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Handmaidens of consolidation in the UK television production sector

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ABSTRACT

This article analyses the role of intermediaries in the evolution of the UK TV production sector tracking the processes which in the past two decades have underpinned consolidation in the UK TV production sector. The research involved elite interviews with executives at ten UK Independent production companies and two financial intermediaries as well as trade bodies and civil servants. The epistemic work of intermediaries shape transactions in a way that aligned with the buyers' desire to grow their portfolio of companies by establishing the fitness of companies for acquisition. Through classification, clustering and sorting, they confirm the notion (Knorr Cetina and Preda 2001, 30–31) that knowledge can be treated as a commodity – 'a more or less valid representation of the world which is "inscribed in and constitutive of economic objects as relevant to the practical activities of economic agents" and purposefully assembled.

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Introduction

The creative industries are a dynamic part of a contemporary market economy, in which a variety of intermediaries play a role (see *inter alia* Smith Maguire and Jefferson (eds.), Schlesinger, Selfe and Munroe, 2015, Boyle, 2018). In this article, I will focus on the complex transactions involving buyers and sellers and the specific role and agency of financial intermediaries in the British television sector utilising a range of methodologies drawn from economic sociology and the sociology of finance and informed by actor-network and complexity theories. In the UK, the 1980s and 1990s witnessed the foundation of many independent television production companies following a series of interventions to separate production from broadcasting as competition policy became a major driver of change (Paterson, 2017a). The creation of Channel 4 as a publisher-broadcaster and the introduction of quotas for independent production on the BBC and ITV, was followed in 2004 by fundamental changes in the terms of trade for programmes commissioned by the public service broadcasters from independent producers (see Doyle, G. and Paterson, R. 2008, Lee, 2018). The code of practice imposed by the UK's broadcasting regulator, Ofcom gave the independent production companies control of secondary exploitation of their programmes and made them

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viable businesses with programme libraries which could be further exploited, and as a result they became takeover targets for larger well-capitalised groups. As consolidation emerged in the UK production sector, these well-capitalised groups began to acquire smaller independent production companies which had gained value as a result of the changes in the terms of trade. A number of companies sought to realise their value through acquisition, and their principals were rewarded with large financial windfalls. The subsequent consolidation of the television production sector with the establishment of so-called super indies and the entry of overseas studios as buyers facilitated the establishment of a small number of specialist intermediaries acting for the companies wishing to be acquired. These intermediaries subsequently played a significant role in the evolution of the UK TV production sector.

There are many specialist activities carried out by companies across the supply chain in the screen industries providing services to augment the core activities of the industry. UK television had a history in the use of consultants and specialists in the days of duopoly at both the BBC, when organisational change was planned, and at the ITV companies during the competitions for the Channel 3 franchises.¹ In addition, for many years, individual creatives working as freelancers in the screen industry, whether actors, writers or directors have been supported by intermediary firms – agencies – in their quest for work (see Boyle 2018, Thompson, 2010, p. 58). The role of a financial intermediary in any industry has usually been to address informational deficits for the client and assist their transactions in the market. With the growing maturity of the independent television production sector in the early 2000s the support of external knowledge capital emerged with production companies hiring an intermediary to prepare and facilitate their sale.

Many industries in the 1990s had seen a steady growth in the number and influence of boutique advisory firms providing services built upon tacit knowledge (Morrison & Wilhelmina, 2007, p. 303). These firms were focused on specific industrial sectors and were crucially not exposed to the potential conflicts of interest that might have affected the advice from full-service banks, which had traditionally played this role. Boutique investment firms provide tacit and in-depth knowledge through developing strong relationships and networking ties within a relatively small community of potential buyers in a particular sector (Freeman, 2005, p. 144). These companies generate what Spulber (1999, p. 338) has termed information rent through the market microstructure, and so alleviate the information asymmetry faced by the smaller seller companies. With their specialist knowledge, they frame the buying and selling transactions (Arjulies et al., 2017, p. 16). Actor-network theory as Callon, 1998, p. 186) has noted, complements economic theory, through disentangling and framing the agents and goods involved in the transaction.

In this environment, as Karin Knorr Cetina and Preda have noted, knowledge is treated as a commodity – “a more or less valid representation of the world” (2001, p. 30), creating an “epistemic embeddedness”. In other words, the work of the intermediary is to provide “a reality purposefully assembled and unfolded by professional knowledge workers ... which provide[s] the frames of reference and the means for experience and transactions to take place” (op.cit.). This approach is similar to that identified by Paul Du Gay and Pryke (2002, p. 2) for whom “economic discourse ... is not simply a matter of beliefs, values and symbols but rather a form of representational and technological (i.e. cultural) practice that constitutes the spaces within which economic action is formatted

and framed”. In short, the intermediaries’ epistemic work is “inscribed in and constitutive of economic objects” (Knorr Cetina and Preda, 2001, p. 31). The empirical evidence confirms the importance of these material devices employed by the financial intermediaries in the UK television production sector in “performing the economy” (Callon, 1998, p. 193).

They acted as the handmaidens of sector evolution²: advising in the preparation of the sale of a firm through assessing and defining its fitness ahead of an auction. This has required a framing of the operations of their client’s operations that aligned with the expectations and requirements of potential buyers. Reassurance about the value of the selling company – effectively an objective assessment that can be trusted by the potential buyers – requires this framing. It involves the intermediary developing a profile for selling a firm, a form of “information arbitrage: the strategic deployment of information to create value” (Burt, 2005, p. 17). It is a dialectical process where the intermediary will establish criteria that potential buyers are looking for which then matches the fitness profile of selling companies. The intermediary provides the operational metric to assist potential buyers and its epistemic framing establishes “a continuum between judgment and quantitative (or numeric calculation)” (Callon & Muniesa, 2005, p. 1252). Valuation and singularisation of a company are inherent to the process and take into account the comparability and substitutability which is established through a process of classification, clustering and sorting (cf. Callon & Muniesa, 2005, p. 1235). This role was confirmed by Andy Zein, a Senior Vice President at Warner Bros International TV Production, who explained that the intermediary “role is all about knowledge of what you can push people on and deal structure” (Interview, London 8 March 2019).

Television production firms in a global market: a changed market structure

Industries are typically constituted by a series of firms of different types and sizes, but as Granovetter and McGuire (1998, p. 167) suggest they “are constantly renegotiated, reformed, and re-mobilised in response to their environment”, because of changes in policy or market conditions. Indeed, Schumpeter (1946, p. 94) wrote that “in dealing with capitalism we are dealing with an evolutionary process” where “the fundamental impulse [...] comes from [...] the new markets, the new forms of industrial organisation that capitalist enterprise creates”. Since the 1980s the globalisation of markets and the consequent financialisation of market segments has led to a gradual change in the pattern of acquisitions and mergers across different sectors (Sassen, 2012), including television production. As noted above, the changes in the terms of trade for programmes commissioned by UK broadcasters from independent producers in 2004 accelerated this process and provided a market niche for financial intermediaries (cf. Doyle & Paterson, 2008). Previously, small production companies had been unable to grow to scale because they lacked ownership of the rights in the programmes they produced (albeit that these programmes were commissioned and usually fully funded by broadcasters) and they were unable to raise financial investment to expand.³

Three distinctive types of group have been involved in acquisition of smaller companies: identified by Thomas Dey, CEO and President of ACF Investment Bank⁴ arguably the company which has been the key intermediary for many transactions, as: (a) conglomerates (particularly US studios with global reach, i.e. Sony and Warner

Brothers); (b) strategics buyers (ITV and BBC Studios defending their position as content producers); and (c) private equity backed groups, also sometimes called “roll-ups” (such as All3Media and the US firm, Leftfield Entertainment). This categorisation overlaps with the six ideal company types I identified in the UK TV drama production sector in an earlier paper (Paterson, 2018). These were as follows: a) production department of a vertically integrated company; b) production and distribution company within an EU-headquartered group; c) studio subsidiary; d) tied independent (part owned by a broadcaster); e) “true” independent and f) a writer’s company. The genealogy of the consolidating groups and their evolution provides a backdrop to the changing competitive forces in the industry. In what McKelvey (2003) has described as co-evolutionary complexity, this phase of market development led to a strategy of growth and renewal for larger groups through the acquisition of smaller companies. This trend first emerged in the early 2000 s (Shed Media, RDF and All3Media were early consolidators) before wider adoption by both the US studios and incumbent UK public service broadcasters after 2004. This emulation is consistent with the analysis by Froud et al. (2006, p. 357): “certain patterns have emerged [. . .] synergies tend to be greater, and the degree of success higher, when acquirers buy targets in the same or closely related businesses [. . .] cost synergies which are easily quantifiable (such as headcount reduction and facility consolidation) tend to have a higher likelihood of success than revenue synergies”. The emerging groups in TV production have been labelled as “super indies” but despite the similarities of approach each has positioned itself differently.⁵

Why sell?

As consolidation emerged in the UK production sector, well-capitalised groups began to acquire smaller independent production companies which had gained value as a result of the changes in the terms of trade and their retention of rights in secondary markets. A number of smaller companies sought to realise their value through acquisition and in this process a crucial role was played by financial intermediaries. The principals in a firm who seek to sell their company do so for various reasons and this often includes the desire to realise their value as well as to achieve a level of stability and sustainability. There is an oft-noted difficulty of operating a medium sized tv production company which has continuing overhead costs but no guarantee of new commissions and often a particular reliance on returning series (see Paterson, 2017b, p. 8 for examples of this situation) . The struggle of medium-sized companies was reported in a Price Waterhouse survey in 1995 (Price Waterhouse, 1995). Jes Wilkins, Managing Director at Firecracker noted:

‘you can be a very small indie and have no work and totally minimise your costs, and then you’ve got the very big people who know they have got x million pounds at the beginning of the year, even if they lose a couple of series they know they have got x millions of pounds coming through the books. They know they can pay their cost base and they know that they can invest in growth. The mid-sized that lots of companies are in, you don’t want to go back to being the little guy’. (Interview, London 25 June 2018)

The barriers to entry to television production are low: more than 1000 production companies were set up in the UK in the early 1980s following the establishment of Channel 4. However, sustainability proved hard to achieve in the monopsonistic UK

market, that is one where a few buyers substantially control the market as the major purchaser of goods and services offered by an oversupply of production companies pursuing a finite number of programme commissions. In the early development of the British independent production sector in the 1980s and 1990s organic growth had often been the only option available to most independent production companies when the financing of companies without any IP assets was seen as too risky by market players (cf. Paterson, 2017b). This altered as it became apparent that the terms of trade would be changed once the 2003 Communications Act took effect.

The continuing evolution of the production sector sits within this context; those firms beyond the start-up phase which wished to finance growth of the business were faced with a choice about how to raise capital between debt and equity but as per capital structure theory (Modigliani & Miller, 1958) bank loans were generally difficult. Other alternatives include continued slow organic growth, seeking a minority investment to ensure stability as they continued to seek commissions, or acquisition by a larger entity. The situation is complex and dynamic and as new buyers like the SVODS entered the market and often turned to the larger groups first when commissioning thereby provided an impetus to further consolidation (see Doyle & Barr, 2019; Paterson, 2018). This has further increased the attraction at smaller companies for acquisition by a larger, well-financed and well-established groups, expanding the operational space for the specialised intermediaries.

Nick Catliff, Managing Director at All3Media label Lion Television, suggests the number of start-up companies cognisant of the changed market for acquisitions has been fuelled by the possibility of securing a sale. “There are people who want to put money into your company [...] whereas we set up with work but no money.” Then adding “All those people setting up at the moment, they’re setting up with a 3 to 5-year plan to sell and they’re going to sell to whoever pays them the most”. (Interview London, 1 May 2018). In this respect the situation has been totally transformed since the 1990s when the principals who founded production companies were usually seeking to achieve a degree of autonomy in their work – particularly those who left the duopoly broadcasters (cf. Graef in Catterall, 1998, p. 86; Paterson, 2017b). However, as John Freeman noted (Freeman, 2005, p. 146) “today [...] companies are formed to be sold [...]. One of the interesting consequences of modern capitalism is the speed with which new economic entities are formed and the celerity of their growth”.

Framing the seller’s case

The role of the intermediary is to frame the qualities of the company which wishes to be acquired. Sassen (2012, p. 13) has described the problem of “incomplete knowledge” that faces firms in market economies so that financial specialisation emerges “from the possibility of building deep and often largely informal knowledge about particular financial markets”. This “knowledge capital” is produced by the professionals working in intermediary firms. In short, “principals turn to agents to alleviate the principal’s bounded rationality and limited capacity” since “the agent may have greater expertise, abilities that complement those of the principal” (Spulber, 1999, p. 342). As Rosenbaum and Pearl (2013, p. 321) suggest “the sell-side advisor must have a comprehensive understanding of the target’s business and the management team’s vision prior to drafting marketing

materials and communicating with prospective buyers”. Selling companies partly address their market knowledge deficit by hiring an intermediary with specialist knowledge. The intermediary will assess the company’s fitness which requires an analysis mirroring a potential buyer’s perspective in terms of numbers, trends, and the key assumptions driving them. The resulting Confidential Information Memorandums devised by the intermediary are the practical handmaidens of consolidation in the sector.

Reinforcing the relevance of Actor Network Theory to the dialectic between the perspectives of the buyers and sellers when forging the basis of calculations in the negotiation of an acquisition, was confirmed in an answer by Thomas Dey: “Buyers sit down with us endlessly and they look at these businesses and they rate a number of factors about these businesses that make them attractive or non-attractive [...]. We can use this information to assist our clients and guide them in their growth plans [...] So, we go into these companies and we say [...] ‘We know what the buyers are looking for, how do you rate against their score card?’ [...]. ‘You’ve got a good management profile, you don’t have enough PR presence, you’re not in the press enough so, you might want to up your press. Your profitability is not in line with similar businesses your size so let’s do some analysis and see what we can do to improve it. You’ve got two returning series; you’ve got one on Netflix so that’s going to be attractive.’ It is like a corporate health report, using our intrinsic knowledge of the sector versus our internally created buyer score card” (Interview, Edinburgh/LA 15 February 2019).

The Information Memorandum produced by the intermediary frames the fitness of the company for acquisition. It provides a company overview which maps its foundation, history to date, track record in programme production, and the strategy it has adopted: the balance of domestic and international commissions and the audience demographics for its programmes. In addition, details of the firm’s reputational capital and main relationships with broadcasters, in particular with commissioning editors in relevant areas, and its relationship to distributors for its library, and any sales and marketing activity, will be recorded. The value drivers which underpin the seller’s case for acquisition are included⁶: the company’s historical and projected performance (its size, margins and growth profile); the company’s positioning and its record of producing distinctive programming. The financial information for the company is presented: results and analysis of the outcomes and prospects, as well as a projection for the company’s future expectations on income and profit. This information is accompanied by audited financial statements, and a listing of programmes produced, future productions and the attached distributor(s). The overall profile is then situated within the context of the general market with an analysis of the competition from other companies of whatever size with the same generic specialisms.

As Michel Callon has noted (Callon, 1998, p. 16), “If calculations are to be performed and completed, the agents and goods involved in these calculations must be disentangled and framed. In short, a clear and precise boundary must be drawn between the relations which the agents will take into account and which will serve in their calculations and those which will be thrown out of the calculation”. In short, the intermediary provides – though the information memorandum – the basis for assessment of a potential purchase by buyers.⁷

The buyers

For Bruce Kogut, 2012, p. 1), “The sociology of financial markets can be viewed as a search to link the macrostructural patterns in economic markets to the micro-behaviors of participants, or agents, in these markets”. The nature of buyers of programme production companies can and does change over time and varies across a range of ownership structures with different strategic objectives. Some have broadcasting interests but one common feature is the strategy of vertical integration to boost throughput to a distribution arm. And the configuration and ownership of many buyers have themselves changed in the last 15 years. For example, All3Media after two periods of being owned by different venture capital firms was sold in 2015 to US-based Liberty Media and Discovery; Tinopolis bought back the stake of venture capital company, Vitruvian, in 2017 to return to private ownership; Fox and Apollo merged Endemol and Shine in 2014 to form Endemol Shine which in turn sought a buyer in 2018 and was finally acquired by French super indie Banijay in 2020.⁸

The buyers involved in the consolidation of production companies in the UK have different configurations but to some extent have emulated each other in their acquisition strategies in the UK market with the regular involvement of an intermediary. The nature of large production groups is to seek to grow their turnover and profitability. As Froud et al (358) suggest “Increased size enhances a company’s ability to leverage its fixed cost base (e.g. administrative overhead, marketing and advertising expenses, sales force etc.) [...] economies of scale [...] and economies of scope (i.e. common resources across multiple geographies)”. For large groups like Warner Brothers, as Andy Zein (Warner Brothers) suggested “the crucial thing about these roll ups is once you start, you’ve got to keep going, you’ve got to achieve size and scale because your competitive advantage comes from moving intellectual property around at marginal cost that can be monetised elsewhere [...]. You use formats as a way to establish yourself” (Interview, London 8 March 2019). For some larger groups, such as Endemol, organic growth was feasible in the early 2000s through building a network of production companies in territories across the world to exploit its success with the format business (cf. Chalaby, 2010; Esser, 2017). As Dey commented;

‘organic growth in today’s competitive market is much harder than acquisition growth. There is a lot of pressure on managers of these businesses to grow. Why not buy your competitors instead of going head to head and losing your own margin. You can buy in the new ideas and bring the change you need. Mature businesses are also more stable and established than a new department. With an abundance of financing options, buying these assets is a real option [...].’ (Interview, Edinburgh/London 7 June 2018).

The approach to the acquisition of companies in industries which rely on invention and creativity, and of which TV programme production is an example, focuses as much on the people and their skills, expertise and reputation as the products/library catalogue that are acquired with the company. This is different from mergers in other industries where the principals in the business often do not continue to play a role after acquisition. One of the principal assets acquired in the consolidation phases in UK TV has been the reputational capital of the acquired company’s principals. These factors have contributed to the continuing foundation of new independent production companies with the objective of future acquisition

After the changes to the terms of trade in 2004 the acquisition of companies with a proven track record had several advantages for the growing super indies, and as noted above creating the opportunity for the intervention of specialist financial intermediaries. Acquiring a portfolio of labels became the key driver of consolidation for these consolidating groups to provide some risk reduction for production groups which continue to depend on the commissioning broadcasters for the majority of a programme's financing. Groups seek to achieve a balance across genre, and scale for resilience against the variable performance of companies in the group, as well as feeding a distribution subsidiary. Any TV production business lacks consistency and there will be ups and downs at different units so that as John Willis, Creative Director at Tinopolis, observed

'if one of the major companies is having a bad time, then the chances are if you've got a dozen of them that [...] someone else is doing well so at certain times [...], it enables you to not panic about, in a short term way, but actually take a slightly longer view [...] [so] that you can deficit finance projects, you know that international rights and international sales are a very valuable part of the portfolio [...]. We're all wanting to make formats that sell internationally because a) it's a way of making the company successful and b), if you've got formats that are selling well internationally then it's easier'

(Interview, London 17 May 2018).

A further example of this approach was described by Jane Turton, Chief Executive of All3Media:

'We set out about four years ago to build our scripted business back up as it had got to a place where the balance was wrong. Our portfolio's always been quite well balanced between scripted and non-scripted, we're unusual in that respect and I think that's a huge positive' [...] three or four years ago we set out to try to acquire some very good scripted business to add to the portfolio. At the same time, we do a lot of corporate development with start-ups and recruitment'⁹ (Interview, London 9 July 2018).

For Tim Hincks, formerly CEO of Endemol (which only began to acquire companies in 2009), this approach had many benefits:

'I think there's a defensive and aggressive thing. The defensive thing is exactly that: you have a larger portfolio. You just have more certain visible revenues coming in which will allow you to cost cut and to be more efficient on one level, but the more positive [...] is that you also can attract creative people to make those shows. And you increase your chances of the next hit coming from your company because you can offer people an exciting place to be. That's the theory of it, and so you become a one-stop shop where you can incentivise and hold on to people. [...] I think the consolidation can frankly largely be explained by the economic reality of companies which have incredible brands but are holding onto those but not replacing them. And so you tend then start to think about market share and about how you how you get your hands on other IP' (Interview, London 4 July 2018).

The unique drivers of acquisition and the associated valuation are differentiated both by the configuration and type of company but also by whether it focuses on one or more genre. The factors involved in scripted differ from those in non-scripted programming with smaller companies tending to specialise in one genre. In the acquisition of companies focused on scripted programming a key factor will be the producer's track record and ability to secure both commissions and to have links with A-list screenwriters. In the small world syndrome of drama production (Uzzi & Spiro, 2005) the central creative figure has a reputation which is based on her or his track record. Different considerations

will apply in factual, factual entertainment and format-focused companies. In these it is the development team and its record and ability to innovate and secure new commissions which will be examined and emphasised by the intermediary to potential buyers. In short, different types of human capital – and differences in skills which are deemed to be valued – have to be identified by the intermediary. Buyers are seen by the intermediary to look for

‘good management, a steady growth profile [...] very good margins, efficient well-run businesses. They look for companies that can produce series that are enduring and long running as there’s better margins on season two and three than there is on season one, so you make more profit’

(Thomas Dey Interview, London 9 July 2018).

In John Willis’ view when considering a possible acquisition

‘You’re valuing everything from how many programmes are made and how much money they made in the previous year and the year before that, what their ongoing slate is looking like and how much of that we think will get commissioned, what their plans are, even over the 3 year period but then you’re backing creative leaders . . . people who you know have a reputation within the industry that means that with a fair wind that they’re always going to be busy and always going to get commissions’. (Interview, London 17 May 2018)

For Jane Turton at All3Media the objective is to

‘build an IP catalogue which is the long-term asset, you know through scale that you are able to develop specialist skills, you know through scale that you’re able to develop more. More development tends to generate more opportunity and you get the snowball effect which is a very difficult thing to describe empirically but is a phenomenon. You know through scale, you’re just touching more selling points, you’re likely then to be the one Apple comes to versus knocking down the door to try to get in, or Amazon or Netflix or whatever’.

(Interview, London 9 July 2018).

Group reputation has become a relevant factor in securing commissions from the new well-financed platforms when one of the group’s labels is seeking a commission with an impact on overall Group profitability.

What’s on offer to seller-side firms

The whole process is an auction orchestrated by the intermediary in which there is a matching of buyers and sellers. Complementary fitness perspectives for both buyers and sellers are required: fit from the buyer’s perspective for the potential acquisition to offer a well-managed and sustainable set of programme-making activities; but also, fit from the seller’s perspective for a buyer’s organisational structure to provide a degree of autonomy and positive conditions for creativity (for an analysis of these factors see Van Keúlen et al., 2019).

Thomas Dey noted that “it’s that careful balance of leaving people to be creative versus total absorption that is an argument amongst the American studios and the consolidators. They have very different approaches to acquiring these companies” (Interview,

London 9 July 2018). Although centralising distribution, legal, financial, marketing, branding makes economic sense it can prove off-putting for firms which have used the same outsourced people for many years. These networks and structural ties can be difficult to forego.

The different consolidators have adopted a range of organisational structures in seeking to maximise savings at the centre while seeking to ensure the continued encouragement of creativity. This nearly always means sharing some back-office functions but sometimes includes sharing accommodation in the same building. Similarly, given the importance of revenues from distribution, some groups will handle all productions made by the new label, while others adopt a more pragmatic approach often dependent on the financial arrangements for individual programmes.

Both All3Media and Tinopolis have adopted a federal model. At All3Media Jane Turton averred: “The federal model is the paradigm if you like, it’s the thing that I think is unique to All3 but it’s certainly not a strategy, it’s just structural [...] we’ve taken the decision that it’s the best way to structure a business to make it creatively rich [...] you’ll get a bigger, butcher, more independent minded creative in an All3 group, because they know they will have complete authority and autonomy”. (Interview, London 9 July 2018).

These factors play a role in the choice of which acquiring company is made. Nick Catliff confirmed the attraction of the arrangement to him and his colleagues when Lion TV was acquired by All3Media in 2003. “what was appealing about All3 was the federal structure. And if you look at it, the way it always works is you have the federal structure companies, you have the real aggregators, the Endemols, the Warners, those companies who tend to put you all in one building [...] and I think very often crush the value of the company they’ve bought, and the third one obviously, vertical integrators, ITV have been the best example of that. All3’s promise to us, which we believed and they completely honoured [...] they allowed us to keep the things which are very important to our culture ... production management, legal and business affairs, accounts [...] that’s the heartbeat of the company. If you look at independent production, most creatives are in the middle, between researchers to series producers and show runners and they’re freelance and they come and they go. The people who are here all the time, the management, executive producers and the back office and [...] we very deliberately built an environment and a company and a corporate culture that we thought was important’ (Interview, London 1 May 2018).

This value placed on “independence” by company owners after acquisition is an imperative in the calculation by sellers, and is counterbalanced by the advantages of scale for the consolidator. As John Willis noted Tinopolis has gradually become more centralised:

‘Where it makes sense [...] there are some real advantages of scale, it partly depends on how you deal with it. What we’ve done is keep the cultural identity and creative leadership of all the companies pretty much intact [...] a much more federal system where of course we work together and we interact together and we share back office functions for economic reasons and reasons of efficiency but creatively everyone has their own space and their own identity partly because we don’t want to compete with each other that much and partly because that’s why the companies were acquired in the first place’. (Interview, London, 17 May 2018).

The acquiring company will always seek to attenuate the risks it faces when integrating a new subsidiary while having to honour commitments made at the time of acquisition to the key creative talents at the company, contractually negotiated and specified with key inputs on terms from the intermediary.

However, for Warner Brothers International Television Production with its international focus, the starting point for acquisition and integration was different with the emphasis on developing formats and using them in different markets. Of the logic behind their acquisitions in Denmark, Andy Zein said

‘The previous owners weren’t managing for long term great programmes[...] they were managing to sell the business’

(Interview, London, 8 March 2019).

The dynamics of the sale

Actor-Network Theory suggests the need “to explore *the specificities and materialities* of decision-making and *how* it is that settlements are reached” (Dugdale, 1999, p. 131). The process is initiated when the intermediary is contracted by a production company if it decides to seek a buyer. As Jes Wilkins, Managing Director at Firecracker reported

‘we engaged them [ACF- *About Capital Finance*]. We decided, and you know that’s a common process, that there was them and three or four other similar organisations [...]. They are in the business of selling independent production companies. They are a commission business so it’s in their interest to get you the best possible price, in the same way that an estate agent would be’ (Interview, London 25 June 2018).

As noted above, the intermediary both constructs and distributes the Information Memorandum to potential buyers and manages the auction process. Furthermore, as per Actor-Network Theory “markets [...] involve performing calculations, monetary interchanges, transactions and relations of all kinds” so that analysis requires “an investigation of the ordering of materially heterogeneous socio-technical economically relevant relations, their enactment and performance” (Law 2002, p. 25). What is evident is that once the auction process is underway the two fitness profiles – of each potential buyer and of the seller – become critical in framing the decision-making process for both parties. For the buyer the information memorandum provides a formal framing of the selling company’s strengths and this is then tested in the interview. For the seller the buyer’s fitness is enacted performatively. This interaction of the seller and the buyer is the narrow space “in which all of the grandiose ingredients of the world begin to be hatched” (Latour, 2005, p. 179).

This interaction and the role of the intermediary between the agent groups was eloquently described by Jane Turton at All3Media “you sit there ostensibly as the buyer ready to cut a very large cheque and hand it over but actually you’re selling yourself as the best home, the place they can be most productive, happiest” since the intermediary will have established “the same economic outcome whether it’s a slightly different structure [...] they will make the same amount of money”. In this scenario the competing buyers are “selling your vision of the future to you the seller and which one works best for you and absolutely you’re getting into conversations around the centre, the relationship, the

distribution, the value add, support, the federal model, the geographic footprint”(Interview, London 9 July 2018). As Thomas Dey intimated ‘we say to our clients, this is a 2-way process, “You should be rating your buyers as well.” [...] We’re going to put you in front of 5 buyers and you should be asking yourself the question, who are they, what are they like to work with, how do they help their investee companies, do they get you something you don’t have already?” (Interview, Edinburgh/LA 15 February 2019).

The calculations

Following the auction interviews, as suggested by Actor-Network Theory, calculations are made by each side based on the various proxies for fitness presented by each party to the transaction. The seller’s fitness is based on the intermediary’s information memorandum: reputation, network links to key creatives and commissioning personnel, its creativity (grounded in number of returning series and wider industry soundings), management efficiency, financial control. This needs to align with the buyer’s evolving business model in a changing market and be consistent with the needs of its distribution pipeline and possible international format deals (depending on genre) while securing, where possible, cost savings across the group. This is consistent with the findings reported by Van Keulen et al. (2019).

The buyer needs to have demonstrated that its group structure and configuration will provide a suitable environment for the selling company. The key proxies are the level of creative autonomy, access to finance, and advantages in distribution. The buyer also needs to make a financial offer for the acquisition which meets the expectations of the seller and is balanced by the terms of the earn out period during which the principals are contracted to remain working for the company.

It is the agents’ calculations – both sellers and buyers – which determine the final outcome of an auction process (Knorr Cetina & Preda, 2001; MacKenzie, 2005). As Dey reflected “a transaction ultimately happens where a seller is willing to sell at that price and a buyer is willing to pay it. And that is the real value of an asset. Everything else is justification” (Interview Edinburgh/LA 7 June 2018). Furthermore, in terms of the decisions taken by the buyer on submitting a bid for the company for a particular value, “the desired relation is that the numbers should be consistent with the firm’s narrative so that management can claim to deliver what it promises and a company confirms its reputation” (Froud et al., 2006, p. 135).

Jes Wilkins from Firecracker explained:

‘We did have a choice. And we liked the fact that Tinopolis were British. But ultimately most people are going to go with the best deal, aren’t they? [...] But then the best financial deal isn’t necessarily clear cut because it’s a hedge on what’s guaranteed on the day that the sale is done and how much is based on targets and how those targets are worked out and how different types of incentives work’ (Interview, London 25 June 2018).

The intermediary usually has a notion of what the valuation of a selling company should be, and indeed its reputation (and commission from the transaction) is very much tied to getting the best price for its clients. Dey noted that

‘our clients are hiring us in to get them the maximum price the market will deliver. The way this is achieved is by putting a number of buyers together in a process, who are keen to buy

the asset, and running a limited auction process' (Interview Edinburgh/LA, 15 February 2019).

Once the seller has agreed the terms of the deal with one of the buyers, the intermediary puts in place a contract where the consequences flowing from the acquisition are dealt with. "It is important to fully negotiate the exit so that at the end of the deal it literally unwinds like clockwork. Everything is clarified upfront: how much you get, the conditions for exit, what happens after the deal is finished" (Thomas Dey, Edinburgh/LA 15 February 2019).

From the buyer's point of view there are particular risks in relation to the key creative individuals working in the company:

'The people - you tie in the creative principals and sometimes the business principals of the company for a number of years, it's usually 3 or 5 is the normal. [...] There are examples of people walking away and someone's paid a lot of money for a company and the company's represented by these people and then they've disappeared, and you're just left with the title, a bit of library and some researchers'

(John Willis, Interview London 25 June 2018).

Thomas Dey suggested that following the acquisition there is the need for the acquiring company to

'keep them motivated [...] and the right structure to keep them incentivised is based on performance'

(Interview, Edinburgh/LA 7 June 2018).

Conclusions

The dynamics of renewal and innovation in television production have developed in the shadow of the competition discourse which increasingly defined UK television after the 1980s (Paterson, 2017a). This evolutionary dynamic has facilitated the emergence of specialist intermediaries to lubricate the transactions: to act as the handmaidens of consolidation. They did not start the changes in the structures of ownership in TV production but their presence and emergence and the creation of a distinct epistemic culture arguably has accelerated them. Furthermore, the mutation in the configuration and ecology of television production companies in the UK have necessarily adapted to the need to retain individual talent in creating success whenever consolidation through acquisition has occurred. This has resulted in the principal creative producers in companies recognising the potential for cashing out and that this is often largely based on their reputations for creating successful returning series. Once a track record of success has been achieved the possibility of greater stability for a company within a larger group together with a sizeable payment by selling will often dwarf any regret at the relative loss of autonomy.

What this analysis indicates is that the framework and concepts of complexity and actor network theory – in particular the centrality of calculativeness and its entailments in the use of proxies for fitness – provide a way of understanding the underlying processes which have facilitated consolidation of the UK Television production sector.

The epistemic framework devised by the intermediaries works to provide an initial metric to measure the fitness of a selling company for acquisition by the consolidators. At the same time, it has become incumbent on the acquiring companies to demonstrate their fitness during the auction process to reassure the selling company that their configuration will provide both the stability of a better financed infrastructure and sufficient autonomy for programme makers.

The recent changed global ecology where new platforms are now actively competing with the incumbent broadcasters to commission from the independent production sector has altered the potential profitability of labels within groups. The consolidated groups have distinct advantages in this space which provides ever greater incentives for start-ups to seek acquisition. The scripted business in particular has been boosted by the surge in demand from the SVOD platforms and competing channels¹⁰ with consequences for development and financing, exploitation and distribution. It has also led to the increased value of drama production companies when acquired and a change in the relationship of production companies to key creative personnel such as screenwriters and actors. The commissioning of non-scripted programming has been affected by the changes in expectations of the public service channels which remain the core buyers for this more localised and less expensive programming but which has shown potential for lucrative overseas format sales (cf. Chalaby, 2010; Esser, 2016). For production companies in all genres, the potential for repeat commissions in the domestic market remains key to maintaining a continuing reliable income stream alongside any additional international revenues.

While there was a slowdown in acquisitions in the UK market after 2017, there was evidence of a continuing number of start-ups across the different genre. A commonly held view is that there is a desire among creative entrepreneurs to emulate their forerunners from the generation of former duopoly programme makers who had achieved creative success and reputation by founding a company and then benefited financially from selling it on to one of the larger groups. A changing fitness landscape in a dynamic and competitive marketplace populated by both aspiring entrepreneurs and groups needing to sustain growth through acquisition will continue to require the epistemic work of intermediaries to provide tacit knowledge for buyers and sellers. These transactions and the role of intermediaries in production sector evolution is now normative and seems certain to continue to underpin changes in the TV production sector in the UK.

Notes

1. See for example, Tom Burns (1977) on influence of McKinsey at the BBC in the 1960s; Birt (2002) on McKinsey's role in introduction of Producer Choice; and Kanter and Raymond (2003) on support for planning of "One BBC" project by Greg Dyke.
2. Much of the information in this paper is based on interviews with Thomas Dey, Chief Executive of ACF (About Capital Finance) one of the most active intermediaries in the media sector. Some selling production companies, including Red Productions, Headline Pictures and Blast!, have eschewed the use of specialist intermediaries for advice and relied on their legal advisors or a freelance consultant to facilitate the sale.
3. There have been four distinct phases in the development of the production companies outside the BBC or ITV. 1981–1996 foundation and organic development; 1996–2003 early

consolidation; 2004–2011 consolidation following change to terms of trade; 2012 and current.

4. On its website ACF describes itself as “an international investment bank specialising in intellectual property, content creation, and international distribution. If you are considering buying a company, selling your businesses, raising finance, or you are coming up to your earn out period, we have the expertise and track record to help you find the right solution”.
5. In 2003 All3Media acquired the proto-super indie formed by Chrysalis, a subsidiary of the music group. International investment came with Southern Star’s acquisition of Carnival Films in 2005 (later sold to NBC Universal) and IMG’s acquisition of Tiger Aspect, Darlow Smithson and Tigress (later sold to Endemol). The use of proxy measures in the calculations by firms in these transactions align with the concepts of adjacency, adaptive walks and the fitness landscape in complexity theory.
6. In the investment chain the sell-side analyst typically “build large models of the companies under coverage They write research notes . . . which they both ”sell” (distribute along with efforts at persuasion) to their colleagues in general sales and to the fund-managers and buy-side analysts who are their clients” (Arjules et al., 2017, p. 173).
7. The use of proxy measures in the calculations by firms in these transactions align with the concepts of adjacency, adaptive walks and the fitness landscape in complexity theory. This approach was explored in Paterson (2018).
8. The key players in the UK Market have been All3Media, Tinopolis, Shine, Endemol, Zodiak/Banjay, Sony, NBC Universal, Sony Pictures Television, Fremantle, BBC Studios and ITV Studios General Entertainment.
9. There have been many instances where one of the consolidators has acquired a 24.9% share in an independent producer, often a small company, and All3Media has quite often taken this approach. At this level of investment, the company retains the status and advantages of a “qualifying independent production company”.
10. *“I think our scripted last year grew something like 40% year on year in terms of turn over where if you think our overall turnover was about 24% up year on year, so you can see that scripted is driving it.”* Jane Turton.

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