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# Foreword

Long before I took up my role as President of the UK trade organisation, Film Distributors' Association, I had a close understanding of the distribution sector's unique and pivotal contribution to the film industry. Throughout my career as a film producer I've worked with many distributors, both studio-backed and independent, to bring the movies I've produced to audiences in the UK and around the world.

Film distribution companies are relatively high fixed-cost, high-risk enterprises. Their margins are being squeezed ever tighter as ever increasing media choices fragment audiences further and further. It's abundantly clear to me that, in today's super-abundant digital era, the skills needed to 'cut through' and connect high-quality entertainment with audiences on a viable and sustainable basis are essential if the industry is to maintain let alone develop its place at the heart of the UK's vibrant creative industries.

And of course it's only when films are experienced by audiences that they come to realise their potential; distributors being the arm of the industry that most greatly influences the depth and breadth of access to movies.

This new analysis is rigorously evidence-based, avoiding speculative or excessive claims; whilst also being admirably comprehensive. It takes you methodically through the economic activity generated by film distributors, detailing their direct and indirect impacts, arriving at some impressive yet wholly realistic conclusions. More than that, it sets the figures clearly in the context of how film distribution actually works in the competitive theatrical sector and beyond into the rapidly extending value chain.

To the best of my knowledge no such analysis, focused on the UK film distribution business, has ever been compiled before. The sector is adept at marketing, promotion and partnerships (launching over 700 feature films every year), but for obvious reasons has always ducked what could be interpreted as self-publicity.

2015 is however a special year, marking an important centenary: it was back in 1915 that the ambitious albeit fledgling companies specialising for the first time in the distribution of stories on film – separately from the fast spreading cinématographe machines – formed their own trade body, the Kinematograph Renters' Society.

On behalf of today's incarnation, Film Distributors' Association, I am delighted to commend this very timely economic impact analysis for your interest and delight.

**Lord Puttnam of Queensgate, CBE**

FDA President

# Key points

Data collected from the Office for National Statistics (ONS), Companies House and a survey of film distribution companies indicates that in 2013 the film distribution sector had a turnover of £1.2 billion, and generated 3,100 full-time equivalents (FTEs) of direct employment as well as £356 million in direct gross value added (GVA). Through its direct economic impact, the UK's film distribution sector also generated an estimated £132 million in export revenue for the UK economy.

**Marketing and promotions:** Film distribution companies spent an estimated £330 million on the marketing and promotion of films in 2013<sup>1</sup>. This total included £177 million on the placement of advertising in television, print, radio, outdoor, online and other media and a further £153 million on a variety of other types of promotional activities, including film trailers, festival events, premieres, talent tours and publicity junkets.

**Multiplier effects:** A GVA multiplier of 2.30 was applied to the film distribution sector's direct GVA impact of £356 million to derive an estimate of £463 million for multiplier effects GVA. The multiplier effects generated by film distribution sector also generated 8,000 FTEs of employment in other supplier industries, including the advertising, professional services and transportation industries, to name just a few.

**Total economic impact (direct impact + multiplier effects):** On a combined basis, the direct impact and multiplier effects associated with the film distribution sector generated a total economic impact of 11,100 FTEs in employment and £819 million in GVA.

**Tax revenue:** The economic activity generated by the film distribution sector through both its direct and multiplier effects yielded an estimated £190 million in tax revenue for the UK government in 2013, including Income Tax, National Insurance, VAT, Corporation Tax and Council Tax.

**Wider economic impacts:** The theatrical film distribution sector is, in many respects, the lynchpin of the entire film sector value chain: it links creators and the production of films with consumers. For this reason, to understand the full scope of the economic impact of the film distribution sector in the UK, it is important to examine the wider economic impact it has by enabling film production as well as consumers' engagement with film content. The magnitude of this wider economic impact is summarised in Figure 1 (page 4) and includes the employment, GVA, exports and tax revenue generated by US studio production, independent production in the UK, cinema exhibition, viewing of films on TV and home entertainment platforms, and the sale of film-related merchandise in the UK.

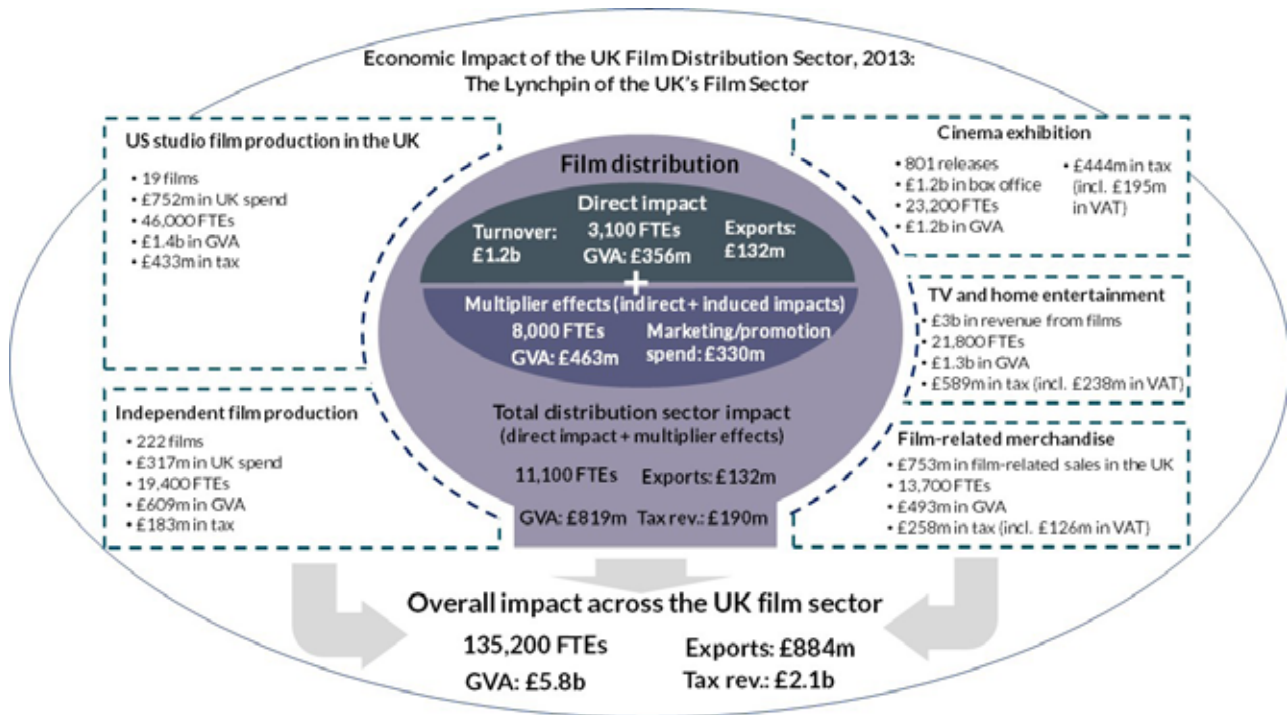
**Exports:** Through its direct and wider economic impacts, the film distribution sector also has a positive impact on the UK's export position. Many multinational film distribution companies use the UK as the hub for their European operations and so earn export revenue from the sale of film distribution services to other countries. Many of these same companies are also part of vertically integrated media companies which produce US studio films within the UK. This inward investment film production also represents the export of production services to a foreign country. Altogether, through these two channels, the film distribution sector generated £884 million in exports for the UK economy in 2013.

**Overall economic impact:** When viewed as the lynchpin of the film sector in the UK, film distribution was responsible for creating an estimated 135,200 FTEs of employment in 2013. It was also responsible for generating £5.8 billion in GVA for the UK economy, £884 million in exports and nearly £2.1 billion in tax revenue. By several measures, therefore, the theatrical distribution sector makes an important contribution to the UK economy.

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1. Film Distributors' Association (2015), Film Distributors' Association Yearbook 2015, p. 16.

Figure 1 Summary of overall economic impact of film distribution in the UK, 2013



Source: Saffery Champness / Nordicity estimates based on data from FDA, BFI, ONS, ABS, IDBR, Rentrak, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

# Executive summary

At a time of scarce public sector resources, both in the UK and in Europe, and more and more competition for those funds, it is increasingly important that the economic contribution made by the film distribution sector is fully recognised.

This report is the first ever to provide a comprehensive estimate of the economic contribution that the film distribution sector makes to the UK economy. We have done this by adapting established economic methodologies to measure the two key components of economic impact:

- (i) direct impact (resulting from the increase in employment and GVA within film distribution companies), and
- (ii) multiplier effects, including the indirect impact (resulting from the goods and services purchased by film distribution companies) and the induced impact (resulting from re-spending of income earned by employees of film distribution companies and their suppliers).

We also examine the wider economic contribution associated with the role that film distributors play within the larger film sector ecosystem.

## Direct economic impact:

Data collected from ONS, Companies House and a survey of film distribution companies indicates that the film distribution sector generated 3,100 FTEs of direct employment in 2013 as well as £356 million in direct GVA (Table 1). Through its direct economic impact, the UK's film distribution sector also generated an estimated £132 million in export revenue for the UK economy in 2013.

Table 1 Summary of direct economic impact of theatrical distribution sector in the UK, 2013

	Direct economic impact
Employment (FTEs)	3,100
GVA (£m)	356
Exports (£m)	132

Source: Saffery Champness / Nordicity estimates based on data from IDBR, ABS, Companies House and Olsberg-SPI/Nordicity (2015).

## Multiplier effects:

Through the purchase of goods and services from other sectors of the UK economy, namely the advertising sector, the film distribution sector also had a significant multiplier effect. These multiplier effects yielded a further 8,000 FTEs of employment and £463 million in GVA in 2013. When these multiplier effects are added to the direct economic impact, we find that the total economic impact of film distribution companies in 2013 resulted in 11,100 FTEs of employment and £819 million in GVA.

Table 2 Summary of economic impact of film distribution sector, 2013

	Employment (FTEs)	GVA (£m)	Tax revenue (£m)
Direct impact	3,100	356	67
Multiplier effects	8,000	463	123
<b>Total economic impact</b>	<b>11,100</b>	<b>819</b>	<b>190</b>

Source: Saffery Champness / Nordicity estimates based on data from BFI, ONS, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

The economic activity generated by the film distribution sector through both its direct and multiplier effects also yielded an estimated £190 million in tax revenue for the UK government in 2013, including Income Tax, National Insurance, VAT (on induced impact consumption), Corporation Tax and Council Tax.

However this is only part of the picture.

## Role of film distributors in the film sector ecosystem

The role of the film distributor is often described but not always understood. Whilst this report concentrates itself on the economic contribution generated by those companies, there are some additional points that deserve to be amplified in order to truly understand the full contribution of theatrical film distribution.

The UK film distribution sector is made up of a mixture of multinational corporations, medium-sized companies and specialist niche/genre driven businesses, each operating within a particular area of the sector.

A distributor is a risk-taker. A distributor will be the first (and sometimes the last) commercial contributor to a feature film's production budget. A distributor's skill is to identify the commercial potential of a feature film at an early stage, sometimes before a script has been completed and a cast assembled, and then to put their money where their judgement is.

In addition, the distributor is not only risking their money to fund the production of a film, they are also explicitly promising to put even more funding into the marketing, promotion and other costs associated with the actual distribution of a film. For the larger releases, predominantly undertaken by the US studios, this could mean committing tens of millions of pounds. All this without a guarantee of a commercial return.

Distributors are also innovators. They drive change in how films are seen and marketed. For example, distributors have been the major financial contributors (via the virtual print fee) to the digital conversion of the UK's cinema exhibition sector. The benefits of the change to digital exhibition have not only been felt by the distributor but more so by the cinema owners and the audiences, who can now experience a much broader range of screen content – ranging from live theatre to sporting events.

In many respects, therefore, the film distribution sector acts as the lynchpin of the entire film sector value chain: it links creators and the production of films with consumers. For this reason, to understand the full scope of the economic impact of the film distribution sector in the UK, it is important to examine the wider impact it has by enabling film production as well as consumers' engagement with film content.

## Wider economic impact of film distributors

A large part of the wider economic impact is associated with the content investments made by the production arms of distribution companies. US studio production in 2013 generated an estimated 46,000 FTEs of employment and over £1.4 billion in GVA for the UK economy (including direct impact and multiplier effects). In addition, independent film production in the UK in 2013 generated an estimated 19,400 FTEs of employment and £609 million in GVA for the UK economy. The total economic activity generated by US studio and independent production yielded estimated tax revenues of £433 million and £183 million, respectively.

On the consumer engagement side, film distributors not only spearhead and fund the marketing and promotion of films, but also manage the all-important windowing of film content across different platforms. The distribution of film content into UK cinemas, for example, enables those cinemas to employ thousands of Britons, and creates additional economic activity. In 2013, the cinema exhibition sector directly employed over 19,000 persons in the UK, and through its multiplier effects, generated a total of 23,200 FTEs of employment, £1.2 billion in GVA and £444 million in tax revenue. Similarly, the distribution of films on television, in DVD/Blu-ray format, or via video on demand (VoD) services was a source of employment and economic activity, particularly in the television broadcasting sector. All told, the market for films on UK television and home entertainment platforms was worth an estimated £3 billion in revenue in 2013 and generated 21,800 FTEs of employment, £1.3 billion in GVA and £589 million in tax revenue.

Finally, we note that film distribution companies' role in the management of character licensing means that they also enabled an estimated £753 million in film-related merchandise sales in the UK in 2013. This retail activity generated 13,700 FTEs of employment, £493 million in GVA and £260 million in tax revenue.

By combining the core sectoral impact – generated by distribution companies through their direct impacts and multiplier effects – and the wider economic impacts of film distribution, we obtain a much better picture of the overall economic impact of film distribution in the UK. When viewed as the lynchpin of the film sector in the UK, film distribution was responsible for creating an estimated 135,200 FTEs of employment in 2013. It was also responsible for generating £5.8 billion in GVA for the UK economy, £884 million in exports and nearly £2.1 billion in tax revenue. By several measures, therefore, the theatrical distribution sector makes an important contribution to the UK economy.

Figure 2 Summary of overall economic impact of film distribution in the UK, 2013



Source: Saffery Champness / Nordicity estimates based on data from FDA, BFI, ONS, ABS, IDBR, Rentrak, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).



# 1 Introduction

Theatrical film distribution is a sophisticated, competitive and dynamic business that depends on the distributor's ability to source product and the extent to which an audience will connect with it.

Distributors negotiate for a variety of intellectual property (IP) rights to enable them to exploit the films on multiple technologies/platforms and/or territories over a specified period of time. Professional film distribution requires substantial investments for both product acquisition and bringing completed titles to market, and distributors have to carry all of the commercial risks for each film released in their territory. This demands the marketing expertise to work within a specific national context where the competitive landscape, cultural sensibilities and seasonal considerations such as holiday dates and customs, may vary considerably from one territory to the next. Localised publicity, advertising and marketing strategies are always required. The established business model adapted over many years has resulted in a vibrant audiovisual sector achieving a significant level of cultural diversity in the UK, across the European film markets and beyond.

A film's success is (and always has been) gauged by its level of engagement with audiences and this is first measured by its success on cinema screens. We are all familiar with news stories extolling record-breaking box office receipts and/or admissions in the US, UK or international markets. However, for distributors there is a long and costly journey for a film before it reaches the cinema screen, one which continues for a considerable time afterwards.

Distributors have to source films for release and this is either done by negotiating rights as production partners or as acquisitions (at varying stages of completion), reflecting different levels of investment. This will require them to predict what people will want to see at some point in the future, given a strong likelihood that audience tastes will have changed. Distributors are frequently involved in the development process and production decisions of the films that they invest in for release, as they are often best-placed to correctly identify the potential audience for any project and the best ways to reach them. The business model requires distributors to predict the revenue potential across all formats of release at some future point, in order to assess how much they can afford to invest in the high-stakes gamble of bringing the project to market.

Where the numbers work, distributors are then faced with the task of persuading the cinema operators to play the film in a heavily congested market. In 2014 over 700 films fought for screen time at UK cinemas. But how do people get to know about the range of films on offer, or coming soon, in the first place? How do they come to feel they want to see particular films and go to the cinema to do so? Distribution marketing teams are tasked with what is effectively launching a series of prototypes in the market; requiring them to create specific strategies, events and partnerships tailored to create and build awareness for each release. In terms of theatrical releasing alone, UK film distributors spend around £300 million a year on bringing new releases to market, and building awareness and interest among audiences. It's a fast-moving, highly competitive, high-stakes business.

## 1.1 Background

Theatrical films have been an important part of British culture since the late nineteenth century. On the eve of World War One in 1914, picture houses had become common in almost every town across the UK. Feature-length films had also started to appear on the scene at this time, supplementing (and eventually replacing) the newsreels and travelogues, which were the prominent content in these early years.

As the film sector coalesced in the pre-war years, so too did the need to better understand audiences and create and distribute theatrical content that those audiences would find entertaining. Film distributors stepped forward to take on this important role and help ensure that the hundreds of picture houses across the UK could become cultural hubs for their local communities. In 1915, the distributors of what were then called moving pictures formed a trade association. This trade association was originally called the Kinematograph Renters' Society, but was subsequently renamed the Film Distributors' Association (FDA).

Over the past 100 years, FDA has been the common voice for the UK's theatrical film distributors – companies that have played a vital role in linking film content with audiences. FDA has been at the forefront of helping to ensure that the entire film sector – from production through exhibition – remains an important part of the UK's vibrant creative industries.

In recent years, economic impact reports have become a vital cornerstone of demonstrating the value of a particular part of the economy. At a time of scarce public sector resources, both in the UK and in Europe, and more and more competition for those funds, it is very important for the film distribution sector to ensure that key decision makers are fully aware of the contribution it makes.

With that in mind, FDA has commissioned Saffery Champness and Nordicity to prepare the following report on the economic impact of the film distribution sector in the UK. The report provides the first-ever estimate of the film distribution sector's contribution to the UK economy in terms of employment, GVA and tax revenue. The report quantifies the employment, GVA and tax revenue generated by film distribution companies themselves, as well as the export revenue that many of these companies bring into the UK through the distribution services they provide in other European countries.

Importantly, the report also adopts a framework that recognises the role that film distributors play as lynchpins within the broader film sector. In this regard, this report also documents the economic activity generated by other segments of the film sector ecosystem, including production and cinema exhibition, even if 100% of that economic activity cannot be directly attributed to film distribution, per se.

As the first-ever analysis of film distributors' contribution to the UK economy, this report has been prepared for a broad audience, including other film sector stakeholders, parliamentarians, policymakers, news media, researchers and the general public. In this regard, the report includes a description of the role and business activities of film distributors and how this relates to the rest of the film sector and generates an economic impact.

## **1.2 Film distribution**

Film distribution is a high-risk business, since just a small number of titles will make a profit for all parties involved, while most films lose money on their theatrical run. A greater number of films will however recoup their costs when revenues from DVD/Blu-ray, VoD, television (free and pay) and other ancillary sources are taken into account. The task facing film distributors, therefore, is to seek to ensure that they have a sufficiently broad spread of titles in their portfolio so that the profits from the successful films outweigh the losses incurred on unsuccessful ones.

There are two principal types of film distributor: the US studios and independent distribution companies. The US studios include the six Hollywood majors, which are vertically integrated and operate on a global basis; they are active in development, production and distribution. In this structure, the money they earn from distributing their films helps to finance their future productions. The risk is spread across a broad portfolio of films.

Independent distributors do not usually have integrated production arms and tend to operate in one country or, in some cases, a small handful of countries. They invest in, or acquire films from independent producers. They may make equity investments in those films, or simply acquire by way of licence the rights to distribute the films for a period of time; typically for an initial period of 15-20 years. These rights may be acquired before the film is made or once it is completed. The film portfolios held by independent distribution companies tend to be smaller than those of the US studios.

FDA's membership includes both the US studios and several of the leading independent distribution companies operating in the UK. A full list of FDA members can be found at Appendix A.

Since every film involves a different combination of elements, the distribution and marketing of individual films cannot rely only on consumer preferences for known and particular ingredients. However, there is often a strong desire on the part of the audience to see a film because of particular names (i.e. the actors or the director) as well as the appeal of the story itself.

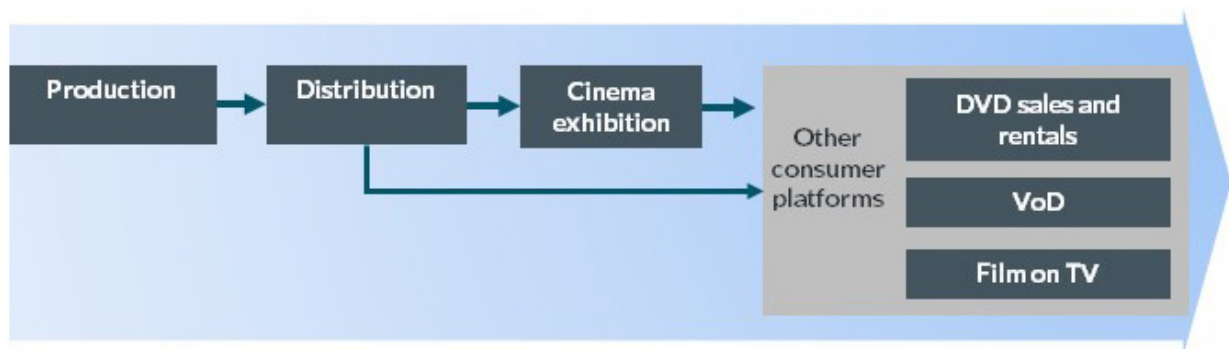
The film distributor cannot rely on the country of origin of the film as a selling point. In contrast to many other businesses, the name of the supplier (i.e. the distributor) is usually irrelevant to the marketing process and the focus is on the individual film as a distinctive product.

The initial task for the film distributor therefore is to define the target audience for a film and then to create and sustain awareness of that film by the target audience, so that it knows that the film is being released, and has some idea of its most appealing elements. This awareness then has to be translated into the desire to see the film.

The awareness of the film is created initially through advertising across various media, reviews and then, once it is released, by “word of mouth” (i.e. the desire to see the film is stimulated by personal recommendation, for example on social media). Word of mouth is a very powerful factor in determining the success of the film at the cinema and consequently in other media. Even if a film opens strongly, poor or negative word of mouth is likely to kill any long-term box office success. Once the film has opened, the distributor can ascertain very quickly from the box-office results if it has been successful with its target audience. During the second week of release, the percentage drop in admissions will be a crucial indicator of the film’s likely playing time; the steeper the drop, the shorter the period for which the exhibitor is likely to want to play the film. Few films have the luxury of being able to grow popular with time.

After the film plays in the cinema, it will then be distributed in subsequent media, such as DVD/Blu-ray, VoD and television (pay and free). All this comes at a cost, the cost of awareness.

Figure 3 Film sector value chain



### 1.3 Study scope

The scope of this study includes the economic activities of all film distributors operating in the UK, including both FDA members and non-members. It covers both companies with UK ownership as well as multinational companies operating out of the UK and using it as a hub for distribution operations.

- Through their UK activities, film distributors have an economic impact via their expenditure on UK content, investment in people, operational costs and services.
- FDA members include UK and non-UK companies who are utilising the UK as a hub both for their international operations and for acquiring content for other markets.
- For non-UK members operating in the UK, cash expenditure and wage costs are included as contributions to the UK economy.
- Where an acquisition has been made by a film distributor of UK content that is not for theatrical exhibition in the UK this has still been measured.

As noted above, because film distributors are, in many respects, the lynchpins in the film process, this report also considers the economic contribution within the UK from the production of films, including both US studio films and independent films.

The study also considers the economic contribution arising from various content-release windows and platforms, including cinema exhibition, television and home entertainment platforms. It also examines the economic contribution from the sale of film-related merchandise – an activity that is ultimately enabled, in many cases, by film distributors’ licensing of films’ IP.

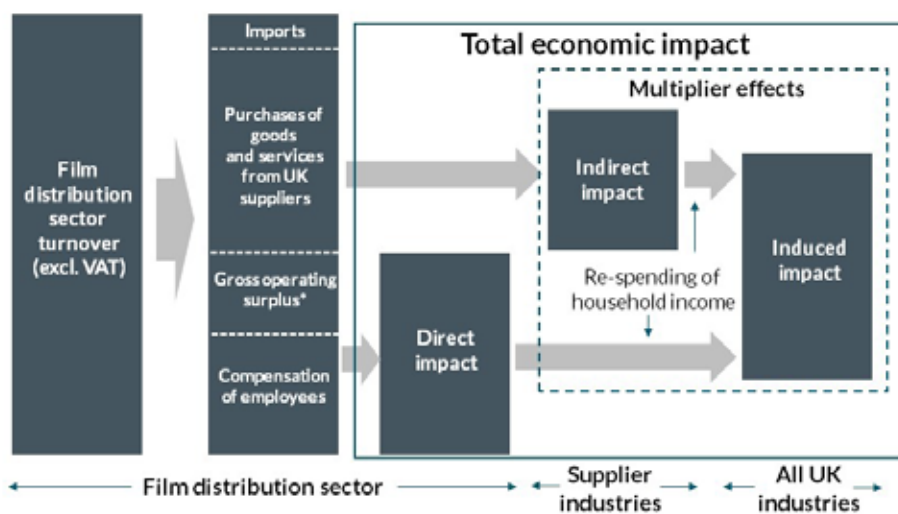
## 1.4 Methodology and data sources

This report adheres to approaches used in similar work conducted by Nordicity, Olsberg-SPI, Oxford Economics and Frontier Economics. In that regard, it estimates the following three stages of economic impact for the theatrical distribution sector:

- **Direct impact:** This is the impact associated with the employment and GVA generated directly within film distribution companies, as well as the tax revenue yielded by this economic activity.
- **Indirect impact:** This is the impact generated in film distribution companies' immediate supply chain as a result of their procurement of goods and services. It includes the increase in employment and GVA of suppliers as well as the tax revenue yielded by the incremental economic activity, and is often estimated by applying relevant multipliers to the direct impact numbers.
- **Induced impact:** This is impact that occurs when film distribution companies' employees and employees in the immediate supply chain re-spend their income on purchases of consumer goods and services in the UK. It is also often estimated by applying relevant multipliers to the direct impact numbers.

These three stages of economic impact constitute the total employment and GVA impact for the UK economy as a result of the activity of film distribution companies. Since most of the economic multipliers applied to the film sector in the UK combine elements of the indirect and induced impacts, this study only separately reports direct impact and multiplier effects – the latter of which combines the indirect and induced impacts.

Figure 4 Overview of stages of economic impact



\* Includes mixed income and operating profits.

Note: To simplify the diagram and analysis, net taxes on production (eg. business rates less any subsidies received) have been ignored.

**Exports:** The film distribution sector can also have a positive impact on the UK's export position in two respects. Firstly, because many film distribution companies are part of vertically integrated media companies, when the production arms of these companies produce films within the UK it represents an export sale of production services to a foreign company. Second, many global distribution companies based in the UK use it as the hub for their European operations. In this regard, the UK-resident subsidiaries sell film distribution services into other countries and thereby bring foreign receipts back into the UK. This study quantifies the value of this export impact, of the film distribution sector.

**Data sources:** In order to examine such a specific area of activity as UK theatrical distribution this study has drawn on key economic data collected directly through a survey of FDA members. This survey data has been supplemented by additional data from the British Film Institute (BFI), ONS and Companies House. Parts of the economic impact analysis also draw upon audience or consumer data. This data has been republished by FDA or BFI, but was originally collected or compiled by Rentrak.

**Baseline year of analysis:** This study presents estimates of the film distribution sector's economic impact in 2013. Whilst certain data and statistics are available from BFI, ONS and Companies House for 2014, 2013 represents the most recent year for which comprehensive economic data for the film distribution sector and wider film sector could be compiled.

## 2 Economic impact: film distribution sector

In the following section, we present estimates of the economic impact of the film distribution sector in 2013. We examine the direct economic impact and multiplier effects, and the sum of these two components of the economic impact to arrive an estimate of the sector’s total economic impact.

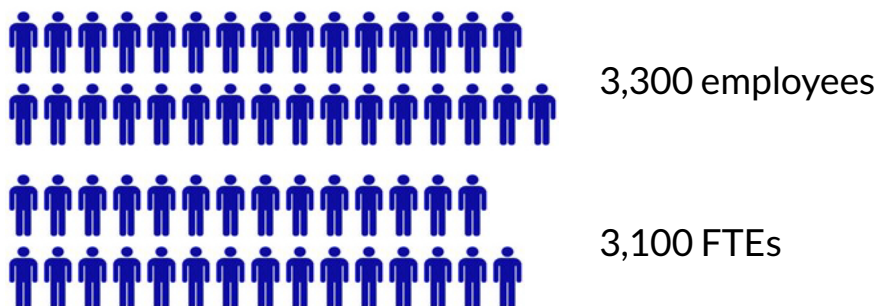
### 2.1 Direct impact

The direct economic impact of film distributors in the UK includes the employment and economic activity that takes place directly within the motion picture distribution sector (i.e. SIC 59.13/1) as defined by ONS, or put another way, within the legal entities comprising film distribution companies. In this sub-section, we present estimates of the direct economic impact of the film distribution sector in the UK.

#### 2.1.1 Employment

Although many of the largest film distribution companies operating in the UK are part of vertically integrated multinational media companies, they employ large workforces in the UK. Film distribution companies are engaged in a variety of activities related to the licensing and promotion of films both in the UK and other European countries. According to statistics from the Inter-Departmental Business Register (IDBR), film distribution companies operating in the UK employed 3,300 persons in 2013. Historical research of the share of employees in full-time and part-time positions in the film distribution sector suggests that these 3,300 employees translated into the employment of 3,100 FTEs in 2013<sup>2</sup>.

Figure 5 Direct impact employment, 2013



Source: Saffery Champness / Nordicity estimates based on data from IDBR and ONS.

It is worth pointing out that whilst we have distilled the employment numbers to arrive at a FTE figure, it is undoubtedly the case that 3,300 persons, including some part-time employees, have more impact on the economy than 3,100 FTEs. This is because 3,300 persons are, in effect, supporting 3,300 families rather than only 3,100.

#### 2.1.2 GVA

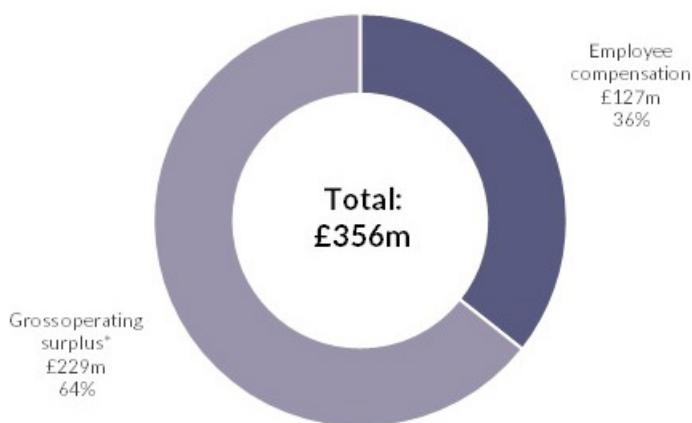
GVA essentially represents the difference between the value of a sector’s output and the inputs it purchases from other industries. In the film distribution sector, there are two key sources of GVA: (i) employee compensation and (ii) gross operating surplus. Employee compensation includes wages, salaries and employment benefits paid to the film distribution

2. A custom tabulation of employment data from the Business Register and Employment Survey (BRES) for SIC 59.13/1 *Motion picture distribution activities* indicated that full-time employees accounted for approximately 88% of the total number of employees in 2012. If part-time employees – who accounted for 12% of total employment – are assumed to be equivalent to 0.5 FTEs, then the total numbers of FTEs employed in the film distribution sector would be equivalent to 94% of the number of persons employed in the sector ( $12\% \times 0.5 \text{ FTEs} + 12\% \times 1.0 \text{ FTEs} = 0.94 \text{ FTEs}$ ).

companies' employees in the UK and therefore represents the monetary value of their EVA added. The gross operating surplus is essentially equal to the operating margin that film distributors earn on the distribution of film content in the UK and therefore represents part of the return earned by rights holders. Where relevant, gross operating surplus also includes income earned by sole proprietors (i.e. mixed income) and capital consumption (i.e. the depreciation of fixed assets).

According to the Annual Business Survey (ABS), the film distribution sector in the UK generated £356 million in direct impact GVA in 2013. This direct impact GVA consisted of £127 million in employee compensation and an estimated £229 million in gross operating surplus.

Figure 6 Direct impact GVA, 2013



Source: Saffery Champness / Nordicity estimates based on data from IDBR, ABS, Companies House and Olsberg-SPI/Nordicity (2015).

\* Includes mixed income and operating profits.

Note: To simplify the diagram and analysis, net taxes on production (eg. business rates less any subsidies received) have been ignored.

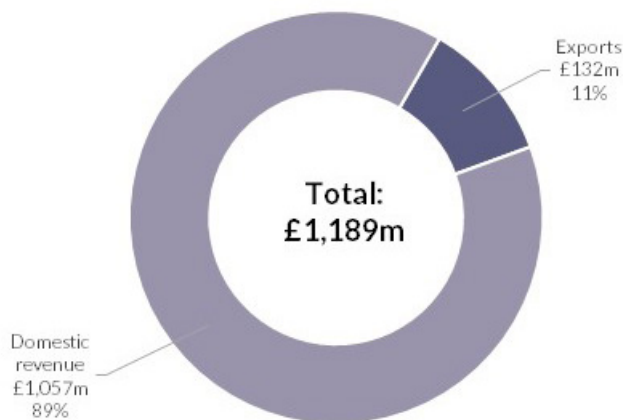
### 2.1.3 Exports

As discussed in Section 1, the film distribution companies are also a source of exports for the UK economy. These exports arise from two sources. When independent UK-owned distributors license content to distributors or exhibitors in other countries, they receive licence fees or rentals, which represent foreign receipts or exports.

Multinational film distribution companies also generate exports for the UK when they facilitate the distribution of US studio films to other countries, particularly in Europe. When film distribution companies based in the UK manage the licensing and promotion of their films in other European countries, they are essentially selling distribution services to businesses and consumers in those countries. In effect, they are selling their film-distribution expertise to the exhibition markets in those countries, and in this regard the UK has become a regional hub or entrepôt for global film distributors' European operations.

Data collected from Companies House accounts for a sample of UK-based film distribution companies indicates that the sector earned an estimated £132 million in revenue from outside the UK in 2013. These export revenues represented 11% of sector's total turnover of £1,189 million and 36% of its direct impact GVA of £365 million.

Figure 7 Geographic source of distribution sector revenue, 2013



Source: Saffery Champness / Nordicity estimates based on data from Companies House and survey of FDA members.

## 2.1.4 Summary

Data collected from ONS, Companies House and a survey of film distribution companies indicates that the film distribution sector generated 3,100 FTEs of direct employment in 2013 as well as £356 million in direct GVA (Table 3). Through its direct economic impact, the UK's film distribution sector also generated an estimated £132 million in export revenue for the UK economy in 2013.

## 2.2 Multiplier effects (indirect + induced impacts)

The film distribution sector's economic impact is not confined to its direct economic impact. Through its purchases of goods and services from other industries within the UK economy, the film distribution sector generates an indirect economic impact. Furthermore, when British workers employed by film distribution companies and their suppliers spend their compensation, they generate induced impacts. Together, these two impacts comprise the multiplier effects. In this subsection, we provide estimates of these multiplier effects.

### 2.2.1 Marketing and promotion

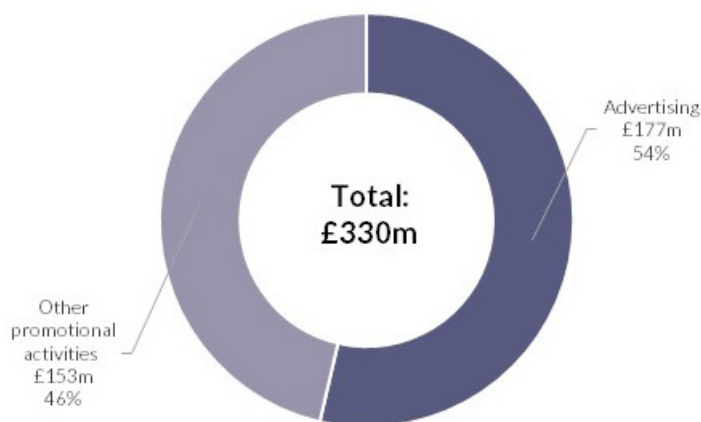
The largest indirect impact of the film distribution sector – and thereby the largest source of multiplier effects – comes from film distribution companies' expenditures on the marketing and promotion of films in the UK. Film distribution companies spent an estimated £330 million on the marketing and promotion of films in 2013<sup>3</sup>. This total included £177 million on the placement of advertising in television, print, radio, outdoor, online and other media.

In addition to advertising, film distribution companies also fund a variety of other types of promotional activities, including film trailers, festival events, premieres, talent tours and publicity junkets. The FDA estimates that film distribution companies spent £153 million in the UK on these other forms of film promotion in 2013.

All of this expenditure on marketing and promotion raises income levels and employment in the UK advertising industry as well as the other industries that provide many of the services and assets for marketing and promotion.

3. Film Distributors' Association Yearbook (2015), p. 16.

Figure 8 Film distribution companies' marketing and promotion expenditures, 2013

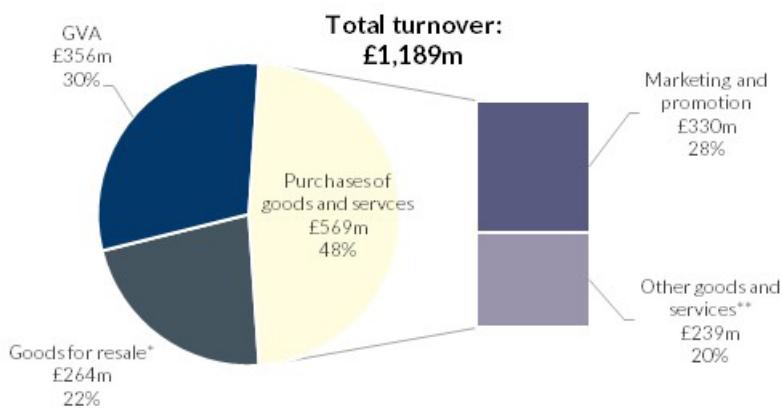


Source: Saffery Champness / Nordicity estimates based on data from FDA.

### 2.2.2 Other supply chain impacts

Marketing and promotion, collectively, represents the largest source of indirect impact and multiplier effects for the film distribution sector. However, film distribution companies in the UK are also big users of other types of business services. Statistics from the ABS indicate that film distributors spent a total of £569 million on the purchase of goods and services (other than goods for resale). This total included the £330 million spent on the marketing and promotion of films (as discussed in the previous sub-section) and additional £239 million spend in other goods services, such as legal and accounting services, real estate, telecommunications and travel. With some £569 million in expenditures on goods and services, approximately 48% of film distributors' 2013 turnover of £1,189 million was re-spent within the UK economy on the purchases of goods and services.

Figure 9 Allocation of film distribution sector turnover and supply chain impacts



Source: Saffery Champness / Nordicity estimates based on data from ONS and FDA.

\* Includes the acquisition of screen content for licensing.

\*\* Includes expenditures on legal and accounting services, real estate, telecommunications, travel and other goods and services.



### 2.2.3 GVA and employment

To estimate the employment and GVA associated with multiplier effects, we applied the multiplier of 2.3 derived for the film distribution sector in Economic Contribution of the UK’s Film, High-End TV, Video Game, and Animation Programming Sectors (see Appendix B for discussion of the derivation of this multiplier)<sup>4</sup>.

This multiplier of 2.3 was applied to the direct GVA impact of £356 million to derive an estimate of £463 million for multiplier effects on GVA. A wage-to-GVA ratio of 0.54 and an average economy-wide full-time salary of £31,382 were then used to derive an estimate of 8,000 FTEs in multiplier effects on employment. These multiplier effects brought the total economic impact of the film distribution sector in the UK in 2013 to £819 million in GVA and 11,100 FTEs in employment (Table 3).

Table 3 Calculation of GVA and employment multiplier effects for film distribution sector, 2013

	GVA (£m)	Employment (FTEs)
Direct impact	356	3,100
Multiplier effects	463	8,000
<b>Total economic impact</b>	<b>819</b>	<b>11,100</b>

Source: Saffery Champness / Nordicity estimates based on data from ONS, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

It is important to note that the GVA and employment associated with the film distribution sector’s multiplier effects only include the economic activity at upstream suppliers to film distribution companies – i.e. those UK-based companies that supply goods and services to film distribution companies. It does not include sectors or companies located downstream from film distribution companies – e.g. cinemas – which generate economic activity by adding value to the output of film distribution companies. It also excludes the economic activity associated with the production of film content. Both production and exhibition of films constitute the wider economic impacts associated with film distribution, which are discussed in Section 3.

### 2.2.4 Tax revenue

A bespoke tax revenue model was used to estimate the total tax revenue associated with the economic impact of the film distribution sector. This model uses average salary statistics to estimate the Income Tax and National Insurance paid by direct workers. It also estimates the VAT and Council Tax that a worker on an average salary would likely pay and makes an allowance for the estimated level of corporation tax.

To estimate the tax revenue associated with the direct impact of the film distribution sector, an average salary of £38,845 was used in the model. A review of the Companies House filings of the largest film distribution companies in the UK was used to derive an estimate of the Corporation Tax associated with the direct impact. These two sources of taxation – personal and corporation – yielded an estimated £67 million in tax revenue in 2013.

To estimate the tax revenue associated with the multiplier effects, the economy-wide average salary of £27,102 was used. Based on this average salary, our bespoke tax model indicated that all sources of taxation would be equivalent to 27% of GVA, or £123 million. Altogether, therefore, the economic activity generated by film distribution sector – including direct and multiplier effects – yielded an estimated £190 million in tax revenue in 2013.

4. Olsberg-SPI and Nordicity (2015), Economic Contribution of the UK’s Film, High-End TV, Video Game, and Animation Programming Sectors, pp. 32-33.

Table 4 Tax revenue impact of film distribution sector, 2013

	Tax revenue (£m)
Direct impact	67
Multiplier effects	123
<b>Total</b>	<b>190</b>

Source: Saffery Champness / Nordicity calculations based on data from ONS, HMRC and Companies House.

Once again, it is important to note that this estimate of tax revenue excludes the VAT on cinema box office receipts, even though this VAT can, in part, be attributed back to the film distribution sector. Estimates of the VAT on box office receipts as well as the sale of film-related merchandise can be found in Section 3 and Appendix B.

### 2.3 Summary of total economic impact

In 2013, film distribution companies in the UK earned nearly £1.2 billion in turnover from the licensing and promotion of films in the UK and other European countries. Film distribution companies directly employed 3,300 persons or 3,100 FTEs. These employees earned £127 million in wages, salaries and employment benefits. In total, film distribution companies generated £356 million in direct GVA for the UK economy in 2013.

Through the purchase of goods and services from other sectors of the UK economy, namely the advertising sector, the film distribution sector also had a significant multiplier effect. Including multiplier effects, employment and GVA resulted in a total economic impact of 11,100 FTEs of employment and £819 million in GVA.

The economic activity generated by the film distribution sector, through both its direct and multiplier effects, yielded an estimated £190 million in tax revenue for the UK government in 2013, including Income Tax, National Insurance, VAT (on induced impact consumption), Corporation Tax and Council Tax.

Table 5 Summary of economic impact of film distribution sector, 2013

	Employment (FTEs)	GVA (£m)	Tax revenue (£m)
Direct impact	3,100	356	67
Multiplier effect	8,000	463	123
<b>Total economic impact</b>	<b>11,100</b>	<b>819</b>	<b>190</b>

Source: Saffery Champness / Nordicity calculations based on data from BFI, ONS, HMRC, Companies House, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

## 3 The sector’s wider economic impact: UK film sector

As discussed earlier in this report, the film distribution sector is, in many respects, the lynchpin of the entire film sector value chain: it links creators and the production of films with consumers. Therefore, in order to understand the full scope of the economic impact of the film distribution sector in the UK, it is important to examine the wider economic impact it has by enabling film production as well as consumers’ engagement with film content.

### 3.1 Film production

Film distributors play an absolutely vital role in most, if not all, film production. Indeed, very few theatrical films are made without at least some involvement by, and financing from, a film distributor.

#### 3.1.1 US studio films

Film distributors, of course, play a prominent role in the production of US studio films, since distributors are part of the vertically integrated multinational media companies that not only organise the creative elements for these films but also provide the vast majority of the financing of these films. Despite the label, many US studio films are now produced in whole or in part outside of the US. Indeed, over the past decade, the UK has become one of the most favoured destinations for US studio production.

From the UK perspective, this type of production is often referred to as inward investment production. In recent years, several blockbuster and award winning US studio films have either been shot in the UK or had their visual effects (VFX) created in the UK. *Mission Impossible – Rogue Nation*, *Star Wars: The Force Awakens*, and *Gravity* are just a few of the US studio films for which all or part of production took place in the UK. In 2014, US studios produced 21 films in whole or in part in the UK, generating over £1.1 billion in spending within the UK – an all-time high<sup>5</sup>. US studio production in 2013 – the base year for this analysis – was £752 million, with 19 films produced in the UK<sup>6</sup>.

The economic ratios and multipliers found in Economic Contribution of the UK’s Film, High-End TV, Video Game, and Animation Programming Sectors imply that US studio production in 2013 generated an estimated 46,000 FTEs of employment and over £1.4 billion in GVA for the UK economy (including direct impact and multiplier effects) (Table 6). This economic activity yielded an estimated £433 million in tax revenue.

Table 6 Economic impact of US studio production, 2013 (direct impact + multiplier effects)

	Total economic impact
Employment (FTEs)	46,000
GVA (£m)	1,444
Tax revenue (£m)	433

Source: Saffery Champness / Nordicity estimates based on data from BFI and Olsberg-SPI/Nordicity (2015).

5. British Film Institute (2015), “Film, high-end television, animation programmes, and video games production in the UK: full-year 2014”, 3 February 2015, p. 4.

6. British Film Institute (2014), Statistical Yearbook 2014, p. 181.

### 3.1.2 Independent film in the UK

Film distributors also play an important role in the production of most independent films in the UK. Whilst the creative organisation and financing of US studio films is often under the exclusive control of vertically integrated US studios, for independent films, distributors play a key role in providing both crucial upfront funding through the acquisition of theatrical rights and by providing a signal of “market validation” that the film has the potential to earn money at the box office. This market validation is crucial in that it provides other potential financiers (e.g. equity investors) with confidence that the players within the film sector closest to the audience (i.e. distributors) have invested in the film. Furthermore, in nearly all cases, financing from a film distributor is required to trigger a project. Indeed, an intention for a theatrical release is a pre-requisite to obtaining film tax relief in the UK.

In addition to upfront involvement, film distributors play an indirect role when they acquire the rights to independent films at markets or film festivals. In this regard, film distributors provide the ultimate demand that can help independent producers to repay initial investors or fund the development of other projects.

Distributors’ contribution to the production cost of an independent film, either as an upfront pre-sale or as an acquisition, makes the film distributor the ultimate risk-taker in the value chain. The film distributor puts up funding with no guarantee that a film will perform. Thus the distributor is crucial to the whole creative process.

Whilst independent film production in the UK is not as large as US studio production in terms of spending, it is much larger in terms of annual film output. Independent film production plays a vital role in advancing the contribution of film to UK culture. It is often through independent films that British filmmakers have the opportunity to explore issues – through documentary or fiction genres – that they may not necessarily be able to do on a strictly commercial basis.

In 2013, 222 independent films were produced in the UK, generating £317 million in production expenditures<sup>7</sup>. Again, the economic ratios and multipliers found in *Economic Contribution of the UK’s Film, High-End TV, Video Game, and Animation Programming Sectors* imply that independent film production in 2013 generated 19,400 FTEs of employment and £609 million in GVA for the UK economy (including direct impacts and multiplier effects) (Table 7). This economic activity yielded an estimated £183 million in tax revenue.

Table 7 Economic impact of independent film production in the UK, 2013 (direct impact + multiplier effects)

	Total economic impact
Employment (FTEs)	29,400
GVA (£m)	609
Tax revenue (£m)	183

Source: Saffery Champness / Nordicity estimates based on data from BFI and Olsberg-SPI/Nordicity (2015).

## 3.2 Consumer engagement

Film distributors also play an important role in enabling consumers to engage with theatrical film content, either as audiences or as consumers of film-related merchandise. Film distributors enable this engagement not only because they contribute to the creation of film content but also because they spearhead the marketing and promotion of films, manage release schedules, and oversee the licensing of films’ IP in merchandise.

7. British Film Institute (2014), p. 183.

### 3.2.1 Cinema exhibition

The cinema exhibition window has traditionally been the first release window for film content on other platforms. And although the revenue earned by a film in the cinema exhibition window is not often sufficient to recover the sunk costs of production and promotion, it can be an indicator of a film’s potential to ultimately recoup its costs through subsequent release platforms.

Much of film distributors’ investment in marketing and promotion (discussed in Section 2.2.1) is done with a view to attracting audiences to cinema screenings or, at least, building an awareness that can be tapped into for subsequent releases. Television, print and outdoor advertising, along with premieres and press junkets, help attract audiences to the cinema. Within the cinemas themselves, film distributors use movie trailers and print advertising to build awareness of upcoming films or those in the middle of their screening run.

Despite the increasing popularity of television and home entertainment platforms, the cinema exhibition sector has remained resilient in recent years and continues to be important as a source of employment and income for thousands of Britons.

In 2014, film distributors released 824 films (including alternative content) into cinemas in the UK and Republic of Ireland (ROI)<sup>8</sup> and generated just under £1,134 million in gross box office receipts<sup>9</sup>. The performance of the cinema market in the UK and ROI was similar in 2013. In that year, film distributors released 801 films into cinemas and collected just over £1,167 million in gross box office receipts<sup>10</sup>. Depending on the film, cinemas retained anywhere from 40% to 75% of these box office receipts (after deducting VAT) and 100% of any receipts from food and beverage sales<sup>11</sup>.

According to statistics from the Inter Departmental Business Register (IDBR), the cinema exhibition sector in the UK employed over 19,000 persons in 2013. Because many of these persons were employed on a part-time basis, this employment translated into approximately 13,000 FTEs. The multiplier-effects employment generated by the cinema exhibition sector raised its total employment impact to 23,200 FTEs (Table 8). The direct impact and multiplier effects of the cinema exhibition sector also generated an estimated £1.2 billion in GVA (see Appendix B for calculations of multiplier effects).

In terms of tax revenue, the sale of cinema tickets on their own yielded an estimated £195 million in VAT in 2013. Income Taxes, VAT and other taxes generated by employment impacts (direct import + multiplier effects) yielded a further £249 million in estimated tax revenue, bringing the total impact on tax revenue to £444 million in 2013.

Table 8 Economic impact of cinema exhibition sector in the UK, 2013 (direct impact + multiplier effects)

	Total economic impact
Employment (FTEs)	23,200
GVA (£m)	1,154
Tax revenue (£m)	444

Source: Saffery Champness / Nordicity estimates based on data from ONS, ABS, IDBR and Olsberg-SPI/Nordicity (2015).

8. Film Distributors’ Association Yearbook (2015), p. 24.

9. Ibid., p. 16.

10. Ibid.

11. Independent Cinema Office (2015), “Direct costs”, accessed at <http://www.independentcinemaoffice.org.uk/resources/how-to-start-a-local-cinema/economics-of-operation/direct-costs>.

### 3.2.2 Television and home/mobile entertainment

As noted earlier, virtually all films released into cinemas are ultimately aired on television (free-to-air and pay) and released on home entertainment platforms, including DVD/Blu-ray sales and rentals, and various VoD platforms.

#### Television broadcast

News, sports, serial drama and factual programming are often thought of as the key drivers of revenue in the television broadcasting sector; indeed, these types of programming draw the majority of audiences. However, theatrical films also play an important role in generating advertising, subscription and household television licence fee revenue. An analysis conducted by Attentional and BFI found that there were 3.4 billion viewings of films on television in the UK in 2013, including films watched on public service broadcasters (i.e. BBC, ITV, Channel 4 and Channel 5), multichannel services and pay TV<sup>12</sup>. This level of viewing was over 20 times higher than the viewings (165.5 million) in the cinema exhibition window in 2013, and, according to Attentional and BFI, was worth an estimated £1.6 billion in revenue to the UK's broadcasting sector in 2013<sup>13</sup>.

In 2013, the UK's broadcasting television sector earned over £7 billion in revenue. In other words, film viewing accounted for approximately 23% of the sector's total revenue. On this basis, we have also attributed 23% of the television broadcasting sector's employment and GVA impacts to the film sector.

#### DVD/Blu-ray

Although the DVD/Blu-ray market has declined significantly in recent years, it remains an important channel for the distribution of films. As an example, *Frozen*, which was released in cinemas in 2013, sold more than one million DVD/Blu-ray copies in the UK in December 2014 alone<sup>14</sup>. Meanwhile, the five top-selling DVD/Blu-rays in the UK during the 2014 Christmas period sold 8.8 million copies<sup>15</sup>.

In 2013, UK consumers spent £940 million on the purchase of 119 million DVD/Blu-ray copies of films<sup>16</sup>. They spent a further £166 million on the rental of DVD/Blu-ray copies of films<sup>17</sup>. This included spending on both over-the-counter and the online rental of physical discs delivered through the post<sup>18</sup>. And whilst the rental market and a portion of the DVD/Blu-ray sales market have become much more of wholesale-type businesses, whereby discs are shipped directly to consumers from a central warehouse, high street retailers such as HMV, GAME, Tesco, Sainsbury's and ASDA continue to be important places for consumers to find films on DVD/Blu-ray.

#### Video on demand

Although the value of both the DVD/Blu-ray sales and rentals markets has declined in recent years, the fast-growing VoD market has partially offset those declines. According to IHS, UK consumers spent £323 million on film VoD in 2013 – a 37% increase compared to 2012<sup>19</sup>. This total included £193 million in spending on online VoD services (e.g. Amazon Prime Instant Video, Netflix, Apple iTunes) and a further £130 million in spending on television-based VoD services (e.g. BT Vision, Sky, TalkTalk, Virgin Media).

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12. British Film Institute (2014), p. 149.

13. Ibid., p. 150. The estimated revenue attributable to the viewing of film includes revenue earned by broadcasters from advertising (net of sales fees), television licence fees and pay TV subscription fees.

14. Film Distributors' Association Yearbook (2015), p. 84.

15. Ibid., p. 86.

16. British Film Institute (2014), p. 122.

17. Ibid., p. 128.

18. Ibid.

19. Ibid., p. 182.

### Summary of economic impact

Overall, the viewing of films on television and home entertainment platforms in the UK was worth over £3 billion in 2013. This total included the value of film-related revenue earned by UK broadcasters (£1.6 billion), and consumer spending on DVD/Blu-ray sales and rentals (£1.1 billion) and film VoD (£323 million). The wholesale, retail, broadcasting and technology activities underpinning these platforms and the £3 billion in revenue generated 21,800 FTEs of employment in the UK in 2013, including direct impacts and multiplier effects. It also generated nearly £1.3 billion in GVA and yielded an estimated £589 million in tax revenue, including £238 million in VAT on the sale or rental of film media, and an additional £351 million in other taxes.

Table 9 Economic impact of film on television and home entertainment platforms in the UK, 2013 (direct impact + multiplier effects)

	Total economic impact (direct impact + multiplier effects)
Employment (FTEs)	21,800
GVA (£m)	1,277
Tax revenue (£m)	589

Source: Saffery Champness / Nordicity estimates based on data from BFI, Attentional, Rentrak, IHS and Olsberg-SPI/Nordicity (2015).

### 3.2.3 Film-related merchandise

In addition to their key role in the creation and marketing of film content, distributors also play an important role in managing and monetising the IP generated by films. Distributors earn substantial revenues from the licensing of film characters and other IP for use in toys, games, video games, music and books. This film-related merchandise not only benefits the IP rights holders, it also generates incremental revenue for those companies that design, manufacture and market film-related merchandise. And whilst, these value-added activities may or may not take place in the UK, it is clear that the sale of film-related merchandise in the UK generates wholesale and retail margins for UK companies, which, in turn, yields an economic impact.

Research conducted by Oxford Economics, and updated by Olsberg-SPI and Nordicity in 2015, suggests that consumers in the UK spent an estimated £753 million on film-related merchandise in 2013. This merchandise spending generated an estimated 13,700 FTEs of employment in the UK (including direct impact and multiplier effects) and £493 million in GVA. In terms of tax revenue, the merchandise sales, alone, yielded £126 million in VAT. The Income Tax generated by direct impact and multiplier-effects employment, and VAT generated by induced impacts yielded a further £132 million, bringing the total impact on tax revenue to £258 million.

Table 10 Economic impact of sales of film-related merchandise in the UK, 2013 (direct impact + multiplier effects)

	Total economic impact (direct impact + multiplier effects)
Employment (FTEs)	13,700
GVA (£m)	493
Tax revenue (£m)	258

Source: Saffery Champness / Nordicity estimates based on data from Oxford Economics and Olsberg-SPI/Nordicity (2015).

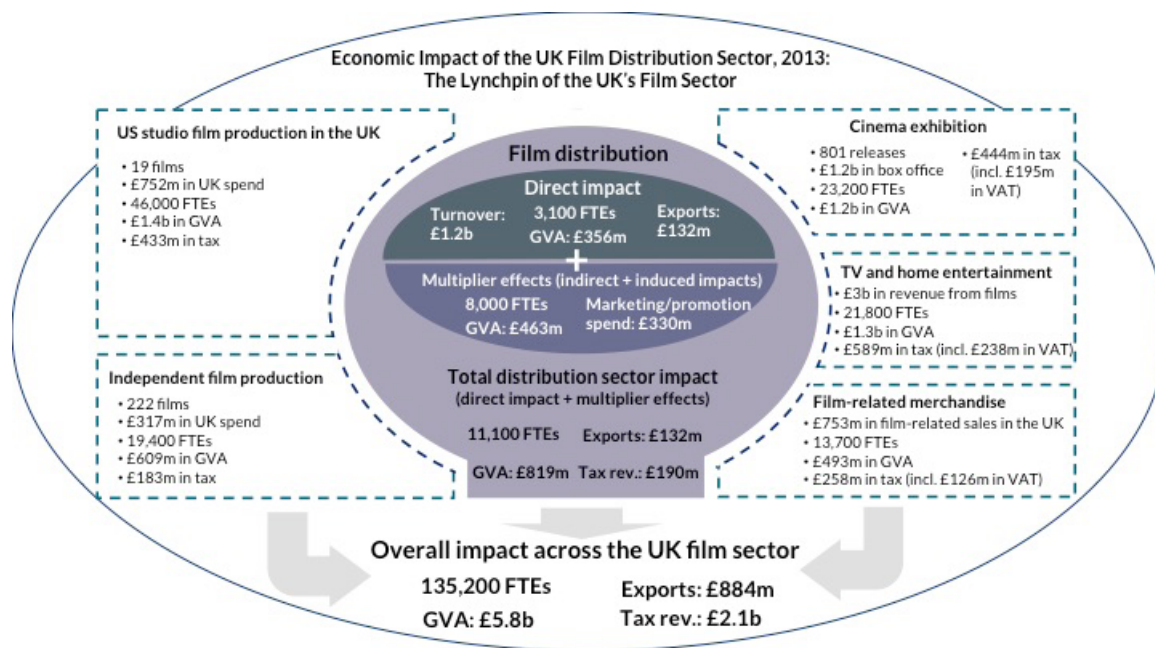
# 4 Overall economic impact

In Section 2 we examined the economic impact that the UK’s film distribution sector generated through both its direct impact (i.e. the employment and GVA generated within film distribution companies) and its multiplier effects (i.e. the increases in employment and GVA in sectors of the UK economy that sell supplies and services to film distribution companies). These impacts may be viewed as comprising the core *sectoral impact*.

In Section 3, we discussed how even the direct impact and multiplier effects generated by film distribution companies fail to capture the entire contribution that the sector makes to the UK economy. In particular, we described how the content investments made by the production arms of distribution companies generated significant employment and GVA for the UK economy.

In addition, the distribution of film content into UK cinemas enables those cinemas to employ thousands of Britons, and creates additional economic activity. Similarly, the distribution of films on television, in DVD/Blu-ray format, or via VoD services, was a source of employment and economic activity, particularly in the television broadcasting sector. Finally, we noted that film distribution companies’ role in the management of character licensing means that they also enabled an estimated £753 million of film-related merchandise sales in 2013. These impacts can be viewed as the wider economic impacts associated with film distribution.

Figure 10 Summary of overall economic impact of theatrical distribution in the UK, 2013



Source: Saffery Champness / Nordicity estimates based on data from FDA, BFI, ONS, ABS, IDBR, Rentrak, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

By combining the core sectoral impact and the wider economic impacts, we can obtain a better picture of the overall economic impact of theatrical distribution in the UK. When viewed as the lynchpin of the film sector in the UK, film distribution was responsible for creating an estimated 135,200 FTEs in 2013. It was also responsible for generating £5.8 billion in GVA for the UK economy, £884 million in exports and nearly £2.1 billion in tax revenue. By several measures, therefore, the theatrical distribution sector makes an important contribution to the UK economy.



## 5 Conclusions

For the past 100 years, film distributors have played an important role in getting content into UK cinemas. Today, consumers can enjoy filmed content on a variety of platforms – from the big screen through to online subscription services with mobile capabilities. This proliferation of platforms has only increased the role of the distributor in both promotion of film content and the optimisation of content windowing.

In many respects, the film distribution sector acts as the *lynchpin* of the entire film sector value chain: it links creators and the production of films with consumers. Indeed, the distribution sector absorbs a lot of the financial risk associated with film production – where multimillion dollar upfront investments are made in content and marketing when very little is known about the economic performance of a film. A distributor will be the first (and sometimes the last) commercial contributor to a feature film's production budget. A distributor's skill is to identify the commercial potential of a feature film at an early stage, sometimes before a script has been completed and a cast assembled, and then to put their money where their judgement is.

Distributors are also innovators. They drive change in how films are seen and marketed. For example distributors have been the major financial contributors (via the virtual print fee) to the digital conversion of the UK's cinema exhibition sector. The benefits of the change to digital exhibition have not only been felt by the distributor but more so by the cinema owners and the audiences, who can now experience a much broader range of screen content – ranging from live theatre to sporting events.

The UK film distribution sector is made up of a mixture of multinational corporations, medium-sized companies and specialist niche/genre driven businesses each operating with a particular area of the sector. Indeed, as the largest media hub in Europe, the UK provides the European base for many of the multinational film distribution companies integrated with the major US studios. In this regard, film distribution companies based in the UK not only oversee the licensing and promotion of film content in the UK, but also in other European countries.

Film distribution companies themselves employed 3,100 FTEs in 2013 and generated £356 million in GVA. They also generated an estimated £132 million in services exports. Through the purchase of goods and services from other sectors of the UK economy, namely the advertising sector, the film distribution sector also had significant multiplier effects. These multiplier effects yielded a further 8,000 FTEs of employment and £463 million in GVA in 2013. When these multiplier effects are added to the direct economic impact, we find that the total economic impact of film distribution companies in 2013 resulted in 11,100 FTEs of employment, £819 million in GVA and £190 million in tax revenue.

The role of the film distributor is often described but not always understood. Whilst this report concentrates itself on the economic contribution generated by those companies there are some additional points that deserve to be amplified in order to truly understand the full contribution of theatrical film distribution.

As the primary originators and financers of film content, film distributors are also responsible for much of the economic activity generated by content production. US studio production in 2013 generated an estimated 46,000 FTEs of employment and over £1.4 billion in GVA for the UK economy (including direct impact and multiplier effects) in 2013. This US studio production was also a major source of export earnings for the UK. In 2013, inward investment production meant that the UK was, in effect, exporting £752 million in production services to the US and other countries.

Film distributors also play an important role in the financing of independent production – either through pre-production advances or acquisitions of films after the commencement of filming. Meanwhile, independent film production in the UK in 2013 generated an estimated 19,400 FTEs of employment and £609 million in GVA for the UK economy. The total economic activity generated by US studio and independent production yielded estimated tax revenues of £433 million and £183 million, respectively.

On the consumer engagement side, film distributors not only spearhead and fund the marketing and promotion of films, but also manage the all-important windowing of film content across different platforms. The distribution of film content into UK cinemas, for example, enables those cinemas to employ thousands of Britons, and creates additional economic activity.

In 2013, the cinema exhibition sector directly employed over 19,000 persons in the UK, and through its multiplier effects, generated a total of 23,200 FTEs of employment, £1.2 billion in GVA and £444 million in tax revenue.

Similarly, the distribution of films on television, in DVD/Blu-ray format, or via VoD services was a source of employment and economic activity, particularly in the television broadcasting sector. All told, the market for films on television and home entertainment platforms was worth an estimated £3 billion in revenue in 2013 and generated 21,800 FTEs of employment, £1.3 billion in GVA and £589 million in tax revenue.

Consumers' engagement with film content also extends beyond the audiovisual market and into the merchandise market. Film distribution companies' role in the management of character licensing means that they also enabled an estimated £753 million in film-related merchandise sales in the UK in 2013. This retail activity generated 13,700 FTEs of employment, £493 million in GVA and £260 million in tax revenue.

When viewed as the lynchpin of the entire film sector ecosystem in the UK, therefore, film distribution was responsible for creating an estimated 135,200 FTEs of employment in 2013. It was also responsible for generating £5.8 billion in GVA for the UK economy, £884 million in exports and nearly £2.1 billion in tax revenue. By several measures, therefore, the theatrical distribution sector makes an important contribution to the UK economy.

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# Appendix A: FDA members

Altitude Film Entertainment  
Arrow Films  
Artificial Eye Film Co  
Axiom Films  
Dartmouth Films  
Dogwoof  
Entertainment Film Distributors  
Entertainment One UK  
Eros International  
Icon Film Distribution  
Independent Film Company  
Lionsgate  
Metrodome Group  
Network Releasing  
Paramount Pictures UK  
Park Circus  
Pathé Productions  
Peccadillo Pictures  
Pinewood Pictures  
Reliance Big Entertainment  
Soda Pictures  
Sony Pictures Releasing  
StudioCanal  
Twentieth Century Fox Film Co  
Universal Pictures International UK  
Vertigo Films  
Verve Pictures  
Walt Disney Studios Motion Pictures UK  
Warner Bros. Entertainment  
The Works UK Distribution  
Yash Raj Films

# Appendix B: methodology

## Distribution sector multiplier

In their report *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors*, Olsberg-SPI and Nordicity obtained the Type I GVA multiplier of 1.84, published by ONS for the UK's wholesale distribution industry. To account for induced impacts, this Type I multiplier was adjusted by an induced-impact factor of 1.25, which was developed by Oxford Economics<sup>20</sup>. This induced-impact adjustment factor resulted in a Type II GVA multiplier of 2.30.

Table A - 1 Derivation of GVA multiplier for film distribution sector

	Value
Type I GVA multiplier	1.84
Induced impact factor	1.25
Type II GVA multiplier	2.30

Source: Saffery Champness / Nordicity estimates based on data from ONS, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

Table A - 2 Derivation of multiplier effects GVA and employment for film distribution sector

	GVA (£m)	Wages and salaries (£m)	Employment (FTEs)
Direct impact	356	127	3,100
Multiplier effects	463 <sup>1</sup>	250 <sup>2</sup>	8,000 <sup>3</sup>
<b>Total economic impact</b>	<b>819</b>	<b>377</b>	<b>11,100</b>

Source: Saffery Champness / Nordicity estimates based on data from ONS, Oxford Economics (2012) and Olsberg-SPI/Nordicity (2015).

Notes:

1. Estimate of multiplier effects GVA based on multiplier of 2.30. Multiplier effects GVA equals 1.3x direct impact GVA.
2. Estimate of multiplier effects wages and salaries based on economy-wide wage-to-GVA ratio of 0.54.
3. Estimate of multiplier effects employment equal to multiplier effects wages and salaries divided by average full-time salary of £31,382.

## US studio film production and independent film production in the UK

To estimate the economic impact of film production in the UK – both US studio production and independent production – the total economic impact of film production in 2013 as reported in *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors* was allocated on the basis of share of UK production spend.

20. The induced-impact adjustment factor was derived by Oxford Economics using its detailed econometric model of the UK economy. For more information, see Oxford Economics (2012), *The Economic Impact of the UK Film Industry*, pp. 37-38.

Table A - 3 Calculation of economic impact of US studio production and independent production, 2013

		US studio production	Independent production	All film production
UK production spend (£m)		752	317	1,069
Share		70%	30%	100%
Employment (FTEs)	Direct	23,000	9,700	33,700
	Multiplier effects	23,000	9,700	33,700
	<b>Total</b>	<b>46,000</b>	<b>19,400</b>	<b>67,400</b>
GVA (£m)	Direct	722	305	1,027
	Multiplier effects	722	305	1,027
	<b>Total</b>	<b>1,444</b>	<b>609</b>	<b>2,054</b>
Tax revenue (£m)	Direct	217	91	308
	Multiplier effects	217	91	308
	<b>Total</b>	<b>433</b>	<b>183</b>	<b>616</b>

Source: Saffery Champness / Nordicity estimates based on data from BFI, Olsberg-SPI/Nordicity (2015) and Oxford Economics (2012).

Note: Some totals may not sum due to rounding.

### Cinema exhibition

To estimate the employment and GVA impacts of the cinema exhibition sector in the UK, we obtained direct employment and GVA data from the IDBR and ABS, respectively. An economic multiplier of 2.05 – which was derived in the study, *Economic Contribution of the UK's Film, High-End TV, Video Game, and Animation Programming Sectors* – was applied to direct GVA (£563 million) to estimate the multiplier effects GVA (£591 million). A wage-to-GVA ratio of 0.54 and an average economy-wide full-time salary of £31,382 were then used to derive an estimate of 10,200 FTEs in multiplier effects employment.

Table A - 4 Calculation of economic impact of the exhibition of US studio and independent films, 2013

		2013 results
Box office revenue (£m)		1,167
Employment (FTEs)	Direct	13,000
	Multiplier effects	10,200
	<b>Total</b>	<b>23,200</b>
GVA (£m)	Direct	563
	Multiplier effects	591
	<b>Total</b>	<b>1,154</b>

Source: Saffery Champness / Nordicity estimates based on data from BFI and Olsberg-SPI/Nordicity (2015)

To estimate the tax revenue impacts from cinema exhibition, a bespoke model was developed that incorporated the VAT paid on sales of cinema tickets and the other taxes (i.e. Income Tax, National Insurance, Corporation Tax, Council Tax and induced impact VAT). This model was based on the average tax-to-GVA ratio implied by the average salaries in the cinema exhibition sector (£11,698) and the overall economy (£27,102) in 2013.

Table A - 5 Summary of tax revenue generated by the economic impact of the cinema exhibition sector (£m)

	VAT or cinema admission	Other taxes †	Total tax revenue
Direct impact	195	91	285
Multiplier effects	-	158	158
<b>Total</b>	<b>195</b>	<b>249</b>	<b>444</b>

Source: Saffery Champness / Nordicity estimates based on data from BFI, PwC, HMRC and ONS.

† Includes Income Tax, National Insurance, Corporation Tax, Council Tax and VAT paid by direct and multiplier-effects workers on their purchases of goods and services.

Note: some totals may not sum due to rounding.

### Film-related merchandise

On the basis of research conducted by Oxford Economics in 2012, Olsberg-SPI/Nordicity estimated that the IP incorporated in UK-made films generated £226 million in merchandise sales in the UK in 2013. These UK-made films accounted for 30% of the total UK box office between 2011 and 2013. To estimate the overall size of the market for film-related merchandise sales in the UK, we extrapolated the figure for UK-made films on the basis of their 30% market share. In other words, we assumed that films made inside and outside the UK generated, on average, the same rate of merchandise sales and multiplied the estimate for UK-made films by a ratio of 3.33:1 (Table A - 6).

Table A - 6 Derivation of estimate of film-related merchandise sales in the UK

	UK-made films	All films	Ratio
Box office share 2011-2013	30%	100%	3.33
Merchandise sales, 2013	£226m	£753m	3.33

Source: Saffery Champness / Nordicity estimates based on data from Oxford Economics (2012), Olsberg-SPI/Nordicity (2015) and BFI.

To estimate the employment and GVA impacts associated with sales of film-related merchandise, the employment and GVA impacts generated by UK-made films' merchandise sales in 2013 were multiplied by the ratio of 3.33:1 (Table A - 7).

Table A - 7 Calculation of economic impact of film-related merchandise sales, 2013

	UK-made films, 2013 †	All films, 2013 † †
Merchandise sales (£m)	226	753
Employment (FTEs)	4,100	13,700
GVA (£m)	148	493

Source: Saffery Champness / Nordicity estimates based on data from Oxford Economics (2012), Olsberg-SPI/Nordicity (2015) and BFI.

† 2013 results based on data in Olsberg-SPI/Nordicity (2015).

†† Estimates for all films based on the multiplication of merchandise sales for UK-made films by the ratio of 3.33:1.

To estimate the tax revenue impacts from film-related merchandise sales, a bespoke model was developed that incorporated the VAT paid on merchandise sales and the other taxes (i.e. Income Tax, National Insurance, Corporation Tax, Council Tax and induced impact VAT). This model was based on the average tax-to-GVA ratio implied by the average salary in the overall economy (£27,102) in 2013 (Table A - 8).

Table A - 8 Summary of tax revenue generated by the economic impact of sales of film-related merchandise (£m)

	Consumer VAT	Other taxes †	Total taxes revenue
Total impact	126	132	258

Source: Saffery Champness / Nordicity estimates based on data from Oxford Economics (2012), Olsberg-SPI/Nordicity (2015), BFI, PwC, HMRC and ONS.

† Includes Income Tax, National Insurance, Corporation Tax, Council Tax and VAT paid by direct and multiplier-effects workers on their purchases of goods and services.



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## *Saffery Champness offices*

### **Bournemouth**

Nick Fernyhough  
Midland House,  
2 Poole Road,  
Bournemouth BH2 5QY  
+44 (0)1202 204744

### **Bristol**

David Lemon  
St Catherine's Court,  
Berkeley Place,  
Clifton, Bristol BS8 1BQ  
+44 (0)117 915 1617

### **Edinburgh**

Max Floyd  
Edinburgh Quay,  
133 Fountainbridge,  
Edinburgh EH3 9BA  
+44 (0)131 221 2777

### **Geneva**

Boulevard Georges-Favon 18,  
1204 Geneva,  
Switzerland  
+41 (0)22 319 0970

### **Guernsey**

PO Box 141,  
La Tonnelle House,  
Les Banques, St Sampson,  
Guernsey GY1 3HS  
+44 (0)1481 721374

### **Harrogate**

Martin Holden  
Mitre House, North Park Road,  
Harrogate HG1 5RX  
+44 (0)1423 568012

### **High Wycombe**

Karen Bartlett  
Fox House,  
26 Temple End,  
High Wycombe HP13 5DR  
+44 (0)1494 464666

### **Inverness**

Susie Swift  
Kintail House,  
Beechwood Park,  
Inverness IV2 3BW  
+44 (0)1463 246300

### **London**

Nigel Burke  
Lion House,  
Red Lion Street,  
London WC1R 4GB  
+44 (0)20 7841 4000

### **Manchester**

Mike Hodges  
City Tower, Piccadilly Plaza,  
Manchester M1 4BT  
+44 (0)161 200 8383

### **Peterborough**

Stephen Collins  
Unex House,  
Bourges Boulevard,  
Peterborough PE1 1NG  
+44 (0)1733 353300

### **Zurich**

Hottingerstrasse 17,  
8032 Zurich,  
Switzerland  
+41 (0)43 343 9328