the chain. Production costs have been reduced by around 20% compared to 2008 and television companies' funding formulae for production companies have become tougher. The latter have had to modify their profit margins. Nowadays, only those production companies which have reduced their overheads to less than 15% of their turnover and can generate a cash flow of at least 4 or 5 million euros – the amount necessary to cover the period between the beginning of filming and the first payments received from the television companies, have survived. The days when TV companies would provide financing during the course of the project and gross margins in the early nineties of around 40% for entertainment programmes and 25% for fiction are long gone. This new panorama has caused small producers, who despite their creativity, lack the minimum financial clout, to despair and it has also resulted in a process of concentration. Only those small-scale producers, who have a star presenter for their show or use a particular format which guarantees success, can get by.

In order to adapt to the new playing field, the production companies have had to resign themselves to the impact of this budget cut on their staff and the service companies which they hire, mainly related to technical equipment and the rent of facilities. Undoubtedly, out of the whole sector, these players are the ones who have suffered the most, particularly the ones who invested before 2008 and have not recovered the investment yet.

Currently, the costs for producing fiction vary depending on format, production design (outdoor scenes or costume dramas) and the operator (either national or regional). The estimated production cost of a fiction show which is on every day, late afternoon or early evening, from Monday to Friday is between 58,000 euro and 70,000 euro per episode. The series which run for 13 episodes are more expensive, costing between 400,000 euro and 500,000 euro per episode. Finally, miniseries, which usually run for two or three episodes, cost up to 600,000 euro or 700,000 euro per show.

Regional TV channels have fewer and fewer chances of competing with their own fiction series or entertainment shows because of their limited budget. The money which they have available to them for programmes in the prime-time slot varies considerably: from 100,000 euro to 150,000 euro in the case of the Catalan autonomous TV channel, 80,000 euro or 90,000 euro in Canal Sur, between 45,000 euro and 60,000 euro on Tele Madrid and Euskal Telebista and 30,000 euro for Televisión Canaria. Consequently, the small production companies with strong links to these channels, have been finding it more and more difficult to survive, leading to a greater concentration of audiovidual production in Spain around the cities of Madrid and Barcelona.

Currently, there are no more than a dozen production companies acting on a regular basis in Spain – working for several channels at the same time and with the resources to be able to take on any project. Most of those producers are part of transnational groups which seek to adapt international entertainment formats to the cultural tastes of each country. Some of them focus on fiction, series and films while others have sought a competitive advantage in vertical or horizontal integration.

Endemol España is the leader in audiovisual production in Spain and it is part of a group which operates in over 80 countries. For the Spanish market it produces large-scale entertainment shows which are very successful worldwide through its production companies Gestmusic and Zeppelin[2]; as far as fiction is concerned, Diagonal TV has produced series with great success for several different channels and time slots. Shine Iberia, part of the Shine Group, has followed the same business structure in the last few years adapting productions from its international portfolio. Cuarzo Producciones has also joined the Grupo Banijay which is seeking to create an international brand for production by an association of key local partners and it is backed by powerful private investors. The recent purchase of Boomerang TV, by the French company Lagardère, one of the leading production and distribution companies worldwide, is a new example of the process of internationalisation of Spanish production; Boomerang TV has been one of the most successful production companies in coping with the current crisis, experiencing great results in both fiction and entertainment[3]. Of the group of Spanish production companies which focus on the national market, the ones which stand out are: Globomedia, the most prolific company in terms of the number of series produced and shown since it was set up in 1993; Bambú Producciones, which works almost exclusively on TV fiction, cinema and documentaries[4]; and Plano a plano, which was created recently by a group of highly experienced professionals from the sector[5]. Vértice 360º, in addition to providing content, covers the whole chain of needs of today's audiovisual industry and has gone into receivership. Grupo Secuoya also opted for adding technical services and international distribution to creativity and production[6]; since it was set up in 2009, they have held onto their international vision covering any type of TV genre including news production.

They are all heavily endebted due to the DTT development and for their pro-convergence policies. They are currently without capital and directly dependent upon the TV channels. Their products are getting better and better and they see a globalisation strategy as the solution for a prolonged period of crisis in Spain.

The duopoly of private companies in the TV sector has meant that the negotiation process with production companies is so hard for them that it would be more exact to talk of production service companies rather than content-producing companies. The TV channels keep the industrial property of the work, letting out part of the broadcasting licence and have total control over creativity. As such, the main contribution of production companies is limited to the creation of new projects and the management of the human resources which are needed to carry them out. They are unable to capitalise on the success they have obtained or to undertake any project independently of the TV channel which will eventually broadcast and market it. The vision of the TV channels centred on a national market leads to content with a specific topic and duration, far removed from any international concept. We could mention specific cases of productions which have been successful beyond the national boundaries, but they are isolated and short-lived cases. For the moment, Internet is not considered a revenue-generating distribution channel.

During the crisis, there has been a concentration of TV production in Spain. The large national and international production and distribution groups, thanks to their financial capacity and global vision, have taken an interest in those production companies which have shown themselves to be competitive in the national market, in order to gain market share and benefit from the cost-quality effectiveness of the Spanish producers.

5. By way of conclusion

The audiovisual production industry in Spain is similar in some ways to the rest of its European counterparts: well-received by the domestic market but difficult to gain success abroad. The engines behind it are TV advertising and the resources it receives from the State through public channels and direct aid for Spanish film-making.

The decades of sustained economic growth meant it was possible to create an important industrial fabric around a dozen or so competitive producers which tried to turn themselves into channels to be more efficient, taking the leap onto the international stage and tackling the challenge of convergence. The crisis tore those dreams to shreds but a highly positive business culture did survive and it will rise again. The investment by TV channels in audiovisual production has gone from 474 million to 328 million euros between 2008 and 2015. In technical terms television in Spain has improved considerably pushed on by digital technology and creative capacity. Small-scale producers who are staring oblivion in the face as a result of the current recession live off these dozen or so companies.

The production of Spanish fiction series has proved to be competitive in the prime-time slot against other imported productions and other types of programmes. As such it has become one of the pillars of the general TV companies and something which sets it apart from the rest of programmes on offer. Unlike what happened with Spanish cinema, which has a minority audience, series have been able to adapt to the new programming needs of the TV channels in terms of both duration and production design. The relation between production quality and costs has facilitated the return of series to the evening slot Monday to Friday, and miniseries have been very useful in the face of programming adjustments.

There are two sides to Spanish film-making. On one hand, there are producers who sense the need to increase their production budgets to be able to compete successfully with US film-makers and their distribution-promotion. On the other, there are those companies which have applied so many cuts that they have virtually ruled themselves out of international markets. Some 200 productions are filmed every year, but 30% are neither premiered in cinemas nor shown on television. Despite this duality and the halving of investment, in the last few years some successful films have been made which shows that there is talent and ability, even though total investment in cinema amounts to only 150 million euros. As always, the Spanish cinema industry depends on television companies and Central Government, in that order. Internet has not generated additional revenue and neither has it served to solve the problem of Spanish cinema's Achilles heel: international distribution.

Both television and cinema production are heavily concentrated, but the level of competition is high. There are many small producers that are working under precarious circumstances and can barely compete with larger producers because their costs are so low.

The television production sector in Spain is at a crossroads between the broadcasting model and the emerging webcasting model. The large production companies, which often have close links to the TV channels, are in a process of being incorporated into the large worldwide audiovisual groups thus guaranteeing their global distribution and allowing them a certain financial independence to survive in the market. Compared to other neighbouring countries, the cost-quality ratio of Spanish television production means it is competitive. The arrival of Telefónica on pay-per-view television business, given its financial capacity for investment, may lead to new, more international creative lines and take the commercial freeview television companies out of the limelight. The transition to other platforms seeking new ways to be profitable, taking advantage of the potential of Internet is being carried out well.

Notes

[1] General Law of Audiovisual Communication, Law 7/2010, 31st of March.

[2] Bought by Endemol in 1994 and 1997 respectively.

[3] Especially in fiction with series like *Tiempo entre costuras, Los Misterios de Laura* or el *Secreto de Puenteviejo.* In entertainment, La Voz, Top Chef or Pekín Express are the most successful productions.

[4] Production company for series like *Velvet, Gran Hotel, Gran Reserva* or *Hispania.*

[5] Despite its recent creation, the series *El Principe* and *Allí Abajo* have had good results.

[6] 200 clients worldwide, owning 25 formats and having produced over 700 hours of broadcasting.

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