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## Introduction

**Abstract:** *This book is not meant to be a report on the state of the art of the audiovisual industry, nor a survey of best practices and key players operating in the market, but a theoretical picture analysing the main economic and financial features of the audiovisual industry. The first section – Chapters 2 and 3 – describes the perimeter and the main features of the audiovisual industry; Chapters 4, 5 and 6 analyse the economics of the industry – mainly costs and revenues, pricing models and value of audiovisual firms; Chapters 7 and 8 explore audiovisual funding and the related risks; a financial platform for the audiovisual industry is proposed in Chapter 9, together with conclusions. In this perspective, the book represents a useful guide for professionals and producers, as well as for bankers, financial managers and academics.*

La Torre, Mario. *The Economics of the Audiovisual Industry: Financing TV, Film and Web*. Basingstoke: Palgrave Macmillan, 2014. DOI: 10.1057/9781137378477.0006.

A remarkable number of bankers and professionals working in finance still currently believe that the cultural industry is a high-risk market, as well as a low-profit one, with uncertain and unclear peculiarities. In other words, they are persuaded that culture should not be financed.

Considering the perspective of cultural industry, banks and financial intermediaries are perceived as interlocutors unable to understand the specific needs of the industry itself, even worse, unable to substitute short-term profits with a holistic perspective of finance, considering those medium- and long-term externalities created by cultural production.

In general, a lack of mutual knowledge, different priorities, a different language, as well as the different expertise of bankers and financial experts on one side and of players and cultural managers on the other side, have created a permanent shorting out between cultural industry and financial markets. Since this shorting out is self-supplied, changing the situation is very difficult. This happens for all creativity industries, audiovisual included.

Even though audiovisual sectors show a structure of market supply based upon more organized companies compared to other cultural industries, and they are also characterized by a higher management expertise, they have to face a crucial distance from the financial system. This phenomenon is easily noticeable in all European countries. Unlike the United States, the credit granted by the banking system to the audiovisual industry throughout the main countries of continental Europe currently represents a very small share of the total issued credit. Furthermore, a very small number of audiovisual companies are listed on the stock exchange, and very few firms have access to capital markets to attract funds from institutional or retail investors. Except for the USA, the financing of audiovisual industry is based upon internal financial resources, or supported by public funds. In Europe, for example, together with public funds, both at a national and local level, European financial resources intended to support culture – and indirectly SMEs and new technologies – are undeniably crucial for the industry.

However, audiovisual firms, especially in the European context, are struggling to achieve a corporate restructuring, as well as a change in financial management. The financial crisis and the decrease in public financial resources available have motivated European governments and institutions to implement new support mechanisms in order to foster public-private partnerships and to deal with market evolutions. Companies search for new organizational and productive models, in

addition to new management strategies. The new challenges require the implementation of competitive strategies and a high degree of dynamism.

Such a goal cannot be achieved without the support of financial markets and intermediaries, in particular banks, which in time have always represented the first link among industrial sectors and the financial system, preliminary to stock exchange markets.

The interaction between audiovisual industry and financial markets cannot happen in a virtuous way in absence of a process of mutual knowledge.

Literature concerning the management of cultural industry is quite limited and mainly focussed on macro-economic variables and market dynamics, as well as strategic management and marketing. Financial management of cultural firms is almost unnoticed and appears to be well known only by a few managers and bankers, since they have acquired specific professional expertise in the industry. This circumstance does not foster cultural industry emancipation from public financial support, in particular from the subsidiary type.

The idea of writing this book rises from the need to create a systematic framework of economic and financial dynamics of the cultural industry. The study focuses on the audiovisual market, this being an important segment of cultural industry, as well as one of the most flexible, able to cope with the need of transformation and to deal with the challenges of new financial markets.

The book is not meant to be a report on the state of the art of the audiovisual industry, nor a survey of best practices and key players operating in the market. Rather, the market trend has inspired a theoretical reconstruction of the economics of the industry. The reading of the text, therefore, should not be given to research data, names and numbers, but rather to metabolize economic and financial models useful to work in the audiovisual sectors.

In this perspective, the book, analysing the main economic and financial features of the audiovisual industry, represents a useful guide for professionals and producers willing to interact with banks and financial intermediaries, as well as for bankers, financial managers and academics willing to acquire an in-depth knowledge of the audiovisual industry, embracing a tailor-made risk management approach.

Considering another point of view, the analysis of economic, financial and production dynamics of the audiovisual industry can make this

book a useful guide also for policy makers, at a national and European level. It will be particularly advantageous for those who are committed to direct audiovisual finance towards market dynamics, in order to foster private-public partnerships.

In absence of a specific literature, the theoretical structure of the analysis is based upon the same used in financial and economic literature. The context of traditional theoretical references for the audiovisual industry represents the original contribution of the study and is the outcome of the author's professional and institutional experience.

Readers can imagine this book as based upon three units. The first section (Chapters 2 and 3) provides an outline of audiovisual industry. Chapter 2 explains the main determinants of the distance existing among the audiovisual industry and financial markets, highlighting the main drivers pushing the audiovisual towards a modern finance. Chapter 3 defines the perimeter of the audiovisual industry and describes the different types of audiovisual products, as well as the related audiovisual sectors.

The second section (Chapters 4, 5 and 6) concerns the economics of audiovisual production. In more detail, Chapter 4 analyses the main costs and revenues of audiovisual products, Chapter 5 proposes a pricing model for audiovisual products, while Chapter 6 provides a model for the estimation of the value of audiovisual firms.

Section 3 (Chapters 7 and 8) explores audiovisual funding and the related risks. Chapter 7 examines in detail the traditional financial model of audiovisual firms, while Chapter 8 describes the main financial techniques used by banks and financial intermediaries when they lend money to the audiovisual industry, also providing for a taxonomy of financial risks connected to audiovisual finance.

Conclusions are drawn in Chapter 9, proposing a market model focussed on the idea of a financial platform for the audiovisual industry.



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