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# THE MOVING IMAGE SECTOR IN THE NORTH EAST OF ENGLAND:

## MAPPING, BENCHMARKING AND ECONOMIC IMPACT REPORT

Final report  
30<sup>th</sup> January 2004

### PEMBRIDGE

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## 1 Introduction and Acknowledgements

This report represents one of the deliverables within a corporate development programme for the moving image sector in the North East of England called *Creating Success*. It was commissioned by Tom Harvey and Annie Wood at Northern Film and Media. It was written by Hugh Mason, with data gathering and analysis by Liz Whitney, Otto Stevens and David Prais at the Pembridge Partnership Limited.

Many firms kindly gave us access to detailed management and annual accounts and their management teams kindly spent time with us to describe their strengths and weaknesses, their goals, and the opportunities and threats that face them. The authors wish to acknowledge the energy contributed by the people and organisations who participated and helped us to understand the issues that they face. Without this support, this exercise would not have been possible. Finally, we wish to acknowledge the financial support of the European Regional Development Fund, The Film Council and One North East in funding this work.



*Figure 1-1: UK Region covered by this report*

*Creating Success* was designed and operated on behalf of Northern Film and Media (NFM), during the period June 2003 - March 2004 by Pembridge Partnership Limited, 91 New Cavendish Street, London W1W 6XE: [www.pembridge.net](http://www.pembridge.net) +44 20 7208 7288

## 2 Executive Summary: Key Findings and Conclusions

### 2.1 National Context

The Government is committed to increasing productivity<sup>1</sup> in small to medium sized enterprises (SMEs). One North East has devised a regional economic strategy that identifies partners, including NFM, who can help to realise the potential of the region, through better:

- Skills - maximising the contribution of human capital to growth. Life long training and education which raises productivity, broadens employment choice and raises individual self-esteem.
- Investment - improving the region's stock of physical capital across the economy - complemented by properly evaluated and rigorously monitored public investment.
- Innovation - utilising the potential of new technologies and developing more efficient ways of working - the development, diffusion and adoption of new technologies and processes.
- Enterprise - helping new and established companies start up, develop and grow - a culture open to ideas and risk taking
- Competition - encouraging firms to innovate, minimise costs and promote better quality goods and services to the consumer.

The independent moving image production sector has a special opportunity to raise its game following the assent of the 2003 Communications Bill because, for many, it will make a new business model possible. It will become much easier for producers to retain the intellectual property rights in their work and, in turn, this will empower them to attract investment and build and realise value in asset-based businesses, rather than operating largely on a work-for-hire basis as they have done in the past.

### 2.2 Regional context

*Creating Success* is a £200,000 project set up by Northern Film and Media (NFM) to help SMEs operating in the media sector in the North East of England to succeed<sup>2</sup>. The uniqueness of *Creating Success* lies in its ambition. It does not focus on one aspect of the sector, or one category of firms (e.g. start-ups, a popular choice for many business initiatives). Rather, it seeks to:

- address the issues faced by the whole sector
- identify opportunities to strengthen the supply chain
- identify opportunities to enable collaboration
- drive growth across the board.

A range of business support initiatives and agencies already exist within the North East, however few creative firms engage with them. This report reveals some of the reasons why. In addition to enabling firms to work with specialists who are familiar with the media sector, *Creating Success* will share its findings among business advice and support agencies within the region to increase their knowledge and understanding of the sector, so increasing the impact of the interventions they make.

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<sup>1</sup> A modern regional policy for the United Kingdom (DTI, March 2003); and 21<sup>st</sup> Century Skills – Realising our Potential (DFES, July 2003)

<sup>2</sup> NFM defines 'success' through the goals of its mission statement: "To promote and build a vibrant and sustainable moving image industry in the North East, which is rooted in an accessible and diverse screen culture, maximises the opportunities for the development of regional talent, celebrates the region's cultural identity, encourages the sector's growing importance to the regional economy and promotes world-class creativity within it."

## 2.3 Foundation in Research

Creating Success comprises three phases, the first of which is reported here. It is a research exercise designed to:

- Identify the main features of the moving image 'landscape' in the region, identify the issues faced by SMEs operating in it, and to explore potential links between them and with other firms elsewhere to create the preconditions for success ('mapping')
- Record a pragmatic set of quantitative, repeatable measures of the state of commercial development for the firms surveyed ('benchmarking')
- Extrapolate the understanding gained to create a model predicting the potential for all the firms that fall under NFM's remit ('economic impact').

To execute this research we conducted more than fifty in-depth telephone interviews with board-level staff, thirty face to face extended interviews and desk research of published sources. Firms included the full range of emerging, developing, experienced and established businesses; public and private firms; firms working for profit and firms working 'not-for-profit'.

## 2.4 Key Findings

### 2.4.1 Current economic impact and potential

- Firms in the moving sector currently contribute £121m annually to the economy of the North East.
- This contribution represents 0.8% of the UK's revenue generation through moving image-related business (£14.3bn), despite the fact that 1.3% of the national moving image workforce is based in the region. This indicates potential for further growth in productivity.
- In total we estimate the moving image sector workforce in the region to be around 1,730. Looking to the national average, this is significantly less than would be expected (approximately 5,700), based on the region's population. Projects to build the size of existing firms or to attract new firms to the region would have the most direct impact on increasing revenues from the sector in the region.
- If the NE region raised its productivity to the national average for the moving image sector, and the size of its moving image workforce grew to the same proportion of the national moving image workforce that the region's population bears to the national population, moving image revenues in the region would rise to £628m. This would represent an additional annual £508m of regional wealth creation.

### 2.4.2 A picture of the Moving Image 'Landscape' in the North East

- The sector in the region comprises around 150 enterprises, the majority of which are independent SMEs with a median average 6 employees, only half of which are full time. Using European standard classification we estimate that the sector in the region includes 12 'medium sized enterprises', 38 'small businesses' and 101 'micro enterprises'
- Between them, the two regional broadcasters (Tyne Tees and BBC North) and the commercial cinema chains dominate the sector locally. They employ 38% of the sector's workforce in the region and Tyne Tees' workers generate more than three times as much revenue per head respectively as do workers in independent SMEs.
- The second largest contributors to moving image revenues in the North East are the commercial cinema exhibitors. These are all large chains operated by companies based outside the region.
- We studied Games, Production, Facilities and Exhibition SMEs and found that each of these sub-sectors faces very different challenges. They cannot be treated as a block and the firms within them have requested tailored support to help them succeed.
- Our work confirms that commercially focussed, established TV production and games developer SMEs in particular can achieve strong operating profit margins and build value

in intellectual property assets. This suggests that they offer good potential to generate wealth, attract inward investment and contribute to the region's economy, ie they represent an attractive target for public intervention.

- There are a significant number of experienced firms that have yet to become commercially sustainable, ie to become 'established'. The economic impact on the region of all experienced SMEs achieving the same level of commercial success as their established peers would be significant.
- This prospect needs to be viewed in the context of the personal goals of those driving most SMEs in the sector. 90% of the SMEs surveyed have no commercial goals and for 25% running a business is a part-time activity. Less than half have an up-to-date business plan. While the key individuals in each firm are often highly entrepreneurial, most currently choose to apply that talent to building cultural or social capital rather than making money.

## 2.5 Conclusions

Our findings suggest clear priorities for NFM and *Creating Success*:

- We must address the bottleneck in the production sector at the experienced level to help these firms become established.
- We must accelerate the period it currently takes companies in all sub-sectors to become established.
- We must address the commercial aspirations of all sub-sectors, particularly exhibition.
- We must help managers of SMEs in all sectors to see the value in planning for their firms, not just planning to 'do more projects', so that their firms move on and up over time. If we can help them overcome this barrier they will contribute more to the region, be more sustainable, become empowered to achieve greater creative success and become less dependent on public subsidy.
- Our benchmarks indicate a particular opportunity for *Creating Success* to improve firms' financial management and their lack of preparedness to raise capital. Benchmarking will also allow us to measure the impact of the programme.

In general we suggest that *Creating Success* will achieve greatest impact if a clear definition of 'success' is agreed and measured on a case by case basis with each participating firm, and in respect of each project that NFM supports. Success might be defined quite differently, depending on whether a firm is building economic, social or cultural capital.

- The on-going support available through *Creating Success* will have most economic impact if it is concentrated on a relatively small number of highly entrepreneurial firms with clear commercial aims, a realistic outlook on their market opportunities and mature management teams who demonstrate evidence of their commitment to success in financial terms, in addition to an aspiration to succeed creatively.
- We perceive that 'lifestyle' and 'not for profit' enterprises often do work with strong cultural impact falling within NFM's remit - and they provide significant employment. They are survivors and they deserve to be encouraged. Business planning and marketing support through *Creating Success* will help them become more productive and sustainable.
- Many of the not-for-profit firms we surveyed exist to make social impact. They depend on the public purse for their core funding. Without exception they have indicated an ambition to undertake straightforward commercial and marketing planning to clarify their objectives and to set out action plans through *Creating Success*. We feel this would be a worthwhile investment that could help them fulfil their shared ambition to become less dependent on public funding and so become more sustainable in the face of future budgetary change.

As a final note, we observe that most public intervention in the moving image sector is based around projects, rather than firms. We suggest that this misses an opportunity to encourage strategic thinking and indeed may even reinforce a culture biased against it, regardless of how success is defined. The seeds of a more sustainable sector might be sown if SMEs

approaching NFM for any kind of project-based public funding gained credit for demonstrating how that project funding will make them more sustainable, ie why it will be a hand-up, not a hand-out. Delivery on strategic vision as well as a successful project outcome could then justifiably be taken into account when that firm next asks for help from the public purse.

## 3 Background

### 3.1 Northern Film and Media:

- was officially launched on October 3rd 2002 and is investing £1.5m in the media industry in the North East through investing in the development of people, companies, projects and audiences in the Region.
- aims to promote and build a vibrant and sustainable moving image industry in the North East, which is rooted in an accessible and diverse screen culture, maximises the opportunities for the development of regional talent, celebrates the region's cultural identity, encourages the sector's growing importance to the regional economy and promotes world-class creativity within it.
- recognises a need to map the economic potential and to understand the needs of the companies it has been set up to support through consistent and authoritative research data, in order to make its work effective and fair.
- *Creating Success* was devised to address the challenge of increasing productivity in the region's media sector, through an ambitious and coherent project that reflects NFM's four values: Brave, Stimulating, Positive and Fair.
- NFM operates a range of funds which are used strategically to develop People, Content, Companies, Audiences and Networks.

### 3.2 Sectors and commercial activities

The firms surveyed in this project spanned the moving image supply chain, including:

- Broadcast television, Feature Film and Corporate video production companies
- Post production and motion graphics companies
- Specialist film exhibition and archiving firms
- Videogame developers and interactive media production companies
- 'Not for profit' enterprises

From here onwards we use the word 'firms' to encapsulate all these types of enterprise and, to simplify analysis, we classify firms into four broad sectors:

- 'Production firms' - Firms making TV and Feature Films and Non-Broadcast.
- 'Games firms' - Firms developing Games Software.
- 'Facilities firms' - Firms providing technical facilities or film archive material
- 'Exhibition firms' - Firms showing films to the general public

### 3.3 Stages of Development

As the survey began, firms had already been classified using a scheme developed by Northern Film & Media. This subjective but pragmatic scheme segments organizations operating in the media sector in the region into four different stages of development:

- 'Emerging' - A segment showing early interest in the sector as a career and/or wishing to participate more fully (a new entrant to sector or new to activity)

- 'Developing' - A segment requiring small scale but widely targeted assistance to encourage business or career growth, participation and learning. This stage can include those who are experienced in one area, but seek considerable development in a new direction
- 'Experienced' - A segment who have already gained a foothold and knowledge in the sector through past work and activity, though they have not yet reached a consistent, sustainable level of activity. The segment includes those who have recognised and effective skills, knowledge and/or business track record, but with uneven activity
- 'Established' – These are firms staffed by sector professionals who have not only built up considerable experience but are recognised for their skills and experience to the point that they have sustainable careers and businesses, and maintain a consistent workload that sustains their operation, although there may be interest in further growth or development.

### 3.4 Supply Chains

Firms in each sector fit into supply chains which are illustrated simplistically in Figure 3-1, with grey boxes indicating types of firm not included in this survey. The balance of power between the different links in the supply chain, and the risks and rewards, vary significantly. A small proportion of firms we surveyed are active in more than one sector.

### 3.5 Economic Activities of Firms

In commercial terms the economic activities of the firms surveyed also vary significantly. We classified firms according to the main way each 'creates value':

- 'Technical Facilities for hire' – these are firms that own physical capital and rent it out at a profit. Most 'Facilities firms' fall into this category, as do 'Exhibition firms'
- 'Creative Services for hire' – these are firms that produce a creative product but generally sell all the intellectual rights in that product to their customers. Most Non-broadcast and TV 'Production Firms' fall into this category
- 'IP origination/exploitation' – these are firms that create or own creative products (ie, Intellectual Property) and licence their use by their customers. Most 'Games Firms' and Feature Film 'Production Firms' fall into this category

### 3.6 Creating Success Programme

*Creating Success* comprises three phases starting in April 2003 and running through to March 2004:

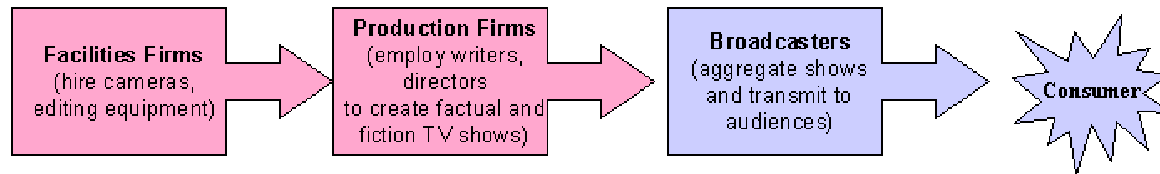
- Phase 1 is reported here. It is a research exercise focused on mapping and benchmarking relevant SMEs in the region and modeling their economic impact.
- Phase 2 is focused on producing detailed development plans for individual firms, with an estimated 15-20 firms being supported in the first year of operation.
- Phase 3 provides ongoing support to an estimated 10-15 firms to help them execute their plans.

### 3.7 Confidentiality Policy

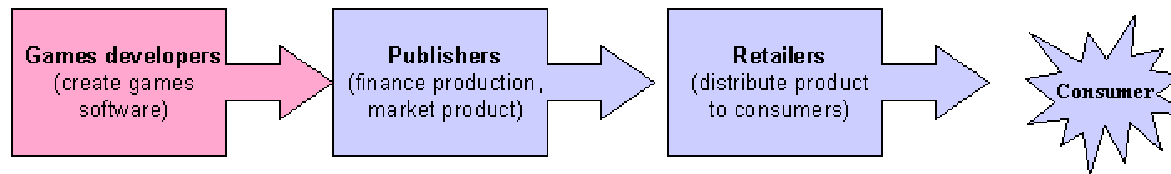
Firms participating in this survey were given the assurance that the information they revealed to us would remain confidential. As a result no specific information regarding any firm can be disclosed here, including the names of the firms involved. This means that much of the most valuable insight gained through this exercise cannot be reported because it relates so closely to individual firms. The full effect of this insight will be visible later in the *Creating Success* programme, as participating firms implement their plans.

*Figure 3-1: Moving Image Supply Chains*

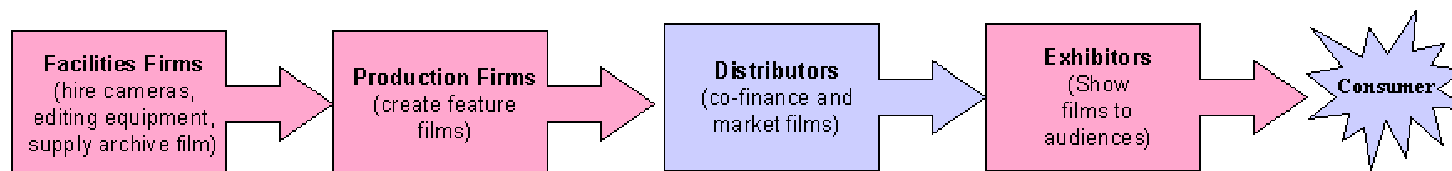
## Simplified TV Supply Chain



## Simplified Games Supply Chain



## Simplified Feature Films Supply Chain



**3.8 Pembridge Partnership Limited**

- is a business accelerator for companies that provide creative services to other businesses. Our clients range from TV producers through advertising agencies, PR firms, music companies to film production.
- Is focused on growing and realising value and making companies sustainable.

## 4 Data Gathering

Data was gathered for this report through three channels:

### 4.1 Quantitative, in-depth telephone interviews

Firms were selected for this interview process from a database of 150 North East SMEs held by Northern Film and Media with the objective of including as wide and representative a group of firms as possible while acknowledging the need to focus the research on companies most likely to feed into Phase 2 and 3 of *Creating Success*. As a result of this policy, large enterprises such as broadcasters and commercial cinema chains were deliberately excluded as they would not qualify for support at Phase 2 and Phase 3 of *Creating Success*.

Interviews lasted approximately 20 minutes each, with an expert interviewer recording data using a questionnaire. The questionnaire was designed to create a consistent format through which we could record four different sets of data from the firms surveyed:

- Basic information: what the firm does, how large it is and how long it has been established.
- Financial performance: we asked firms to share figures from their last two annual reports with us
- Indications of productivity: we asked questions designed to reveal the attitude of the firm towards skills, investment, innovation, enterprise and competition
- Development needs: we asked each firm for its own perception of what it needs to move forwards.

### 4.2 Qualitative, face to face interviews with 30 companies

A subset of the firms interviewed in the exercise described in 4.1 were selected for this interview process on the basis that a) they superficially appeared strong candidates for Phases 2 and 3 of *Creating Success*, and b) that they were interested to explore participating further in the programme.

Over the course of an hour long interview, two expert commercial advisors worked with a director- or partner-level individual from each firm to summarise the state of the firm in a SWOT (Strengths, Weaknesses, Opportunities and Threats) table. We also used these interviews to explore each firm's future aspirations and gathered qualitative information about the sector in which it operates.

### 4.3 Desk Research

This project also draws upon data and ideas embodied in a growing bank of research concerning the creative industries in general and the moving image sector in particular. Where data has been drawn from a particular report that source is acknowledged in footnotes. More generally the authors also wish to acknowledge that the ideas contained here build on work and ideas drawn from the following sources:

- *Risky Business - Inside the Indies*<sup>3</sup> identified challenges facing regional independent production companies across the UK.
- *From Exuberant Youth to Sustainable Maturity*<sup>4</sup> is a thorough overview of the UK videogames sector.

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<sup>3</sup> Risky Business: Inside the Indies. Regional TV independents and the challenges of growth, (Research Centre for Television and Interactivity, Glasgow, September 2002)

<sup>4</sup> From Exuberant Youth to Sustainable Maturity: DTI Competitiveness Analysis of the Games Software Sector, (DTI, October 2002)

- *Film Making in London*<sup>5</sup> provides a useful comparative picture of the challenges faced by feature film makers in another UK region.
- *Skillset*<sup>6</sup> has commissioned research that brings surveys a wide variety of company development schemes across the UK.
- *The Creative Economy*<sup>7</sup> sets out a clear picture of the Creative Industries in the UK and beyond
- *The Rise of the Creative Class*<sup>8</sup> seeks to demonstrate a statistical case for the economic impact of Creative Industries in regional regeneration.
- *Culture Cluster Mapping and Analysis*<sup>9</sup> paints the big picture of the Creative Industries in the region, including mapping its economic significance.

## 5 Mapping Analysis

The objectives for the mapping exercise were to:

- Provide NFM with an up to date view of the 'landscape' of the firms falling under its remit
- Identify the issues faced by those firms
- Explore potential links between firms surveyed and with other firms elsewhere to create the preconditions for success

To achieve this, the data from the questionnaire was analysed using a spreadsheet to give:

- a series of pragmatic snapshots of the firms operating in different sectors and at different stages of development, based on the facts they supplied
- a summary of the perception of firms in each sector of their needs in striving to achieve success

The detailed analysis is listed as Appendix A, with a summary in chapter 6.

In addition the data from all the SWOT analyses was collated to identify common themes and messages and this is summarised in chapter 7.

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<sup>5</sup> Film Making in London - Research into business needs (LS Consulting for Business Link for London, 2003)

<sup>6</sup> Project to develop Skillset company support scheme for London - Benchmarking Final Report (Julie Crane Consulting Limited for Skillset, March 2003)

<sup>7</sup> The Creative Economy – How People Make Money from Ideas. John Howkins (Penguin, 2001)

<sup>8</sup> The Rise of the Creative Class – and how it's transforming Work, Leisure, Community and Everyday Life. Richard Florida (Basic Books, 2002)

<sup>9</sup> Culture Cluster Mapping and Analysis. (Centre for Urban and Regional Development Studies, University of Newcastle Upon Tyne for One North East, 2001)

## 6 The Moving Image 'landscape' in the North East of England

### 6.1 Number of firms operating in the region

We estimate this from the number of SME firms held in the NFM database (150), inflating that figure by a factor of 10% to allow for firms not yet identified by the agency. This yields a figure of 165 SMEs for the region. The region also accommodates a number of large moving image sector enterprises including Tyne Tees, BBC and the commercial cinema chains. These were not surveyed in our mapping exercise.

### 6.2 Size of firms surveyed

The size of workforce varied widely among the firms we did survey. Along its horizontal axis, Figure 6-1 sorts the companies surveyed into 'buckets' according to the size of their workforce. It shows the number of companies surveyed that fell into each of those 'buckets' vertically.

*Figure 6-1 Histogram showing distribution of companies surveyed by size of workforce*

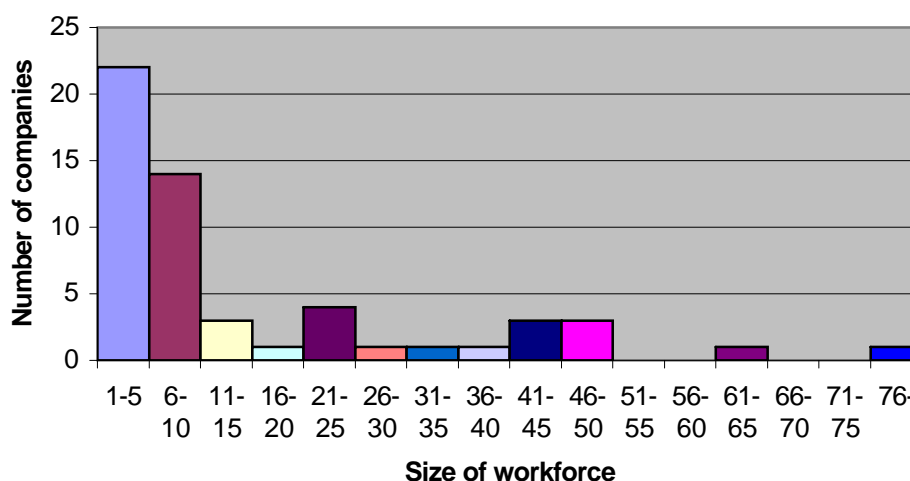


Figure 6-1 clearly shows the significance of 'micro businesses' in the sector and indeed prompts a question: what really constitutes a 'firm' as opposed to a freelance worker? Our research cannot answer this question but it does reveal that, including full time, part time and freelance workers, in our sample:

- The modal size of firm surveyed was 2 employees
- The mean size of firm surveyed was 14 employees
- The median size of firm is 6 employees

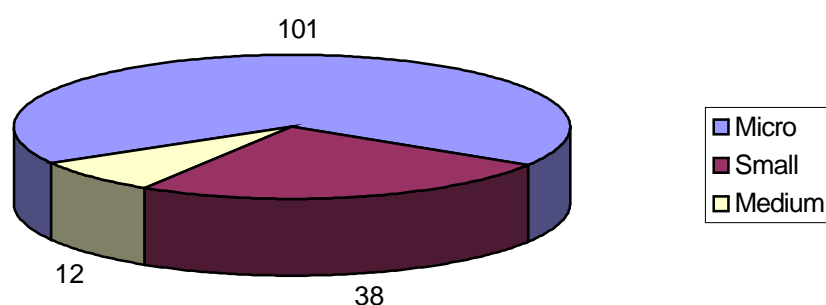
We suggest that the skewed distribution of data in Figure 6-1 favours the median as the fairest measure of the average size of firm.

Classifying the firms in the survey in standard European<sup>10</sup> terminology, 67% are micro enterprises, 25% are small businesses and 8% are medium sized enterprises.

<sup>10</sup> Small and medium enterprises as determined by the European Commission: The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 10 million. Again within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EUR 2 million

If these proportions are representative of the region as a whole (an approximate assumption given the non-random selection of firms for survey), then the number of firms operating in different categories are illustrated in Figure 6-2:

*Figure 6-2 Estimated number of moving image sector SMEs in the region by category*



### 6.3 Size of total workforce in the region

The data derived in 6.2 allow the number of employees working outside the major corporate employers in the region to be estimated as: 1080<sup>11</sup>. This figure does not include unemployed members of the workforce in the sector in the region.

We estimate the total size of the workforce in work in the region as follows:

*Table 6-1 Moving image workforce in the region*

Employer	Workforce
'Independent'	1080
Tyne Tees <sup>12</sup>	201
BBC <sup>13</sup>	99
Commercial Cinemas <sup>14</sup>	350
Total workforce in region	1730

Since this figure is so central to the rest of our study, we went to some lengths to verify that it was reasonable and consistent with other published data. The most comprehensive regular survey of the moving image sector is carried out annually by Skillset. The most recent figures available from this source<sup>15</sup> report that 1% of the UK's national moving image sector work in the region. Unfortunately, the number of survey returns on which this is based only allow the

<sup>11</sup> Median workforce size as determined by the survey (6), multiplied by estimated number of SMEs in the region (165)

<sup>12</sup> Tyne Tees Annual Report and Accounts for 2002

<sup>13</sup> Data kindly supplied by BBC North East

<sup>14</sup> Number of commercial cinemas in region – 10 (see Appendix D). A straw poll of these cinemas suggests that 35 employees per cinema would be a reasonable estimate, yielding 350 employees total

<sup>15</sup> Skillset Census 2002

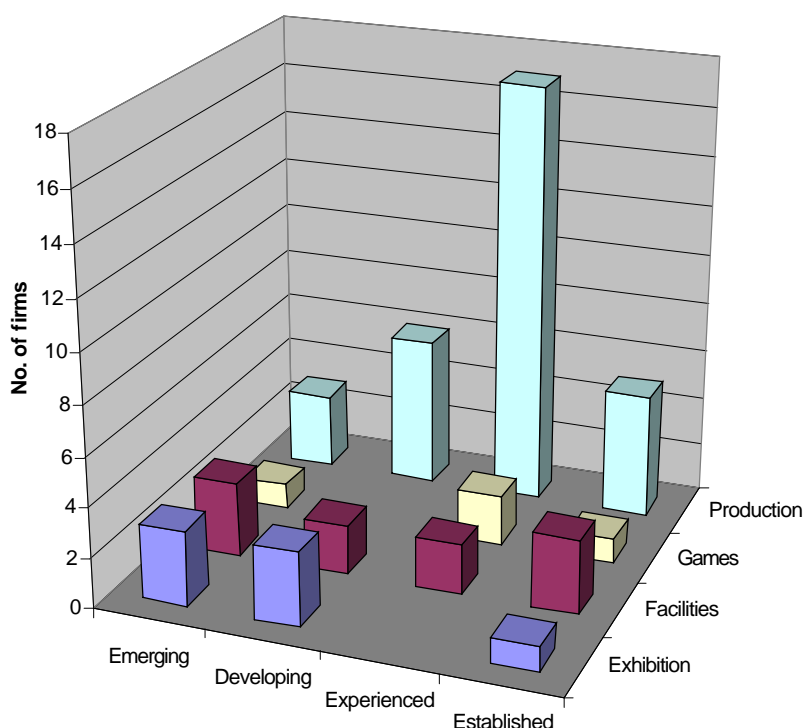
Skillset to state this proportion to one significant figure, providing a wide range of possible values for the actual workforce<sup>16</sup>: at lowest 650 people and at highest 1950 people. Reassuringly, the 1730 figure that we propose lies within the error boundaries of both the Skillset and other published data<sup>17</sup> and, being based on a larger sample size, we feel confident that it is likely to be more representative than any other source that we have been able to identify.

Using this figure, we estimate that the moving image sector represents 0.15%<sup>18</sup> of total employment in the region.

#### 6.4 Distribution by sector and by stage of development

Firms surveyed were classified using a scheme developed by Northern Film & Media to indicate their stage of development, as outlined in 3.3 above. This subjective but pragmatic scheme segments organizations operating in the media sector in the region into four different stages, as shown in Figure 6-1.

*Figure 6-3: Distribution of firms in survey by sector and stage of development*



<sup>16</sup> The total UK workforce identified by Skillset is 151,000 but this includes 20,700 radio workers. Subtracting these from the total suggests a national moving image workforce compatible with NFM's definition of 130,000. The proportion of the workforce in the NE – 1% - can only be stated to one significant figure so at lowest it could be 0.5000% of the national total (650 people) and at highest it could be 1.4999% (1950 people).

<sup>17</sup> Annual Business Enquiry 2001, NOMIS (quoted in One North East: *State of the Region 2003* p78 table 14.8) : Numbers employed in Radio and Television = 1450; numbers employed in Motion Picture and Video = 600

<sup>18</sup> Total number of employees in the region=1.15m (One North East: *State of The Region 2003*). 1730 employees therefore represents 0.15% of this workforce.

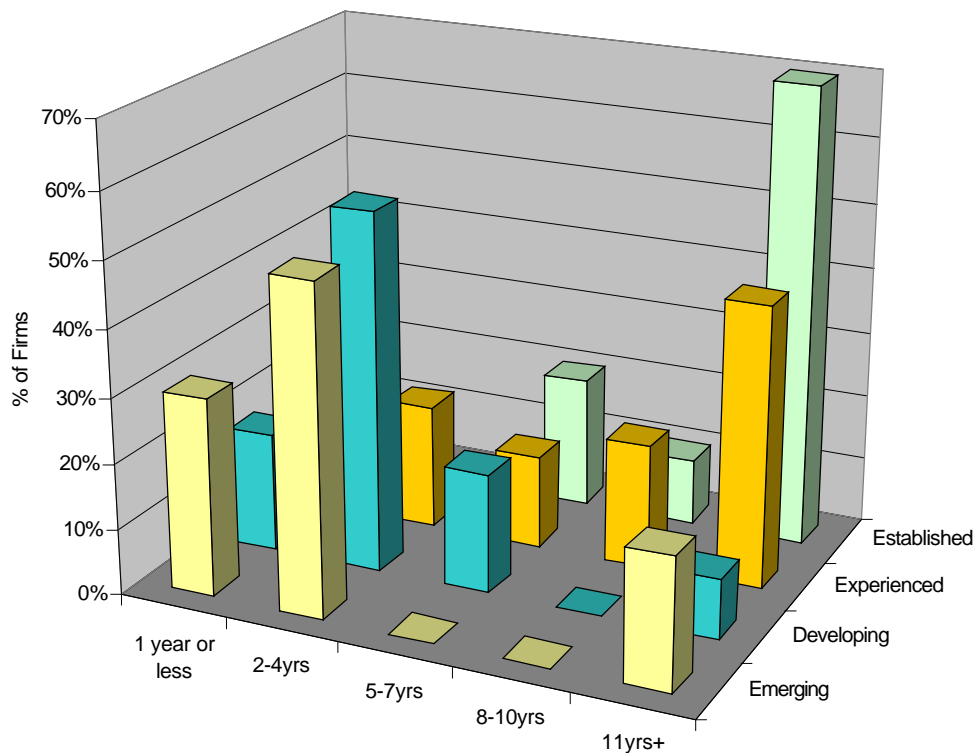
While the sample of firms surveyed was not truly random, several themes emerge from this view:

- There is a diverse spread of firms in the region, suggesting strong potential for the media sector as a whole
- Different sectors show different patterns of development, suggesting that a 'one size fits all' approach to commercial development would not be appropriate
- Some sectors face specific issues, such as the large number of experienced production firms that are finding it difficult to move on to become fully established. This suggests that there is a critical specific bottleneck in commercial development in the production sector at the boundary separating experienced from established firms that *Creating Success* should address.

## 6.5 Age of firms

We compared the age of firms with their stage of development.

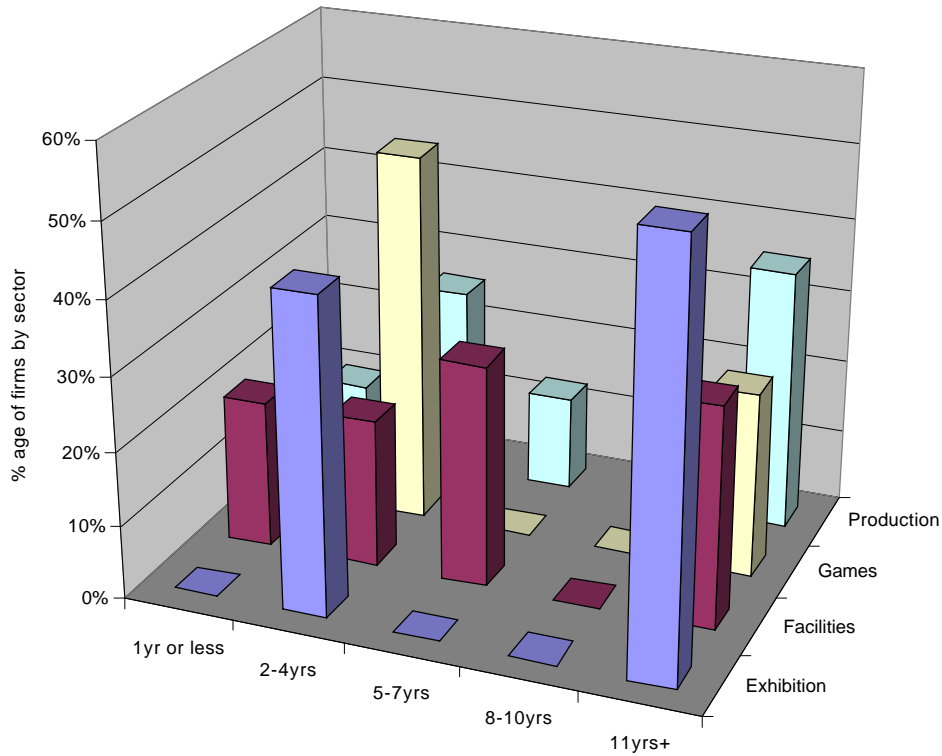
*Figure 6-4: Age of companies by development stage*



- Predictably, most young firms are either emerging or developing, however there are still some firms that are struggling to develop in commercial terms many years after they were formed
- It typically takes firms between 4 and 6 years to become experienced as commercial operators
- It seems to take ten years before firms are truly established and secure. *Creating Success* should aim to reduce this.

Next, we compared the age of firms in different sectors.

*Figure 6-5: Age of companies by sector*

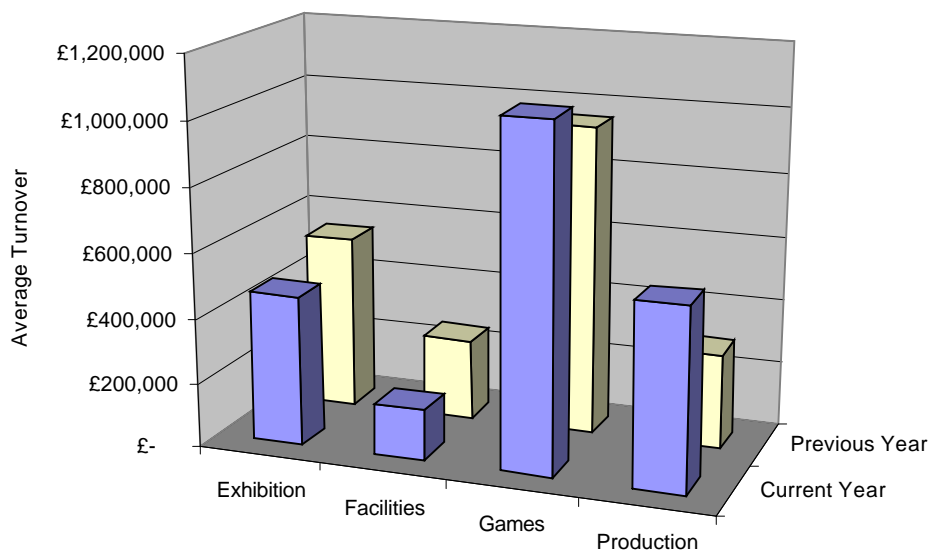


- Exhibition firms are generally the oldest companies in the region but new entrants to this market are also trying their hand.
- Facilities firms stated that new technologies are reducing barriers to entry, making it possible for competitors to set up in this business at relatively low cost.

### 6.6 Turnover of firms

Turnover between different sectors varied markedly.

*Figure 6-6: Turnover of companies surveyed by sector*



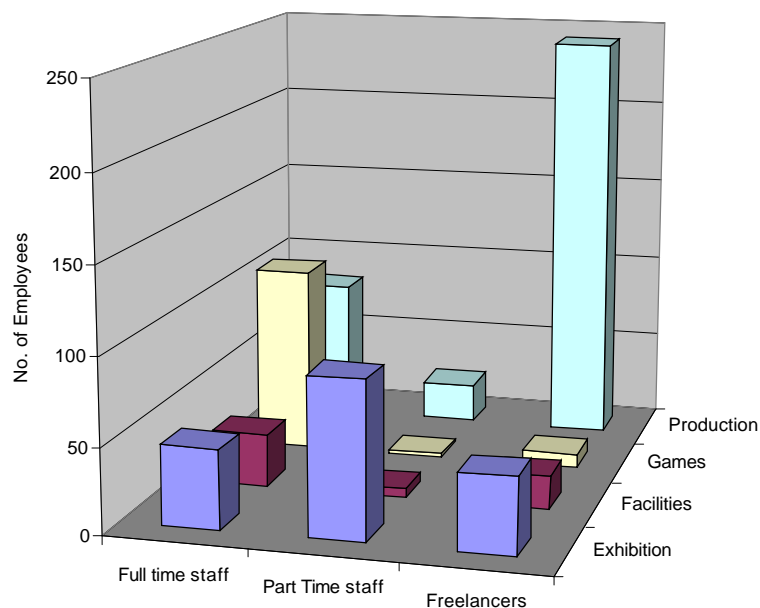
- Games firms showed the largest turnover, highlighting the importance of their contribution now to the region's economy.

## 6.7 Workforce mode of employment

Workforce employment patterns differ markedly between the sectors (see Figure 6-7).

- The workforce in the production sector is highly casualised, making extensive use of a freelance labour pool. This allows firms to keep a low fixed cost base in the face of a low-margin 'work for hire' business (in the case of TV producers) while maintaining high gross profit per full time head employed (typically the owners of the firm). Nevertheless, many production firms reported problems retaining key staff (a key competitive differentiator) precisely because of this casualised structure<sup>19</sup>.
- The games sector shows almost the exact opposite pattern. Companies perceive that the 'know-how' on which their value is built lies inside the heads of key individuals, who they must retain by keeping them on staff. The relatively long project cycles (2 years to develop a game compared with 6 months to produce a TV show) make taking on staff possible and make it easier to plan ahead, though the industry is still subject to cyclic demands for resources because it is project-driven. Greater scale is one answer to this problem (though it risks simply creating larger peaks and troughs); new business models that create revenue unrelated to project development work might be another.
- Facilities firms are able to draw on a pool of freelance talent like editors, though skilled editors were reported to be in short supply in the region.
- We suggest that the dominance of part-time staff in the exhibition sector reflects demand for exhibition facilities, as cinemas generally do most business in only part of each day/week.

*Figure 6-7: Staff employed by sector in companies surveyed*



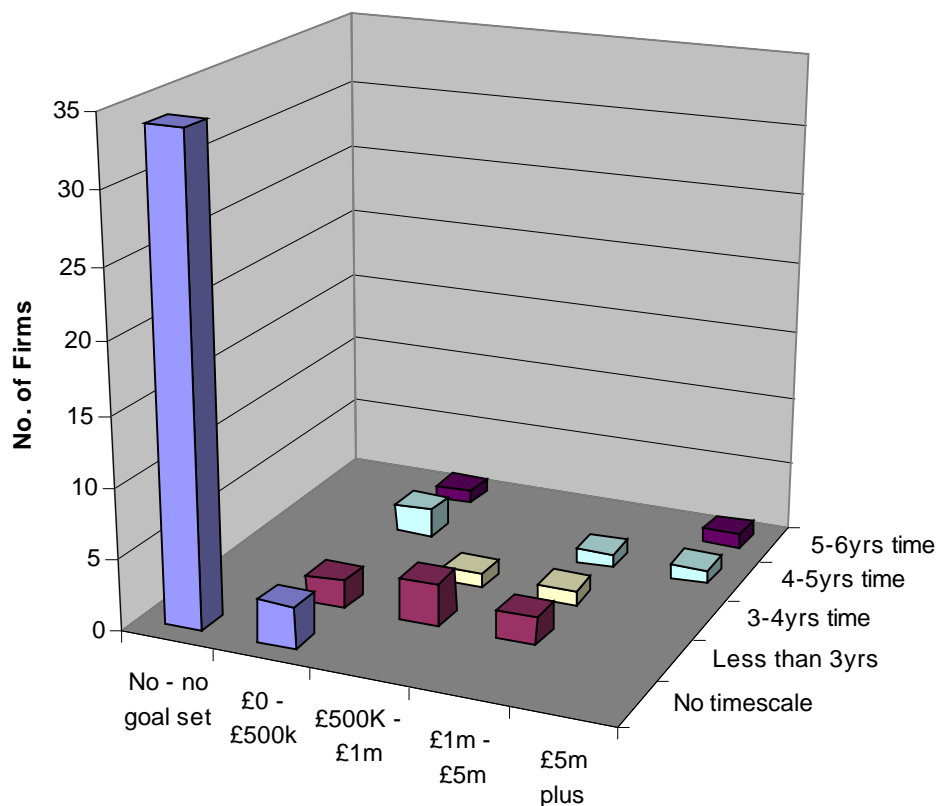
<sup>19</sup> Regional production activity results in a feast or famine for the freelance workforce. As a result, highly valuable and experienced specialists work mainly out of the region, where they can find work to match their skills and pay rates. Effective workforce development is needed, with innovative solutions to enable emerging and developing freelancers to gain professional skills and to encourage indigenous companies to pay industry standard rates.

## 6.8 The commercial goals of firms

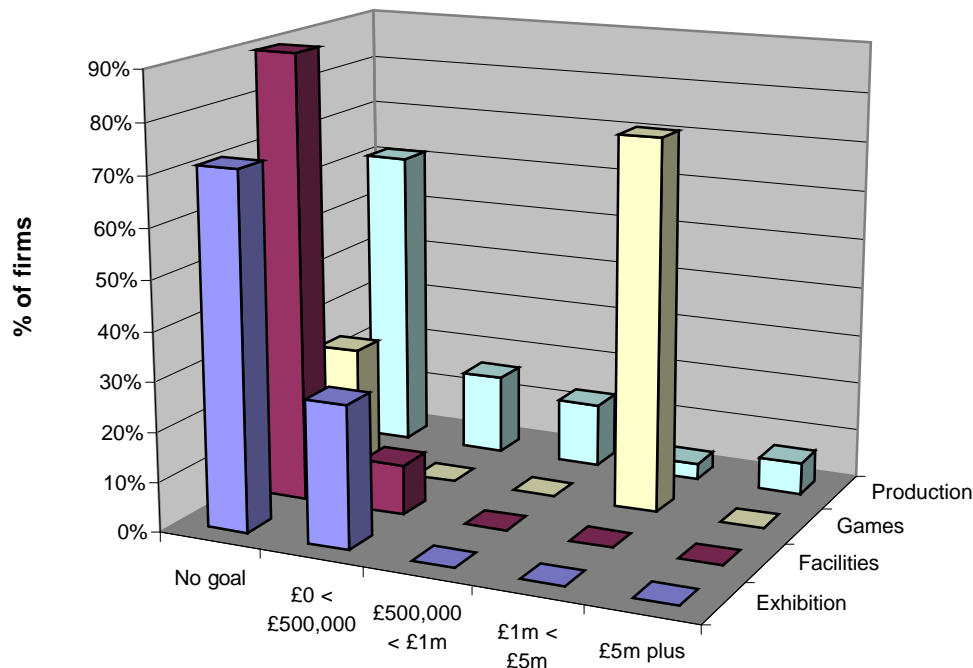
We asked both for-profit *and* not-for-profit firms if they had set themselves goals in commercial, rather than creative, cultural or social terms, and if so how much each shareholder might wish to realise from their firm and when (see Figures 6-8 & 6-9).

- We were surprised to find that 90% of firms felt uncomfortable expressing their goals in commercial terms, despite the fact that only a small number (~10%) of the firms surveyed were explicitly 'not for profit' enterprises
- Many owners of firms did not see themselves as entrepreneurs but rather felt they were contributing cultural or social capital to the region
- Feature film producers who saw themselves as entrepreneurs tended to set the highest financial goals, though they recognised that realising those goals would also take the longest time
- Games firms stated there were strong precedents for the owners of firms in their sector to build and then exit from a firm making £1-5m.
- Most Facilities firms need to take on significant lease-purchase finance to fund their business. Given the long-term financial commitments that this entails, we were surprised that it was not matched by an equally long-term commercial ambition.
- The exhibition firms surveyed had the lowest financial goals of all sectors, reflecting the fact that those surveyed were all specialist exhibition venues, not commercial cinemas showing mass audience films, and reflecting the motivations of the individuals involved, who are largely not driven by a desire to make money.

*Figure 6-8: Firms ambitions: number of firms setting a financial goal and timescale*



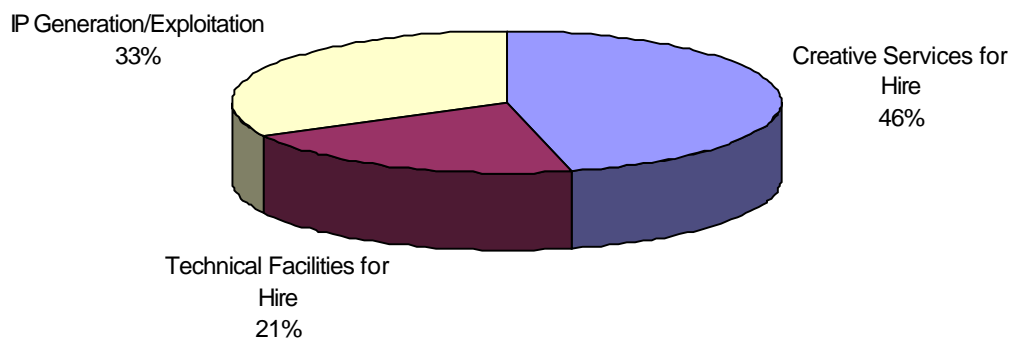
*Figure 6-9: Magnitude of goals set by firms in each sector*



### 6.9 Firms' primary activities and approach to innovation

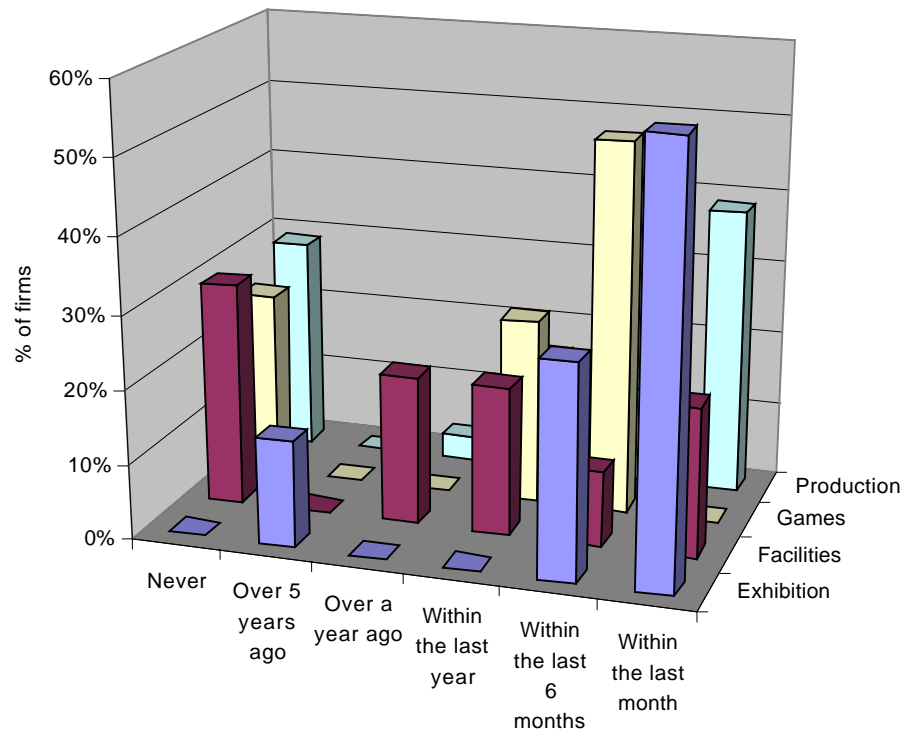
We asked firms about their approach to making money. Their responses are reflected in Figure 6-10.

*Figure 6-10: Economic activities of companies surveyed*



- The largest number of companies surveyed are doing creative work for hire. There are challenges in growing businesses based solely on this model where work is largely project based, because resource demands tend to force a boom-bust shape on cashflow.
- The number of firms attempting to build value through owning and exploiting Intellectual Property is quite high, though many of these hold this as an ambition and are not currently profitable, for a variety of reasons. If the factors holding these firms back can be addressed (eg through our proposed *Regional Rights Bank* and *Development Syndicate*) we feel that IP based firms have the potential to attract external investment, once the firms concerned are 'groomed' appropriately.

*Figure 6-11: When did firms last find a new way to generate revenue?*

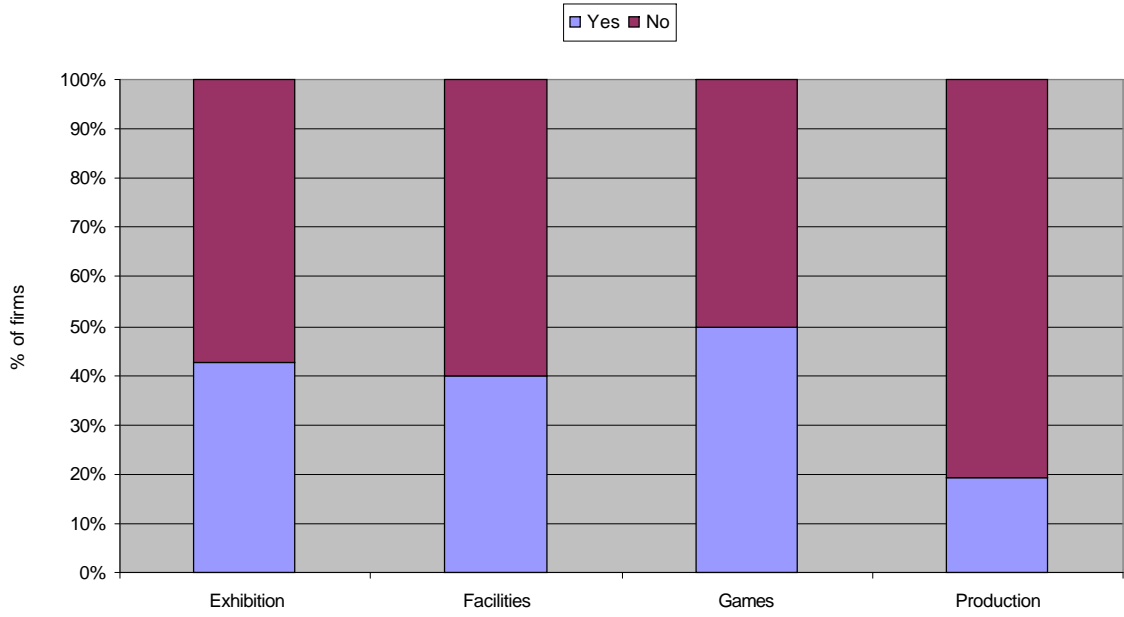


- Firms appear only once in Figure 6-11. The picture presented thus shows something of a split between firms that are continual innovators and a significant rump of 25% of Production, Games and Facilities companies that could be encouraged to think about new business models to improve their sustainability.
- Games firms generally didn't rate new ideas for cash generation as a priority while production, facilities and exhibition firms asked for help through *Creating Success* to do this.

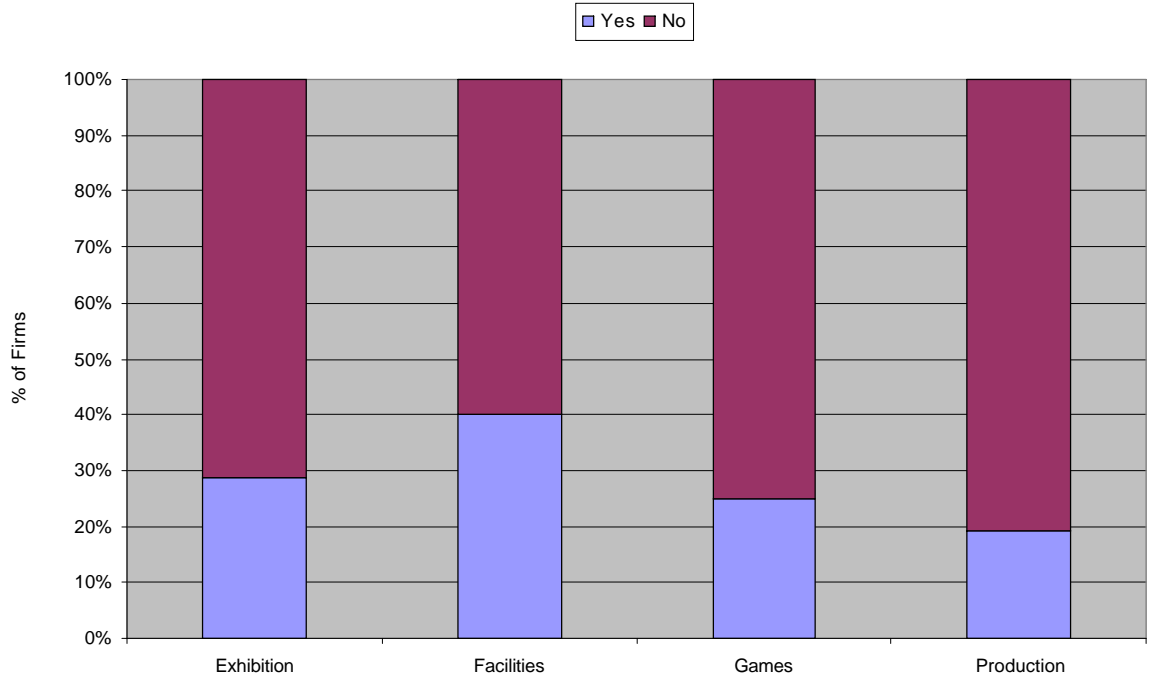
### 6.10 Firms approach to marketing and competition

We asked firms about the steps they had taken to understand the markets into which they sell, and how long it was since they last gained a new customer. The results are illustrated as Figures 6-12, 6-13 and 6-14.

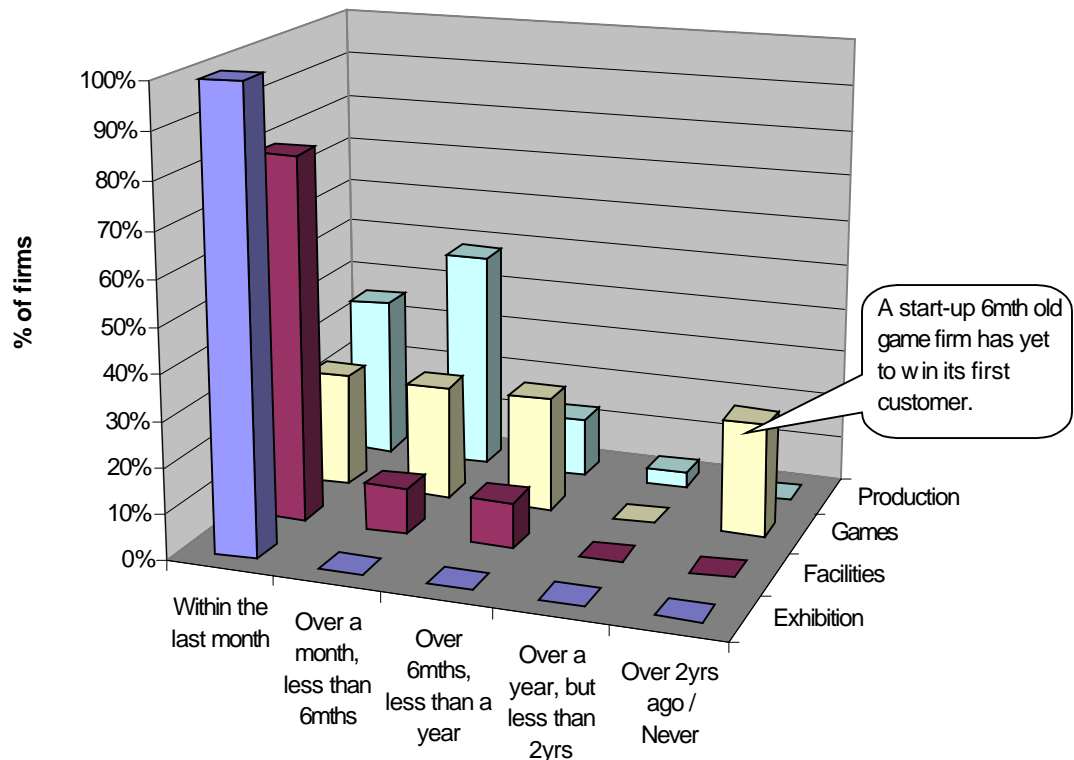
*Figure 6-12: Have firms done any in depth market analysis?*



*Figure 6-13: Have firms done any in depth competitive analysis?*



*Figure 6-14: When did firms last win a new customer?*



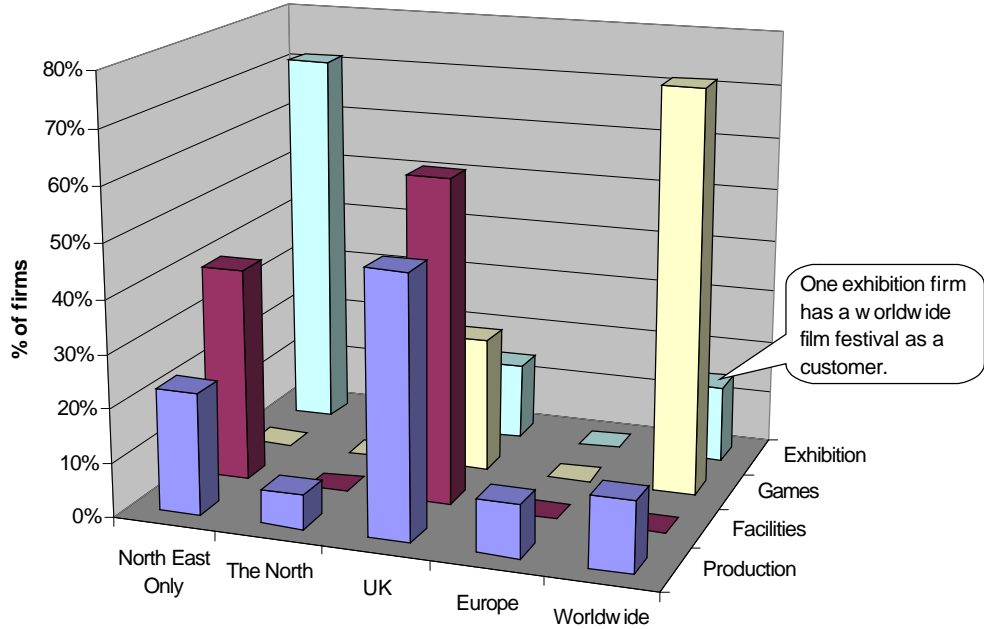
- Of the firms which had done market and competitive research, a majority still saw it as a priority. An overwhelming majority of firms met face to face asked for support from *Creating Success* to focus this activity
- Over half of the firms that hadn't mapped their markets and customers didn't see this as a development need. We suggest that this perception needs to be addressed, perhaps through NFM creating and publishing inspiring case studies showing success around relevant firms and projects revealed or initiated by *Creating Success* in our proposed *Success Showcase*.
- The approach of firms to marketing varied widely between the sectors. While Games firms are compelled by their project funders (publishers) to undertake market research (for example using focus groups of gamers), there is less tradition for this in the TV production sector, which tends to rely on an 'impresario' approach to selecting projects for production, ie firms rely on experience and creative insight, rather than market research. In addition there is some ambiguity among TV producers about who their audience is: commissioning editors, or the TV viewers? *Creating Success* might usefully facilitate a discussion between broadcasters and local producers to resolve this point: while some large independent producers outside the region buy in BARB<sup>20</sup> and other data and refer to it in pitches and in setting their development priorities, no producer interviewed appears to take this approach.
- 57% of exhibition firms had never attended a trade show and exhibition firms were among the least likely firms to have conducted market or competitive research. We suggest that exhibition firms may be missing out on valuable insight that would help them see their offering as consumers see it – one option amongst many for spending disposable income.

<sup>20</sup> British Audience Research Bureau – data is available for the independent sector from David Graham Associates Ltd

**6.11 Firms' approach to the geographical location of revenue**

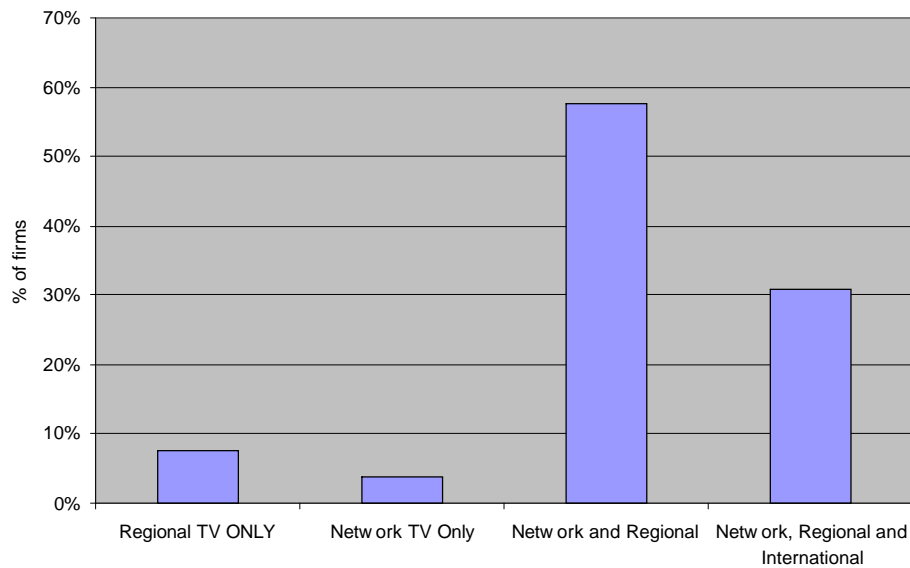
We asked firms to tell us where they looked for revenue and funding for their work.

*Figure 6-15: Location of direct customers by sector*



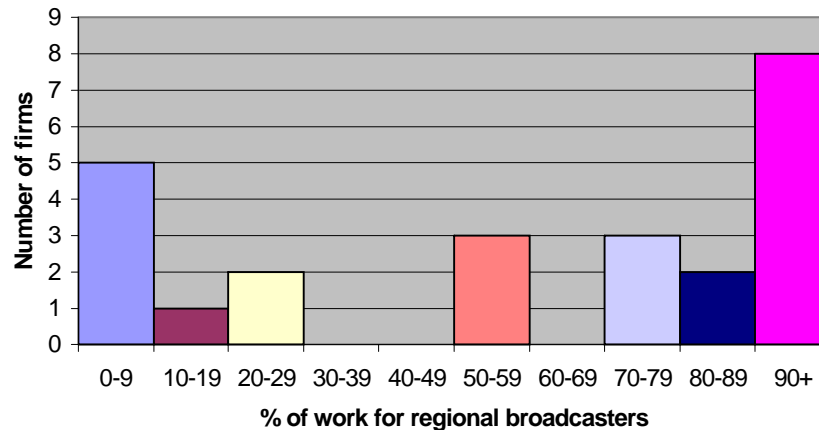
- Games firms are clear that their market is global and had most of their clients outside the North East.
- Facilities firms would expect to sell mostly in the region (as we found) but also to service customers coming from elsewhere in the UK
- Exhibition firms are entrepreneurial in their approach, pitching their services to other countries, eg running film festivals part funded by international customers.

*Figure 6-16: Where have broadcast production firms pitched their services?*



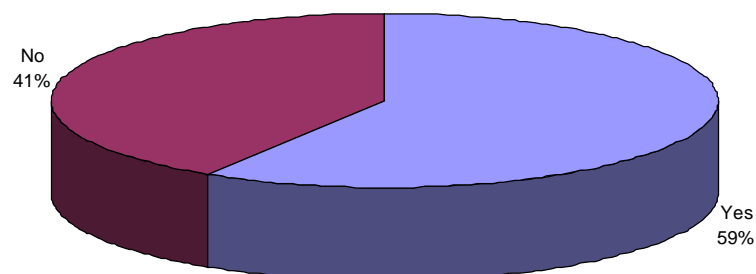
Along the horizontal axis, Figure 6-17 sorts firms into 'buckets' according to the percentage of work they reported doing for regional as opposed to non-regional broadcasters. A firm doing more work in the region would therefore appear towards the right, while a firm doing no work in the region would appear at the extreme left. The vertical axis shows the number of firms in each 'bucket'.

*Figure 6-17: Histogram: Broadcast Production split of work-regional versus network*



- 58% of broadcast production firms have pitched to the networks but the largest number of firms work mostly for regional broadcasters.
- We did not gather data explicitly on where production firms focussed on the non-broadcast (ie corporate and advertising) video sector are based, however anecdotally we understand that most work comes from within the region. Some video firms reported a frustrating perception by their clients that, while they represented good value for money on low production value jobs, clients thought it necessary to go to a London firm for the larger projects.
- Again anecdotally, we picked up a general move towards production firms who spanned both broadcast and non-broadcast to look for the non-broadcast work to represent the majority of their future income. Our perception is that, while this may well be possible, many broadcast firms would need help to establish an appropriate client service structure and culture to make this transition.

*Figure 6-18: Have feature films pitched to funds outside NFM?*

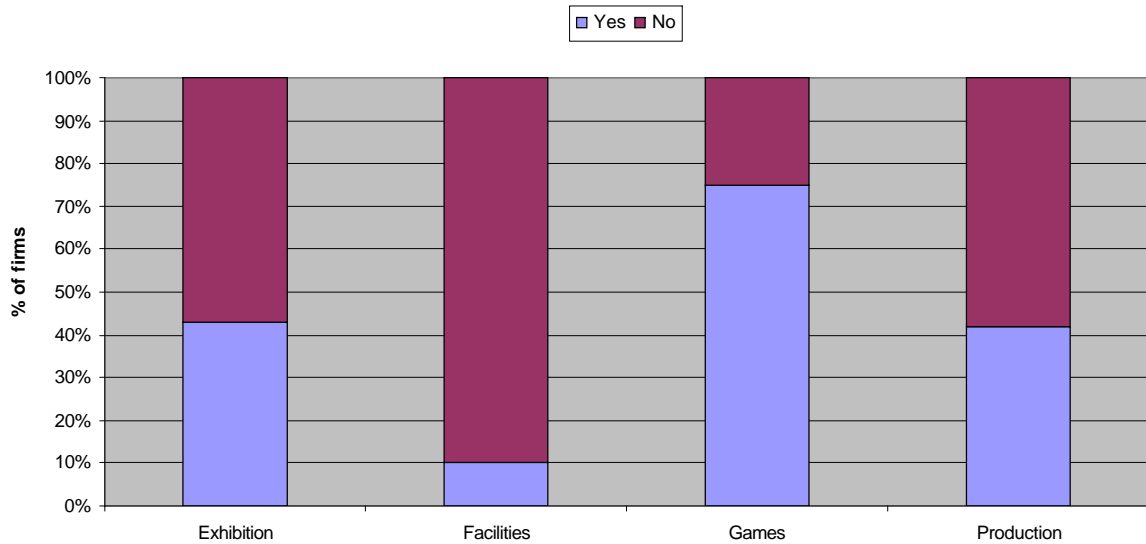


- Many production companies tended to think of regional or national markets and did not have the confidence to address international markets. Anecdotally, our interviews with producers suggest that many are unclear about how to engage a distributor to facilitate access to international markets and this is something that *Creating Success* might address.

- The majority of the 17 production firms producing features or short films that we interviewed claimed to have pitched to the Film Council or another non-North East fund. This seems surprising given that the number of recorded formal applications by producers in the region to the Film Council numbers just 2<sup>21</sup> at the time of writing.

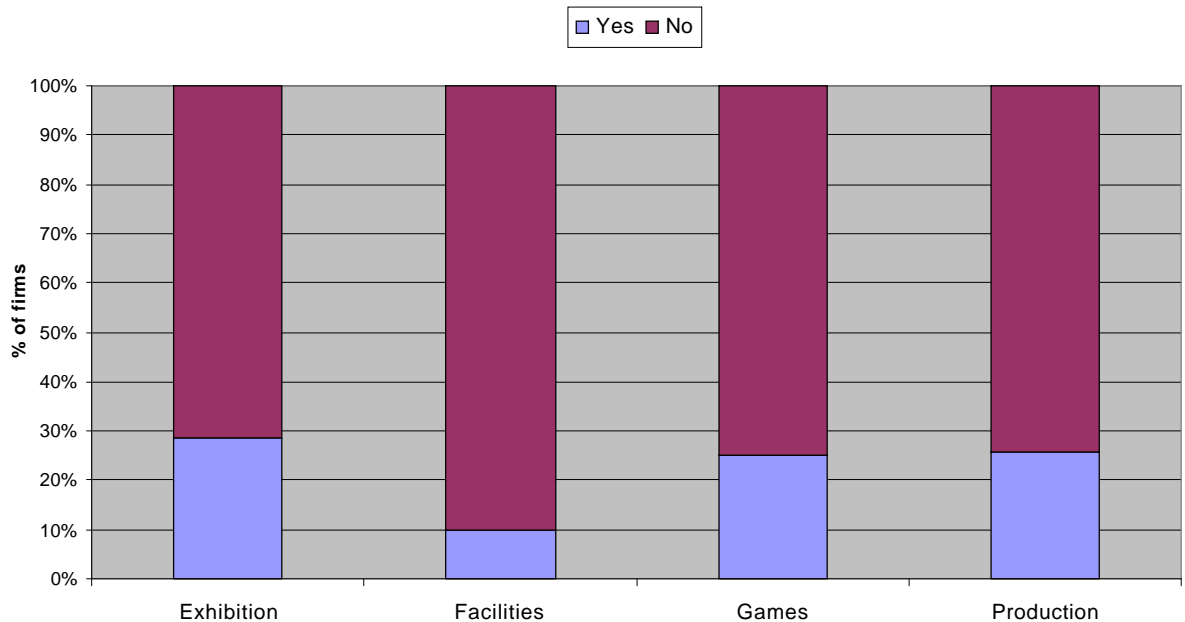
**6.12 Firms' approach to skills and training**

*Figure 6-19: Firms which have/have not audited skills needs*



- Games firms put most weight on skills training, as would be expected in a sector with fast-changing technology. 75% of games firms had undertaken a training audit, whereas only 10% of exhibition firms had done this.

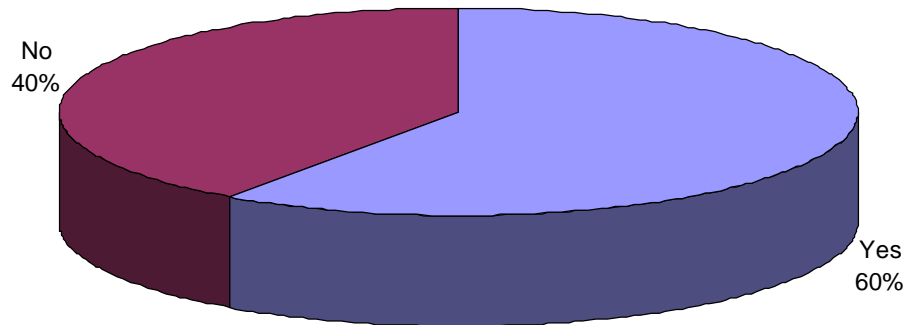
*Figure 6-20: Firms with a written training plan*



<sup>21</sup> Source: NFM records. It is possible that some producers in the region may have applied to the Film Council but not notified NFM

- Only 23% of firms had a written training plan. We suggest work with firms to plan their training needs would be productive. This would assist in workforce development planning and the influence of NFM's strategy for the development of people.

*Figure 6-21: Firms where senior management has received coaching or professional training*



- While firms valued training and expertise regarding the tactical aspects of their work, eg 'knowing how to put together the financing for a feature film', they often confused this with the expertise required to construct and deliver on a commercial strategy and plan, ie 'how to make sure I am still in business and move towards my goal'. We therefore suggest that Figure 6-21 could be misleading and further work is required to understand how firms can be encouraged to think strategically.
- Further work is also needed to establish the level of knowledge about managing a business in the sector; many firms surveyed were very small. It is likely therefore that the senior managers need guidance and skills to develop effective business policies and practice; e.g. to be able to manage monthly accounts; to recruit, select and manage people; to work within employment law and the law on health and safety.

## 7 Common issues faced by firms

Face to face meetings allowed us to fill in many of the reasons why the moving image landscape is the way it is in the region. Common issues emerging are listed below in the form of a 'SWOT' analysis for each sector surveyed.

### 7.1 Games Firms' perception of their Strengths, Weaknesses, Opportunities and Threats

*Table 7-1 Games firms perceived SWOTs*

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Good variety of revenue streams – average of 3.3 – and usage of staff resources.</li> <li>• Low budget and high budget development capabilities.</li> <li>• Very strong, highly trained and experienced staff and game development capabilities.</li> <li>• Disciplined approach to project management.</li> <li>• Strong management teams with wide sector experience.</li> <li>• Lower cost of living in the region means lower staff costs, bringing higher operating profit margins/sustainability than competitors in other regions.</li> <li>• Ownership of intellectual property is firmly established as the basis of business</li> <li>• Strong relationships with publishers and chain of distribution.</li> <li>• Firms perceive their independence of venture capital to be an asset</li> </ul>	<ul style="list-style-type: none"> <li>• Management teams typically feel overloaded with the pressure of running the business and need to re-organise structures to make them scaleable.</li> <li>• Firms would like help to strengthen their financial planning.</li> <li>• Location of most publishers in the South puts Northern games developers at a disadvantage.</li> <li>• It is difficult to attract qualified graduates to the North East from the South.</li> <li>• Lack of available expertise in the region for certain technical specialisms.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Retaining and thus exploiting IP rights rather than losing them to publishers, if firms were better capitalised</li> <li>• Better resource planning of management time to allow better focus on business issues rather than project work.</li> <li>• Access to development capital could support infrastructure and growth.</li> <li>• Planning for management succession would be an opportunity for firms to mature and grow away from value being locked up in key individuals.</li> <li>• Acquisition and buy-out opportunities abound, if firms can access the expert help required to explore them</li> <li>• A subcontracting model could reduce costs and is becoming more viable as the sector matures.</li> </ul>	<ul style="list-style-type: none"> <li>• Boom – bust cycle of project-based business. New models are required because scaling up the number of projects run concurrently simply scales up the problem issues.</li> <li>• Competition moving into the region could poach key staff.</li> <li>• Games publishers could move to use “in-house” development teams as the sector matures.</li> </ul>

We perceived the following two additional opportunities for this sector:

- Closer relationships with HE could be forged to influence course content, and to recruit and retain suitably qualified regional graduates who are less likely to leave the NE
- A programme could be created to focus on developing a specialism within the companies in the region, possibly in association with the universities.

## 7.2 Production Firms' perception of their Strengths, Weaknesses, Opportunities and Threats

*Table 7-2 Production Firms - perceived SWOTs*

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Strong creative track records of many firms</li> <li>• Innovative approaches to delivery of corporate video services.</li> <li>• Abundance of young, ambitious creative talent in the region.</li> <li>• Good tactical project management skills.</li> <li>• Strong relationships with regional broadcasters.</li> <li>• Feature Film producers have strong relationships with writers.</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic planning needs a boost because many firms feel they lack focus, with too many ideas and not enough resources to chase them all.</li> <li>• Firms feel their market knowledge and planning needs to be improved, and systems for new business development need to be put in place.</li> <li>• Structural issues in the TV supply chain are an issue: the strength of broadcasters means that development work for creative pitches goes unrewarded. This could change with the new Communications Bill but companies feel unprepared to seize the advantages it will bring.</li> <li>• Limited access to IP rights management expertise due to a lack of specialist lawyers/other professionals in the region.</li> <li>• Boom and bust cashflow cycles from project to project.</li> <li>• Inability to attract and retain suitable staff due to boom-bust cycles of production-driven cashflow.</li> <li>• Firms are undercapitalised but, lacking concrete assets, they are unable to resolve this through debt/equity finance.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Feature Film producers recognise the benefits of co-operation in raising funds for development</li> <li>• New business models and revenue streams could be tapped if firms were able to tap the expertise required</li> <li>• IP retention and exploitation offers the potential to grow real value</li> <li>• Joint ventures with other firms in the region could offer the chance to grow with shared risk: strong mentoring relationships and networking links already exist between like-minded firms.</li> <li>• Advertiser-funded programming offers potential new streams of revenue, through links with marketing and communications agencies.</li> <li>• TV producers recognise that shifting focus from one-off projects to series will improve cashflow and profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Adverse changes in tax regime post 2005 could threaten feature film producers.</li> <li>• New technology in desktop video brings both uncertainty and opportunities for corporate video firms.</li> <li>• Cash flow issues due to size of some firms and their exposure to down turns in business.</li> <li>• Losing focus on TV work as some firms seek to fulfill their feature film ambitions.</li> <li>• Losing key skilled staff to other production firms outside and inside the region through lack of career and HR planning.</li> <li>• Shortage of experienced freelance senior production staff at the 'Series Producer' and 'Executive Producer' level. Most people with experience are running competitive companies.</li> <li>• Lack of operational and strategic planning</li> <li>• "Over pitching and under-resourced!"</li> <li>• Falling barriers to entry are destroying the mystique of corporate film-making.</li> </ul>

We perceived the following two additional weaknesses in this sector:

- The 'feast or famine' production cycle results in highly skilled "exiles" staying out of the region
- There appears to be a lack of specific skills, eg production accountants and electricians. If not addressed this could become a serious shortage within 5 years.

We perceived the following two additional opportunities in this sector:

- Focused training programmes could recruit and retain people for key roles
- Mentoring and shadowing opportunities with successful, established companies elsewhere in the UK could increase the professionalism of the region's production companies

### 7.3 Facilities Firms' perception of their Strengths, Weaknesses, Opportunities and Threats

*Table 7-3 Facilities Firms - perceived SWOTs*

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Established track records, excellent experience and high quality of work.</li> <li>• Highly committed staff.</li> <li>• Excellent goodwill from repeat customers</li> <li>• Strong local production and community links.</li> <li>• Good range of skills through training courses to span all technical disciplines.</li> <li>• Simple business model with a well defined market.</li> <li>• Physical asset based business so straightforward to raise finance.</li> <li>• Some firms are at the forefront of new technology with heavy investment in the latest equipment.</li> </ul>	<ul style="list-style-type: none"> <li>• Reliance on the fortunes of other local media businesses creates an exposure to local down turns in the industry.</li> <li>• Local market is not growing, hence no growth in the gross profit of firms.</li> <li>• Complementary services such as film crew hire add revenue but cannot directly impact growth as dependent on the same market.</li> <li>• Move away from facility house based editing to desktop editing weakens the post-production firms' business model.</li> <li>• Lack of time/energy/focus to plan for the future.</li> <li>• Shortage/lack of latest digital technology due to lack of funds to purchase.</li> <li>• Amount of equipment available to hire always limits the growth and scale of the business when times are good.</li> <li>• Some 'one man bands' - Labour/skills/equip resources too small to compete for big projects.</li> <li>• Lack of service differentiation.</li> <li>• Firms feel over-reliant on North East regional customers but don't know how to market themselves.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Joint ventures and link ups with other firms in the region to explore outsourcing, sharing of equipment and facilities and joint projects.</li> <li>• New business models, markets and revenue streams, perhaps co-locating different parts of the supply chain.</li> <li>• More customers though better marketing research and planning.</li> <li>• Invest in latest equipment to stay current</li> <li>• Explore doing corporate video work and hiring in producers to service it, rather than waiting for producers to generate business.</li> </ul>	<ul style="list-style-type: none"> <li>• Dependence on key staff.</li> <li>• Production companies are now investing in their own equipment replacing the need for facility services.</li> <li>• High risk involved in capital expenditure for future technology if wrong technology decision made.</li> <li>• Strong competition and a lack of differentiation between facilities.</li> <li>• Quality is critical to the business and any mistake could prove very expensive.</li> </ul>

We perceive that the role of the post production sector is changing rapidly as new technology (e.g. desktop editing on standard PCs) makes the old model of a capital-intensive central facility less vital to delivering broadcast television. Yet there is some irony in the fact that the growth of new distribution channels such as broadband is making the technical process of managing post-production more and more complex. This makes the skills of established post production experts more, not less valuable and it is vital that the region does not lose these skills as a generation used to working under the old model hands over to the next.

We perceived the following additional opportunity in this sector:

- A regional crewing agency might increase the effectiveness of the facilities sector and research through *Creating Success* could investigate this.

#### 7.4 Exhibition Firms' perception of their Strengths, Weaknesses, Opportunities and Threats

*Table 7-4 Exhibition Firms - perceived SWOTs*

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Innovative approaches to exhibition.</li> <li>• Experienced management with strong track records in exhibition/entertainment management are available as mentors in the region.</li> <li>• Distinctive and characterful buildings which can be utilised as marketing tools in themselves.</li> <li>• Strong and loyal local following of customers</li> <li>• Goodwill from local media firms</li> </ul>	<ul style="list-style-type: none"> <li>• Over-reliance on public funding threatens sustainability if the political wind changes direction.</li> <li>• Ageing and expensive building assets which require cash for general maintenance, restoration and renovation.</li> <li>• Poor market penetration for some venues.</li> <li>• Lack of performance measures - Only way to measure growth/progress is number of ticket sales.</li> <li>• Number of seats in the building is a limit to the growth potential in that revenue stream.</li> <li>• High number of part time and voluntary staff put constraints on the energy available in the business.</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Re-development of existing spaces to make way for new technology.</li> <li>• Better utilisation of space in exhibition buildings could provide further revenues from rental fees.</li> <li>• Engage with commercial sectors to promote use of space for company away days.</li> <li>• Generate more revenue from café/restaurant commissions through promoting use of the space to different customers at different times.</li> <li>• Boost ticket sales through new marketing initiatives.</li> <li>• Explore the Private Screenings market to boost screen revenues.</li> <li>• Increase customer base to include writers/productions from outside the region.</li> <li>• Interact on a deeper level with other elements of the supply chain in the region.</li> <li>• Organise a new writing festival.</li> <li>• Upgrading facilities with the latest technology to place the firm at the forefront of cinematography.</li> </ul>	<ul style="list-style-type: none"> <li>• Falling subsidies and over-reliance on public funds could close all of the exhibition firms in the region if they don't generate more revenue streams to support themselves.</li> <li>• Health and Safety issues due to growth in activities require additional specialised skills to manage.</li> <li>• Changing business model towards a more commercial approach could result in some stakeholders withdrawing support.</li> <li>• Lack of staff capacity and skills to manage the change and range of activities.</li> <li>• Reliance on a small number of revenue sources with growing competition from other services competing for consumers leisure time.</li> </ul>

We perceived the following additional opportunity in this sector:

- Create a showcase festival for regional cinema productions, to complement the existing RTS Regional Television Awards. This could also incorporate a new writing festival.

## 8 Benchmarking objectives

The objectives for the benchmarking exercise were to create consistent, repeatable measures that:

- Provide a baseline against which development of the sector in the region can be measured
- Allow NFM to target intervention in the sector based on real need
- Allow NFM to measure the 'value added' by intervention
- Generate measures of performance which could be useful to companies in comparing themselves with their peers and with other sectors
- Provide measures of performance which will allow investors to assess the growth potential for individual firms

## 9 Financial benchmarks

These reflect 'hard' financial data. The detailed findings of the financial benchmarking analysis are listed in Appendix B. Here, we highlight the findings that seem most significant.

### 9.1 Definitions

While the information available was often incomplete, it was manipulated to produce as complete a picture as possible for each firm regarding:

#### 9.1.1 Gross Profit

Sometimes described as 'the fundamental food of the business', this is also known as *Gross Income, Gross Revenue, Revenue, or Net Revenue*. For the purpose of this analysis it is defined as Turnover less recharges in a given period. Unit of Measurement is "£k", referring to a year. The Gross Profit figure **excludes** public subsidies or grants.

#### 9.1.2 Gross Profit Per Head

An indication of 'How well the people generate this food', a.k.a. *Productivity, Output, Gross Income Per Employee, Fee Per Head, Net income Per Employee*. We define this here as Gross Profit per full time<sup>22</sup> employee in a given period. Unit of Measurement is "£k", referring to a year.

#### 9.1.3 Gross Profit Growth

This is a measure of the speed and direction in which the firm is running, a.k.a. *Growth, CAGR*. Here it is defined as the amount by which Gross Profit has grown over a year. Unit of Measurement is "%"

#### 9.1.4 Operating Profit Margin

Colloquially, the 'sweet music of a well-oiled machine', a.k.a. *Margin, Profit Margin, Operating Margin; Net Pre-Tax Profit as % of Turnover*. Defined here as that portion of Gross Profit which is Operating Profit in a given period. Unit of Measurement is "%", referring to a year.

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<sup>22</sup> We only include full-time employees in this figure because we assume that part-time and freelance staff are most likely to be associated with specific projects and so, in accounting terms, to count as part of the 'recharges' or 'cost of sales' which is conventionally deducted from Turnover to yield Gross Profit.

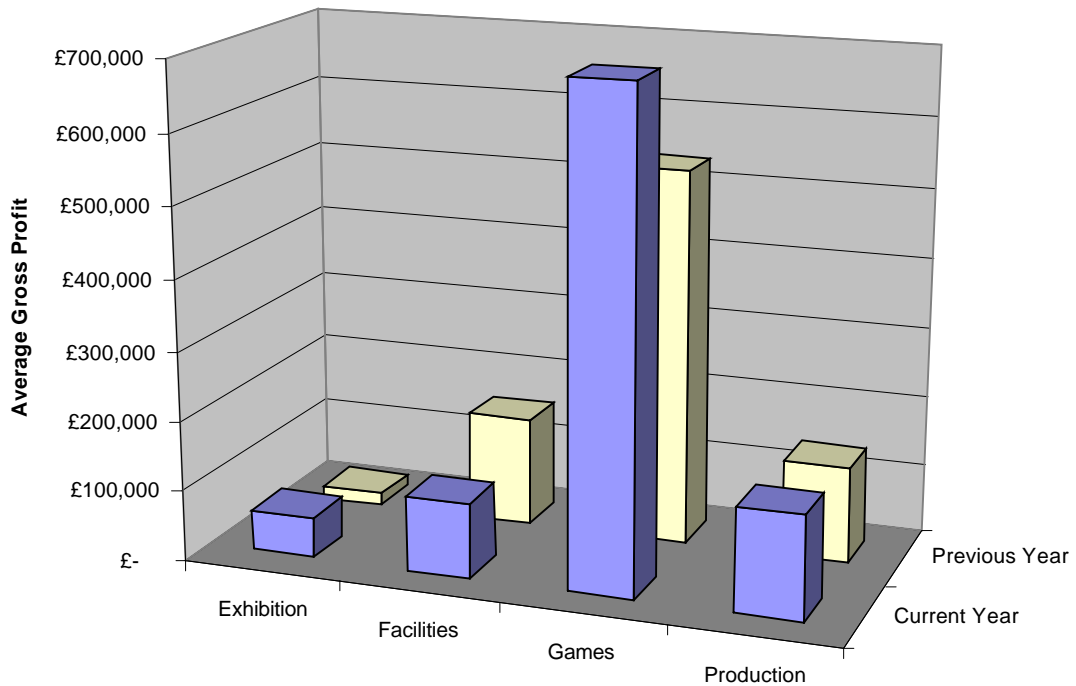
**9.2 Benchmarks which could not be calculated due to incomplete and inconsistent data**

The benchmarks above are appropriate for companies doing work for hire. Capital intensive firms like Facilities companies, or IP based firms, really require an additional figure to be calculated to reflect the return on capital employed that they achieve in order to give a full picture. We would like to have calculated Internal Rate of Return (IRR) figures but data was not available to do this.

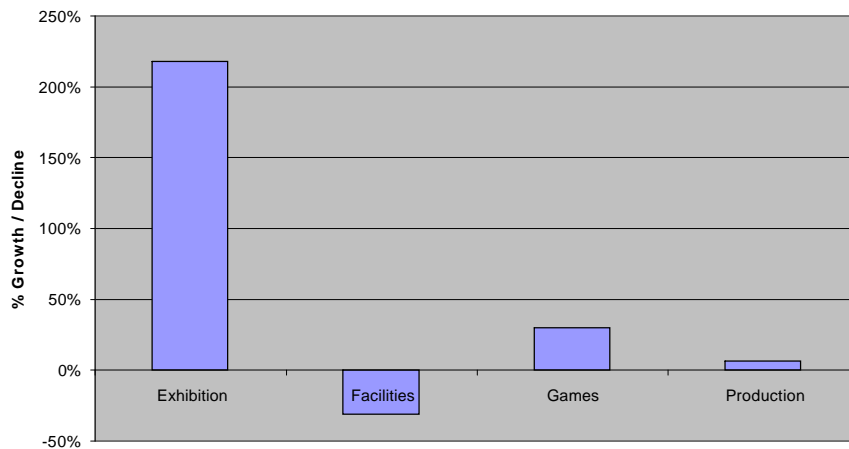
Similarly, we were unable to obtain sufficiently consistent data to draw meaningful conclusions regarding Free Cash Flow or the Gross Profit to Staff Costs ratio, though we recommend that future studies able to obtain access to the necessary data calculate these to gain additional insight.

**9.3 Findings**

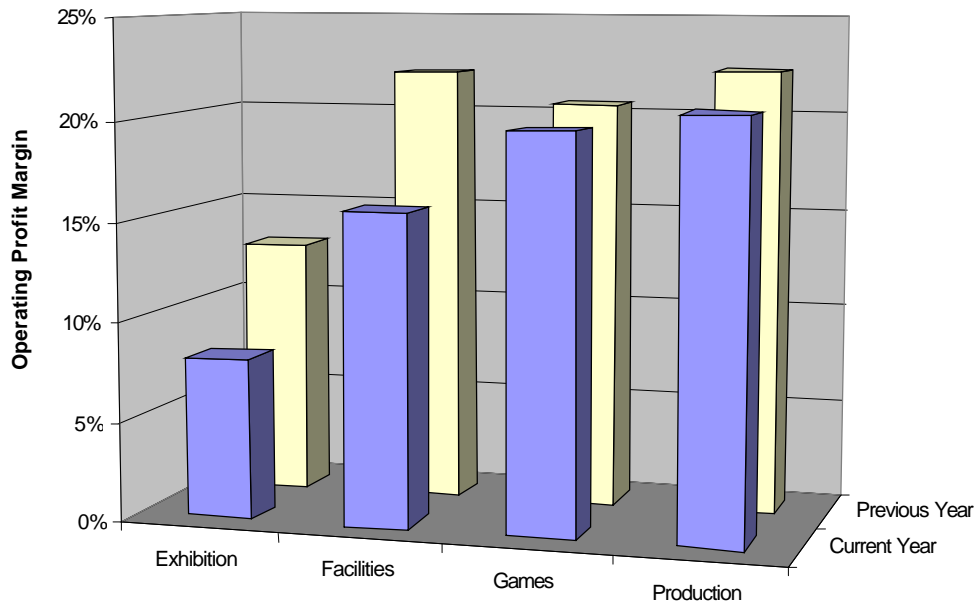
*Figure 9-1: Average Gross profit of firms surveyed by sector*



*Figure 9-2: Average Gross profit growth of firms by sector (profit- and loss-making firms)*



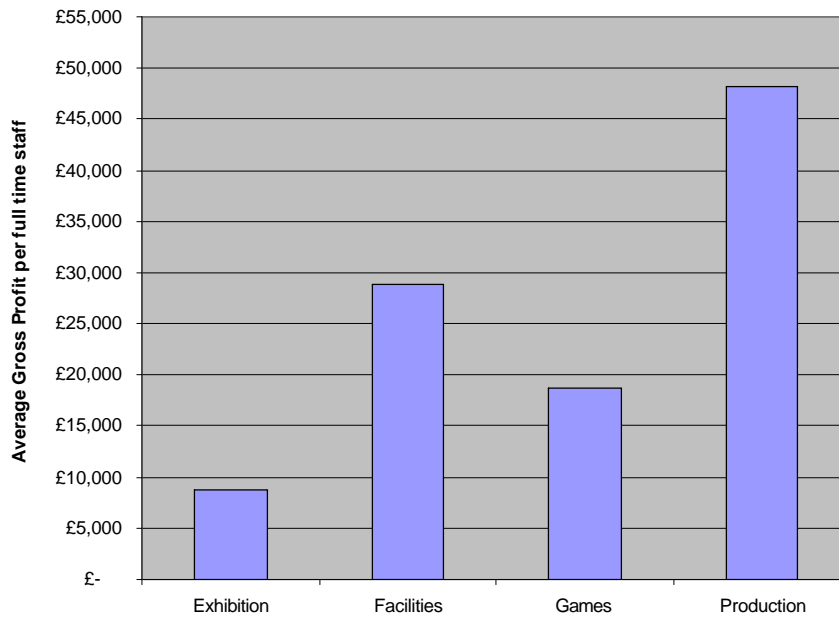
*Figure 9-3: Operating profit margin of firms by sector (profitable firms only)*



- The firms are mainly profitable<sup>23</sup>, albeit at a low level.
- Games firms showed by far the largest turnover and overall profitability, indicating the importance of their contribution to the region's moving image economy.
- Among profit making companies, production firms showed they could achieve the same margins as games companies, indicating their potential to contribute to the region's economy if they can be helped to grow
- If loss making companies are taken into account, there has been no growth in gross profit for facilities companies, reflecting the difficulties they face as new technology challenges their traditional role in the supply chain.

<sup>23</sup> Of the companies surveyed only 2 were loss making. Our experience is that management teams of small and medium sized enterprises do not remunerate themselves (with the hope that the equity will be valuable at some point in the future) at the market rate so this can distort the conclusions (77% told us that they sacrificed salary at some point).

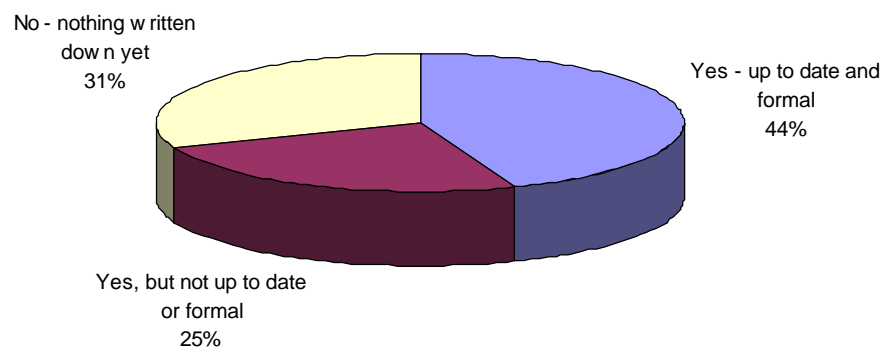
*Figure 9-4: Gross profit per full time head by sector*



- Whilst Gross Profit has increased year on year, at £27k the mean Gross Profit per head across all sectors is substantially lower than the £45k national average for creative services firms in comparable sectors<sup>24</sup>. There is scope to improve the financial performance by increasing the productivity of each employee.

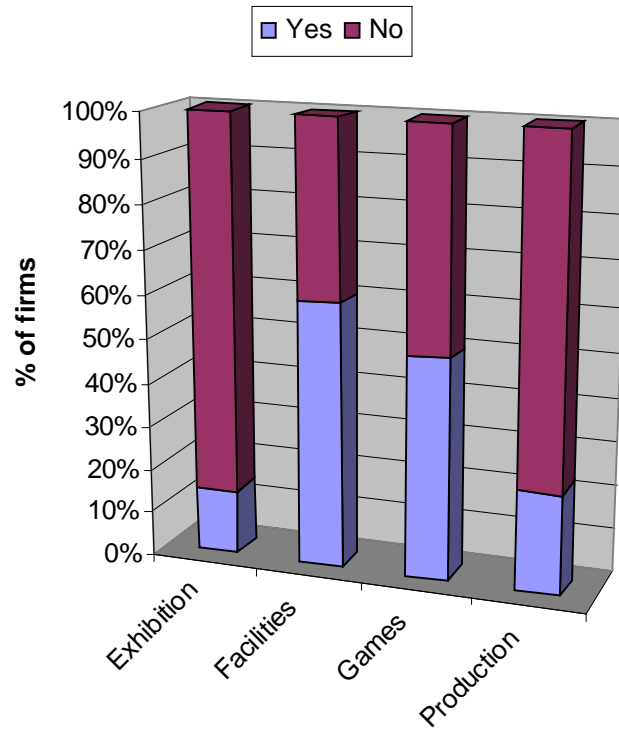
#### 9.4 Firms' approach to financial management and planning

*Figure 9-5: Use of formal business plans*

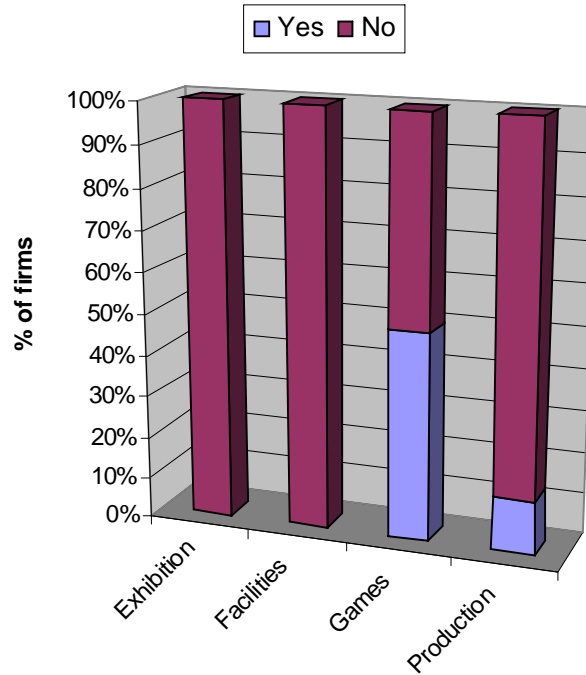


<sup>24</sup> Willott Kingston Smith, 2002, "Financial Performance of Marketing Services Companies", Fintellect Limited.

*Figure 9-6: Use of debt finance*



*Figure 9-7: External equity investment*



- Only 12% of firms have received third party equity investment while 70% considered raising finance from investors, or in the case of not for profit, grant funding

- Less than half of the businesses surveyed have an up to date business plan. There is a lack of preparedness in the sector to raise more capital. More can be done to attract investment to companies in the region, not only in terms of raising sustainable debt but also in attracting equity investment. In both cases, it is important to be prepared for the process (e.g. having an up to date business plan).
- Facilities companies have investment in hardware financed on lease-purchase. Exhibition companies could be more confident
- Production companies were less likely to have a business loan than any other sector. Over half of games and facilities companies had debt finance, probably reflecting the fact that debt can be secured against an asset in both cases (intellectual property in the case of games companies; physical equipment in the case of facilities companies), whereas production companies doing work for hire have few assets.

## 10 Productivity benchmarks

These 'soft' benchmarks reflect the DTI's five dimensions of productivity:

- **Skills** - maximising the contribution of human capital to growth. Life long training and education which raises productivity, broadens employment choice and raises individual self-esteem.
- **Investment** - improving the Region's stock of physical capital across the economy - complemented by properly evaluated and rigorously monitored public investment.
- **Innovation** - utilising the potential of new technologies and developing more efficient ways of working - the development, diffusion and adoption of new technologies and processes.
- **Enterprise** - helping new and established companies start up, develop and grow - a culture open to ideas and risk taking
- **Competition** - encouraging firms to innovate, minimise costs and promote better quality goods and services to the consumer.

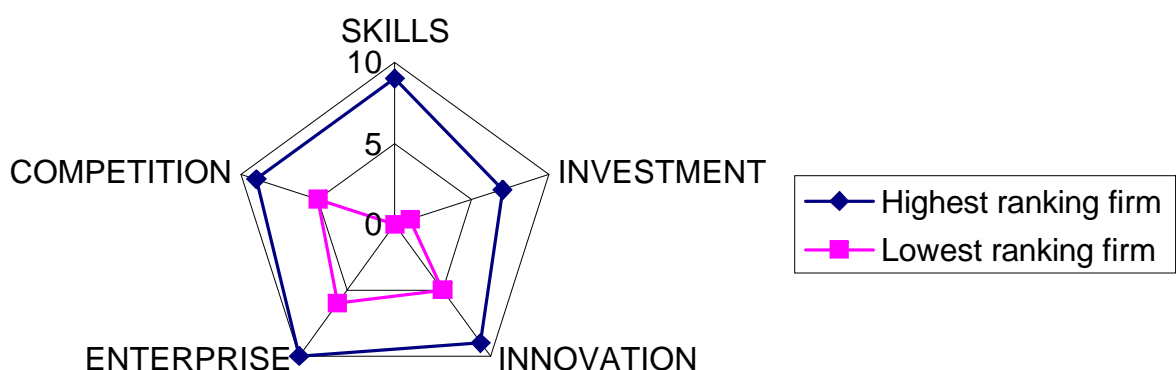
Benchmarks were calculated for each firm, for each sector and for firms at each stage of development using a matrix to score their responses to the questionnaire and giving each dimension of productivity a score out of 10.

- While individual firm benchmarks cannot be revealed for reasons of commercial confidentiality, more detailed productivity benchmarking data is listed in Appendix C.
- The precise relationship of questions in the questionnaire to each dimension of productivity, and the weighting we have accorded to each response in our scoring matrix could be refined by further research. For now we simply present these productivity metrics as a pragmatic, objective, repeatable tool.

### 10.1 Range of Productivity benchmarks for firms surveyed

The potential of this benchmarking methodology to allow objective comparisons between firms are illustrated by the range of results in the firms surveyed:

*Figure 10-1 Highest and Lowest ranking firms in terms of productivity*



Ranked in order of their productivity benchmarks, the firms in the survey fall in the following order:

*Table 10-1 Firms surveyed ranked by overall productivity benchmark*

Rank	EDEE Classification	Category	Investment	Innovation	Enterprise	Competition	Overall Productivity
1	Developing	Production	7	9.38	10	9	44.38
2	Established	Production	9	9.38	8	6	42.38
3	Experienced	Production	7	8.71	10	8	41.71
4	Developing	Production	7	7.37	8	10	41.37
5	Established	Games	7	6.7	10	9	40.7
6	Experienced	Games	6	8.04	10	6	39.04
7	Emerging	Facilities	7	7.37	6	10	38.37
8	Experienced	Facilities	8	5.36	8	7	38.36
9	Established	Exhibition	6	7.37	8	6	37.37
10	Experienced	Games	9	8.04	6	9	34.04
11	Emerging	Production	4	7.37	6	9	35.37
12	Developing	Exhibition	7	6.7	4	6	33.7
13	Developing	Production	5	8.71	8	6	33.71
14	Developing	Production	6	6.7	10	2	33.7
15	Emerging	Exhibition	6	7.37	4	8	33.37
16	Emerging	Facilities	7	7.37	4	7	33.37
17	Established	Facilities	4	7.37	6	9	32.37
18	Experienced	Production	8	8.04	8	4	32.04
19	Experienced	Production	7	8.04	6	8	32.04
20	Experienced	Production	5	8.71	4	8	30.71
21	Emerging	Facilities	5	5.36	6	6	30.36
22	Established	Production	7	5.36	8	4	30.36
23	Experienced	Production	3	6.7	6	7	29.7
24	Experienced	Production	6	4.69	6	6	29.69
25	Developing	Exhibition	2	7.37	4	6	28.37
26	Established	Production	6	6.7	8	4	27.7
27	Developing	Exhibition	6	6.7	8	2	27.7
28	Experienced	Production	5	4.69	6	5	22.69
29	Emerging	Production	5	5.36	4	7	27.36
30	Emerging	Exhibition	4	8.71	4	5	26.71
31	Experienced	Production	5	7.37	6	4	26.37
32	Established	Production	9	8.71	6	2	32.71
33	Developing	Production	5	6.7	6	3	26.7
34	Developing	Facilities	6	6.03	6	4	25.03
35	Emerging	Games	4	4.02	4	7	25.02
36	Experienced	Production	5	6.7	6	6	23.7
37	Established	Facilities	6	6.7	6	1	23.7
38	Developing	Facilities	6	5.36	4	6	23.36
39	Experienced	Production	5	6.03	6	6	23.03

*(Table 10-1 continues overleaf)*

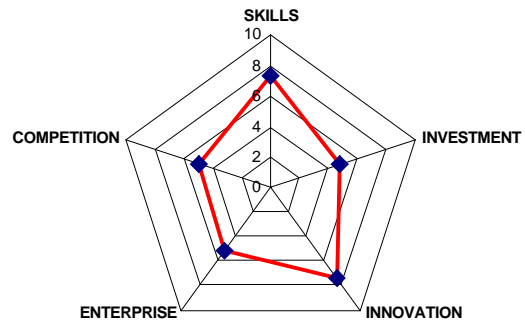
*Table 10-1 (continued)*

Rank	EDEE Classification	Category	Investment	Innovation	Enterprise	Competition	Overall Productivity
40	Experienced	Production	5	6.7	2	6	22.7
41	Established	Production	3	4.69	6	5	22.69
42	Developing	Production	4	5.36	8	2	22.36
43	Experienced	Facilities	6	4.02	6	2	22.02
44	Experienced	Production	5	4.69	4	2	20.69
45	Emerging	Exhibition	3	7.37	4	2	20.37
46	Established	Facilities	4	7.37	6	3	20.37
47	Emerging	Production	3	4.69	2	5	19.69
48	Experienced	Production	3	7.37	6	3	19.37
49	Experienced	Production	4	4.02	4	2	19.02
50	Experienced	Production	4	4.02	2	4	18.02
51	Experienced	Production	5	6.7	4	2	17.7
52	Experienced	Production	1	4.69	6	5	16.69

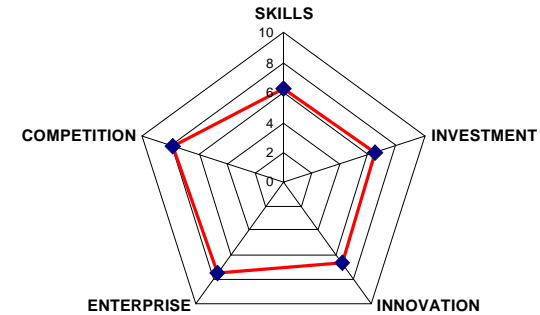
- We note the wide range of benchmark among production and facilities firms
- We note the generally high benchmark for games firms
- We expect to see significant improvement in the benchmarks for individual firms included in *Creating Success* where investment has been substantial.

## 10.2 Productivity benchmarks by sector

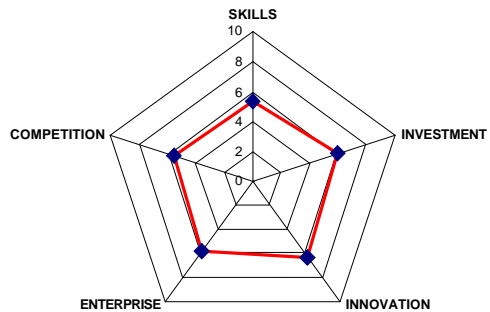
*Figure 10-2: Exhibition Firms: Average Productivity Benchmarks*



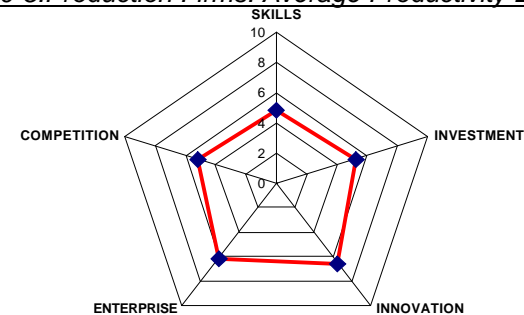
*Figure 10-3: Games Firms: Average Productivity Benchmarks*



*Figure 10-4: Facilities Firms: Average Productivity Benchmarks*



*Figure 10-5: Production Firms: Average Productivity Benchmarks*



- The benchmarks for each sector reflect averages that conceal significant individual variations from firm to firm.

### 10.3 Relationship and robustness of different measures for firms

We expected to see a closer correlation between the benchmarks and the 'Emerging, Developing, Experienced, Established' categories used by NFM. We suggest that the explanation for this is that the two metrics reflect very different qualities:

- The EDEE classification is totally subjective, including factors such as the creative achievements of a firm and the perceived status of the key individuals in it within the moving image sector.
- In contrast, the benchmarks are an objective indication of the underlying business processes within a firm.

If this explanation is correct, we propose that:

- High status, very 'visible' firms which may have been established for a long time and which are run by experienced individuals may not necessarily those with the greatest productivity
- Neither an EDEE classification or a productivity benchmark in isolation provides a complete picture of a firm.

## 11 Economic Impact Analysis

The objectives of this part of the exercise were to:

- Determine the economic impact of the firms that NFM represents in the region
- Calculate the proportion of total UK video, games, film and television revenues that are generated by North East companies falling within NFM's remit.
- Calculate the proportion that could fall in the NE as NFM helps companies to develop.

This exercise was executed by combining data obtained from the research reported here, together with data from other published sources, or estimates where this was not available. The exercise aims to be indicative and readily repeatable to show year on year change rather than being comprehensive or exact. So, for example, it excludes many indirect sources of revenue associated with the activities of NFM companies, such as:

- retail video rental revenues in the region
- revenues of retail games outlets
- cable and satellite revenues in the region

### 11.1 Current annual revenue generated by the sector

This was calculated for both the region and the UK as a whole in Figure 11-1:

*Table 11-1 Annual Moving Image revenues*

Sector	£,000	£,000	%
	NE Region <sup>25</sup>	UK	NE share
Film	£34,453	£3,800,000 <sup>26</sup>	0.9%
Games	£8,480	£2,000,000 <sup>27</sup>	0.4%
TV	£71,750	£7,900,000 <sup>28</sup>	0.9%
Video	£3,000	£600,000 <sup>29</sup>	0.5%
Facilities	£2,940	not available	
<b>Total</b>	<b>£120,623</b>	<b>£14,300,000</b>	<b>0.84%</b>

- The region generates 0.8% of moving image sector revenues in the UK, despite having an estimated 1.3% of the UK moving image sector workforce<sup>30</sup>. Though the disparity between these figures is not vast compared to the uncertainty inherent in estimating both from available data, this suggests that productivity of the regional media workforce has scope for improvement.
- Mean annual revenue generated per individual employed across the UK is £110k<sup>31</sup>
- Revenue generated per full time individual employed in the region across all firms in the survey was £79k<sup>32</sup>, representing 72% of the national average. This figure includes some double counting of revenues passing through broadcasters to independent producers. By way of comparison, revenue generated per full time individual employed in the region in Tyne Tees Television was £299k<sup>33</sup>. While it would probably be unfair to suggest that under-capitalised SMEs operating at a different point in the supply chain should be expected to achieve similar results to Tyne Tees, these figures again indicate room for growth.

<sup>25</sup> See Appendix E

<sup>26</sup> UK share of global film market - £3.8 billion (UK Film Council 2002)

<sup>27</sup> UK share of global software games market - £2 billion (Screen Digest - 2000)

<sup>28</sup> UK Television revenues - £7.9 billion (Independent Television Commission 2001)

<sup>29</sup> UK corporate video market - £600 million – (IVCA 2001)

<sup>30</sup> UK moving image sector employees = 130,000 (Skillset Census 2002, after subtracting 20,700 radio workers from the reported total of 151,000). NE workforce = 1730 individuals (see section 6.1). Therefore proportion of national workforce working in NE = 1.3% .

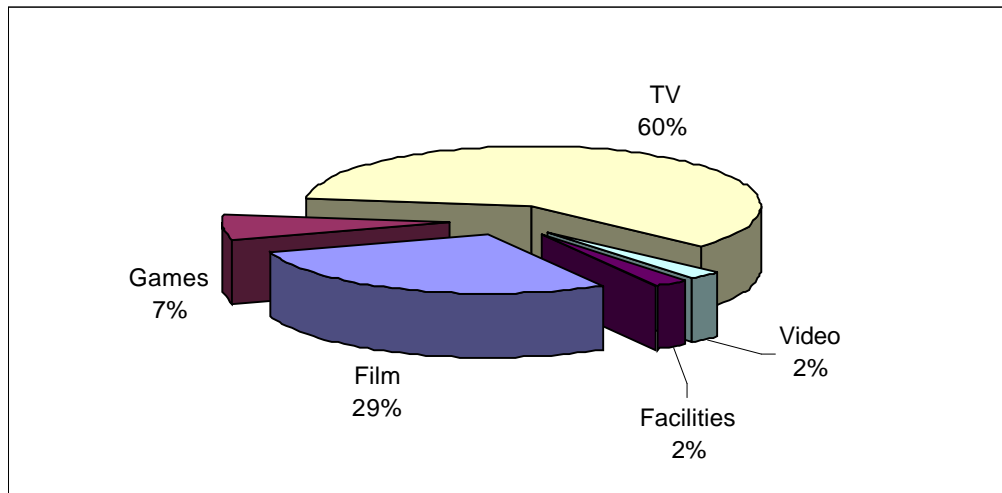
<sup>31</sup> UK total moving image revenues £14,300,000 divided by UK moving image workforce 130,000 (Skillset Census 2002, allowing for 20,700 radio workers) = £110k

<sup>32</sup> Total turnover of companies surveyed was £21.2m, generated by 268 full time employees. Turnover per head in the independent companies surveyed is therefore: £79k.

<sup>33</sup> Tyne Tees turnover = £60m (see Note 45), achieved by 201 employees (Tyne Tees Annual Report and Accounts for 2002. Turnover per head is therefore: £299k

- The dominance of broadcasting and commercial cinema exhibition is striking in the region's moving image economy, employing 38% of the workforce<sup>34</sup>. The sum of independent games, production and facilities firms' turnover represents 20%<sup>35</sup> of the sector's turnover in the region, while the independent exhibition sector represents 2.6%<sup>36</sup> of turnover.

*Figure 11-1: Relative contribution to NE region moving image revenues from different sectors*



## 11.2 Potential revenue generated by the sector in the region

Based on the figures above:

- If productivity per head of the current moving image workforce in the region could be raised to the national average, total revenue in the region due to the sector would rise to £190m<sup>37</sup>, i.e. an additional £70m over the current figure.
- The population of the NE region represents 4.4%<sup>38</sup> of the UK's total population. If this same proportion of the UK's moving image workforce could be attracted to the region, or firms in the region grew to an equivalent size, even without raising productivity moving image revenues in the region would rise to £452m<sup>39</sup>, i.e. an additional £331m over the current figure.
- If the NE region raised its productivity to the national average for the moving image sector, and attracted the same proportion of the moving workforce that its population bears to the national population, moving image revenues in the region would rise to £629m<sup>40</sup>, i.e. an additional £508m over the current figure.

<sup>34</sup> Tyne Tees (201 employees) + BBC (99 employees) + Commercial cinema (estimate 350 employees – see footnote 14) = 650 employees. As a proportion of the total workforce (1730) this represents 38%

<sup>35</sup> From Appendix E, turnover of Games (£8,480)+Facilities (£2,940)+independent TV Production (£8,750)+Video (£3,000)+Feature Film Production (£1,000) = £ 24,170 out of a total revenue for the region of £120,623 ie 20%

<sup>36</sup> From Appendix D, turnover of independent full time (£2,631) and part time (£534) cinemas = £3,165 out of a total revenue for the region of £120,623, ie 2.6%

<sup>37</sup> 1,730 individuals x national productivity per head £110k = £190m

<sup>38</sup> NE population = 2.6m (One North East), UK population = 58.7m (ONS-2001 Census), therefore NE population represents 4.4% of the national population. 4.4% of UK moving image workforce of 130,000 (Skillset Census 2002, after subtracting 20,700 radio workers from the reported total workforce of 151,000)=5,720.

<sup>39</sup> 5,720 individuals x current productivity per head £79k = £452m

<sup>40</sup> 4.4% of UK total revenues of £14.3bn = £629m

## Appendix A - Mapping data

### Activities carried out by firms in the sector (some firms had more than one activity)

Activity	Firms undertaking this activity
Broadcast Production	27
Non Broadcast Production	24
Games Production	4
Post Production	16
Crewing	8
Studio Facility	6
Equipment Hire	7
Distribution	2
Exhibition	9

### Principal Commercial Activities of Firms in the Region

Commercial Activity	
Creative Services for Hire	46%
Technical Facilities for Hire	21%
IP Generation/Exploitation	33%

### Number of staff by Sector

	Exhibition	Facilities	Games	Production	Grand Total
Full time staff	46	31	109	82	268
Part Time staff	91	5	2	23	121
Freelancers	44	19	8	242	313
	181	55	119	347	

### Age of Firms

	Exhibition	Facilities	Games	Production
Average age of firms	1988	1996	1997	1994
Max Age of firms	2001	2002	2002	2002
Minimum Age of Firms	1973	1986	1987	1968

Age of Firms	Total
1 year or less (2002-2003)	12%
2-4yrs (1999-2001)	29%
5-7yrs (1996-1998)	13%
8-10yrs (1993-1995)	10%
11yrs + (1992+)	37%

### Age of Firms (cont...)

Age Bracket	Exhibition	Facilities	Games	Production
1yr or less	0%	20%	25%	10%
2-4yrs	43%	20%	50%	26%
5-7yrs	0%	30%	0%	13%
8-10yrs	0%	0%	0%	16%
11yrs+	57%	30%	25%	35%

Bracket	Development stage			
	Emerging	Developing	Experienced	Established
1 year or less	30%	18%	5%	0%
2-4yrs	50%	55%	19%	0%
5-7yrs	0%	18%	14%	20%
8-10yrs	0%	0%	19%	10%
11yrs+	20%	9%	43%	70%

### Survey Coverage of Region – Development stage versus sector

	Exhibition	Facilities	Games	Production	Total
Emerging	3	3	1	3	10
Developing	3	2		6	11
Experienced		2	2	17	21
Established	1	3	1	5	10
Total	7	10	4	31	52

### Firms' Perceptions of their own development needs

#### Number of companies identifying a specific development need, by sector

Development Need stated	Exhibition	Facilities	Games	Production	Grand Total
Money to do Projects?	8	13	5	34	60
Staff Training	7	14	4	43	68
Senior Mgmt Training	7	17	4	44	72
Financial Know-how	8	13	6	45	72
Money - external investment	10	13	8	42	73
Processes and efficiency help	8	14	6	46	74
New ideas for cash generation	8	12	7	36	63
Marketing strategy	8	12	6	46	72
Strategy and business planning	7	13	5	42	67
Help with International Expansion	11	14	6	42	73

## Appendix B – Financial benchmark data

### Average Turnover of firms by sector

Sector	Current Year	Previous Year
Exhibition	£ 464,954	£ 543,215
Facilities	£ 157,833	£ 248,347
Games	£ 1,060,000	£ 956,000
Production	£ 561,225	£ 294,555
Overall Average	£ 53,429	£ 78,543

### Average Gross Profit by sector

Sector	Current Year	Previous Year
Exhibition	£ 58,196	£ 18,309
Facilities	£ 107,155	£ 155,555
Games	£ 696,820	£ 534,879
Production	£ 147,760	£ 138,063
Overall Average	£ 164,721	£ 152,855

### Gross Profit Growth by sector, including loss-making firms

Sector	Gross Profit growth
Exhibition	218%
Facilities	-31%
Games	30%
Production	7%
Overall Average	<b>24%</b>

### Gross Profit per full time Head by sector

Sector	Gross Profit
Exhibition	£ 8,701
Facilities	£ 28,901
Games	£ 18,762
Production	£ 48,158
Average gross profit per head	£ 27,123

### Operating Profit Margin by Sector

Sector	Current Year	Previous Year
Exhibition	8%	13%
Facilities	16%	22%
Games	20%	21%
Production	21%	22%
Overall Average	<b>32%</b>	<b>32%</b>

## Appendix C – Productivity benchmark data

### Skills Issues

#### “Have you ever audited your skills and training needs?”

Sector	Yes	No
Exhibition	43%	57%
Facilities	10%	90%
Games	75%	25%
Production	42%	58%
<b>Grand Total</b>	<b>38%</b>	<b>62%</b>

#### “Do you have a written training plan?” – answers by firm size and sector

No of staff	Yes	No
0<5	20%	80%
5<10	17%	83%
10<15	33%	67%
15<20	0%	100%
20<30	25%	75%
30+	67%	33%
<b>Grand Total</b>	<b>23%</b>	<b>77%</b>

Sector	Yes	No
Exhibition	29%	71%
Facilities	10%	90%
Games	25%	75%
Production	26%	74%
<b>Grand Total</b>	<b>23%</b>	<b>77%</b>

#### “How many months since each employee last received training?”

Never	17%
Within the last month (1mth)	27%
Within the last 6 months (2-6mths)	12%
Within the last year (6-12mths)	15%
Within the last 2 years (12-24mths)	17%
Over 2 years ago	12%
	100%

#### “Has Senior Management had any formal business training, mentoring or coaching?”

Yes	60%
No	40%
	100%

## Investment Issues and approach to financial management/planning

### Firms with Debt Finance

Do you have any debt finance?	Total
Yes	31%
No	69%
Grand Total	100%

Age of Firms	Debt finance	No debt finance
1 year or less (2002-2003)	17%	83%
2-4yrs (1999-2001)	33%	67%
5-7yrs (1996-1998)	29%	71%
8-10yrs (1993-1995)	40%	60%
10yrs + (1992+)	32%	68%
Total	31%	69%

Sector	Debt finance	No debt finance
Exhibition	14%	86%
Facilities	60%	40%
Games	50%	50%
Production	23%	77%
Total	31%	69%

### “Have you ever considered outside investment or approached a potential investor?”

Yes	71%
No	29%

Category	Considered equity investment	Not considered equity investment
Exhibition	0%	100%
Facilities	0%	100%
Games	50%	50%
Production	13%	87%
Grand Total	12%	88%

### “Does the firm have equity investment?”

Have equity investment	12%
Don't have equity investment	88%

### Does the firm have a written business plan?

Yes - up to date and formal	44%
Yes, but not up to date or formal	25%
No - nothing written down yet	31%
	100%

**“Has the senior management team invested unpaid time in the business?”**

Yes - once or twice	44%
Yes - all the time!	33%
No - always get paid a salary	23%
	100%

Innovation issues

**“Where are your direct customers based?”**

	Production	Facilities	Games	Exhibition	Total
North East Only	23%	40%	0%	71%	31%
The North	6%	0%	0%	0%	4%
UK	48%	60%	25%	14%	44%
Europe	10%	0%	0%	0%	6%
Worldwide	13%	0%	75%	14%	15%

**“Plans to expand markets?” – answers by sector**

Category	Yes	No
Exhibition	100%	0%
Facilities	60%	40%
Games	75%	25%
Production	71%	29%
Grand Total	73%	27%

**PRODUCTION COMPANIES – Where have they pitched their services?**

Regional TV ONLY	8%
Network TV Only	4%
Network and Regional	58%
Network, Regional and International	31%
	100%

**FEATURE FILMS ONLY – “Have you pitched to the Film Council or other Non North East Fund?”**

Pitched to Film Council/NE Fund?	Total
Yes	59%
No	41%
	100%

**“Are your customers Project based or Regular Customers?” – answers by sector**

	Exhibition	Facilities	Games	Production
Regular Customers	57%	10%	0%	6%
Project based	0%	0%	50%	42%
Bit of both	43%	90%	50%	52%
	100%	100%	100%	100%

**“What’s your reliance on regular customers?” – answers by sector**

	Exhibition	Facilities	Games	Production	
Very reliant on one customer	0%	10%	0%	16%	11%
Very reliant on top 3 customers	0%	30%	100%	32%	29%
Good balance between each	100%	60%	0%	53%	61%
	100%	100%	100%	100%	100%

**“When did you last win a new customer?” – answers by sector**

	Exhibition	Facilities	Games	Production	Grand Total
Within the last month	100%	80%	25%	35%	52%
Over a month, less than 6mths	0%	10%	25%	48%	33%
Over 6mths, less than a year	0%	10%	25%	13%	12%
Over a year, but less than 2yrs	0%	0%	0%	3%	2%
Over 2yrs ago	0%	0%	25%	0%	2%
	100%	100%	100%	100%	100%

**“How many ways of generating revenue does your firm have?” – mean answers by sector**

Exhibition	2.9
Facilities	2.9
Games	3.3
Production	2.6
Overall mean	2.8

**“How many customers does your firm have? – answers by sector**

Sector	Mean
Exhibition	4957
Facilities	33
Games	6
Production	13

**“When was the last time the firm put into practice a new way to generate cash?”**

Time Bracket	Exhibition	Facilities	Games	Production	Grand Total
Within the last month	57%	20%	0%	39%	35%
Within the last 6 months	29%	10%	50%	13%	17%
Within the last year	0%	20%	25%	16%	15%
Over a year ago	0%	20%	0%	3%	6%
Over 5 years ago	14%	0%	0%	0%	2%
Never	0%	30%	25%	29%	25%
Grand Total	100%	100%	100%	100%	100%

**“How many months is it since the firm made a change to significantly improve the way it works internally?”**

When last came up with money saving idea?	Exhibition	Facilities	Games	Production	Grand Total
Within the last month	71%	60%	75%	42%	52%
Within the last 6 months	29%	0%	0%	16%	13%
Within the last year	0%	10%	0%	13%	10%
Over a year ago	0%	0%	0%	13%	8%
More than 5 years ago	0%	10%	0%	3%	4%
Never	0%	20%	25%	13%	13%
	100%	100%	100%	100%	100%

**Enterprise issues**

**“Can the firm define it’s distinctiveness in less than fifteen words?”**

Yes - straight away	81%
Yes - after some thought	15%
No - never really thought about it	4%
Grand Total	100%

**“Do the management team work full time in the business or do they have other work interests?”**

Full time	75%
Part time	25%
	100%

**“PR – Does the firm publicly celebrate its success?”**

	Yes	No
Exhibition	100%	0%
Facilities	90%	10%
Games	75%	25%
Production	81%	19%
Grand Total	85%	15%

**“ How much money do the shareholders want to make from the business and when?”**

	No timescale	Less than 3yrs	3-4yrs time	4-5yrs time	5-6yrs time	Grand Total
No - no goal set	34					34
£0 - £500k	3	2		2	1	8
£500K - £1m		3	1			4
£1m - £5m		2	1	1		4
£5m plus				1	1	2
Grand Total	37	7	2	4	2	52

Goal in monetary terms	Exhibition	Facilities	Games	Production	Grand Total
No goal	71%	90%	25%	61%	65%
£0 < £500,000	29%	10%	0%	16%	15%
£500,000 < £1m	0%	0%	0%	13%	8%
£1m < £5m	0%	0%	75%	3%	8%
£5m plus	0%	0%	0%	6%	4%

## Competition issues

### “Has the firm conducted market research?”

	Yes - in depth	Yes - but not formally	No / Hard to define
Exhibition	43%	14%	43%
Facilities	40%	30%	30%
Games	50%	50%	0%
Production	19%	39%	42%
Grand Total	29%	35%	37%

### “Has the firm mapped out its competitors?”

Category	Mapped out competitors		
	Yes - proper market analysis	Yes - but not formally	No / it doesn't work like that
Exhibition	15%	0%	26%
Facilities	31%	15%	16%
Games	8%	15%	0%
Production	46%	70%	58%
Grand Total	100%	100%	100%

### “Is the firm engaged in a network or a cluster?”

Category	Yes	No
Exhibition	86%	14%
Facilities	80%	20%
Games	50%	50%
Production	55%	45%
Total	63%	37%

### “When did the firm last attend a trade show?”

	Exhibition	Facilities	Games	Production	Total
Never	57%	20%	0%	19%	23%
Within the last month	29%	30%	75%	39%	38%
Within the last 6mths	14%	20%	0%	6%	10%
Within the last year	0%	20%	25%	13%	13%
Over a year ago	0%	0%	0%	19%	12%
More than 5yrs ago	0%	10%	0%	3%	4%
	100%	100%	100%	100%	100%

### “Is the firm a member of a trade body?”

Category	Yes	No	Grand Total
Exhibition	57%	43%	100%
Facilities	40%	60%	100%
Games	75%	25%	100%
Production	61%	39%	100%
Grand Total	58%	42%	100%

## Appendix D – Estimated Feature Film Exhibition Revenues in the NE region

	Cinema	SCREENS	SEATS	EST. AVERAGE SHOWINGS PER DAY	EST. DAYS PER YEAR	TOTAL SEATS PER YEAR	EST. SEAT OCCUPANCY	EST ANNUAL ADMISSIONS	AVERAGE TICKET PRICE	EST Total Revenues	
FULL TIME CINEMA CHAINS	1	Warner Village Newcastle Upon Tyne	9	3369	4.5	365	5533583	22%	1,217,388	£3.80	£4,626,075
	2	Odeon Cinema Newcastle	12	2657	4.5	365	4364123	22%	960,107	£4.40	£4,224,471
	3	Odeon Cinema Darlington	3	850	4	365	1241000	22%	273,020	£3.80	£1,037,476
	4	U C I Gateshead	11	2253	4.5	365	3700553	22%	814,122	£4.43	£3,602,488
	5	U C I Silverlink	9	2140	4.5	365	3514950	22%	773,289	£4.43	£3,421,804
	6	U G C Cinema Boldon	11	2471	4.5	365	4058618	22%	892,896	£4.50	£4,018,031
	7	Warner Village Hartlepool	7	1917	4.5	365	3148673	22%	692,708	£3.80	£2,632,290
	9	Showcase Teeside (EST FIGURES)	11	2300	4.5	365	3777750	22%	831,105	£4.63	£3,843,861
	10	U G C Middlesbrough (EST FIGURES)	9	2000	4.5	365	3285000	22%	722,700	£3.85	£2,782,395
	FULL TIME INDIE	11	Wallaw Triple Screens	3	1005	4.5	365	1650713	23%	379,664	£2.50
8		Gala Giant Screen Cinema	1	116	3	365	127020	25%	31,755	£4.50	£142,898
12		Forum Hexham	1	207	1.5	365	113333	30%	34,000	£3.40	£115,599
13		Tyneside Cinema	2	318	4.5	365	522315	50%	261,158	£5.45	£1,423,308
PART TIME INDIE	14	Lamplight Arts Centre (Part Time)	1	430	1.5	156	100620	8%	8,050	£3.50	£28,174
	15	Regent Redcar (Part Time)	1	320	2	156	99840	10%	9,984	£2.45	£24,461
	16	Playhouse Whitley Bay (Part Time)	1	746	1.5	156	174564	6%	10,474	£3.15	£32,993
	17	Darlington Arts Centre (Part Time)	1	180	1	104	18720	32%	5,990	£2.25	£13,478
	18	Customs House South Shields (Part Time)	2	560	4	260	582400	10%	58,240	£3.30	£192,192
	19	Empire Theatre Consett (Part Time)	1	535	1	312	166920	15%	24,203	£3.50	£84,712
	20	Alnwick Playhouse (Part Time)	1	262	2	182	95368	16%	15,259	£3.75	£57,221
	21	Side Cinema (Part Time)	1	51	1	156	7956	31%	2,466	£2.50	£6,166
	22	The Maltings Theatre (Part time)	1	299	1	104	31096	23%	7,152	£3.50	£25,032
	23	Berwick Playhouse (Part time)	1	600	1	208	124800	15%	18,720	£3.25	£60,840
	24	Kino Cinema (Term time only)	1	240	2	175	84000	4%	3,360	£2.50	£8,400

£33,353,523

	Total	Average per Venue
Number of Seats	22457	936
Number of Screens	92	4
Ticket Price	N/A	£3.62
Estimated Revenues	£33,353,523	£1,389,730

	Total	Average per Venue
Chain Cinemas	£30,188,890	£3,354,321
Full time independents	£2,630,965	£657,741
Part Time Independents	£533,668	£48,515

Notes to Estimate calculations

- Cinema days per year have been estimated by the number of days they are showing films per week
- Chain Cinema Occupancy figures have been estimated using data from a confidential commercial source
- Occupancy figures for the Independent chains have been extrapolated from the ACTUAL ticket sales information provided by NFM and estimated in other cases.
- Screenings per day have been estimated from current cinema listings
- The website Scoot Cinema finder has provided most of the Seat, Screen and Prices information and where this information is not available, it has been estimated or given by the cinema.

## Appendix E – Sub-sector revenues in the region

We estimate moving image sector annual revenues in the North East Region as below. All figures represent £,000.

### Revenues attributable to feature film in the North East

Known local production spend, based on published data	£1,000
Revenues of distribution companies operating in the region <sup>41</sup>	£100
Exhibition and cinema revenues in region	<u>£33,353</u>
Feature Film total	£34,453

### Revenues attributable to games in the North East

Turnover of games developers in the region	Mean turnover of games developers in the region surveyed	£1,060 <sup>42</sup>
	Estimated number of games developers in the region	8
		<u>£8,480</u>
	Total from games	£8,480

### Revenues attributable to the TV industry in the North East

Turnover of independent broadcast production companies in the region	Mean turnover of production companies surveyed	£250 <sup>43</sup>
	Estimated number of production companies in region	35
		£8,750
Revenues of broadcasters located in the region from published sources	BBC	£3,000 <sup>44</sup>
	Tyne Tees	<u>£60,000<sup>45</sup></u>
		£71,750

### Revenues attributable to the non broadcast video industry in the North East

Turnover of independent non-broadcast production companies	Mean turnover of production companies surveyed	£150 <sup>46</sup>
	Estimated number of production companies in region	20
		<u>£3,000</u>
	Total corporate video	£3,000

<sup>41</sup> Extrapolated from data obtained by our survey, the source of which is confidential

<sup>42</sup> The figure from our survey is £1,060k (based on a very small sample).

<sup>43</sup> Actual figure from survey was £525k. We deflate this because many small firms were not included.

<sup>44</sup> Cost of BBC Nations and Regions television originations in England = £80m (BBC Annual Report & Accounts 2002/2003). Assuming this is spread regionally in proportion to the population £3m would be the spend in the NE

<sup>45</sup> Actual Tyne Tees turnover for year ending September 2002 was GBP £67.9m (accounts published at Companies House). On the advice of the Tyne Tees management we deflate this to £60m as a more accurate indication of the typical annual revenues in the region.

<sup>46</sup> Mean from survey was £525k across all production companies but corporate revenues only a proportion of this so estimate as shown above

Revenues attributable to facilities companies in the North East

Revenues of production equipment hire and post production facilities companies in the region	Mean turnover of support companies surveyed	£147 <sup>47</sup>
	Estimated number of support companies in region	20
		<u>£2,940</u>
	Total facilities	£2,940

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<sup>47</sup> From our survey