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Trends in Middle Eastern Arabic Television Series Production

Opportunities for Broadcasters and Producers

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The regional television industry in the Middle East has seen tremendous growth in the last several years. Increases in the number of television viewers, along with favorable economic conditions, have fueled growth expectations and led to the entry of a plethora of free-to-air TV broadcasters' channels. The growth in the number of channels, however, has outstripped TV advertising revenue growth, spurring intense competition among broadcasters.

Broadcasters are responding to competitive pressure by differentiating their programming from that of their rivals. Perhaps one of the most profitable areas of differentiation for broadcasters lies in high-quality Arabic TV series, which enjoy the highest viewership and share of advertising revenues. Broadcasters are especially keen on Arabic TV series that appeal to viewers in large advertising markets in Saudi Arabia and the Gulf region. As a result, broadcasters are complementing their traditional supply of Egyptian TV series with productions from newer players, particularly from Syria and the Gulf states.

The increasing demand for high-quality Arabic TV series has led to rising prices, making the production of such series more lucrative for production houses. Another emerging trend is the increasing operational and financial involvement of TV broadcasters in production, partly to guarantee the quality of output and partly to drive innovation through less familiar types of content, such as TV films and sitcoms, and through new

media. Industry participants, including broadcasters, producers, advertisers, and online media, are watching carefully to see how quickly the landscape is changing and where the market is heading.

What might the future hold for Middle Eastern TV production? We expect mounting demand for Arabic TV series, particularly high-quality dramas. As quality first-run series command ever-higher prices and the need for differentiation becomes more acute, broadcasters may become even more involved financially in TV production and producers will venture into new areas, such as sitcoms and other series formats. In particular, broadcasters and producers will place more emphasis on content appealing to viewers in large advertising and media consumption markets in Saudi Arabia and the Gulf region. All of these factors suggest that viewers in the Middle East will be the clear winners, with a greater selection of innovative and higher-quality TV programs in the coming years.

The Case for Middle Eastern Media

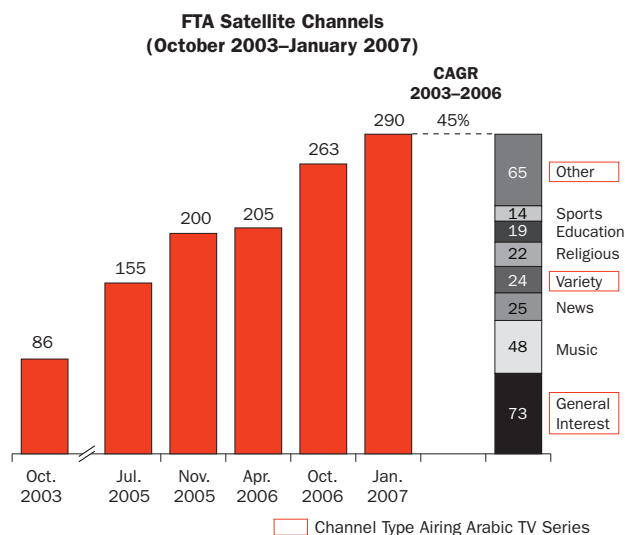
The Middle East has an attractive TV market, with a large and growing population, an ample number of affluent viewers, and high media consumption. With more than 200 million people and 38 million households, the region's population is more than half the size of Western Europe. Growth prospects for the TV market in the region are positive: By the year 2015, in three Gulf states and Egypt alone, more than 13 million households are projected to reach medium to high income levels.

A sign of the rapid growth experienced by the TV industry is the large increase in free-to-air (FTA) TV channels (see Exhibit 1). The growth in the number of channels has outpaced the growth in TV advertising spend, resulting in slowing ad spend on a per channel basis. Thus, in the short term, TV channels are likely to grow at a proportionally lower rate, and in the medium to long term, as the gap with growth in advertising market widens, consolidation seems likely.

To redefine the value of advertising spot rates and spur aggregate TV ad spending, advertising agencies will be adopting increasingly reliable methods to measure viewer consumption and ascertain viewership of different channels and programs. A few Middle Eastern countries are taking steps toward the use of viewership and rating measurements (utilizing the services of Mediametrie), which will ultimately provide program ratings; there is also talk of regulations to install a measuring system that would allow more transparency in the market. Finally, proposed regulations to reduce the permissible time for ad breaks should increase the value of advertising. The advertising spend per capita will likely rise as the industry better gauges the effectiveness of advertising and is willing to allocate more capital to TV advertising.

Exhibit 1

Growth in FTA Satellite Channels



Sources: PARC; Arab Advisors Group; Zenith Media; Booz Allen Hamilton

Despite serious challenges facing industry efforts to accelerate growth in TV advertising spending, the overall outlook is positive. Strong growth in the number of households, in household annual income, and in the penetration of TVs in the region, combined with more reliable viewership measurement systems, increasing satellite penetration, and greater professionalism in the industry, are suggesting a compound annual growth rate (CAGR) for audiovisual ad spend of close to 20 percent through 2012.

Programming for Results

The rapid increase in the number of TV stations is yielding fierce competition among broadcasters. Market realities compel broadcasters to differentiate their product through an array of strategies, including, but not limited to:

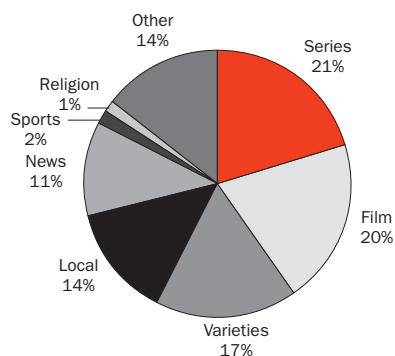
- *Introduction of targeted thematic channels.* Large TV groups with generalist channels, such as MBC, are launching thematic channels in order to retain viewership across multiple segments. These thematic channels tend to be clearly identified and positioned, with the identity made evident to viewers in both content and promotion.
- *Targeted original productions.* TV stations are beginning to focus their costly in-house production and format adaptation efforts on high-quality original productions that can be targeted toward specific audiences, featuring superior casting, scripting, and technical execution. As intellectual property owned by the TV broadcasters, such productions can eventually be sold to channels regionally.
- *New content types.* TV stations will seek new, nontraditional types of content, such as TV films and sitcoms, as a source of further differentiation. As TV stations commit to premarketing TV films and sitcoms, production houses can venture into these relatively new areas of indigenous programming content. As TV stations pursue innovative programming, they will have to strike a careful balance between relying on reruns, which tend to drive away viewers, and adding significant amounts of new content.

- **New media formats.** TV stations are experimenting with new media formats, such as short drama series episodes suited to viewing on mobile phone screens or premium Web TV channel content. By adapting their content for new media platforms, TV stations are attempting to establish a leadership position in potential future growth areas.

Today, potentially one of the most attractive ways for broadcasters to differentiate themselves in a competitive market is to provide more high-quality Arabic TV series to increase both viewership and revenues. TV series are among the most popular types of programming in the Middle East, as reflected by their high share of total rating points, followed by variety/entertainment shows, films, and news. As such, TV series, especially dramatic TV series in Arabic, are becoming dynamic sources of advertising revenues (see Exhibit 2). Not surprisingly, broadcasters are demanding more Arabic series productions, and some broadcasters are acquiring or producing programs with exclusivity provisions. Meanwhile, advertisers are earmarking spending for specific programs. All of these factors are likely to increase demand for new programs in the coming years.

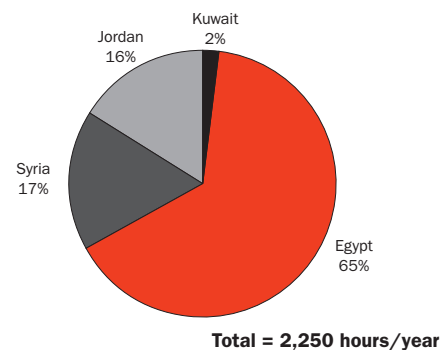
Broadcasters are seeking Arabic TV series that appeal to viewers in Saudi Arabia and the Gulf, and are turning more frequently to new producers in the Gulf as well as Syrian production houses that have experience in addressing Gulf markets. Currently, Arabic TV series production is dominated by Egyptian producers, which contribute almost 65 percent of total production (see Exhibit 3). The reason for their traditional

Exhibit 2
Breakdown of 2005–06 Pan-Arab TV Ad Spend (% of Total)



Sources: PARC; Booz Allen Hamilton

Exhibit 3
The Supply of Arabic TV Series in 2006 (% of Total)



Sources: Interviews; Booz Allen Hamilton

dominance is that Egypt has delivered the highest-quality TV product, followed closely by Syria, and then a few Kuwaiti production companies that target solely the Gulf market.

Challenges Facing Series Producers

Egypt's current leading role in Arabic TV series production results from, among other things, its access to the largest regional pool of creative talent (acting, script writing, and directing), which is leveraged into a competitive cost structure for producing series. Also, the Egyptian dialect is widely understood from Bahrain to Morocco. As a result, a few Egyptian producers have dominated Arabic TV series production, with the Egyptian Media Production City (EMPC) commanding a 46 percent market share of annual series production in Egypt and a 23 percent market share in the region.

The concentration of Arabic TV series production among few production houses has come about because they have the specialized capabilities that series production requires:

- Content creation, which requires strong ties with innovative scriptwriters and directors
- Content development, which demands adequate financing, well-established mechanisms for selecting projects, relationships with good actors, fairly elaborate production facilities, and specialized crews
- Content distribution, which requires privileged relationships with large TV channels featuring

negotiated distribution contracts for exclusives and first runs, and proactive marketing and distribution year round.

Leading TV series producers are expected to face several challenges going forward. Key elements include:

- *The scarcity of good scripts.* As more money goes to remunerate star actors at, possibly, the expense of scriptwriters, good scripts are becoming scarce.
- *TV producers facing stiffer competition for talent from a reinvigorated film industry.* Bigger film budgets, considerable advance promotion, more theaters, and more people going to cinemas provide actors with instant popular exposure. Through pay TV and thematic film channels, film actors reach nearly every home.
- *The emergence of large Pan-Arab broadcasters that cater to the Gulf market.* Recently, all major channels aired at least one series from the Gulf during prime time in Ramadan to appeal to viewers in Saudi Arabia and the Gulf.
- *Increasing competition from Syrian producers whose actors have become popular throughout the Arab world for their roles in historical epic series.* Syrian houses have become more competitive due to generous government subsidies for production houses, better quality scripts, terrific outdoor landscape and archaeological sites, and strong technical execution.

Rising Prices for High-Quality Arabic TV Series

Limited supply and strong demand for high-quality Arabic TV series, particularly during the holy month of Ramadan, when viewership is high, is resulting in large increases in prices, especially for first-run exclusive series (see Exhibit 4). According to TV broadcasters, first-run, exclusive, high-quality productions can be sold for prices that reach US\$85K/episode hour (typically during Ramadan), a 33 percent increase over 2003–04 prices. First-run nonexclusive and second-run TV series commanded prices of US\$30K–40K/episode hour and US\$7K–22K/episode hour, representing growth rates of 56 percent and 93 percent over 2003–04 prices, respectively, when considering the midpoints of each range.

Exhibit 4
Arabic TV Series Pricing Analysis

	Price Range (In US\$ Thousand/Episode Hour)	
	2003–04	2006–07
1st Run Exclusive	30–60	35–85
1st Run Nonexclusive	15–30	30–40
2nd Run Exclusive	5–10	7–22
Open (3rd Run)	3–5	3–5

Sources: Interviews; Booz Allen Hamilton

The increase in Arabic TV series prices has not always translated into a corresponding increase in the quality of production. A large portion of the increase in revenues going to producers is being absorbed by star actors, who can command fees as high as 25 percent of the total production cost. Another element that is scaling down the Arabic TV series revenues is the sales commission. As most production houses do not have representative offices in Saudi Arabia and the Gulf, they have to pay sales agents to promote their series. Rising commissions to those sales agents are limiting the funds available for reinvestment into productions.

Major broadcasters have been responding to rising Arabic TV series prices and the need for quality productions by commissioning their own TV series or entering into joint productions with producers and/or other TV channels. To secure an edge over their competition, some broadcasters have entered into long-term “lock-in” deals with star actors for their commissioned series. Going forward, large broadcasters with strong financial backing, unique capabilities, and access to talented writers and actors are likely to continue this trend of commissioning their own TV series.

Joint-production arrangements have recently been used by major Pan-Arab broadcasters. Joint productions enable broadcasters to gain direct access to the content creation, development, and distribution of production houses at a cheaper price than via acquisition off the shelf and without assuming 100 percent of the costs, as in commissioned productions. Production houses benefit from joint production

because they can recover a significant part of their production costs from the broadcaster's guarantee of sale of at least the first-run exclusive.

With large Pan-Arab broadcasters playing a more active role and with higher-quality and innovative productions able to command premium prices, producers now have an incentive to venture into newer, riskier propositions such as sitcoms and more expensive TV films. Sitcoms and TV films are new products that are slowly but surely making their way into the region, following examples in Western media. Having considerable budgets to promote new sitcoms and TV films, large Pan-Arab broadcasters are encouraging producers to innovate in ways not possible before in an industry historically dominated by semigovernmental production houses, which supplied state TV channels at suppressed prices.

The increasing involvement of TV broadcasters in series production, even if primarily as financiers, is likely to improve overall production quality. Not only are TV broadcasters able to vigorously market the new programming, but, being in a better position than they were to understand the needs and preferences of viewers, broadcasters can tailor productions toward more contemporary topics of interest to their audience.

Conclusion

The media landscape is changing quickly in the Middle East. While there are uncertainties as the industry moves forward, clear trends are emerging:

1. Large TV channels will need to provide their audience with high-quality programming to differentiate their offerings and stay relevant in the market. Large broadcasters will likely continue to produce key Arabic TV series via commissioned productions or joint-production arrangements to guarantee their quality while relying on acquisitions for the majority of their Arabic TV series needs.
2. New series formats, such as sitcoms, could become a key differentiator in the market. Already some of the large broadcasters have experimented successfully with live-audience sitcoms. Innovative ideas will be cross-generated by both TV broadcasters and producers.
3. Arabic TV series relevant to the Gulf will capture a larger share of audience in key advertising markets such as Saudi Arabia, Kuwait, and the United Arab Emirates. To maintain their leading market position, Egyptian producers will need to react by moving toward universally appealing content in their series productions.
4. Prices for higher-end productions will continue to rise as the market rewards differentiation in quality in an environment with more aggregate productions, more effectively measured ratings, and ever-rising costs in delivering high-end productions.

The changing dynamics of the Arabic TV series production industry present a myriad of challenges and opportunities for broadcasters and producers. Progressive players with resources to invest in TV production and the ability to formulate a quick and agile response to the changing nature of the industry stand to reap significant benefits.

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