Regulating the quantity and scheduling of television advertising on public service channels

Response from COBA to Ofcom

October 2022

COBA THE ASSOCIATION FOR COMMERCIAL BROADCASTERS AND ON-DEMAND SERVICES

Introduction

1. COBA is the Association for Commercial Broadcasters and On-Demand Services. It represents multichannel broadcasters in the digital, cable and satellite television sector and leading on-demand services.

2. COBA members operate a wide variety of services, offering news, factual, children's, drama, music, arts, entertainment, sports and comedy. Their content is available on free-to-air and pay-TV platforms, as well as on-demand.

3. COBA members are arguably the fastest growing part of the UK television industry, and are increasing their investment in jobs, UK content and infrastructure. They make this investment without support from the licence fee or indirect support from statutory prominence.

    - Scale: In the last decade, the sector has increased its turnover by 30% to more than £5 billion a year. This is rapidly approaching half of the UK broadcasting sector's total annual turnover, and has helped establish the UK as a leading global television hub.[1]

    - Employment: As part of this growth, the multichannel sector has doubled direct employment over the last decade.[2]

    - UK production: In addition, the sector has increased investment in UK television content to a record £1.1 billion per annum, up nearly 75% on 2011 levels.[3]

4. For further information please contact Adam Minns, COBA's Executive Director, at adam@coba.org.uk.

[1] Ofcom International Broadcasting Market Report 2013
[2] Skillset, Television Sector – Labour Market Intelligence Profile
[3] COBA 2019 Content Report, Oliver & Ohlbaum Associates for COBA

Executive Summary

1. Based on independent analysis conducted by O&O, COBA submits that no changes to the COSTA are required and indeed any changes could in fact be detrimental not only to PSBs and the rest of the sector, but also to consumers.

2. We see no material risk to the sustainability of commercial public service broadcasting for the period of the current licences. This view seems to be shared by Ofcom, according to recent statements. In June this year, advising the Secretary of State on the renewal of the commercial PSB licences, Ofcom stated:

   'The current obligations could be commercially sustainable, such that the licensees can continue to deliver them over the next licence period…For these reasons, we think there is a good case to proceed with renewal.'[4]

3. Ofcom's report to the Secretary of State against a backdrop of ITV's annual advertising revenues reaching £1.9 billion in 2021, up from pre-pandemic levels of £1.2 billion in 2019. Channel 4 is at pains to stress its sustainability. This year, its annual report stated that 2021 was the broadcasters 'strongest ever financial performance,' with corporate revenues topping £1 billion for the first time in Channel 4's history, plus a record-breaking pre-tax surplus of £101m.[5]

4. In addition, PSBs are already expected to receive additional benefits, including statutory prominence for their on-demand services, which is a significant competitive advantage. Furthermore, the existing PSB trade-off already encompasses the COSTA rules, which commercial PSBs accept as part of their licence conditions.

5. Levelling up under the COSTA rules is therefore unnecessary in terms of PSB sustainability. Indeed, doing so could harm PSBs, as well as the market as a whole. We have commissioned extensive independent research on all areas of

[4] https://www.ofcom.org.uk/__data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf

[5] https://www.channel4.com/press/news/channel-4-annual-report-2021-financial-record-breaking-year

the call for evidence as part of our response. According to this, levelling up could reduce overall advertising revenues by as much as £300m per year, due to the deflationary effect of more inventory. PSB revenues could also be damaged due to the deflationary impact on their commercial portfolio channels.

6. Our findings for this call for evidence are very much in line with Ofcom's own conclusions in its 2011 statement on COSTA, which stated:

   'Removing any UK-specific restrictions would be likely to lead to an increase in the overall volume of television advertising on all broadcasters, as competition within the market would encourage broadcasters to increase the amount of minutage to increase the share of commercial impacts, and thus the share of advertising revenue.

   'Analysis which takes into account the econometric data available to us suggests that significant increases in minutage may actually lead to a decline in the total amount of television advertising revenue. If the supply of advertising was increased then prices would be likely to reduce and our analysis suggests that the overall effect would be a reduction in total advertising revenues. This would reduce the amount of funding available for the production of content.' [6]

7. At best, what can be said is that the financial impact of levelling up is hugely uncertain and carries significant risks.

8. We note that Channel 5 shares our concerns and is opposed to levelling up, as is UKTV, whose revenues of course help fund the BBC. UKTV, for example, expects a loss equivalent to cutting up to 20% from its commissioning budget from levelling up.

9. Nor do we support levelling down. As shown by O&O's analysis, this would have a negative impact on revenues for non PSBs, a negative impact on the market as a whole, and a negative impact on PSBs' portfolio channels. In turn, this would damage investment in UK content, which is currently at record

[6] https://www.ofcom.org.uk/__data/assets/pdf_file/0021/19083/advertising_minutage.pdf

levels. Pact's rceent census reported multichannel broadcasters are spending a record £430m per year on shows from independent producers, while COBA estimates its members invest more than £1 billion per year in UK content (including in-house spend on genres including news and sports production, but excluding sports rights payments).

10. The COSTA rules are not simply a hangover from EU membership, as Ofcom seems to imply in its call for evidence, but are tailored specifically to UK requirements. The UK has always had stricter rules in this area than were required by EU membership, and could have reduced them at any time since they were introduced. It did not do so, despite several consultations on this matter, because the current regime has been shown to sustain advertising revenues across the entire TV market. In so doing, it supports fair competition between linear channels, and – crucially – protects audiences from excessive adverts within the PSB environment.

11. Both of these reasons, set out in the ITC's original decision, remain true today. As part of this response, we have provided Ofcom detailed analysis that shows that non PSBs channels have not developed in scale since the rules came into effect. No single non PSB channel has a bigger market share today than the biggest non PSB channel had when the rules came in to effect. Moreover, the non PSB sector (excluding PSB portfolio channels) has not materially expanded its share of audiences or NAR since the rules came into effect. There remains a high level of mergers, acquisitions and closures in the non PSB sector, highlighting the continued fragility of smaller channels.

12. In part, this is because PSBs have responded to technological developments by launching their portfolio channels, which have ensured they retain a comparable share of audiences and NAR as they always have in the linear market.

13. Levelling up is likely to see the market dominance of PSBs increased. Even if ITV's own revenues were broadly flat in real terms overall (because of the negative impact on its portfolio channels), it could potentially increase its volume of advertising in order to dampen revenues for the rest of the sector and

thereby derive a competitive advantage. This would in turn risk harming viewer choice by undermining the ability of smaller channel to compete, as well as reducing their ability to raise investment for new UK content.

14. We have also commissioned extensive audience research that shows that 62% of viewers are less tolerant of adverts due to watching ad-free SVOD content. Furthermore, 44% said they would be minded to switch to SVoDs if the volume of adverts on PSB increased. In practice, of course, many viewers would not be able to make this switch as they may not have access to subscription content, especially during the cost-of-living crisis, which has already seen a downturn in SVoD subscriptions. PSBs, through the listed events regime, also have privileged access to exclusive content that will be unavailable elsewhere.

15. Ofcom seems to have accepted this fact on previous occasions. The point that some audiences do not have access to online-based services was key in Ofcom's agreeing to permit the BBC to re-launch BBC Three as a linear channel. Ofcom agreed that a particular cohort of younger viewers did not have sufficient access to on-demand services. Ofcom stated: 'The BBC considers that these viewers tend to be from C2DE socio-economic backgrounds, live outside London and the south-east and have less access to on-demand services.' Ofcom went on to state (our emphasis):

    'Our analysis found that the proposals could deliver additional public value by increasing the availability and reach of BBC Three content, including to those who do not, **or cannot**, currently watch it on the BBC iPlayer.'[7]

16. A lower volume of adverts is a fundamental part of the PSB viewing experience. It is something that audiences expect. Levelling up is likely to harm the viewer experience, as well as risk damaging fair competition in the TV market.

17. Ofcom must be evidence led and consistent. As noted above, Ofcom recently suggested that PSB licences are sustainable, yet the call for evidence states that

[7] https://www.ofcom.org.uk/__data/assets/pdf_file/0027/228519/statement-bbc-three-final-determination.pdf

one of the three possible reasons for changing COSTA rules would be to help the financial sustainability of the PSBs.

18. In addition, Ofcom's statements on another of these three reasons, audience attitudes to adverts, appear inconsistent. For this call for evidence, Ofcom suggests that the COSTA rules restricting advertising may no longer be necessary to preserve 'the quality of the viewing experience.' Yet in its recent (welcome) note to broadcasters following the Queen's funeral, it stated it was minded, under the COSTA rules, to grant as much flexibility as possible in the time broadcasters had to recoup lost advertising minutes. This was on the grounds that:

    'Given the significant advertising minutage loss, we are concerned about the <u>potential negative impact on the viewer experience</u> if recoupment were to take place over only a 7 day period.'

19. COBA supports deregulation where appropriate – we have, for example, long called for Ofcom to address the overly-complex rules it has imposed on commercial references in content. On rules 5 and 16 (duration of ad breaks and number of internal breaks for PSBs), we are open minded, providing the status quo on COSTA is otherwise maintained. But, based on clear evidence, we see no case for levelling up on COSTA. It will be damaging to the PSB experience for audiences, and (at best) increase uncertainty for the linear TV market at a time of significant disruption.

20. If Ofcom wishes to take such a potentially high-risk step, it should clearly set out the evidence that supports such a change. The emphasis on evidencing the case for change was clear in Ofcom's 2011 review of COSTA, which stated:

    '[W]e do not believe that the outcomes of this further intervention are clear enough to justify consulting on amending the rules at the current time.'[8]

21. In 2011, Ofcom described the conditions for reconsidering this issue as including:'changes to the regulatory framework that change the balance

[8] https://www.ofcom.org.uk/__data/assets/pdf_file/0021/19083/advertising_minutage.pdf

between our duties, or we are presented with new evidence that provides greater certainty about the outcome of any changes in the rules.'[9]

22. In our view, available new evidence strengthens the case for maintaining the current rules for COSTA.

[9] Ibid

Response

We will respond to each of the three reasons Ofcom sets out for possible change in the order they are stated in the call for evidence.

Quality of viewing experience

1. Ofcom's fundamental contention is that the rules may not be necessary any more to protect the viewing experience. We reject this categorically. If audiences did not care about the volume of advertising, services such as ITV Hub would not consider offering premium tiers without adverts. A lower volume of adverts is a fundamental part of the PSB viewing experience. It is something that audiences expect.
2. Our independent analysis, from a sample of more than 1,000 people, found that 62% are less tolerant of adverts as a result of watching advert-free content on SVoDs. Furthermore, 44% stated that they would be likely to migrate their viewing to SVoDs if they were exposed to increased adverts.
3. This is in line with Ofcom's own statements in its 2011 review of COSTA, which found:

   'As would be expected, audience research demonstrates that viewers frequently see advertising as disruptive to their viewing.'[10]
4. In reality, many viewers may not be able to switch their viewing. They may not have access to fast broadband or SVoD subscriptions – we have already seen Netflix subscriptions decline as a result of the cost-of-living crisis, which shows no sign of abating. These people are surely those who the regulator must protect the most.

[10] https://www.ofcom.org.uk/__data/assets/pdf_file/0021/19083/advertising_minutage.pdf

5. This point was key in Ofcom agreeing to permit the BBC to return BBC Three as a linear channel. Ofcom agreed that a particular cohort of younger viewers did not have sufficient access to on-demand services. Ofcom stated:

   'The BBC considers that these viewers tend to be from C2DE socio-economic backgrounds, live outside London and the south-east and have less access to on-demand services.'[11]

6. Ofcom added (our emphasis):

   'Our analysis found that the proposals could deliver additional public value by increasing the availability and reach of BBC Three content, including to those who do not, **or cannot**, currently watch it on the BBC iPlayer.'[12]

7. PSBs also have access to compelling, exclusive content, such as international football matches, granted on a privileged basis because of PSB status (the Media Bill is expected to make this explicit, though it is already the case in practice due to the requirements around listed events). Audiences for that content will simply have nowhere else to go and will have to accept increased adverts.

8. We enclose the full findings of our survey with our response and would welcome it being made public.

Financial stability of PSBs

9. As we have set out, we see no material risk to the sustainability of commercial public service broadcasting for the period of the current licences. This view seems to be shared by Ofcom, according to recent statements. In June this year, advising the Secretary of State on the renewal of the commercial PSB licences, Ofcom stated:

[11] https://www.ofcom.org.uk/__data/assets/pdf_file/0027/228519/statement-bbc-three-final-determination.pdf

[12] Ibid

'The current obligations could be commercially sustainable, such that the licensees can continue to deliver them over the next licence period…For these reasons, we think there is a good case to proceed with renewal.'[13]

10. Ofcom's report to the Secretary of State against a backdrop of ITV's annual advertising revenues reaching £1.9 billion in 2021, up from pre-pandemic levels of £1.2 billion in 2019. Channel 4 is at pains to stress its sustainability. This year, its annual report stated that 2021 was the broadcasters 'strongest ever financial performance,' with corporate revenues topping £1 billion for the first time in Channel 4's history, plus a record-breaking pre-tax surplus of £101m.[14]
11. In addition, PSBs are already expected to receive additional benefits, including statutory prominence for their on-demand services, which is a significant competitive advantage. Furthermore, the existing PSB trade-off already encompasses the COSTA rules, which commercial PSBs accept as part of their licence conditions.
12. Linear TV has bounced back strongly since the pandemic. Taken together with broadcast on-demand services, advertising revenues for broadcasters are at record levels. Advertising revenues in 2021 were £5.46 billion, up 11% on the pre-pandemic 2019. The previous high was £5.28 billion in 2016. broadcast on-demand revenues have grown significantly in recent years, topping £500m per year.
13. Changing COSTA rules is far from guaranteed to benefit PSBs financially. It is very difficult to see the amount of overall revenue in the sector increasing as a result, given the current geopolitical and macroeconomic circumstances. Our independent analysis shows that, in every levelling up scenario, PSBs are worse off, due to the deflationary impact on their portfolio channels. The market as a whole could be up to £300m a year worse off due to deflation, and the non PSB sector up to £186m worse off. This would inevitably have a negative impact on

[13] https://www.ofcom.org.uk/__data/assets/pdf_file/0011/240203/s.229-report-channel-3-and-5-licensing.pdf

[14] https://www.channel4.com/press/news/channel-4-annual-report-2021-financial-record-breaking-year

the non PSB sector's ability to invest in UK content, which it is currently doing at record levels.

14. UKTV, for example, estimates levelling up would have a material impact on the advertising revenues it generates – equivalent to cutting 15-20% of its annual commissioning budget (or effectively eliminating original commissioning for one or two of its channels), making it considerably harder for UKTV to fulfil one of its objectives, which is to create more high impact returning shows.

15. Our findings are very much in line with Ofcom's own view, as stated in its 2011 review of COSTA, which concluded:

    'Analysis which takes into account the econometric data available to us suggests that significant increases in minutage may actually lead to a decline in the total amount of television advertising revenue. If the supply of advertising was increased then prices would be likely to reduce and our analysis suggests that the overall effect would be a reduction in total advertising revenues. This would reduce the amount of funding available for the production of content.' [15]

16. ITV would, however, be incentivised to show more adverts even with a resulting decline in revenues for its portfolio services, providing overall revenues remained at least flat. This would mean deflation for the rest of the market, thereby giving ITV a competitive advantage.

17. At best, what can be said is that the financial impact of levelling up is hugely uncertain and carries significant risks. Even if it did benefit PSBs, which is unlikely given the impact on portfolio channels, and at best unproven, it is unlikely to do in the longer term, given pressures on the linear advertising market.

Distortion of competition

[15] https://www.ofcom.org.uk/__data/assets/pdf_file/0021/19083/advertising_minutage.pdf

18. The original ITC rules state that, as non PSB channels 'develop', the rules may create an unfair distortion in competition. Our independent analysis, provided to Ofcom as part of this response, indicates that nothing has changed in this regard since the rules were introduced, and that non PSBs have not increased their share of the market. The share of viewing of the biggest non PSB channel is in fact smaller than it was in 2002, indicating that no non PSB channel has achieved sufficient scale to have market power. In 2021, no non-PSB channel achieved a share of viewing greater than 1.6%, far below that of the PSBs.

19. Meanwhile, the PSBs have responded to technological change by launching portfolio channels, which are heavily cross-promoted by their main PSB channels. Factoring in the share of viewing to their portfolio channels, the PSB groups retain a comparable share of viewing to their position in the market in 2002. The same holds true for share of advertising revenues, and the ITV group continues to have a larger share of NAR than the entire non PSB sector.

20. As noted by the Competition Commission in setting the CRR mechanism, ITV's retains its unique ability to deliver mass audiences. The Commission said that CRR remains necessary 'to prevent the channel from exploiting this position to the detriment of advertisers and other commercial broadcasters.' The report states that, despite online and digital channels now being available to advertisers, they cannot replicate ITV's ability to deliver such large audiences.

21. In part, the PSBs' ongoing market strength has in fact come at the expense of additional growth from non PSBs. The non-PSB multichannel sector accounts for less than half of the top 30 channels by share of viewing in 2021, due in part to PSB portfolio channels achieving scale. The high number of mergers, acquisitions and closures amongst these smaller channels testifies to the fragility of the non PSB linear TV sector.

22. Levelling up under COSTA would allow PSBs to further strengthen their market power by increasing their share of commercial impacts and NAR. As noted above, even with a negative impact to its portfolio channels, ITV would have the incentive of scheduling an increased volume of advertising, providing it did not damage its overall revenues, so as to dampen prices for the market as a whole and

obtain a competitive advantage. The likely impact on smaller channels could reduce audience choice, as well as their ability to invest in new content.

23. This situation is unlikely to change in the future even with growth in online advertising. As Ofcom states in the call for evidence, 'many forms of online advertising are not comparable to television.'

24. In terms of on-demand advertising, we note that broadcaster on-demand advertising is growing strongly, suggesting that there is not a competition issue within this sub-sector. We do not view Netflix's expected move into a partially ad-funded service as likely to have a significant impact. We note that Netflix has said it will show no more than four minutes per hour of advertising, less than half of what ITV1 can show, while ITV's on-demand services have no regulatory limitations on their volume of advertising. O&O estimates Netflix's annual advertising revenues to be worth £160m per year in the UK for the short to medium term and that this will be from brands' global budgets, rather than their UK spend.

Oliver & Ohlbaum

Assessing the impact of potential changes to TV advertising minutage regulation

Consumer Research Extract

September 2022

CONSUMER RESEARCH FINDINGS

Summary of consumer research findings

Our consumer research illustrates that viewers have a preference for watching TV content without advertising, and that any potential increases to the volume or frequency of TV advertising would likely result in a decline in viewing to traditional broadcast TV in favour of ad-free digital streaming services

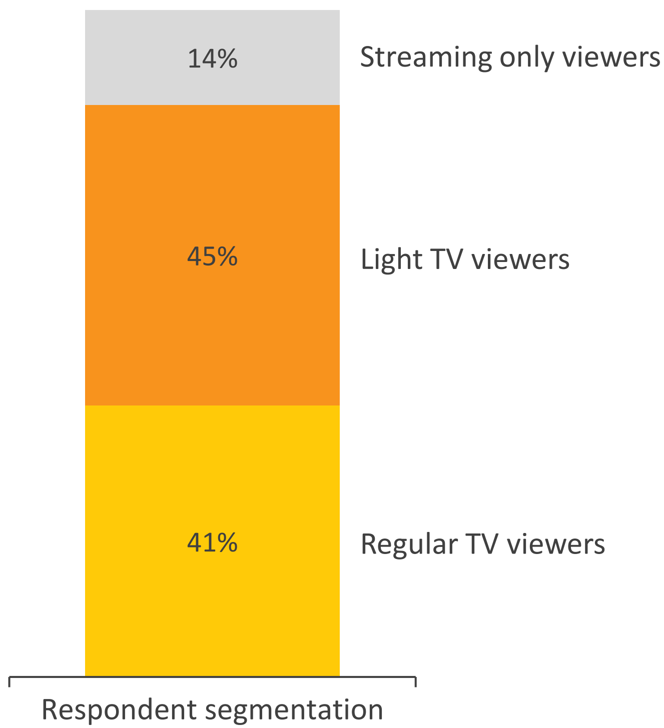
- In order to understand the impact of potential changes to TV advertising minutage restrictions on viewer behaviour we undertook detailed consumer research in September 2022, results of which indicated that:
  - The majority of TV viewers in the UK expressed a negative opinion of TV advertising, with 30% of adults stating they would rather watch TV content without advertisements
  - One-third of UK adults described themselves as having concerns about TV advertising, raising issue with both the current levels of TV advertising and the potentially harmful nature of certain TV adverts
  - Nearly half of respondents are unhappy with the current level of advertising (both in volume and frequency) on traditional broadcast TV and would like this to be reduced
  - More than half of respondents indicated that they have become less tolerant of TV advertising since the emergence of SVODs
  - A potential increase in the volume of TV advertising minutes or frequency of TV advertising breaks would be unpopular among viewers
  - 69% of respondents indicated that an increase on the commercial PSB channels would lead to them watching less of these channels; 44% of these respondents stated they would transition their viewing further to SVODs

Methodology and definitions

- Our consumer research was conducted in September 2022 using a significant nationally representative sample of 1,027 TV viewing adults living in the UK
  - The survey was carried out by our long-term market research partner, Fly Research who have extensive experience in conducting bespoke consumer research programmes
  - This large sample size has allowed us to analyse the dynamic of TV advertising opinions within key subgroups
- We categorised respondents by the amount of traditional broadcast television they consume, placing them into one of three mutually exclusive categories:
  - **Streaming only viewers:** those who only watch via streaming services or watch traditional scheduled broadcast less than once a month
  - **Light TV viewers:** those who consume less than one hour of traditional scheduled broadcast TV per day
  - **Regular TV viewers:** those who consume two or more hours of traditional scheduled broadcast TV per day

Breakdown of respondents by TV viewing habits

%

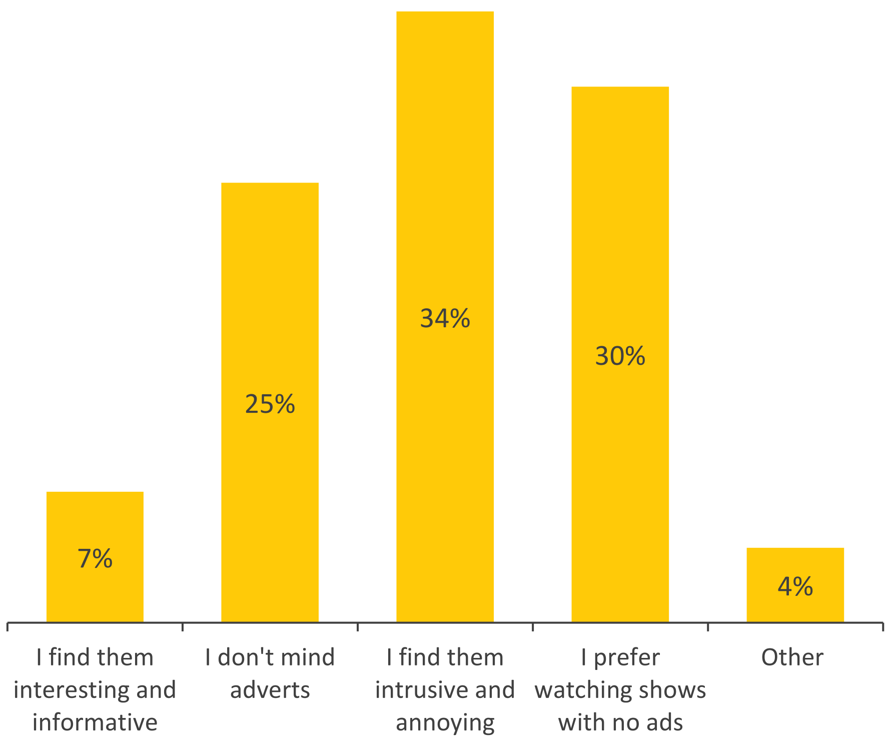


Source: Fly Research (n = 1,027), Oliver & Ohlbaum analysis

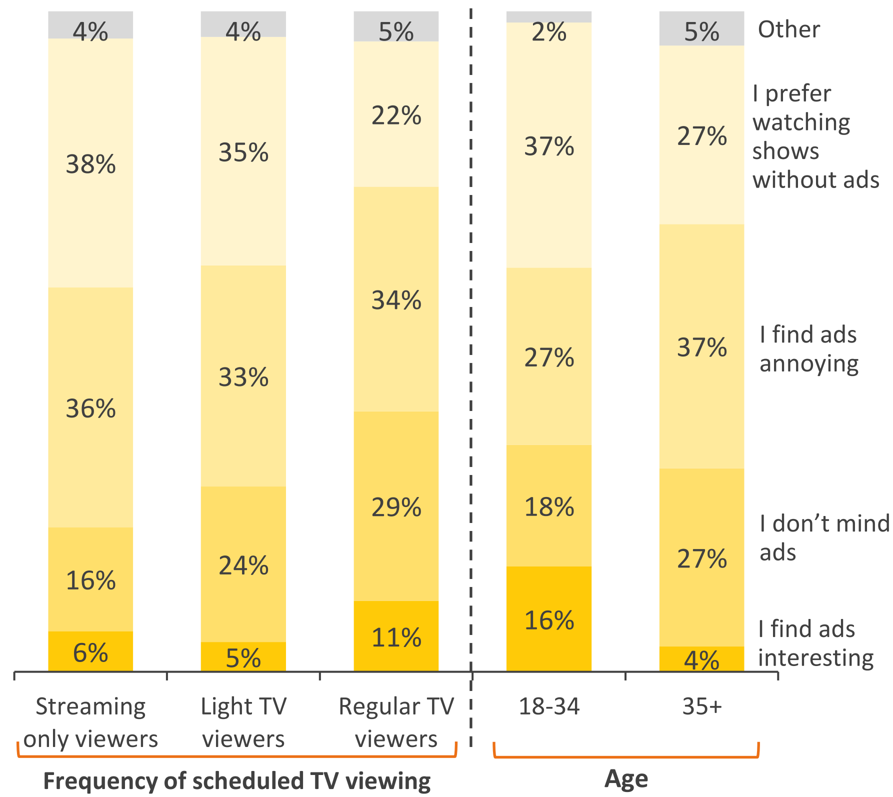
The majority of TV viewers find adverts detrimental to the TV viewing experience

Nearly a third of viewers go out of their way to avoid adverts, while for the most frequent watchers of scheduled TV the plurality of respondents found advertising annoying

UK TV viewers' opinions of TV advertising, 2022
%



UK TV viewers' opinions of TV advertising split by frequency of scheduled TV viewing and age, 2022
%

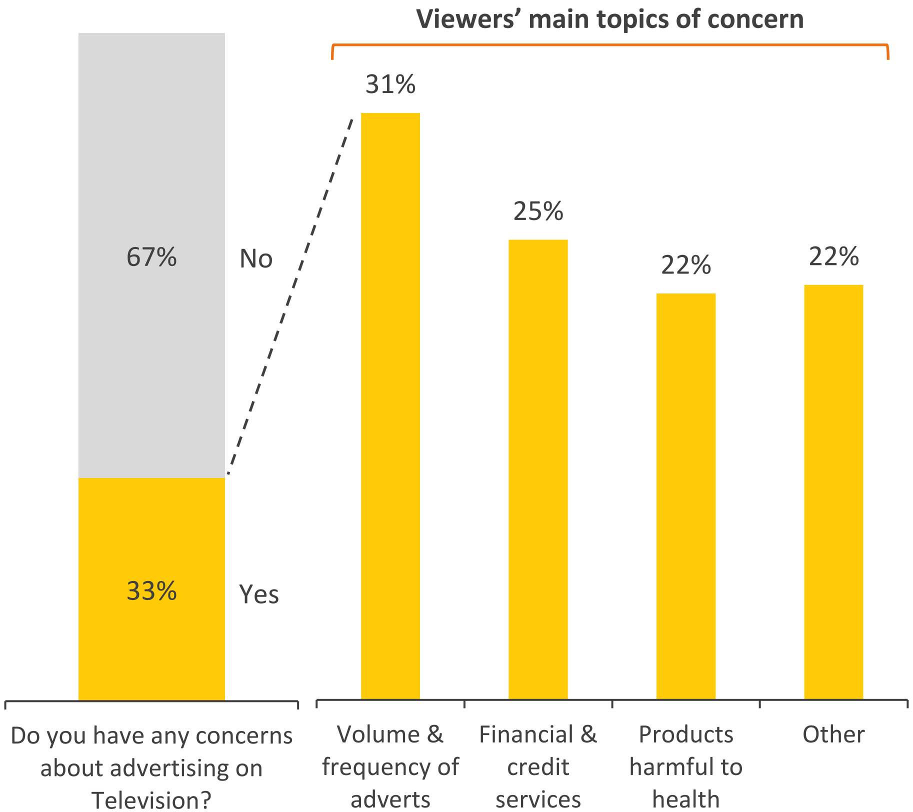


Q: 'In general, what are your opinions on advertising on television services?'
Source: Fly Research (n = 1,027), Oliver & Ohlbaum analysis

One-third of respondents were concerned about current television advertising

The most common concerns among UK TV viewers were related to the volume and frequency of advertising, however a significant proportion raised concerns over advertising promoting harmful products (alcohol, gambling, etc)

UK TV viewers' concerns around TV advertising, 2022
%



UK TV viewers' concerns around TV advertising split by frequency of scheduled TV viewing and age, 2022
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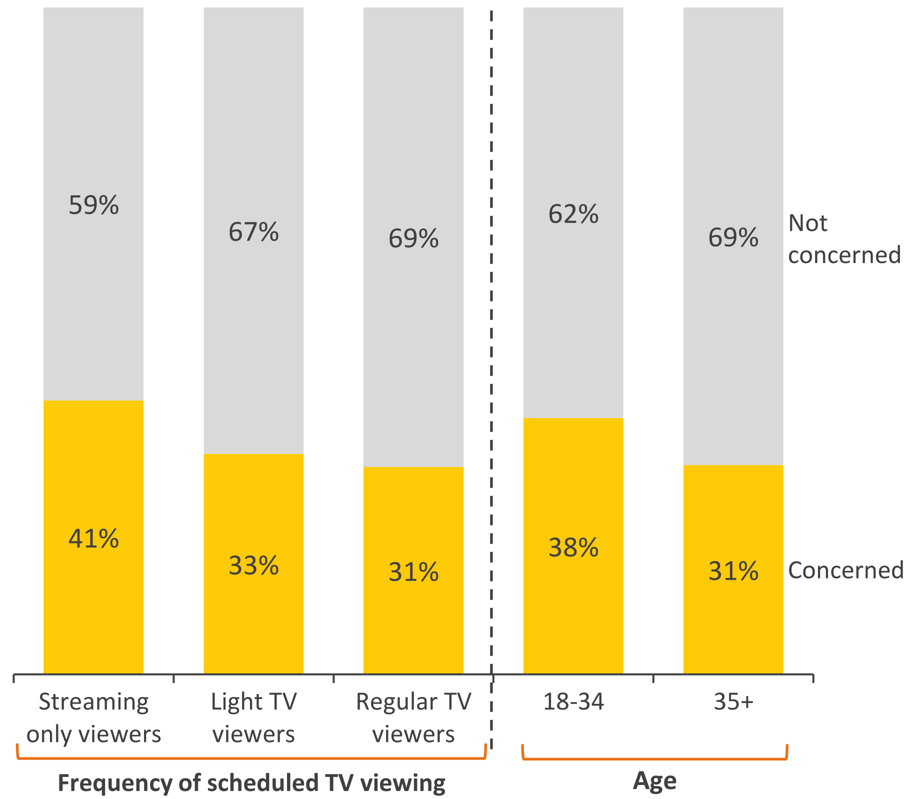
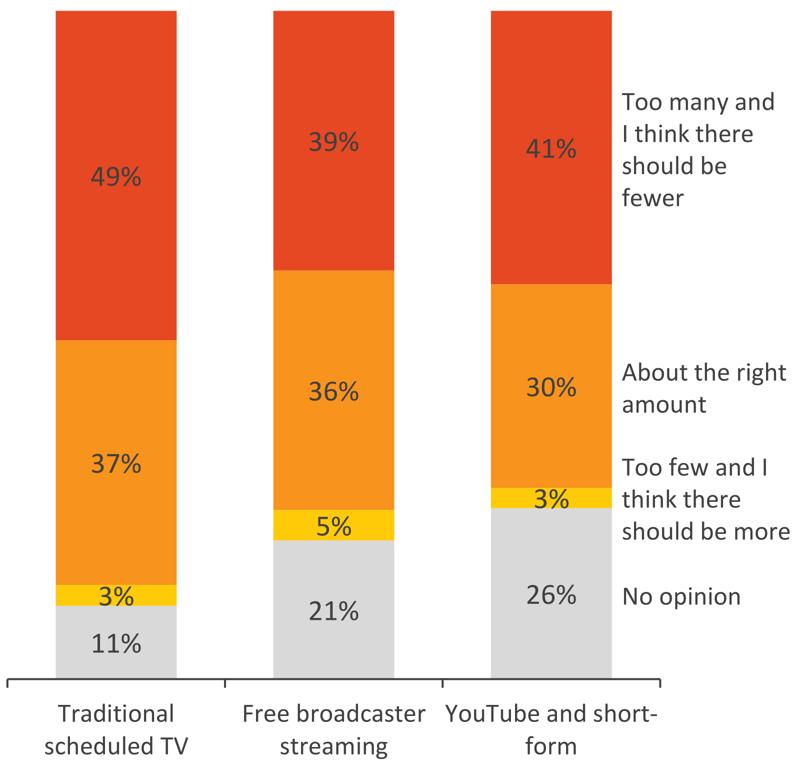


Q: *'Do you have any concerns about advertising on television?' / 'What are the main concerns you have about advertising on television?'*
Source: *Fly Research (n = 1,027), Oliver & Ohlbaum analysis*

Almost half of UK TV viewers believe there are too many adverts on traditional TV

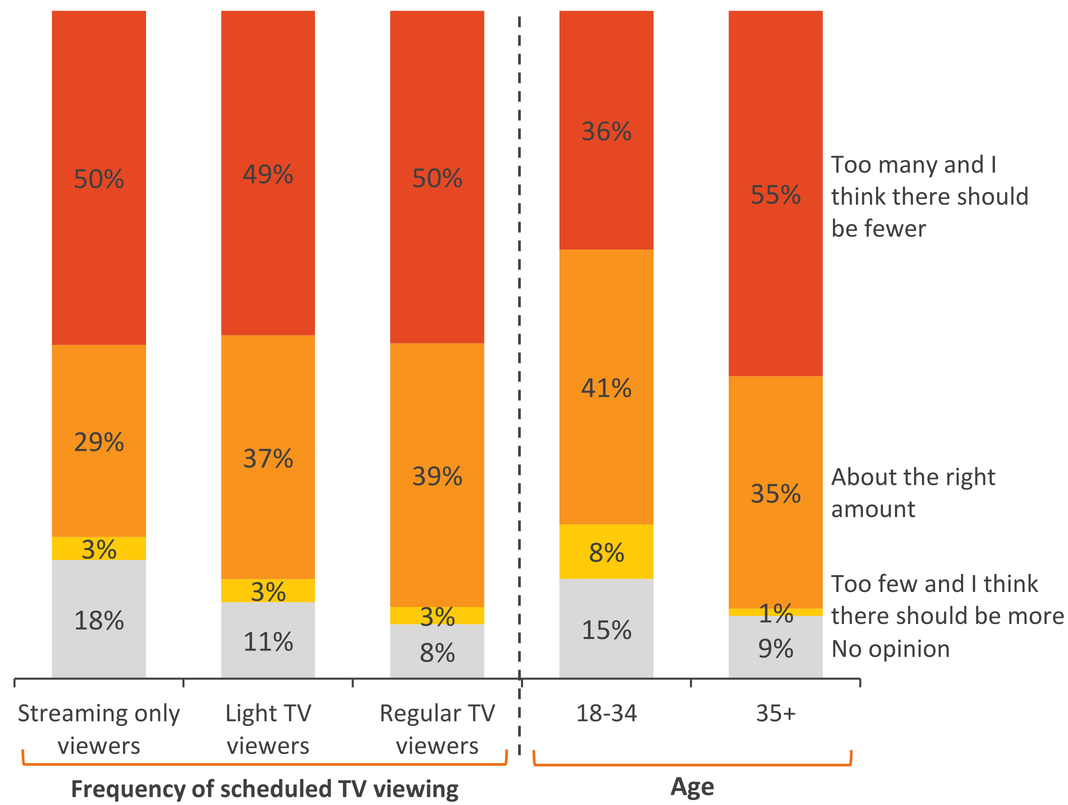
UK TV viewers' opinion on the number of TV adverts by platform, 2022

%



UK TV viewers' opinion on the number of TV adverts on traditional scheduled TV by frequency of viewing and age, 2022

%



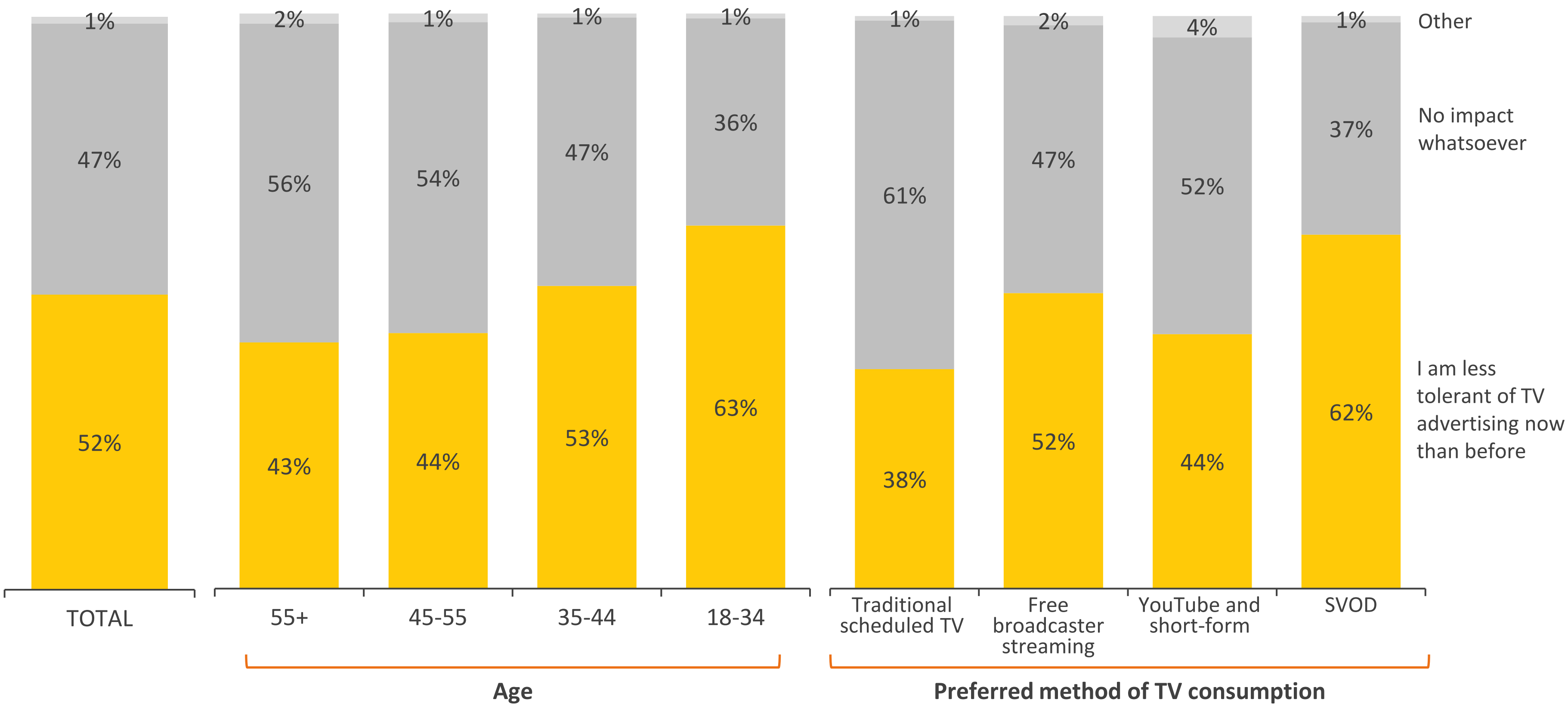
Q: 'Which of these statements best describes how you feel about the number of adverts shown on the following services?'
Source: Fly Research (n = 1,027), Oliver & Ohlbaum analysis

SVOD viewing has lowered viewers' tolerance for advertising

More than half of respondents using SVOD services indicated that they are now less tolerant of advertising due to their change in viewing. This trend is most pronounced among younger viewers and those who prefer to watch content via SVODs

Impact of SVOD viewing on tolerance of TV advertising among UK SVOD users, 2022

%

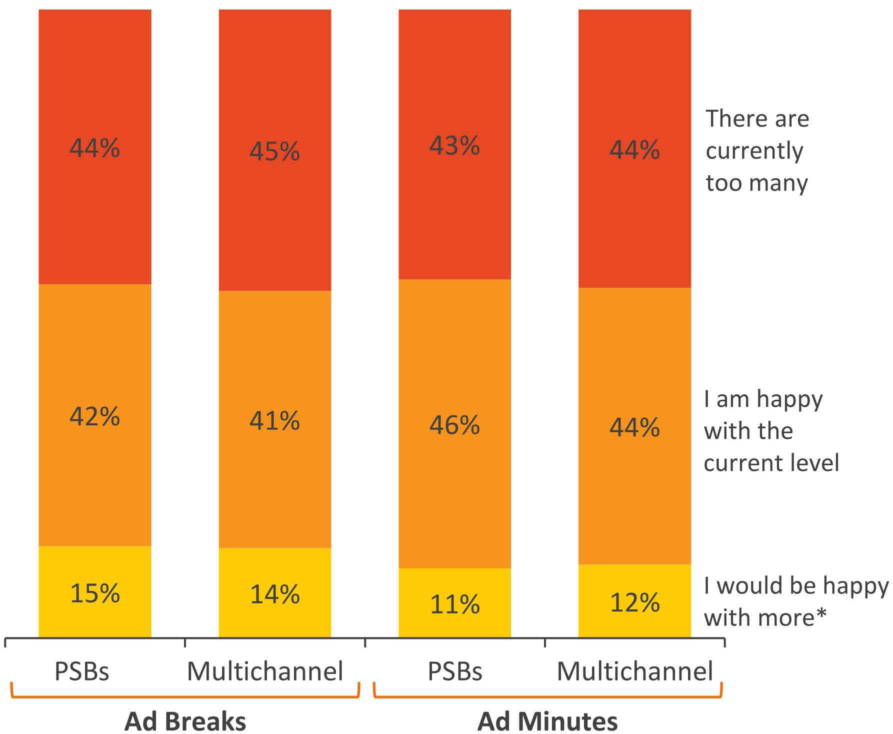


Q: 'How has your viewing of subscription streaming services (e.g. Netflix, Disney+, etc) impacted your opinion of advertising on television?'
Source: Fly Research (n = 768), Oliver & Ohlbaum analysis

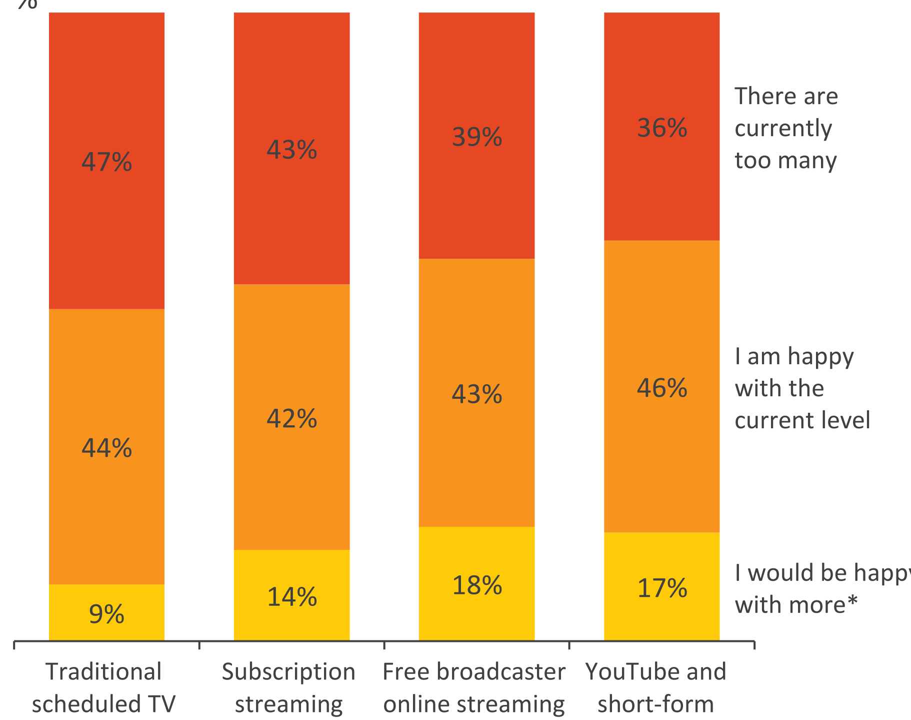
Increases in advertising for multichannel and PSBs are equally unpopular

There is little change in opinion based on whether an increase is achieved through more breaks or more minutes. Opposition to increased advertising is strongest amongst those who state traditional scheduled TV as their favourite method of watching television

UK TV viewers' opinion on the current levels of advertising on PSBs vs multichannels, 2022
%



UK TV viewers' opinion on the current levels of advertising on traditional scheduled TV by preferred method of TV consumption, 2022
%

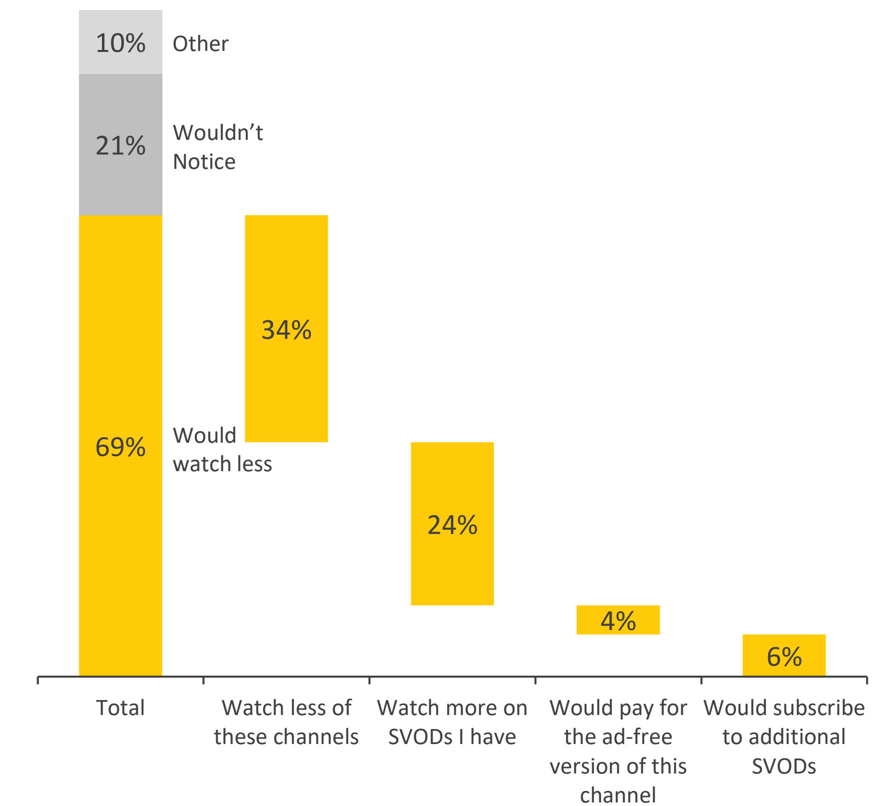


Q: *'Which of these statements best describes how you feel about the amount of advertising breaks / number of advertising minuets shown on the main commercial free-to-air channels (ITV1, Channel 4, Channel 5) vs the other commercial channels within an hour?'*
Note: **This segment includes respondents who would be happy with a small increase and those who would be happy with quite a few more minutes/breaks*
Source: *Fly Research (n = 1,027), Oliver & Ohlbaum analysis*

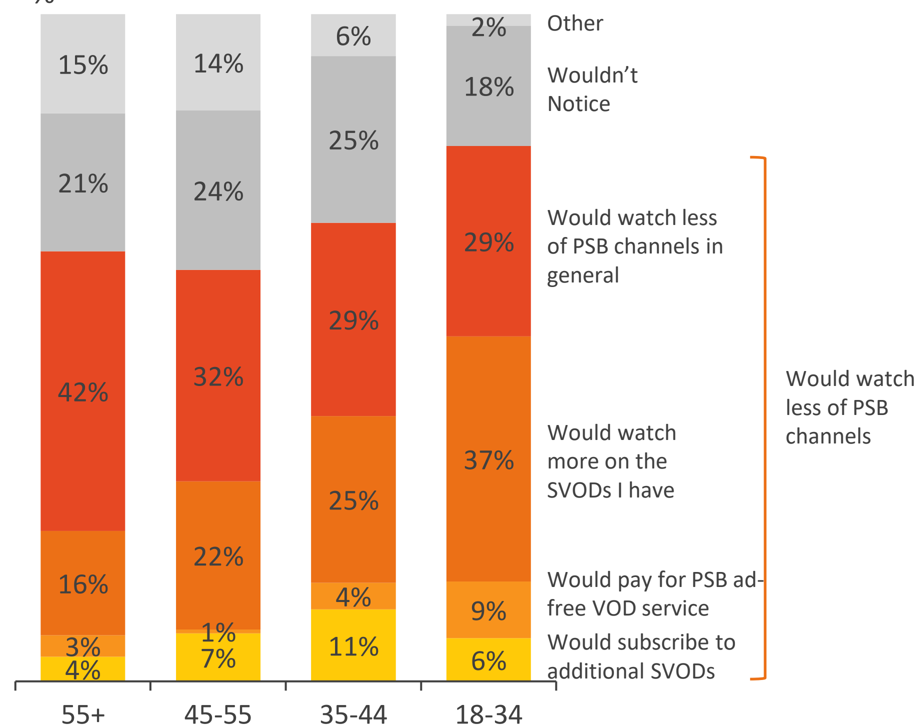
Increased advertising on commercial PSBs is likely to result in less viewership

In total nearly 70% of respondents stated increased advertising would result in them watching less of these channels. For those aged 18-34 this number increases to 80%, with most of this reduction in commercial PSB viewing time being replaced by SVODs

Response to an increase in advertising on the commercial PSBs, 2022



Response to an increase in advertising on the commercial PSBs by age, 2022



Q: *'Currently the amount of advertising shown on ITV1, Channel 4, and Channel 5 is limited, how would you react if the amount of advertising on these channels increased in the future?'*

Source: *Fly Research (n = 1,027). Oliver & Ohlbaum analysis*

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Oliver & Ohlbaum

Assessing the impact of potential changes to TV advertising minutage regulation

An Oliver & Ohlbaum report for COBA

September 2022

About this report

This report examines the current COSTA regulation, recent developments in the UK TV advertising market, and provides an assessment of the impact of potential changes to COSTA regulation

1	Previous Ofcom reviews of TV ad minutage	• A detailed look into Ofcom's previous reviews of advertising minutage regulation
2	Developments in the UK TV ad market	• A review of trends and developments in the UK TV advertising market that have occurred since Ofcom's last review of advertising minutage regulation
3	Current COSTA regulation and potential changes	• An overview of the current COSTA regulation and a selection of potential changes
4	Impact of potential changes	• An analysis of the impact of potential changes in advertising minutage regulation on the sector; findings from bespoke consumer research on viewers' perception of adverts and likely reactions to any potential changes to the current regulation

Contents

Summary (I)

- Ofcom has considered COSTA and advertising minutage regulation a number of times in recent years; on each occasion it has found that there is no benefit (and some risk) to changing the current pattern of regulation. There has been not significant change in the structure of the market since then and it is unlikely that a new review would reach a different outcome
- While the non-PSB multichannel sector has experienced some growth in share of commercial impacts and of net advertising revenues, the commercial PSBs and their portfolios still account for the vast majority of both commercial impacts and net advertising revenues
- Harmonising the current regulation – allowing commercial PSB networks to "level up" with the rest of the market – would result in the following effects:
    - A significant increase in the supply of commercial impacts in the market
    - As a result of this increase in supply, a fall in the price of impacts
    - Muiltchannels (which include PSB portfolio channels) will see no change in volume, so this fall in price will result in a loss of revenue
    - For the PSB channels, the lower price will be offset by increased volume – whether this is positive or negative will depend on the level of overall demand
    - Even for those PSB channels for which this is positive, the impact on the overall PSB group will be lower, given that their portfolio channels will see a decline

Summary (II)

- O&O conducted an analysis of potential changes to the current minutage regulations focusing on levelling up and lifting the restrictions on PSB networks, in line with the rest of the market; this analysis was based on the econometric modelling which Analysys Mason conducted on behalf of Ofcom during the 2010 review; this method has some acknowledged limitations and is likely to produce a more positive outcome than in reality
- Our methodology also assumes a relaxation of scheduling regulation to allow full utilisation of minutage allowances; it therefore results in the most positive outcome
- The analysis suggested that there would be no scenario in which the whole market benefits from potential changes, that multichannel sector is always adversely affected, and that the changes could ultimately reinforce ITV's dominant market position
- At best, these changes see no market growth but a transfer of value from the multichannel sector to the PSBs. It is not clear that this is a good public policy outcome
- When differential regulation was introduced, the ITC suggested that it should be revisited should "particular services develop to an extent that the regulation may constitute an unfair competitive advantage". Over the last twenty years no multichannel service has managed to gain a share of viewing above 1.6% (i.e. less than 10% that of ITV). It is clear that this condition has not been met

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Ofcom's previous reviews have resulted in no change to COSTA regulation

Ofcom has twice reviewed the regulation of advertising minutage in the context of changing European legislation – first in 2007 and again from 2009. On both occasions, it has decided against any intervention that would change overall advertising minutage regulation

- Having taken over regulation of advertising from the Independent Television Commission (ITC) in 2003, Ofcom's first review of advertising minutage regulation in 2007 was conducted in the context of newly liberalised European AV regulation – which would allow for an overall increase in the volume of advertising minutage across the day
- Ofcom's impact assessment was based upon econometric modelling carried out by PwC, which segmented the TV advertising market into "traditional" channels and multichannel. The model found that advertising on traditional channels was relatively price elastic, but multichannel advertising considerably more so
- Many stakeholders were critical of the elasticities underpinning PwC's model; some disputed the idea that TV advertising was elastic, whereas others claimed it underestimated the potential transfer of value from non-PSBs to PSBs
- Having found that the impact of many of the potential changes was broadly neutral or caused a moderate contraction in NAR – in all circumstances with a transfer of advertising revenues from multichannel to PSBs – Ofcom decided against intervention, and commissioned new econometric analysis ahead of a second review that began in 2009. The new econometric analysis produced by Analysys Mason segmented the market into commercial PSB main channels, their portfolios and broader multichannel
- Persuaded by the argument of many broadcasters that changes to regulation that could lead to an increase in overall minutage could have a deflationary effect on the whole market, Ofcom opted to retain the status quo – and argued that the rules deliver a pluralised and competitive TV market where viewers are not exposed to excessive amounts of advertising
- Ofcom said that the decision not to consult on changes did not preclude it re-examining the matter again in the future

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Ofcom's first review of advertising minutage (2007-09): Context

Having taken over the regulation of advertising from the Independent Television Commission (ITC) in 2003, Ofcom reviewed advertising minutage rules from 2007 following the revision of relevant European legislation

Liberalised European regulation

- The rules had remained unchanged since 1991; the Television Without Frontiers Directive (TWF) limited channels to an average of 9 minutes per hour, but no more than 12 minutes in any one hour (216 minutes of advertising)
- New European rules published in December 2007, and the superseding of the TWF Directive with the Audiovisual Media Services Directive (AVMS), let any channel show up to 12 minutes an hour across the day (288 minutes) and relaxed many rules banning or limiting advertising in certain types of programme (not covered here)

Ofcom's rationale

- Reducing cost of advertising time on television was limiting channels' ability to invest in content with potential implications for the range, quality and repeat rate of the programmes shown on television
- Most households received an increasing number of channels through Freeview or pay TV. This heightened competition has led PSB channels to face reduced advertising revenues
- Growing competition from online advertising

Broadcasters' response

- The majority of broadcasters, PSBs included, favoured maintaining the status quo. They believed that increasing the supply of advertising minutage would reduce prices
- PSB channels generally did not favour increased advertising minutage - instead they sought for non-PSB minutage to be reduced

Initial stakeholder reaction

- Some PSBs argued that an increase in minutage would simply reduce the price of advertising and cut industry revenue

Source: Ofcom, Oliver & Ohlbaum analysis

Ofcom's first review of advertising minutage (2007-09): options considered

Ofcom considered three options for the regulation of overall advertising minutage and three for the regulation of peak-time minutage

RADA rules on advertising minutage

	PSB	PSB portfolio / Multichannel
Max av. ad minutes p/h	7	9
Max ad minutes in any clock hour	12	12
Max av. ad minutes, 7am-9am (morning peak)	8	-
Max av. ad minutes, 6pm-11pm	8	-
Total number of ad minutes per day	168	216

Options considered by Ofcom for overall ad minutage

Option 1: status quo

Non-PSB: average 9 min p/h, max 12 min p/h

PSB: average 7 min p/h, max 12 min p/h

- Preferred option for Ofcom as little impact on stakeholders and industry consensus

Option 2: level up

9 mins p/h for all broadcasters

- Few advocated for increasing supply of impacts when the demand was weak

Option 3: level down

Non-PSB channels limited to 7 min average p/h

- Favoured by some PSBs

Options considered for regulating peak-time minutage

Option 4: status quo

- Protects viewers from increased advertising at peak-time and protects non-PSB revenues

Option 5: 9 mins for PSBs

- One PSB argued that this would be helpful for channels not broadcasting overnight

Option 6: weekly average

Allowed 280 mins p/w, still limited at max 12 mins p/h

- No industry support

Source: Ofcom, Oliver & Ohlbaum analysis

Ofcom's first review of advertising minutage (2007-09): the PwC model

The PwC model, developed from 2004, was used to inform the debate around the revision of advertising minutage regulation – but its primary purpose was to forecast long-term network and multichannel NAR

Background to the model

- Purpose of the model was to forecast network and multichannel NAR until 2014
- The model was driven by seven input variables: BBC TV viewing, colour TV penetration, corporate profit growth, consumer spending growth, seasonal and event dummies, PVR impact, multichannel viewing. These influence the volume and price of impacts sold by networks and multichannel TV
- The change in NAR was primarily driven by variations in corporate profits and consumer prices
- In the report, PwC separated the TV advertising market into two segments, traditional and multi-channel
  - These markets are underpinned by the same economic drivers
  - PwC argued that there were cross elasticities between the supply of advertising in one market, and the prices paid for advertising in another. Consequently, multi-channel viewing could potentially be a negative driver of the price of traditional channel advertising

PwC's key conclusions

- Multichannel advertising had increasingly become a competitive constraint on, and substitute for, traditional advertising. This is supportive of a single relevant economic market for TV advertising in the UK
- In the short term, changes in the supply of advertising impacts have little overall effect on TV NAR as any change in quantity is almost exactly offset by a change in price (ie the price elasticity is close to -1)
- In the longer term, the price elasticity is greater than -1 (ie TV advertising is price elastic) and therefore changes in the supply of impacts will affect total NAR
- For traditional channels, the price elasticity is -1.4, indicating that an increase in the supply of impacts will result in a small overall increase in NAR
- For multichannel, the price elasticity is greater, at around -4, meaning that changes in the supply of impacts have a much greater effect on multichannel revenues than on traditional revenues
- Audience fragmentation does not have a significant impact on total TV NAR, but the distribution of NAR is changing from analogue to multichannel as it increases its share of viewing

Source: PwC, Ofcom, Oliver & Ohlbaum analysis

O&O

Ofcom's first review of advertising minutage (2007-09): impact assessment

Ofcom's impact assessment concluded that the net impact of change to overall minutage was broadly neutral – in some instances shrinking the market, and in all circumstances seeing a transfer of revenues from multichannel broadcasters to the commercial PSBs

Options considered for overall ad minutage

	Option 1: status quo		Option 2: levelling up		Option 3: levelling down	
	Change in NAR (£m)	% change in NAR	Change in NAR (£m)	% change in NAR	Change in NAR (£m)	% change in NAR
Total PSB channels	0	0	69	2.9%	50	2.1%
Total PSB groups	0	0	44	1.6%	33	1.2%
Total other non-PSBs	0	0	-46	-6.4%	-34	-4.8%

Options considered in relation to peak ad minutage

	Option 4: status quo		Option 5: 9 mins for PSBs		Option 3: weekly average	
	Change in NAR (£m)	% change in NAR	Change in NAR (£m)	% change in NAR	Change in NAR (£m)	% change in NAR
Total PSB channels	0	0	47	2.0%	59	2.5%
Total PSB groups	0	0	30	1.1%	39	1.4%
Total other non-PSBs	0	0	-30	-4.2%	-36	-5.1%

Note: Elasticity used for traditional PSB channels from PwC was -1.44
Source: Ofcom, Oliver & Ohlbaum analysis

Ofcom's first review of advertising minutage (2007-09): Ofcom's conclusions

Though minded to later harmonise regulation, Ofcom ultimately opted to maintain the status quo – and agreed to revisit the modelling underpinning the econometrics of the first review

Regulation	Option	Stakeholder views	Ofcom's decisions – and rationale
Overall ad minutage	Status quo	• Disparity in regulation justified by privileges and obligations of PSBs	• Status quo balances safeguard for consumer interests with maintaining Ofcom's duty to remove regulation that is no longer necessary
	Levelling up	• Would increase supply of commercial impacts to the market at a time when demand was weak	• Would come under criticism from viewers, create more 'clutter' around programmes and produce a large shift of revenue from non-PSBs to PSBs
	Levelling down	• Would reduce supply of commercial impacts and help to put a floor under the price of airtime	• Ofcom believed a reduction in volume would result in a reduction in revenue
Peak time minutage	Weekly averaging	• Little support, was said to be equivalent to removing cap altogether	• PSB channels would increase share of commercial impacts
	Morning Peak	• PSB in favour, with support for many being contingent on no change to amount of advertising in the evening peak • Some non-PSBs were concerned about the shift of advertising revenue towards PSBs	• Restriction outdated - audiences no longer peaked during the morning period - and so was removed in June 2009

Criticism of PwC modelling

- Stakeholders were critical of the elasticities underpinning the PwC model. Some disputed the idea that TV advertising was elastic, and others claimed that the model underestimated the potential transfer of value from non-PSBs to PSBs. Ofcom agreed to reassess the econometric approach employed ahead of any future review

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Ofcom's second review of advertising minutage (2009-11): context

As part of the second review into advertising, Ofcom commissioned a new model for assessing changes to advertising minutage restrictions – developed by Analysys Mason

The new Analysys Mason model

- Analysys Mason's model was intended to provide estimates of the responsiveness of prices to changes in the volume of commercial impacts delivered by different broadcasters, which could then be used to inform the modelling of potential changes to restrictions around the amount of advertising
- The econometric analysis found:
  - Variety in responsiveness of the price of advertising to changes across different commercial PSBs
  - Price of advertising on one channel is affected by amount of advertising on another channel – different channels would be affected in different ways to changes in the amount of advertising minutage
  - Viewers are not particularly responsive to changes in the amount of advertising minutage

Other developments since the previous review

- Between the two reviews Ofcom removed the Advertising Sales Rules (ASRs).
- These rules stipulated that PSBs could not sell less than the maximum advertising minutage restrictions
- This rendering the broadcasters with a notionally required level of advertising

We provide more detailed analysis of Analysys Mason's econometric approach on Slides 17 and 18

O&O

Ofcom's second review of advertising minutage (2009-11): options considered

Ofcom considered four options for reforming advertising minutage restrictions during its second review

COSTA advertising minute regulations

	PSB	PSB portfolio	Multichannel
Max av. ad minutes p/h	7	9	
Max ad minutes in any clock hour	12	12	
Max av. ad minutes, 6pm-11pm	8	-	
Total number of ad minutes per day	168	216	

Options considered by Ofcom:

Option 1: status quo

Retain current ad minutage restrictions

Ofcom felt that the rules were fit for purpose and are delivering the aims of the regulation

Stakeholders felt viewers were broadly happy, and that advertisers had not raised competition concerns

Option 2: level up (i)

Remove all UK-specific restrictions – revert to AVMSD

- Ofcom felt that increasing ad volume would have a negative impact on advertising revenues and content supply
- Stakeholders felt that viewers don't want more ads, and could potentially lower broadcaster advertising revenues

Option 3: level up (ii)

All broadcasters subject to current non-PSB limits

- Ofcom felt that increasing ad volume would have a negative effect on advertising revenues and content supply
- Stakeholders agreed

Option 4: level down

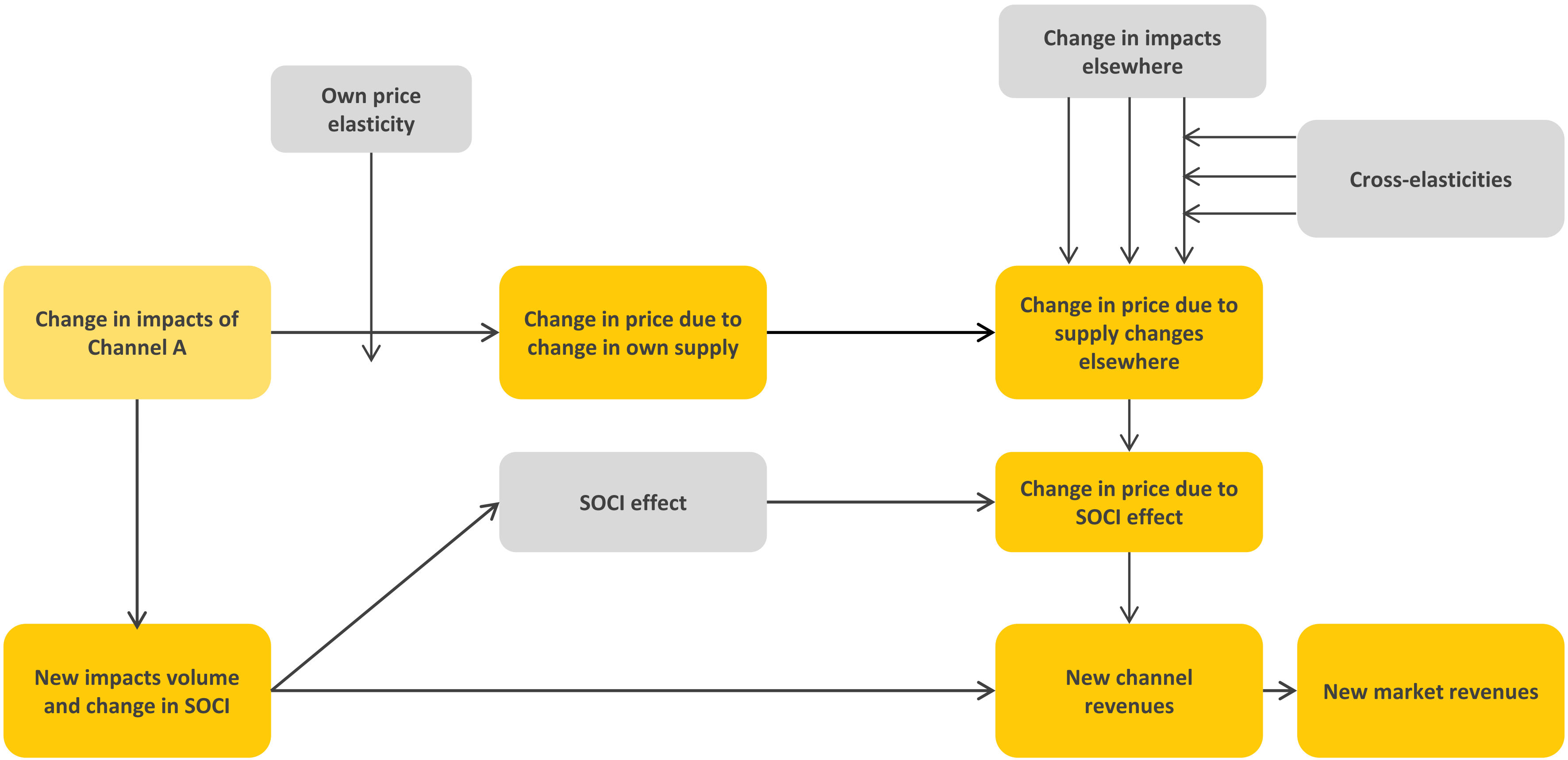
All broadcasters subject to current PSB limits

- Ofcom felt that there was insufficient evidence to support further intervention in
- Stakeholders argued that this could potentially be positive for viewers and broadcasters, but have an adverse impact on advertisers

Source: Ofcom: Regulating the quantity of advertising on television (2011)

Ofcom's second review of ad minutage (2009-11): the new Analysys Mason model

Ofcom commissioned a new model from Analysys Mason ahead of, and updated during, the second review. It used own-price elasticities, cross-elasticities relating to another channel's change in supply, and a change in SOCI impact on price factor to predict changes in revenues



Source: Ofcom, Analysys Mason, Oliver & Ohlbaum analysis

Ofcom's second review of ad minutage (2009-11): Analysys Mason's econometrics

Analysys Mason segmented the market between the commercial PSB main channels, their portfolios, and multichannel broadcasters. The modelled price elasticities made ITV's main channel slightly inelastic with a high SOCI effect on price. Multichannel had a very high own-price inverse elasticity

Analysys Mason own and cross-price long-run elasticities for TV advertising (by channel type)

Channel	Own-price inverse elasticity	Cross-elasticity	SOCI effect on price
ITV	-1.076	C5	HIGH
C4	-0.865	ITV, multichannel	MEDIUM
C5	-0.809	ITV, multichannel	MEDIUM
MULTICHANNEL	-2.726	ITV, C4, C5	MEDIUM
ITV SPIN-OFFS	-0.140	None	HIGH
C4 SPIN-OFFS	-0.450	None	LOW
C5 SPIN-OFFS	0.040	None	MEDIUM

Source: Ofcom, Analysys Mason, Oliver & Ohlbuam analysis

Ofcom's second review of advertising minutage (2009-11): Ofcom's decisions

Ofcom believed the current restrictions were delivering their objectives, and so decided against intervention

Stakeholder views

Stakeholder type	Position
All broadcasters	• Concerned that changes to regulations which could lead to an increase in overall minutage could have a deflationary effect on the whole market
PSBs	• Happy with status quo but questioned the ongoing rationale for differences in treatment compared to non-PSB channels • Believed any change should scale the non-PSBs down to same levels as PSBs rather than the other way around (in the interest of viewers) • Some PSBs concerned about distribution of revenues between PSBs if advertising minutage was to increase
Non-PSBs	• Reduced minutage would result in fewer impacts, and a smaller share of impacts. Unlikely that price rises for advertising spots would account for this
Advertisers	• Happy with the balance of regulation, did not want impacts and ad minutes to fall, respeceted that broadcasters ad revenues are necessary for the high-quality content that drives ad viewing

Ofcom's decisions – and rationale

- Ofcom decided not to make any changes to existing advertising minutage restrictions
- It explained that its primary responsibility was to viewers, and ensuring that they are not exposed to excessive amounts of advertising
- Ofcom noted its several secondary responsibilities around ensuring a wide range of high quality television and radio services, maintaining a plurality of providers and reasonable competition between them
- Ofcom noted that some level of television advertising is critical to effectively delivering these secondary responsibilities
- While the market was evolving, Ofcom considered the rules fit for purpose - delivering a pluralised and competitive TV market with high quality programming, while viewers are not exposed to an excessive amount of advertising
- Ofcom said that it was open to looking into the matter again in future

Source: Ofcom, Oliver & Ohlbaum analysis

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Overview of recent developments in the UK TV advertising market: summary

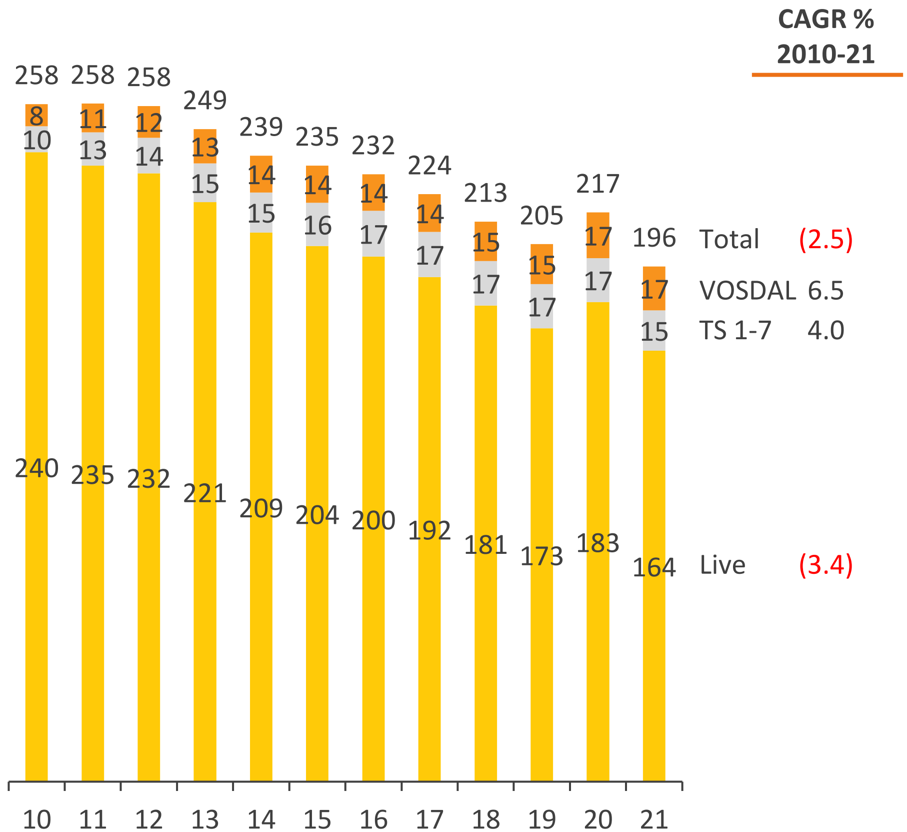
Total TV viewing and the number of commercial impacts have declined since 2010; market level net advertising revenues declined from 2015 to 2021 when the market experienced recovery following the Covid-19 pandemic

- Total viewing to traditional TV has declined in recent years, falling by 2.5% per year between 2010 and 2021, whilst the total volume of TV viewing in the UK also declined
- The total volume of viewing to commercial TV fell by 2.6% per year during this period, falling to just below 40 billion hours in 2021, and though there is a correlation between the volume of TV consumption and the number of commercial impacts delivered, overall consumption has continued to decline at a faster rate than impacts
- Total impacts declined by 1.3% per year between 2010 and 2021, with the commercial PSB main networks experiencing a more pronounced decline in impacts than the rest of the market, falling by 2.9% over the period; the commercial PSB portfolio channels declined in line with the overall market, while non-PSB multichannels experienced modest growth in impacts of 0.6% per year to 2021
- Between 2010 and 2021, the UK TV net advertising revenues (NAR) grew by 6.3%, at a rate of 0.6% per year; however, these revenues were in steady decline between 2015 and 2019; 2020 saw the impact of the Covid-19 pandemic and associated lockdowns which drove a decline in the average value of advertising cost per thousand (CPTs), resulting in total market NAR falling by 13.9% in 2020
- 2021 saw the market recover, experiencing somewhat artificial growth in NAR as many advertisers delayed spend from 2020 to 2021
- Traditional TV advertising revenues have experienced a relatively slow decline since 2015, however TV's share of overall display advertising spend has declined significantly as online video ad revenues have grown rapidly

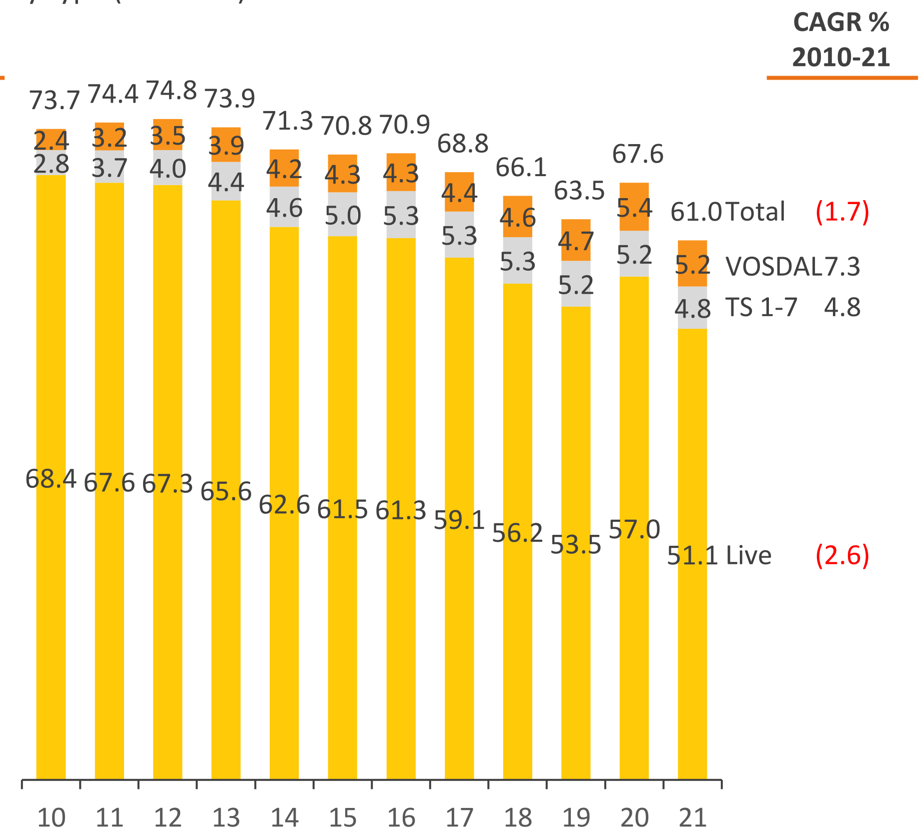
Traditional TV viewing has declined in recent years…

Following an increase in 2020 due to the Covid-19 pandemic and associated lockdowns, viewing time has reverted to a declining trend

Average TV minutes per person per day viewed, 2010-21
All adults 16+



Total annual volume of TV hours consumed, 2010-21
By type (hours bn)



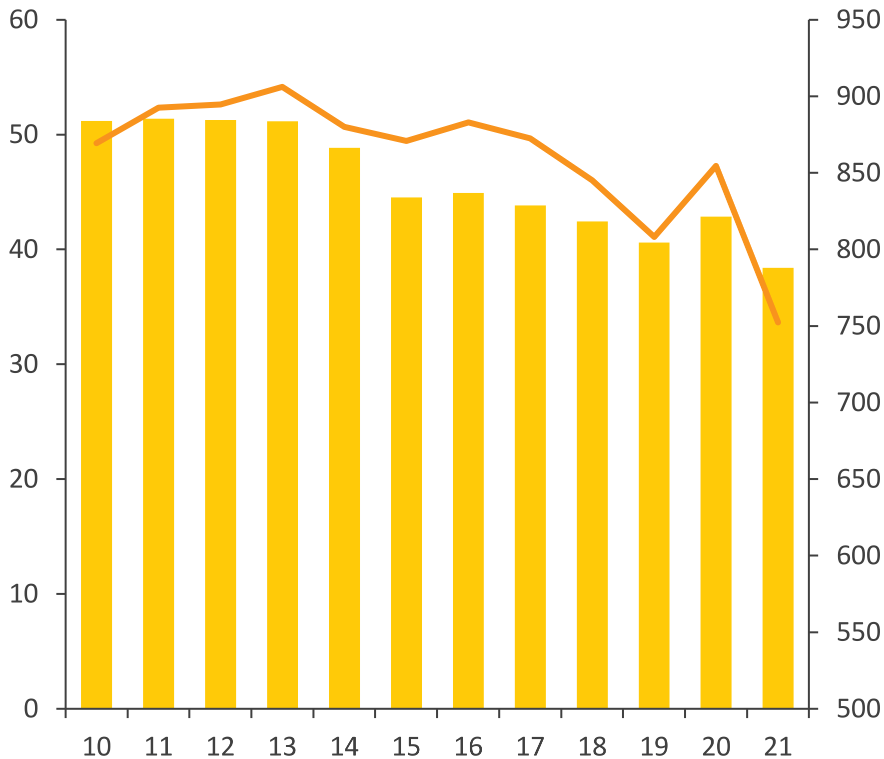
Source: BARB, Oliver & Ohlbaum analysis and estimates

…and so has the volume of commercial TV and spot impacts

Since 2016, the volume of commercial TV consumed has declined more quickly than the total number of impacts delivered – leading to an increase in the number of spot impacts delivered per hour viewed

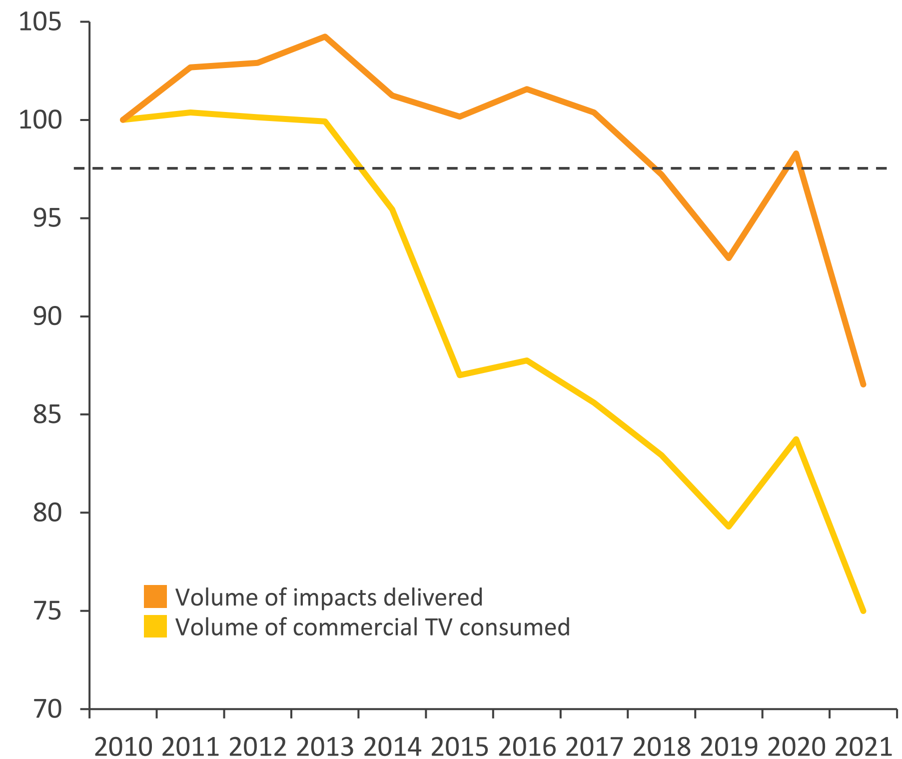
Total annual volume of commercial television consumed and advertising impacts delivered, 2010-21

Hours (bn) / Total ad impacts (bn)



Index of volume of commercial television consumed and advertising impacts delivered, 2010-21

Indexed, 2010 = 100

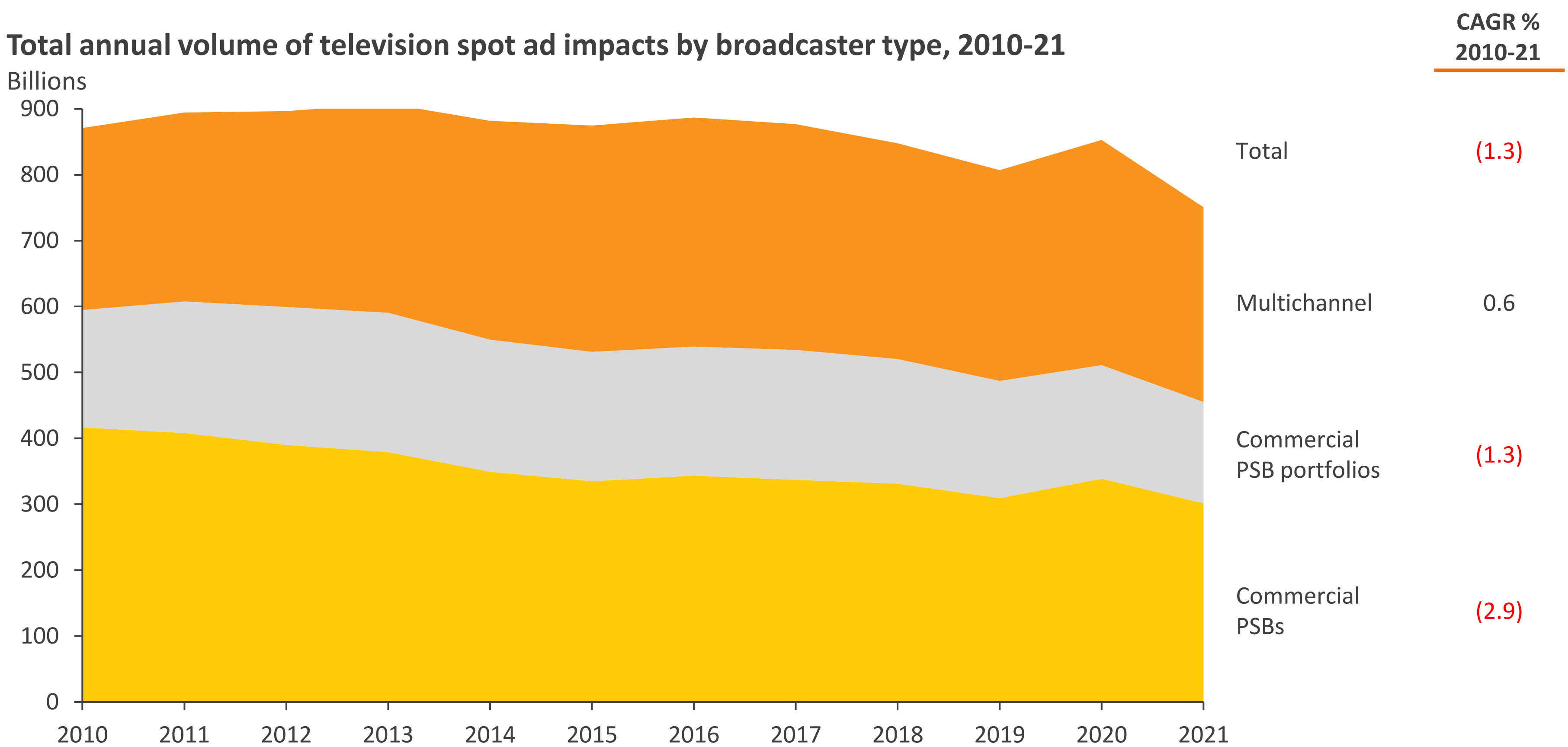


Note: Consumption data shown above is for consolidated viewing, all adults 16+
Source: BARB, Oliver & Ohlbaum analysis and estimates

Commercial PSB main channels saw the sharpest decline in impacts since 2010

While the main networks experienced the sharpest decline from 2010, between 2015 and 2019, impacts on the commercial PSB portfolio channels declined at a faster rate than on their parent channels and multichannel

Total annual volume of television spot ad impacts by broadcaster type, 2010-21



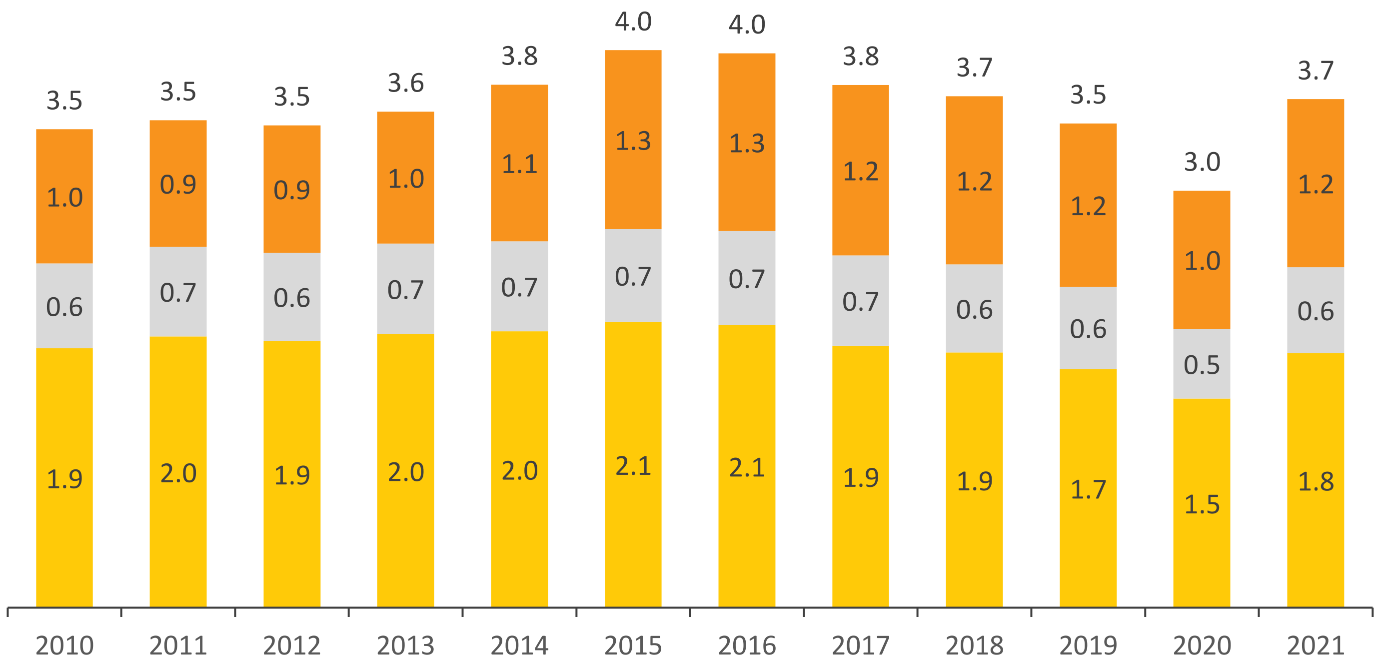
Note: Commercial PSB channels include ITV (inc. UTV), ITV Breakfast (inc. UTV Breakfast) , Channel 4 and Channel 5 (and their +1 channels). Commercial PSB portfolio channels include ITV2, ITV3, ITV4, CITV, ITVBe, ITV Encore, E4, More4, Film4, 4Seven, 5USA, 5STAR, 5Spike, 5Select and Paramount Network (and their HD/+1s). Multichannel includes STV and S4C (including +1 and HD variants)

Source: AA/WARC, Ofcom, company reports, Oliver & Ohlbaum analysis and estimates

Total sector NAR declined steadily from 2015 until the Covid-19 pandemic

Net advertising revenue declined for the major commercial segments of the UK TV sector from 2015; commercial PSB channels have been most affected, while multichannel has retained a relatively steady market share

Total annual net TV spot advertising revenue by channel type, 2010-21
£billions



	CAGR % 2010-19
Total	0.1
Multichannel	2.2
Commercial PSB portfolios	(0.3)
Commercial PSBs	(0.9)

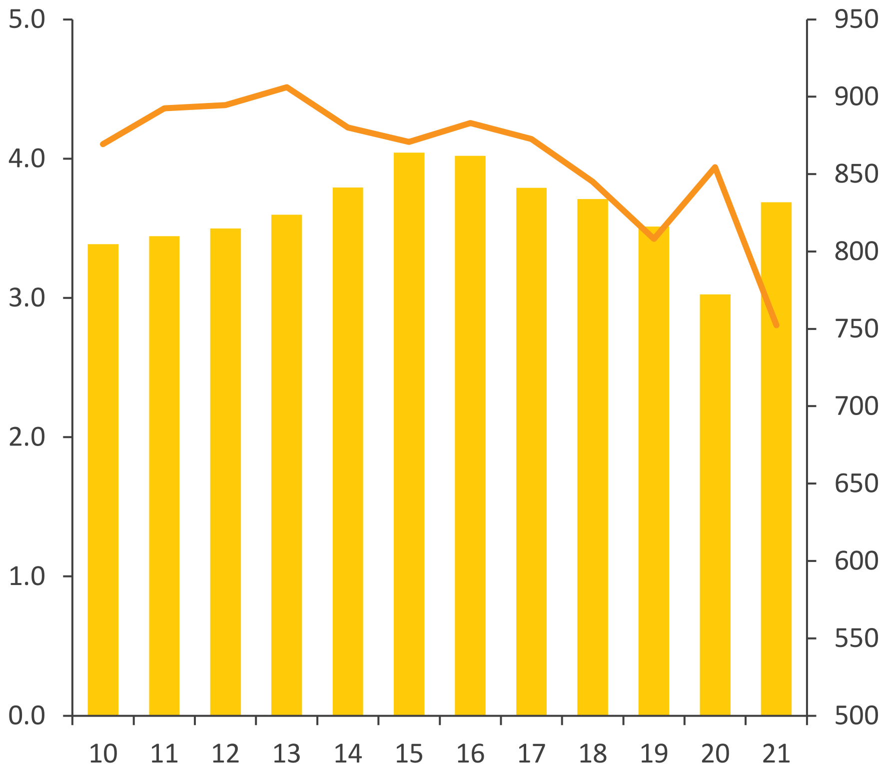
Note: Commercial PSB channels include ITV (inc. UTV), ITV Breakfast (inc. UTV Breakfast) , Channel 4 and Channel 5 (and their +1 channels). Commercial PSB portfolio channels include ITV2, ITV3, ITV4, CITV, ITVBe, ITV Encore, E4, More4, Film4, 4Seven, 5USA, 5STAR, 5Spike, 5Select and Paramount Network (and their HD/+1s). Multichannel includes STV and S4C (including +1 and HD variants)

Source: AA/WARC, Ofcom, company reporting, Oliver & Ohlbaum estimates and analysis

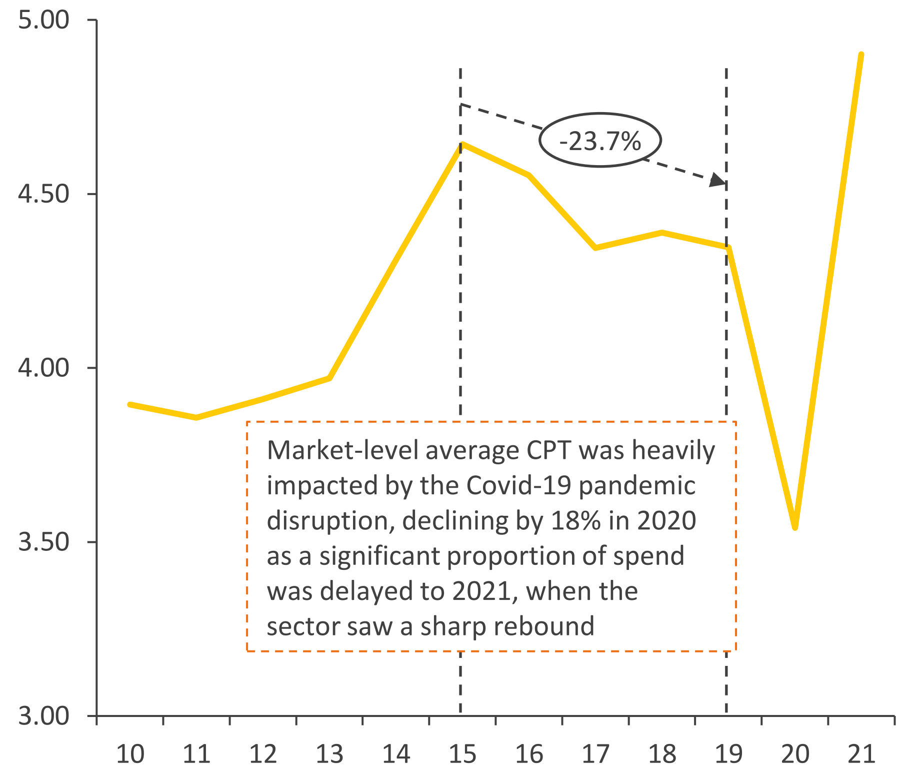
Market average CPTs declined steadily from 2015 to 2020

The decline in market-level average CPT was driven by total TV net advertising revenue falling at a faster rate than the total advertising impacts; the Covid-19 pandemic had a substantial effect, driving CPTs down while impacts rose

Total UK annual TV net advertising revenues & advertising impacts delivered, 2010-21
£billions / impacts (billions)



Market-level average cost per thousand (CPT) for spot impacts, 2010-21
£

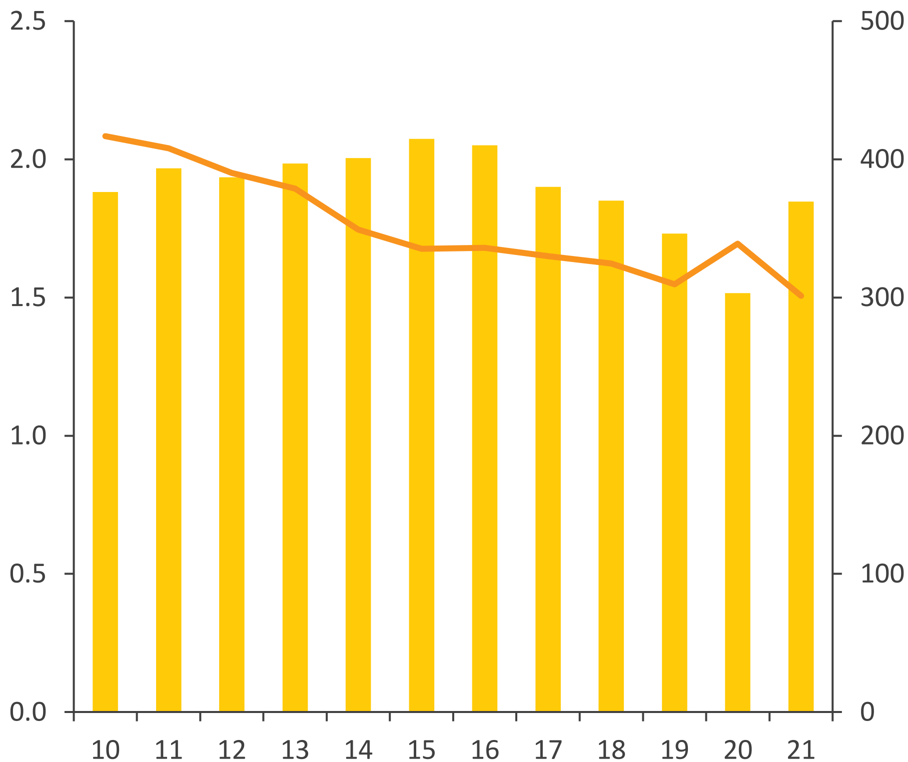


Source: AA/WARC, BARB, Oliver & Ohlbaum analysis and estimates

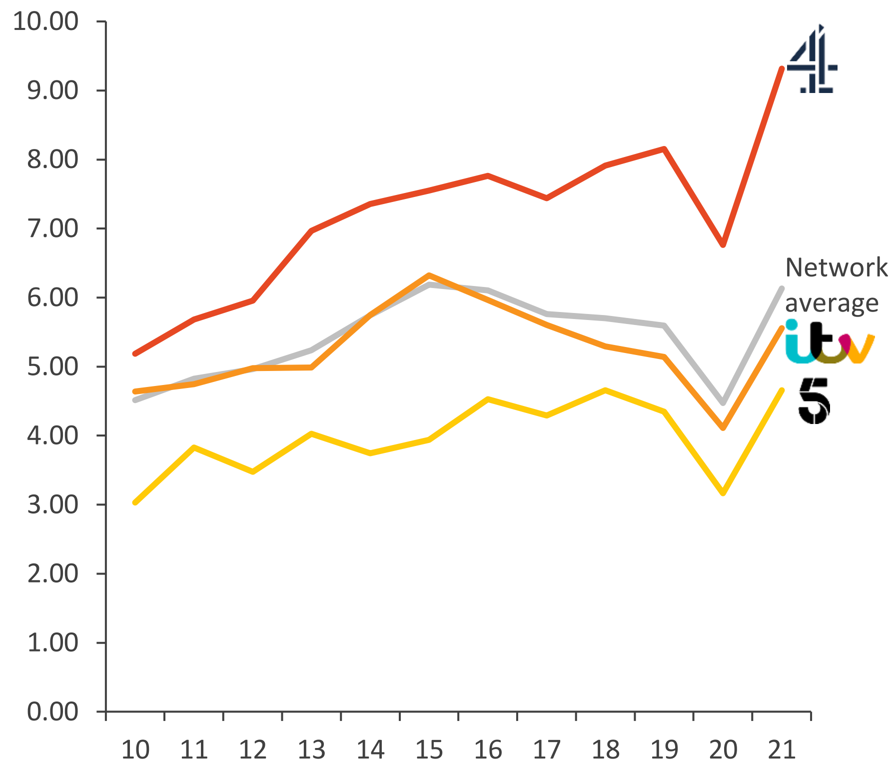
Both network NAR and average network CPTs also fell from 2015 to 2020

Network NAR declined at a faster rate to 2019 than impacts, leading to a fall in network average CPT; both Channel 4 and Channel 5 outperformed the network average during this period, whilst ITV has seen a sustained decline

Total annual network net television spot advertising revenues and advertising impacts delivered, 2010-21
£billions / impacts (billions)



Average net CPT for spot impacts (by broadcaster main channel and network average), 2010-21
£ per thousand



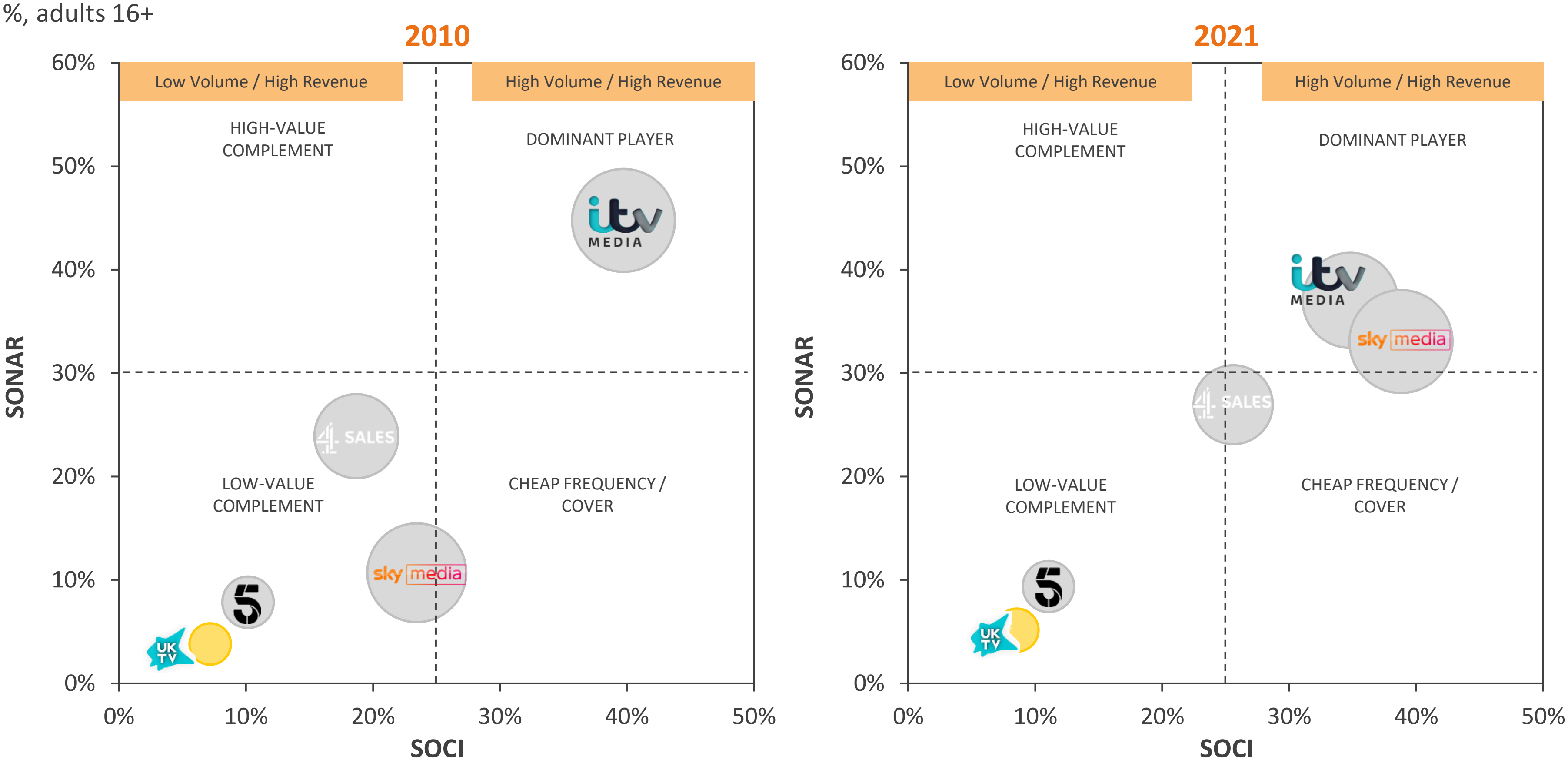
Note: For both charts presented above, ITV and network-related data is inclusive of UTV (from 2016) but exclusive of STV throughout
Source: AA/WARC, BARB, Oliver & Ohlbaum analysis and estimates

Over the past decade, the positioning of the major sales houses has shifted

The benefits to advertisers from buying inventory through ITV is clearly demonstrated in its consistently high share of advertising spend. Both Channel 4 Sales and Sky Media have increased their share of NAR significantly since 2010

SOCI / SONAR matrix by channel group and sales house, 2010 vs 2021

%, adults 16+



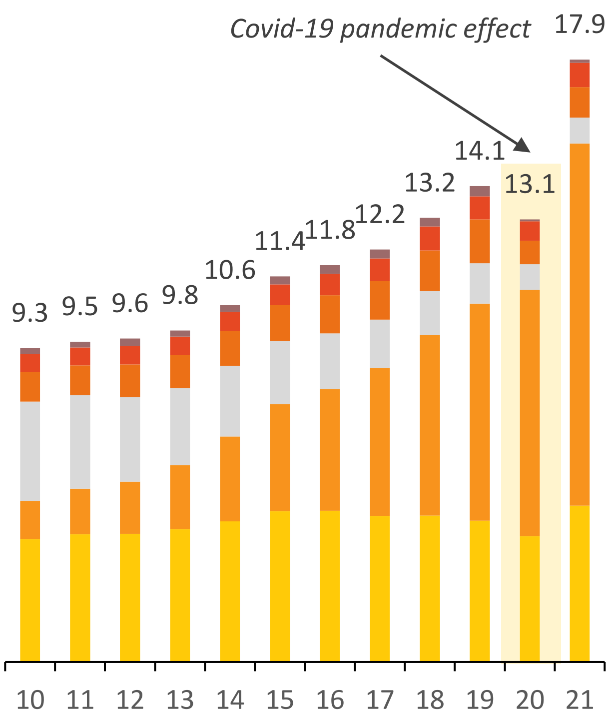
Note: UKTV SOCI included within 4Sales; C5 included within Sky media in 2021
Source: BARB, company accounts, Oliver & Ohlbaum analysis and estimates

TV's share of display advertising is being eroded by online

TV's share of the display advertising market has been in decline since 2014 and was overtaken by online in 2017. Online advertising was the only segment of the market to grow in 2020 following the start of the Covid-19 pandemic

UK display advertising by type, 2010-21

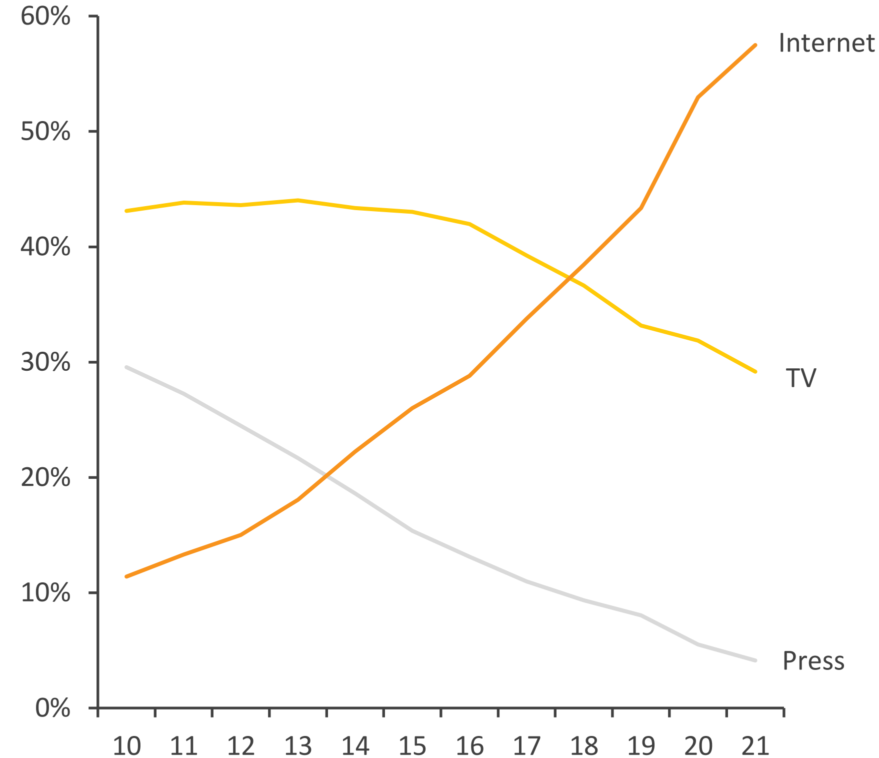
£billions



	CAGR (%) 2010-19
Total	4.7
Cinema	5.5
Radio	3.3
Outdoor	4.4
Press	(9.5)
Online	21.3
TV	1.5

Share of UK display advertising by type, 2010-21

%



Note: Data presented in current prices. TV advertising expenditure presented net of agency commission. BVOD advertising revenues are included within TV

Source: AA/WARC, Oliver & Ohlbaum analysis

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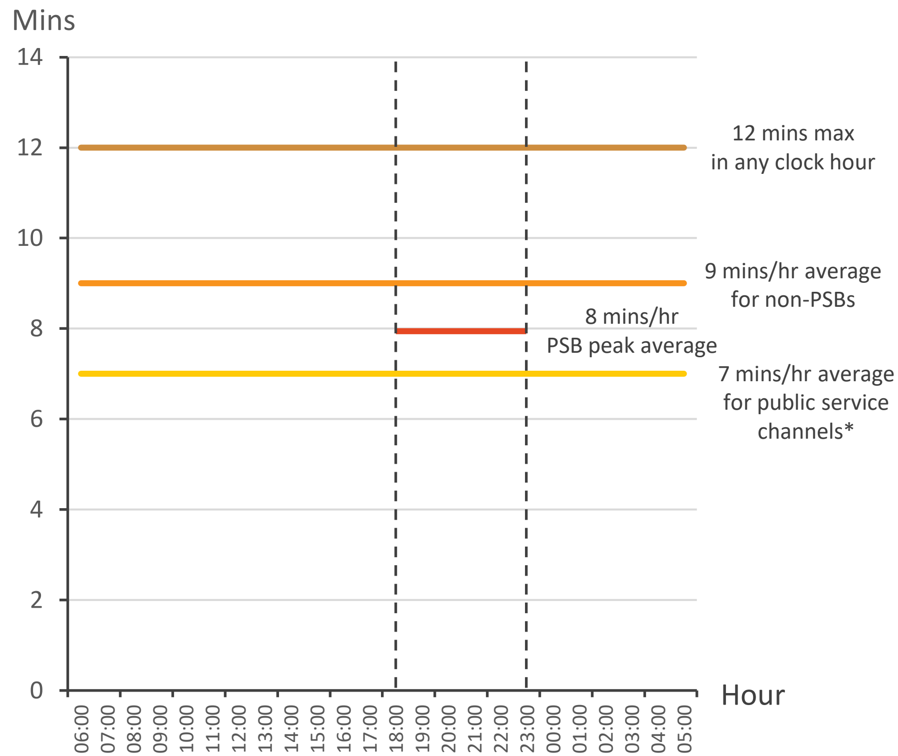
Current regulations over total advertising time

Ofcom's rules impose restrictions on the amount and distribution of advertising for all broadcasters, with the tightest requirements applying to commercial public service broadcasters. Additional average minutage rules apply to PSBs in peak time

Current rules under the Code on the Scheduling of Television Advertising (effective since April 2016)

<table>
<tr><th></th><th>PSB</th><th>PSB portfolio</th><th>Multichannel</th></tr>
<tr><td>Max av. ad minutes p/h</td><td>7</td><td colspan="2">9</td></tr>
<tr><td>Max ad minutes in any clock hour</td><td>12</td><td colspan="2">12</td></tr>
<tr><td>Max av. ad minutes, 6pm-11pm</td><td>8</td><td colspan="2">-</td></tr>
<tr><td>Total number of ad minutes per day</td><td>168</td><td colspan="2">216</td></tr>
</table>

Permitted hourly volume and distribution of television advertising, by channel type



Note: *Public service channels are inclusive of Channel 3 services, Channel 4, Channel 5 and S4C – but exclude commercial PSB portfolio channels

Source: Ofcom, Oliver & Ohlbaum analysis

Current regulations over advertising break scheduling

Ofcom impose further restrictions on the amount and distribution of advertising breaks for all broadcasters, with the tightest requirements applying to commercial public service broadcasters. An additional restriction on the maximum length of an ad break exists for PSBs

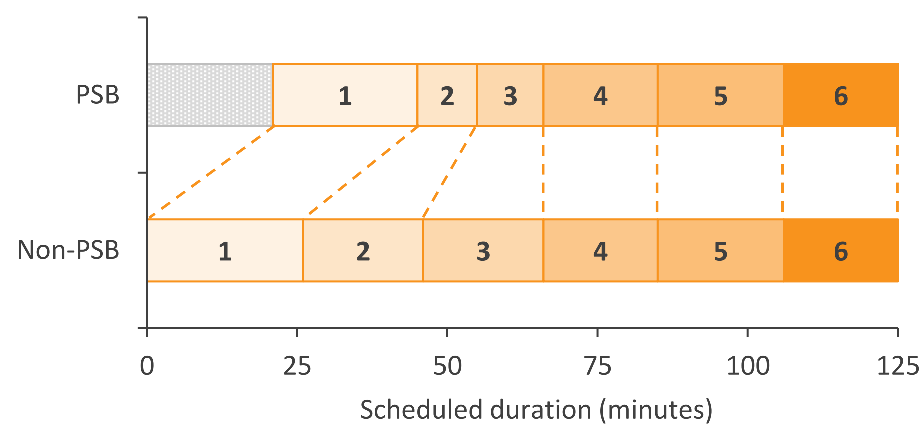
Current rules under the Code on the Scheduling of Television Advertising (effective since April 2016)

Number of ad breaks			
PSB channels		Non-PSB channels	
Scheduled duration (minutes)	Number of ad breaks	Scheduled duration (minutes)	Number of ad breaks
21-44	1	< 26	1
45-54	2	26-45	2
55-65	3	46-65	3
66-85	4	66-85	4
86-105	5	86-105	5
106-125	6	106-125	6

Maximum duration of advertising breaks	
PSB	Non-PSB channels
3 min 50 sec*	-

Number of permitted advertising breaks per programme based on scheduled duration, by channel type

Number of ad breaks permitted per duration of broadcast

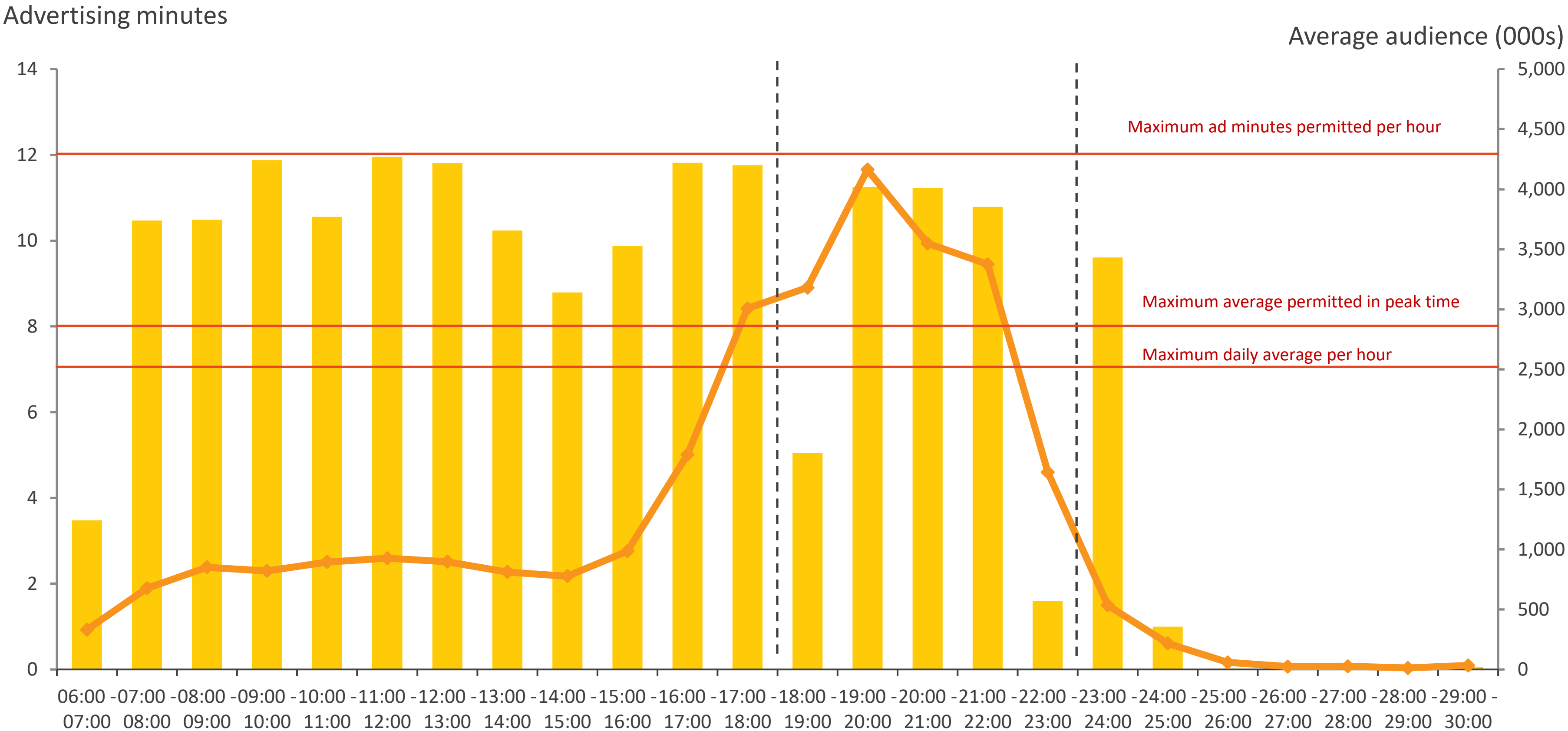


Note: *Of which advertising and teleshopping spots may not exceed 3 minutes and 30 seconds
Source: Ofcom, Oliver & Ohlbaum analysis

ITV's main channel advertising inventory management: Monday to Friday

ITV's maximum peak time ad minutage is book-ended by its early and late evening news broadcasts, retaining an average of eight minutes per hour during peak time

ITV's main channel average ad minutes and audience per hour, Monday to Friday (2021 annual average)

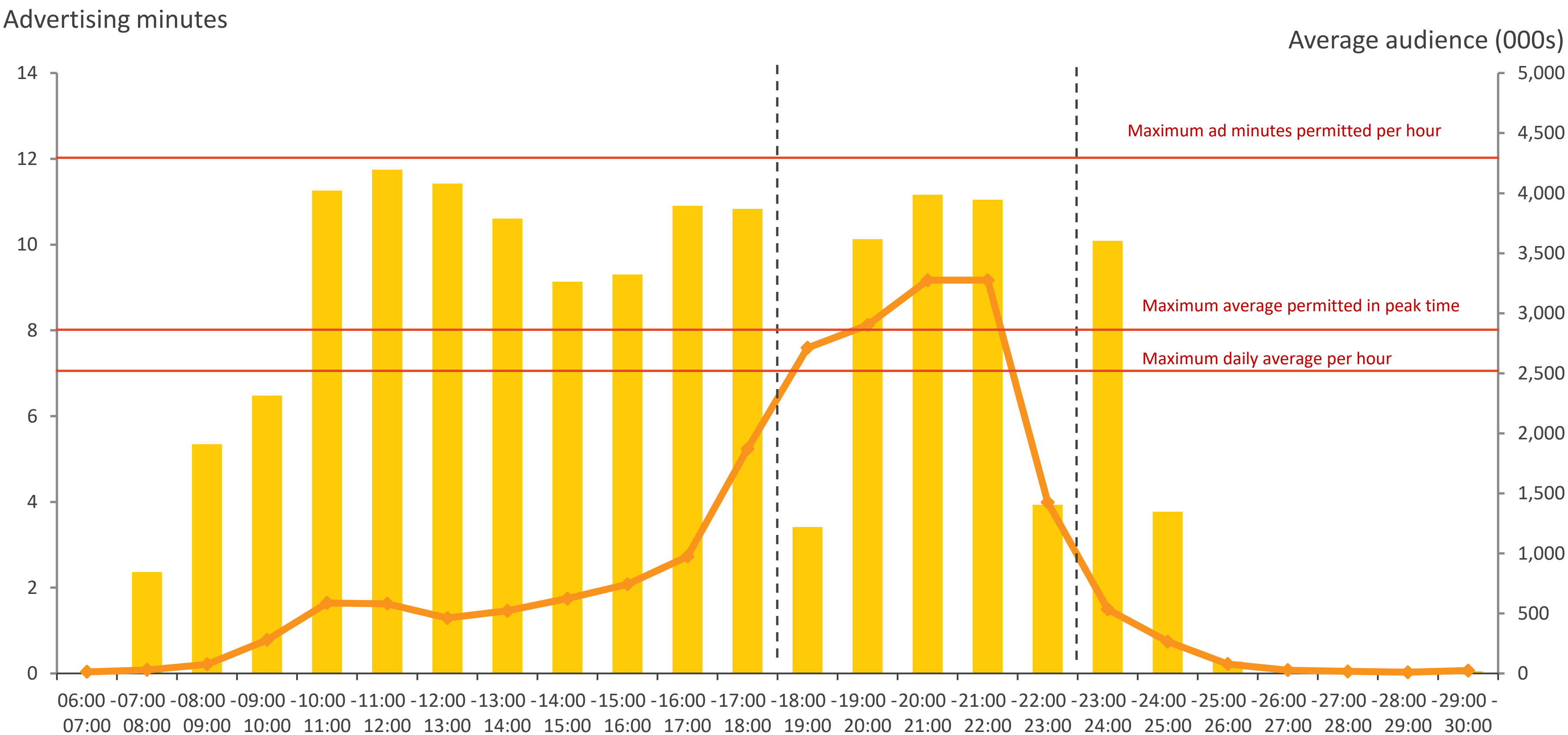


Note: Data above is inclusive of ITV main channel (inc. Breakfast) in both SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

ITV’s main channel advertising inventory management: Saturday to Sunday

Showing little advertising in the early hours across the week allows ITV to maximise minutage during the day, with ad times throughout the day often approaching the 12 minute maximum

ITV’s main channel average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)

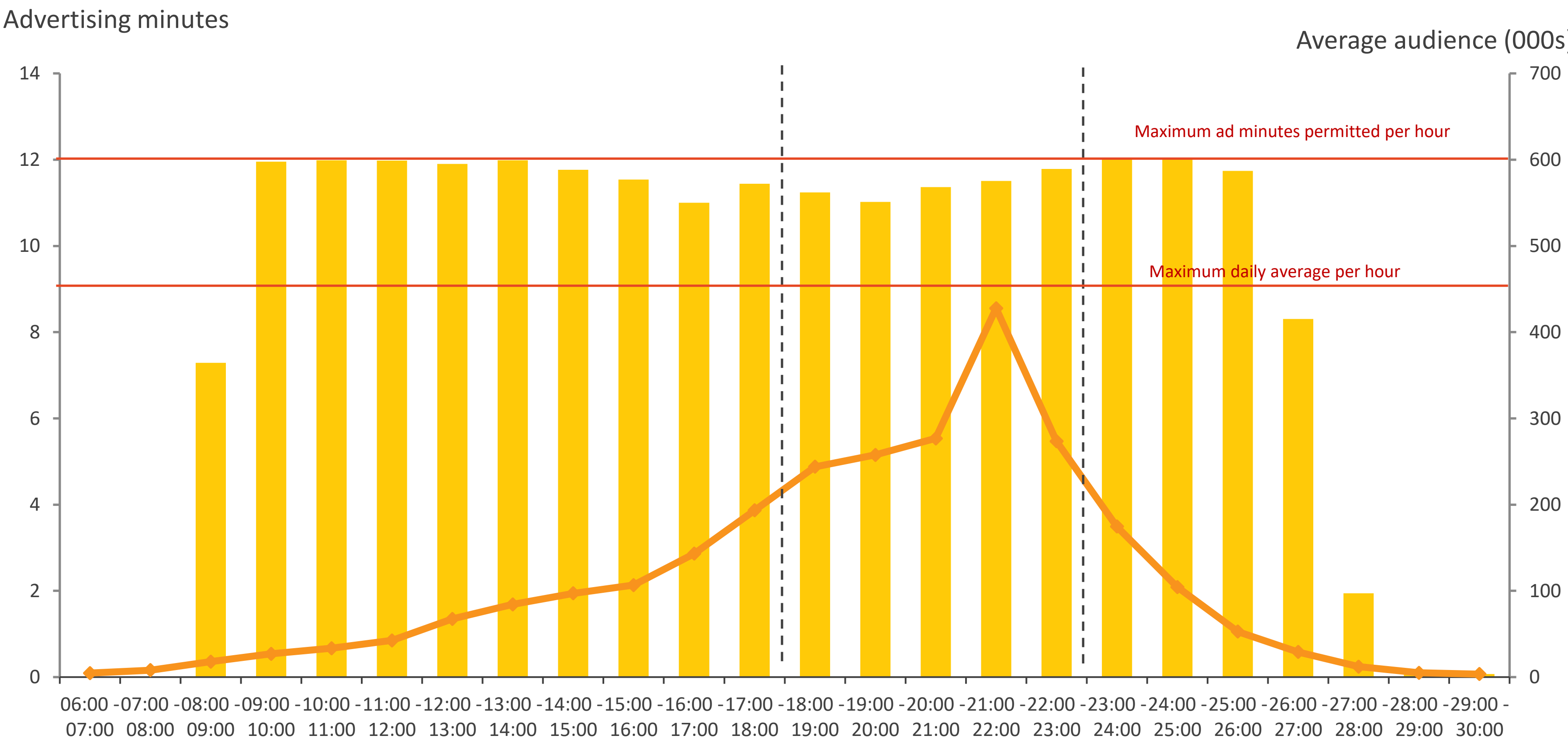


Note: Data above is inclusive of ITV main channel (inc. Breakfast) in both SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

ITV2's advertising inventory management: Monday to Friday

ITV2 is not subject to peak time restrictions, as such minutage is maximised throughout the day and peak time, reducing advertising in the early hours to ensure the channel remains under the 9 minute daily average maximum

ITV2's average ad minutes and audience per hour, Friday to Monday (2021 annual average)



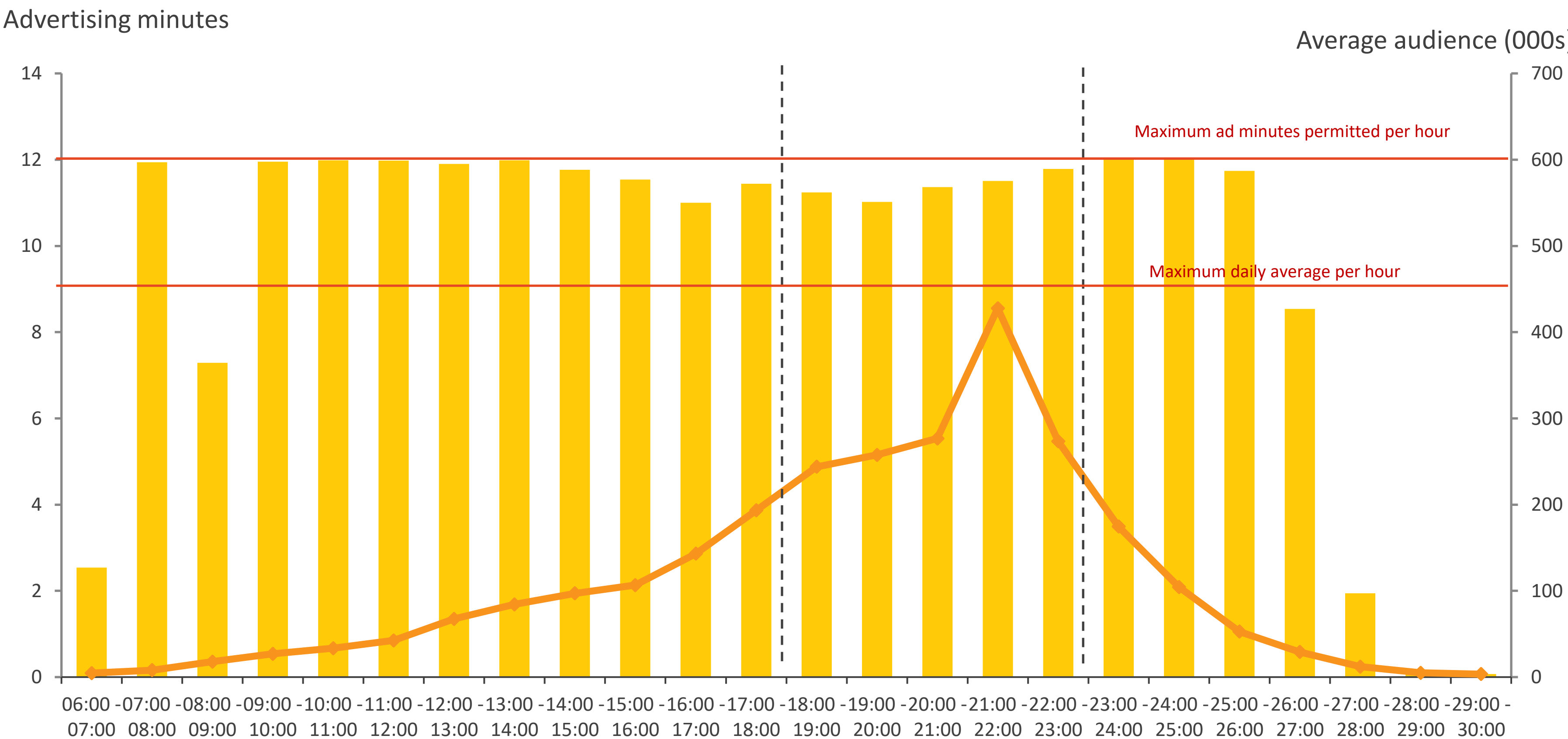
Note: Data above is inclusive of ITV 2 and +1
Source: BARB, Oliver & Ohlbaum analysis

Current COSTA minutage regulations

ITV2's advertising inventory management: Saturday to Sunday

The same strategy is deployed on weekends, with a slight extension of advertising time into the early hours to reflect viewer behaviour

ITV2's average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)

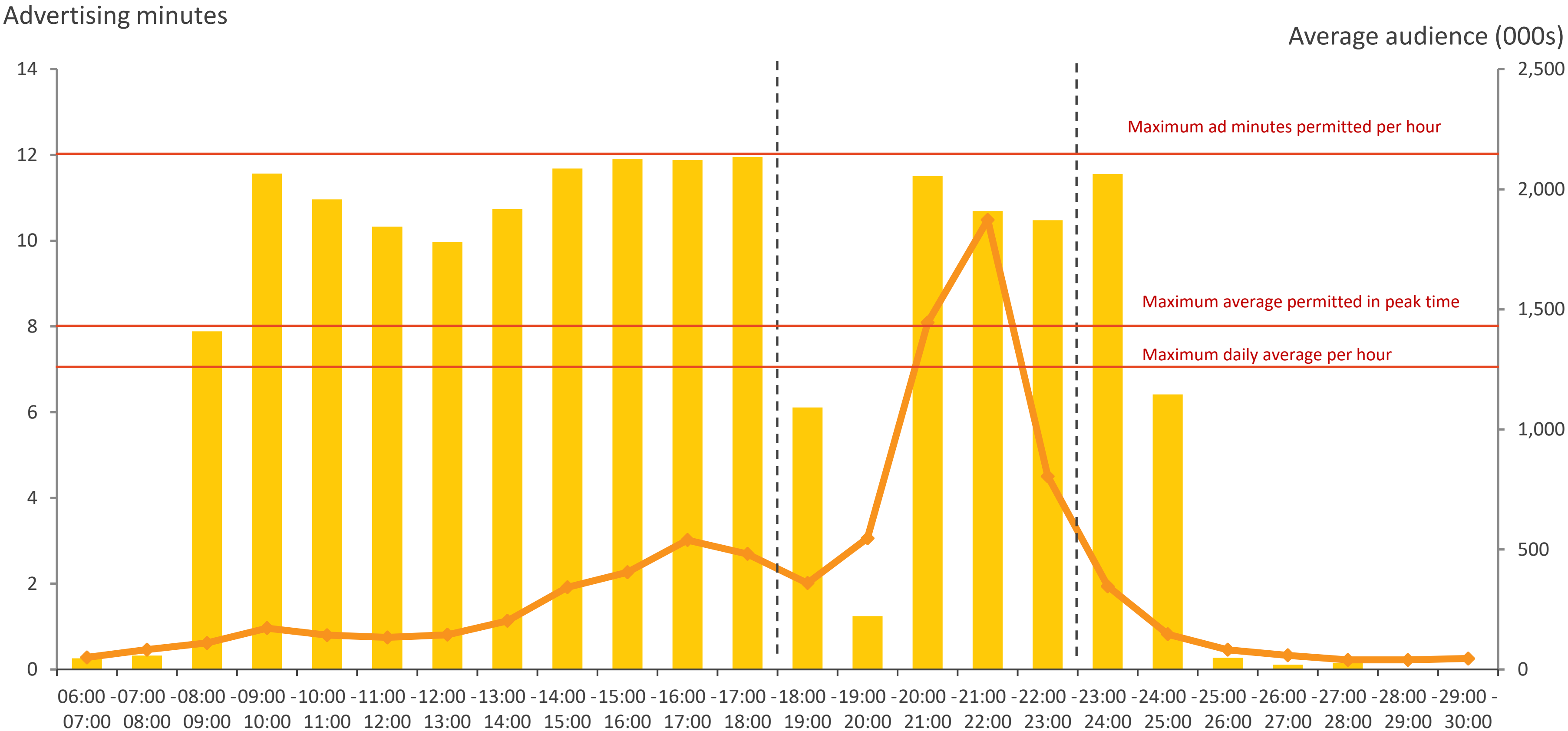


Note: Data above is inclusive of ITV 2 and +1
Source: BARB, Oliver & Ohlbaum analysis

Channel 4's main channel advertising inventory management: Monday to Friday

By showing little advertising in the early hours and breakfast time, and by reducing minutage during the evening news broadcast, Channel 4 maximises its inventory during daytime and peak

Channel 4's main channel average ad minutes and audience per hour, Monday to Friday (2021 annual average)

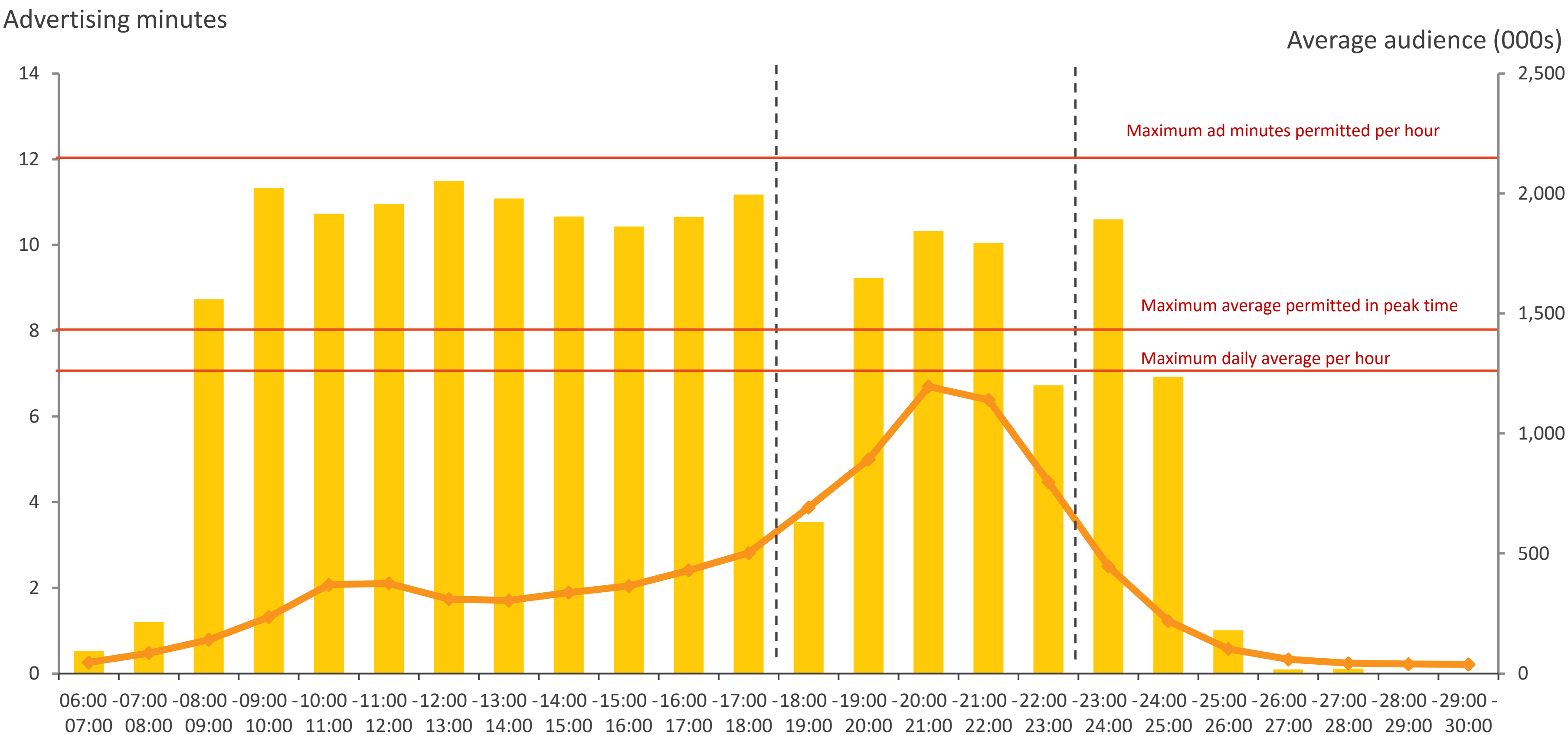


Note: Data above is inclusive of Channel 4 main channel SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

Channel 4's main channel advertising inventory management: Saturday to Sunday

On weekends Channel 4s evening news moves to the earlier time of 5pm, as a result their advertising minutage over peak time is more evenly distributed

Channel 4's main channel average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)

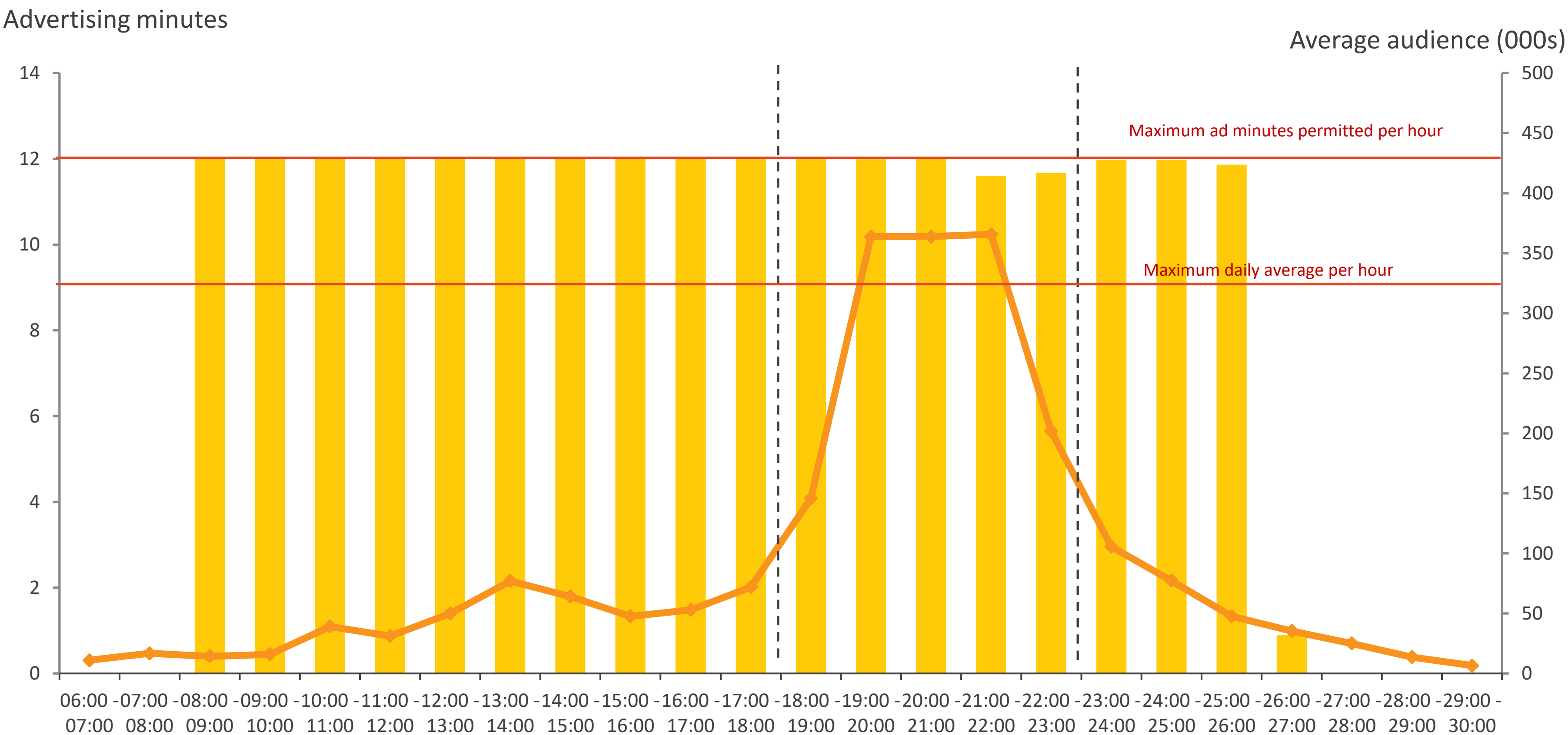


Note: Data above is inclusive of Channel 4 main channel SD, HD and +1
Source: BARB, Oliver & Ohlbaum analysis

E4’s advertising inventory management: Monday to Friday

E4’s inventory management closely resembles that of a multichannel broadcaster; consistently hitting the 12 minute maximum during the day, and with little to no advertising shown during early hours to allow for this

E4’s average ad minutes and audience per hour, Monday to Friday (2021 annual average)

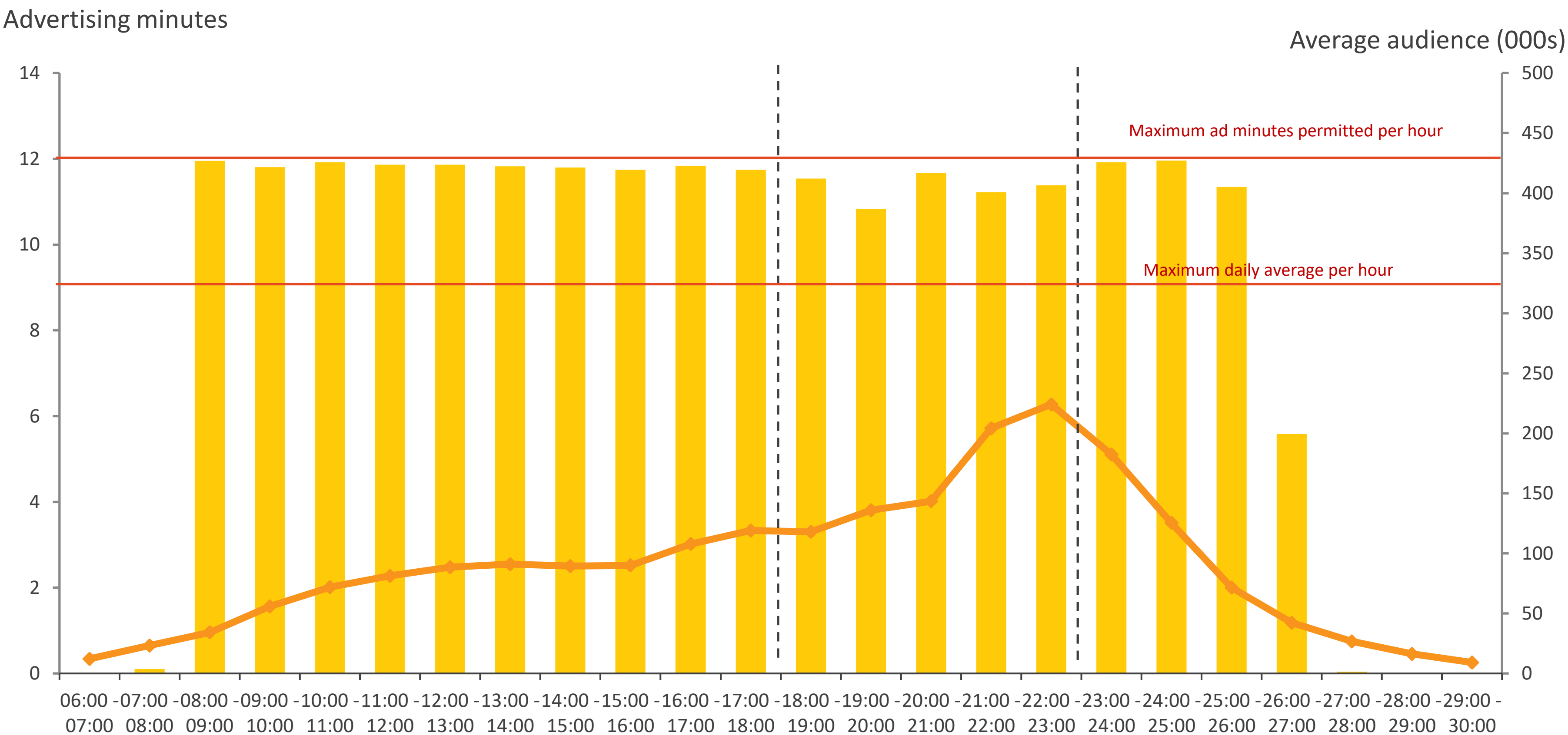


Note: Data above is inclusive of E4 and +1
Source: BARB, Oliver & Ohlbaum analysis

E4’s advertising inventory management: Saturday to Sunday

Advertising minutage distribution on E4’s weekend schedule largely replicates its weekday schedule while average audiences are more evenly spread throughout the day

E4’s average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)

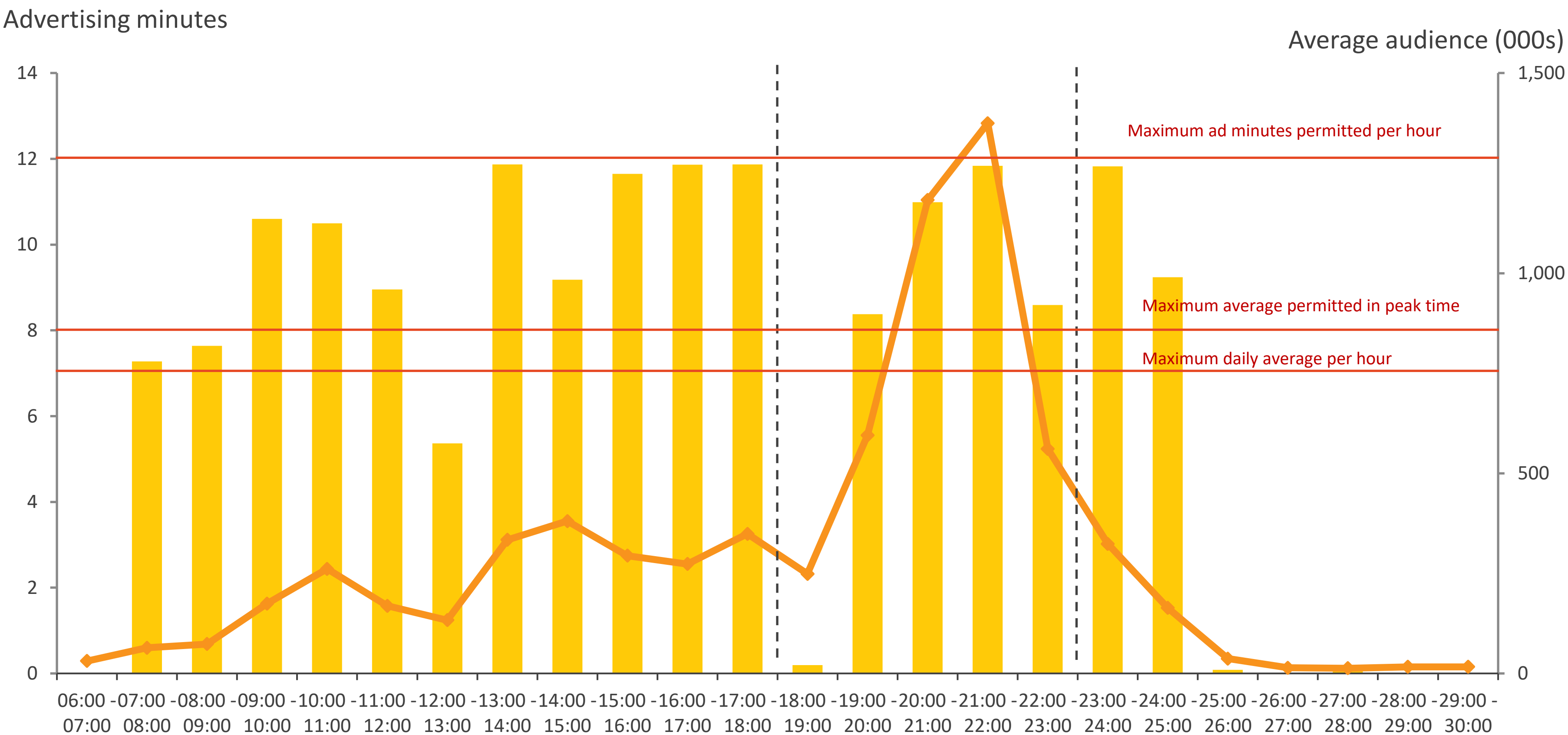


Note: Data above is inclusive of E4 and +1
Source: BARB, Oliver & Ohlbaum analysis

Channel 5's main channel advertising inventory management: Monday to Friday

Channel 5 is able to maximise its inventory across the rest of the day, by reducing its advertising minutage during the late morning (when it has often shown feature films) and in its early evening news bulletin

Channel 5's main channel average ad minutes and audience per hour, Monday to Friday (2021 annual average)



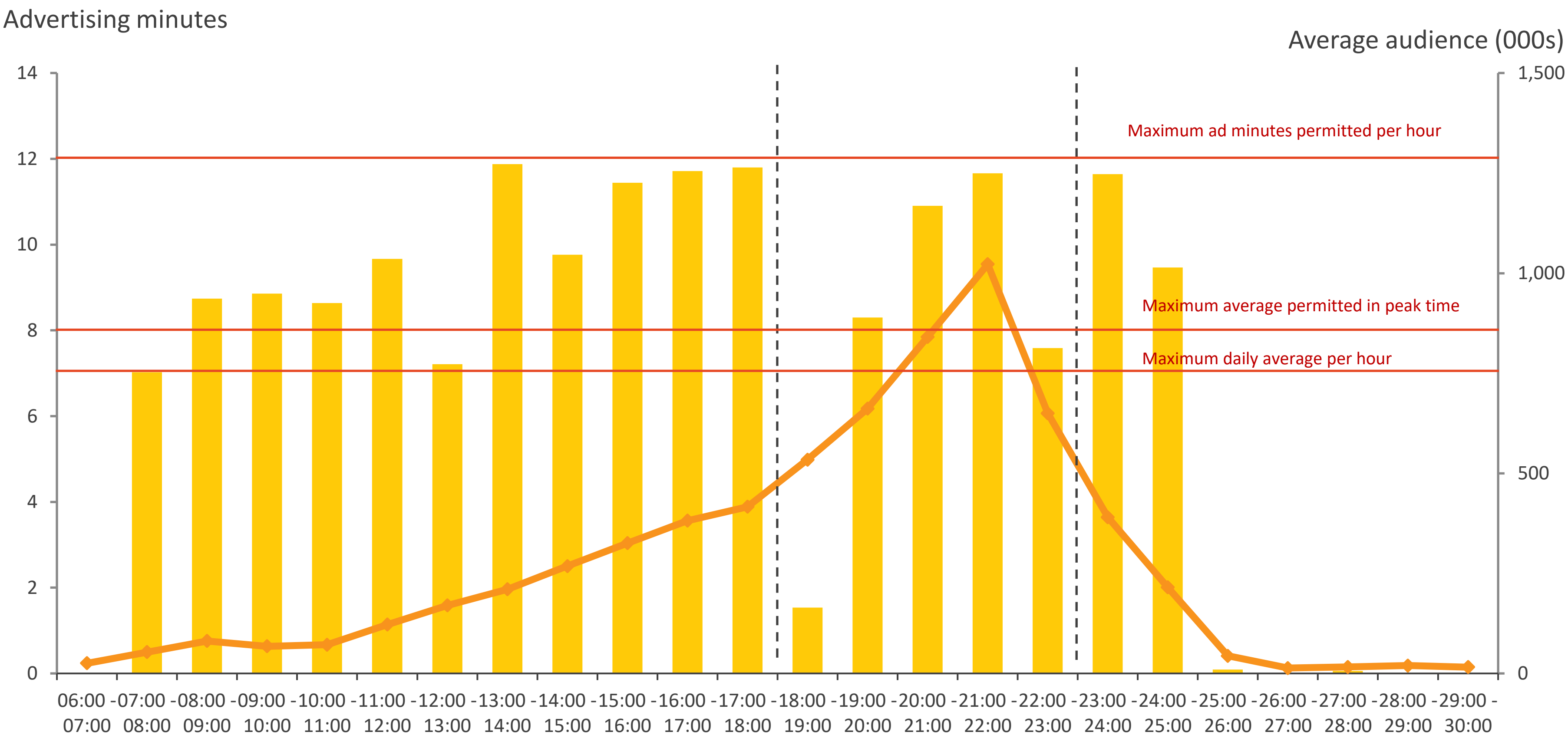
Note: Data above is inclusive of Channel 5 main channel in both SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

O&O

Channel 5's main channel advertising inventory management: Saturday to Sunday

On weekend mornings Channel 5 primarily broadcasts children's programming, as such its advertising during this period is significantly reduced as a result their minutage later in the day is consistently over eleven minutes

Channel 5's main channel average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)

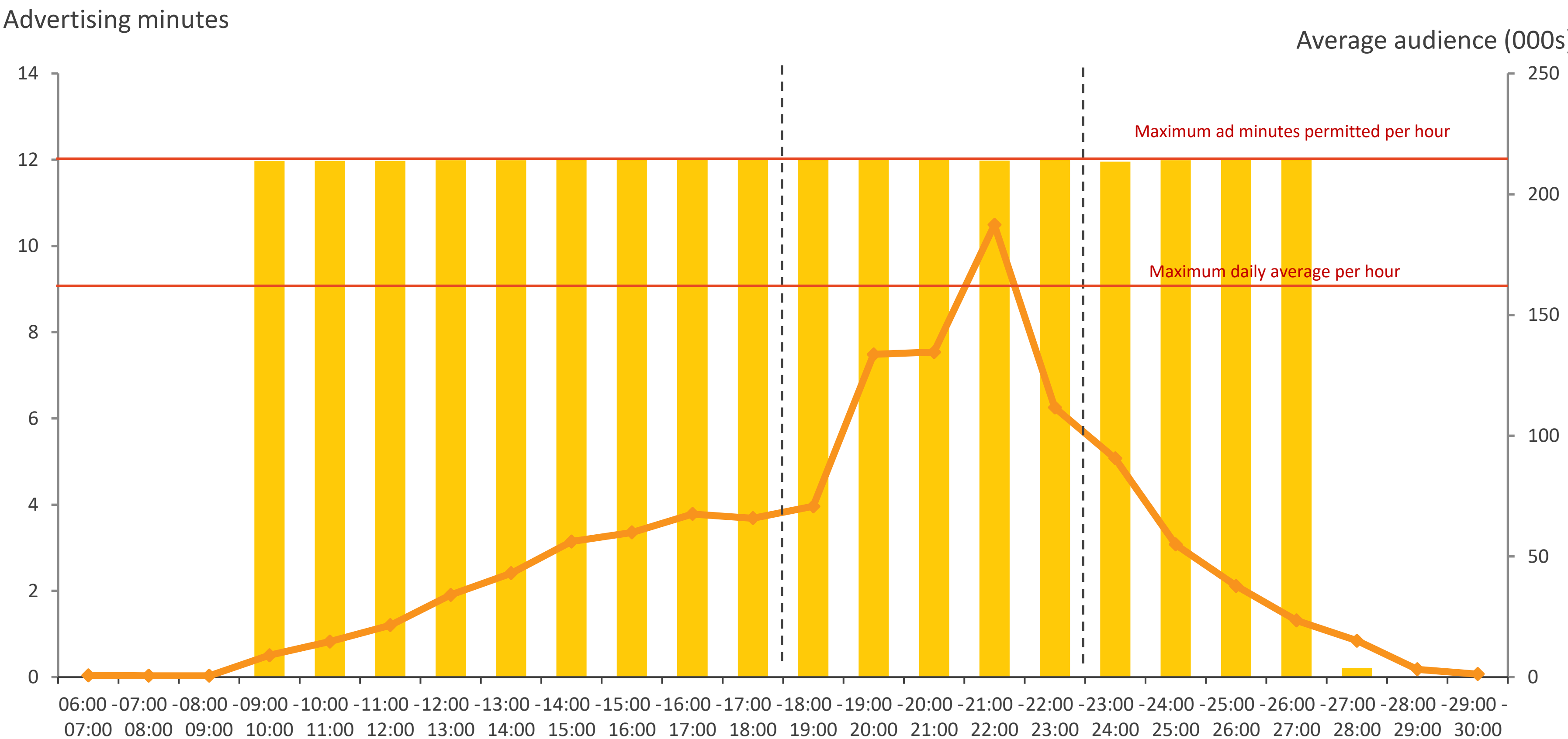


Note: Data above is inclusive of Channel 5 main channel in both SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

5USA's advertising inventory management: Monday to Friday

5USA's inventory management closely resembles that of a multichannel broadcaster: little minutage in the early hours and at breakfast time, allowing it to maximise its minutage during the day

5USA's average ad minutes and audience per hour, Monday to Friday (2021 annual average)

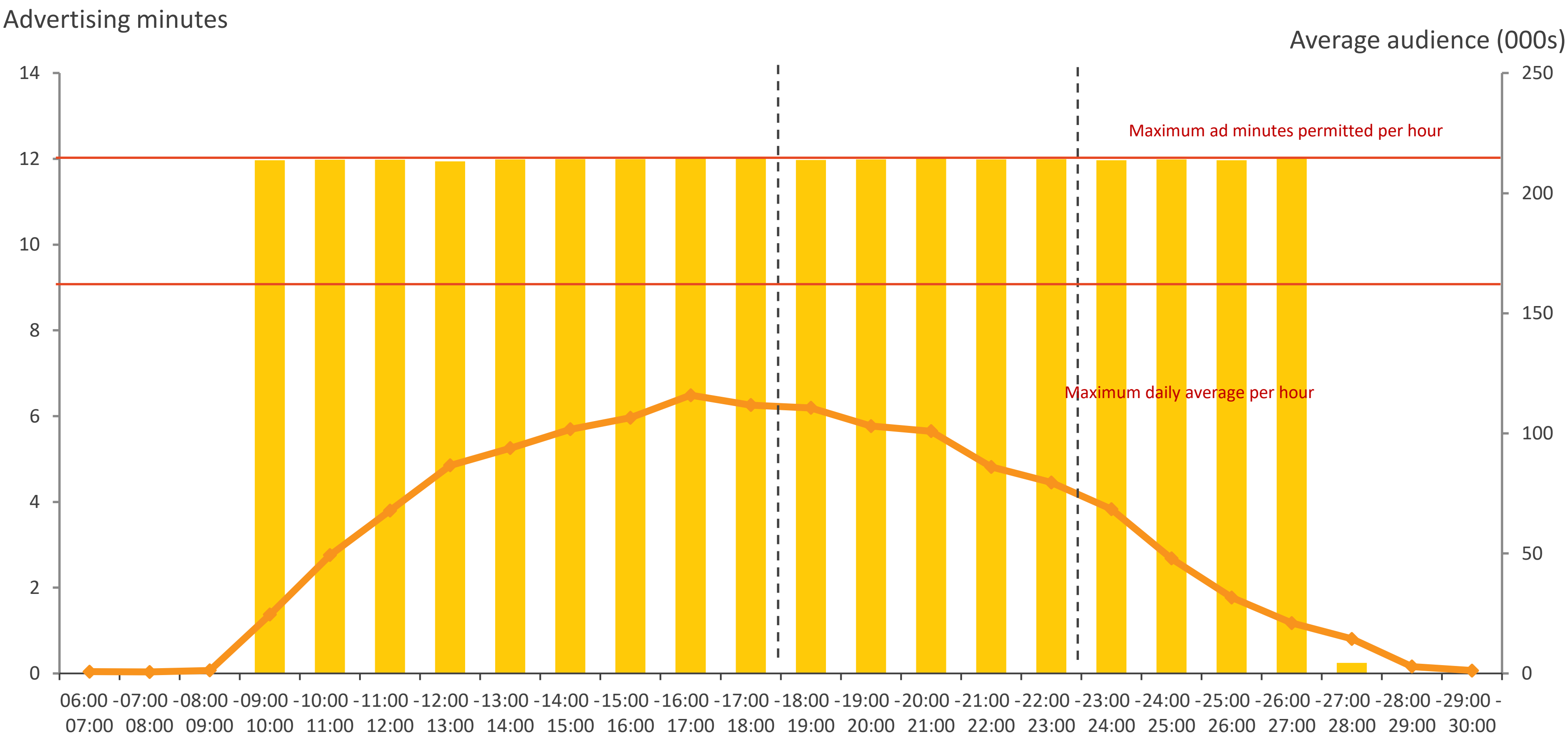


Note: Data above is inclusive of 5USA SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

5USA's advertising inventory management: Saturday to Sunday

Despite large changes in its average audience by hour distribution on the weekends, 5USA utilises the same advertising inventory management structure

5USA's average ad minutes and audience per hour, Saturday to Sunday (2021 annual average)



Note: Data above is inclusive of 5USA SD, HD, and +1
Source: BARB, Oliver & Ohlbaum analysis

Contents

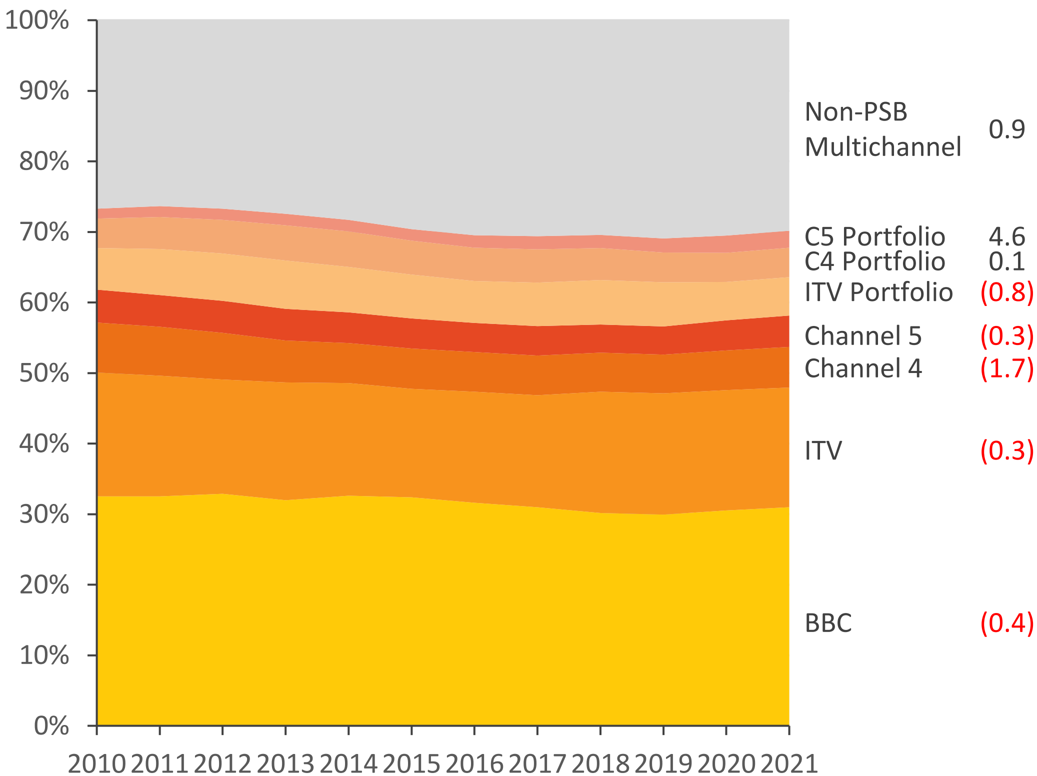
COMPETITION ISSUES

PSBs and their portfolios continue to account for the majority of total viewing

The small increase in multichannel viewing is a result of an increase in the quantity of channels, rather than the growth of any single offering. As a result PSBs remain the most viewed channels on TV

Share of viewing (SOV) by channel/group, 2010-21
% consolidated viewing, A16+

CAGR (%) 2010-21



- Non-PSB multichannels have experienced a marginal increase in share of consolidated viewing since 2010
- However, this could be attributed in part due to an increase in the number of channels in the multichannel sector between 2010 and 2021, with individual channels retaining a small share of viewing over the period
- Multichannel entries into the market have in effect partially cannibalised the viewership from other multichannel offerings, leaving viewing to the PSBs and their portfolios largely unchanged

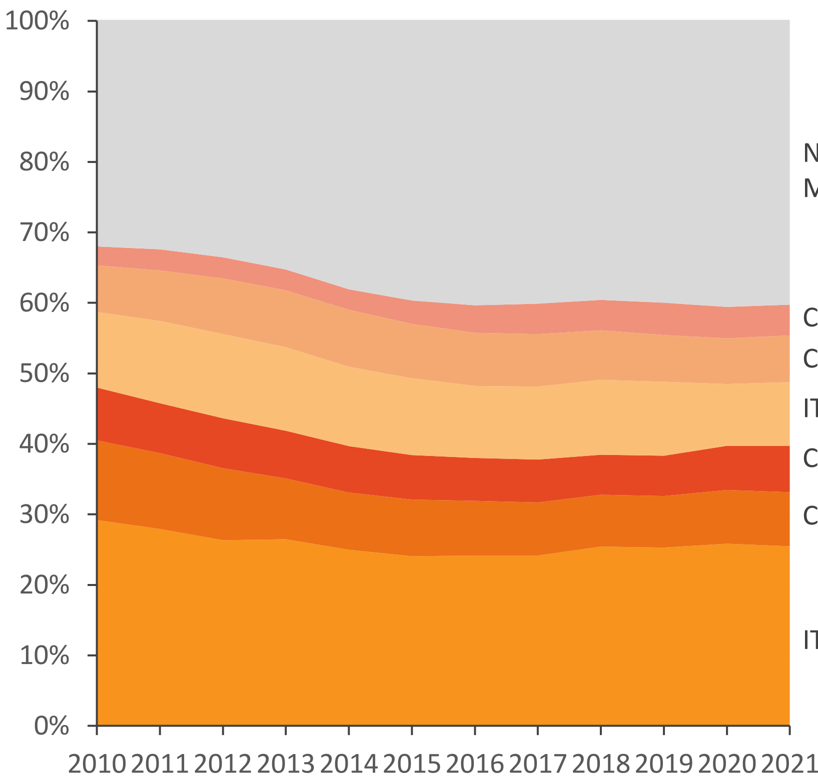
Source: BARB, Oliver & Ohlbaum analysis

Commercial PSB main channels retain the largest share of commercial impacts…

While the multichannel sector commands just over 30% of commercial impacts, few individual multichannels have achieved significant scale in the market; commercial PSB main networks and their portfolio channels still dominate

Share of commercial impacts (SOCI) by channel/group, 2010-21

% commercial impacts, A16+



	CAGR (%) 2010-21
Non-PSB Multichannel	1.9
C5 Portfolio	4.2
C4 Portfolio	0.0
ITV Portfolio	(1.4)
Channel 5	(1.1)
Channel 4	(3.2)
ITV	(1.1)

- Commercial PSB main channels and their portfolios still account for the majority of commercial impacts
- Moderate growth seen in the share of commercial impacts (SOCI) taken by multichannels could be attributed to an increase in the number of these channels active in the market

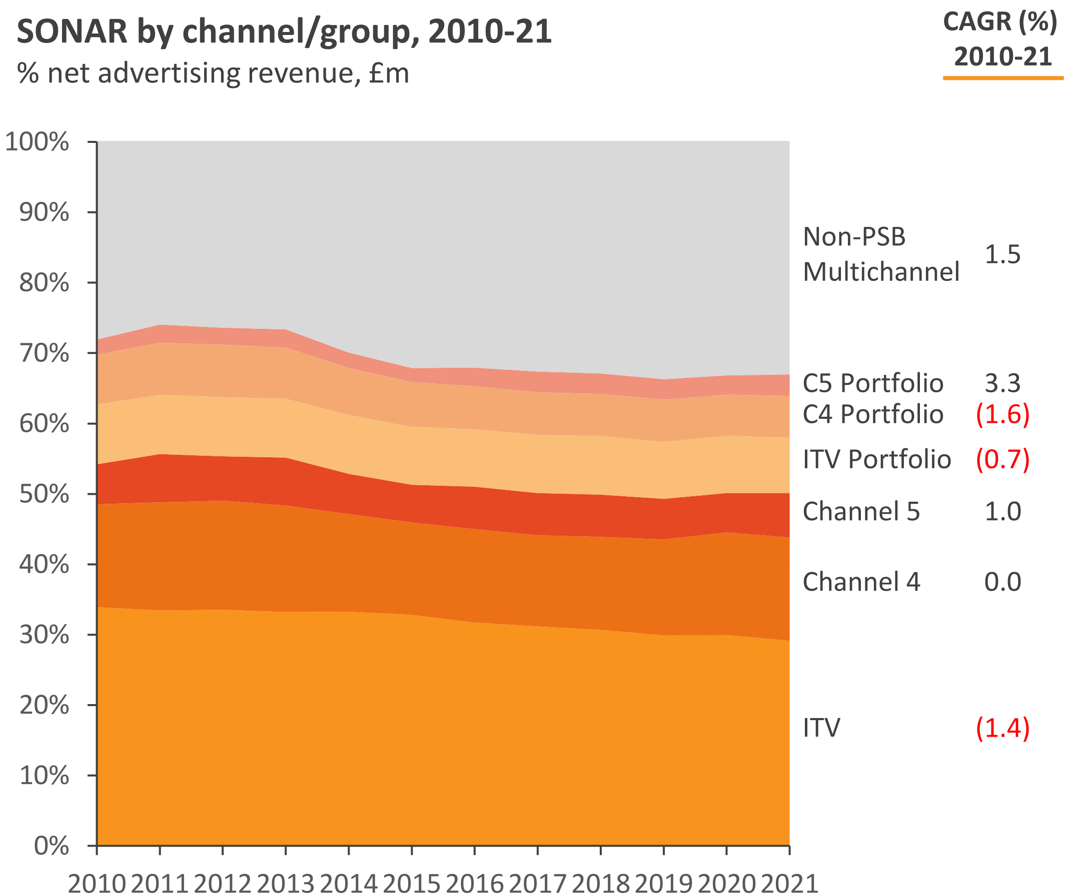
Source: BARB, Oliver & Ohlbaum analysis

O&O

…and also of total market net advertising revenues

ITV and its portfolio has seen slight decline over the large decade but nevertheless has earnt a larger share of NAR every year than the entirety of the NON-PSB multichannels

SONAR by channel/group, 2010-21
% net advertising revenue, £m



- As market fundamentals haven't changed significantly since 2010, the split between commercial PSBs' share of net advertising revenue (SONAR) and that of multichannels has remained relatively stable over the past decade
- Commercial PSBs have maintained their dominant position in the market, accounting for around two-thirds of total market NAR

Source: AA/WARC, BARB, company reporting, Oliver & Ohlbaum analysis and estimates

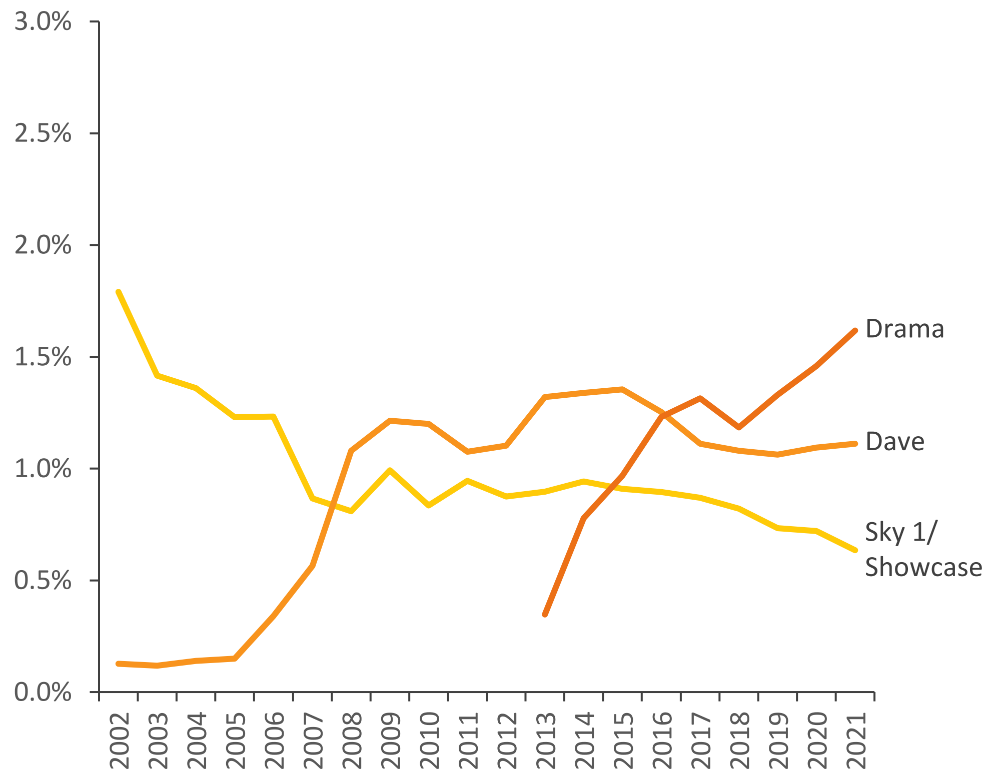
Current regulation allows for change should a service gain an unfair advantage…

Since 2002, the majority of non-PSB multichannels have retained a relatively low share of viewing

- The original ITC regulation on competition states that:
  - *It is possible that in due course the development of* ***particular satellite and cable services*** *could create a situation in which differences between the rules applying to them and to terrestrial broadcasters on advertising breaks* ***could be held to constitute an unfair competitive advantage.*** *The ITC reserves the right to amend these rules or their application to* ***particular services*** *in pursuit of its general duty in Section 2 of the Broadcasting Act to discharge its functions in the manner it considers best calculated* ***to ensure 'fair and effective competition'*** *in the provision of television services*
- However, the SOV of the largest non-PSB multichannels has remained relatively small:
  - In 2002, Sky Showcase (formerly Sky One), held the highest SOV among the non-PSB multichannels, at 1.8%, and by 2021 its share had fallen to just 0.6%, while Dave's SOV rose from 0.1% to 1.1% over the same period, and since its launch in 2013, Drama has grown to achieve a 1.6% SOV in 2021

Share of viewing (SOV) by channel, 2002-21

% consolidated viewing, A16+



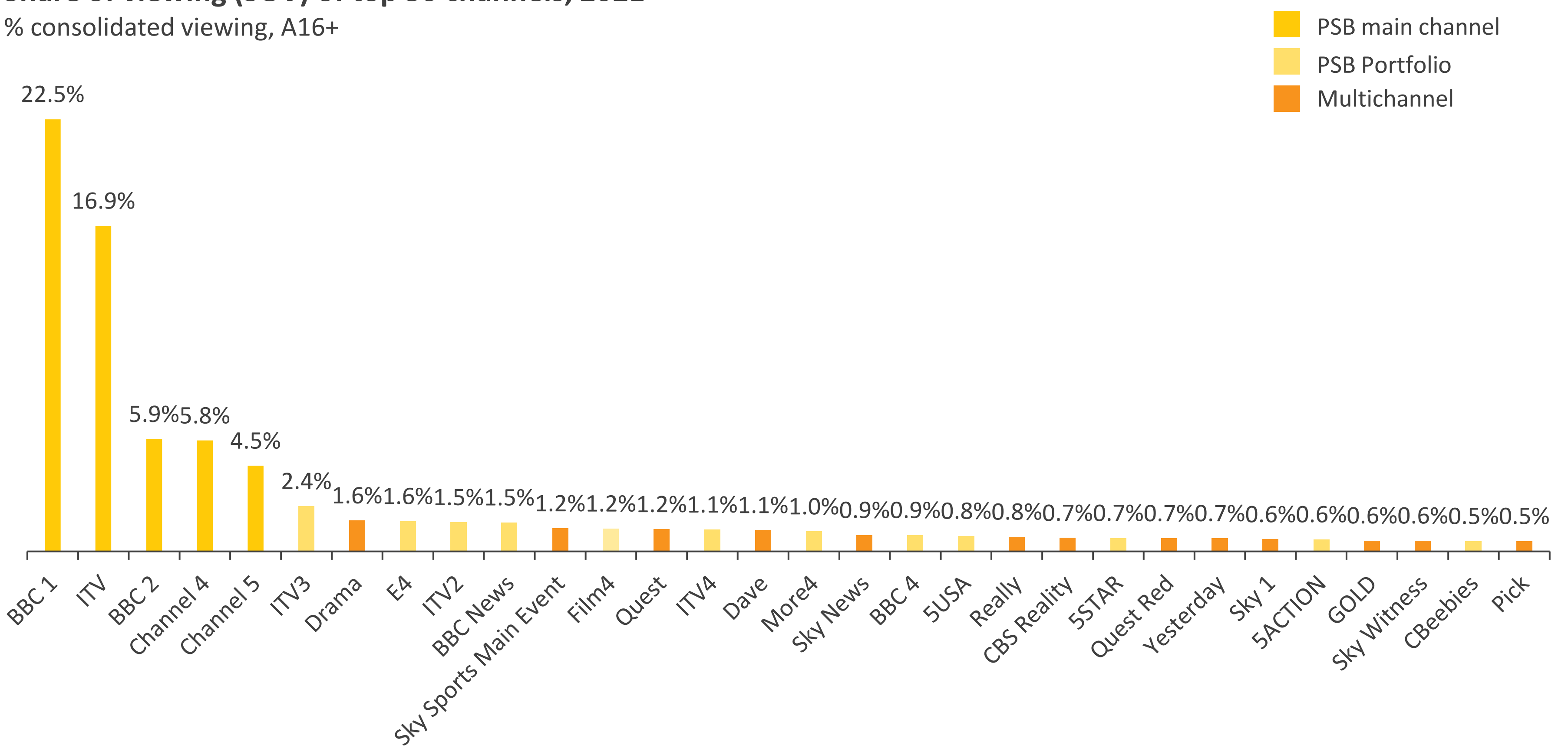
Source: BARB, Oliver & Ohlbaum analysis

…however, multichannels made-up less than half of the top 30 channels in 2021…

No individual non-PSB multichannel achieved more than 1.6% share of viewing in 2021, ranking far below the main PSB networks which dominate the market

Share of viewing (SOV) of top 30 channels, 2021

% consolidated viewing, A16+



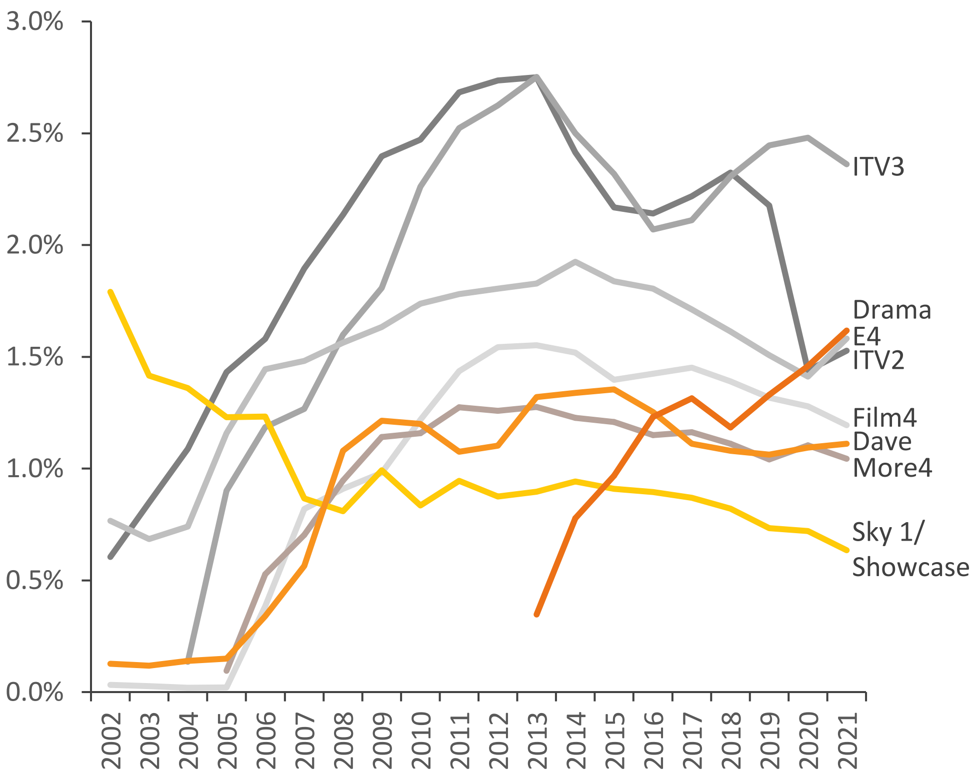
Source: BARB, Oliver & Ohlbaum analysis

…and this is due in part to the commercial PSB portfolios achieving greater scale

In 2021, PSB portfolio channels accounted for six of the top ten channels by share of viewing outside of the PSB main networks

Share of viewing (SOV) by channel, 2002-21

% consolidated viewing, A16+



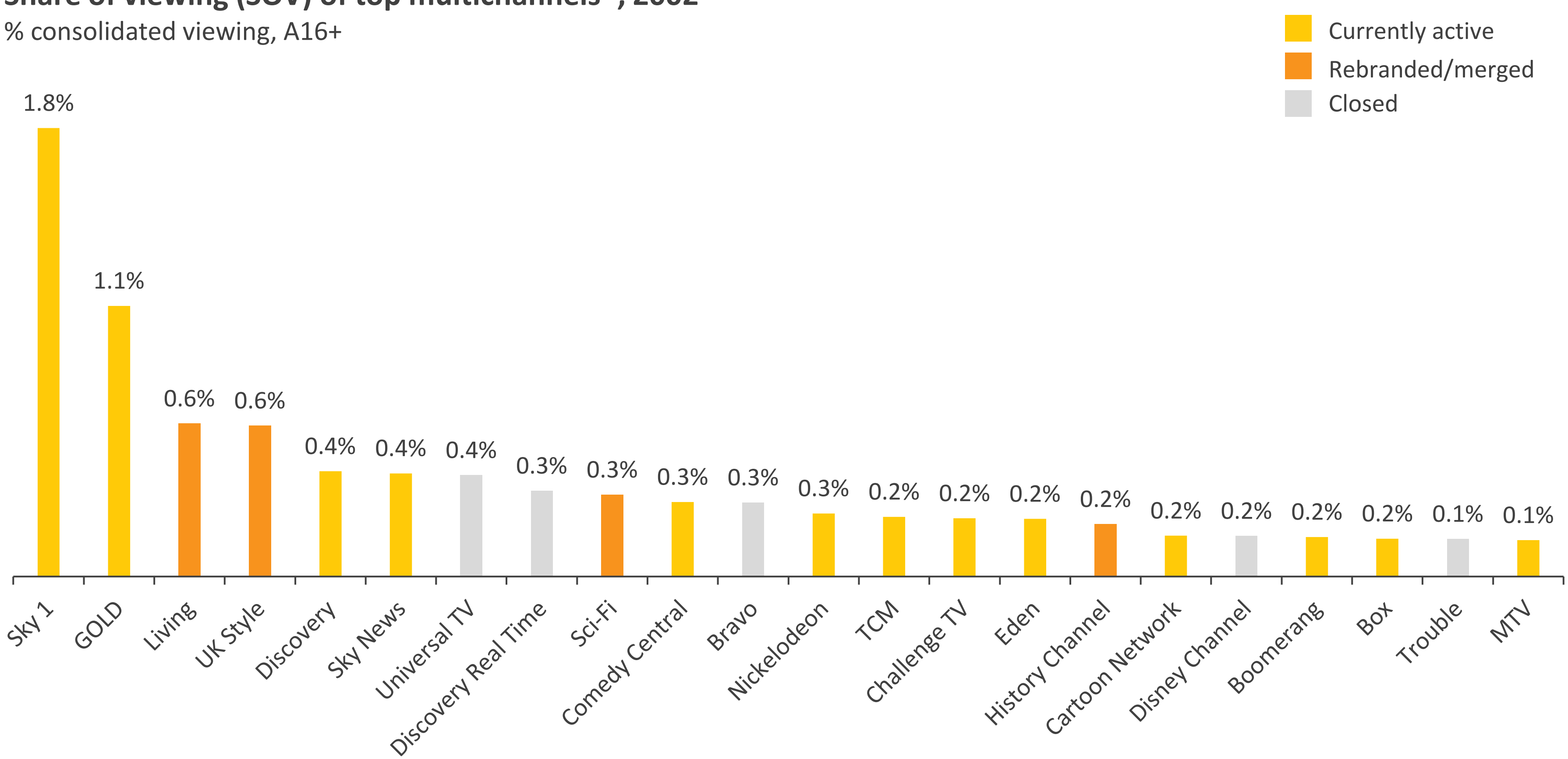
- Since the original regulations were introduced, commercial PSBs were granted the ability to launch their own multichannels in preferential EPG slots which aren't subject to the same level of restrictions as their main networks
- These commercial PSB portfolio channels have typically achieved greater share of viewing and commercial impacts than the vast majority of non-PSB multichannels since 2002
- ITV3 is currently the closest channel in scale to the main networks, with a 2.4% SOV, 1.5x larger than the biggest non-PSB multichannel, Drama
- The ITC rules state that they could be amended should the restrictions placed on commercial PSB networks provide 'particular' non-PSB multichannel services with an unfair advantage; however none of these channels are yet to achieve a scale to warrant this

Source: BARB, Oliver & Ohlbaum analysis

The multichannel sector has undergone considerable change since its inception

Much of this change is due to the fragile economics lower down the schedule; this has led to many channels closing or being merged over the past two decades

Share of viewing (SOV) of top multichannels*, 2002
% consolidated viewing, A16+



Note: **Excludes sports and movies/film thematic channels*
Source: *BARB, Oliver & Ohlbaum analysis*

CONSUMER RESEARCH FINDINGS

Summary of consumer research findings

Our consumer research illustrates that viewers have a preference for watching TV content without advertising, and that any potential increases to the volume or frequency of TV advertising would likely result in a decline in viewing to traditional broadcast TV in favour of ad-free digital streaming services

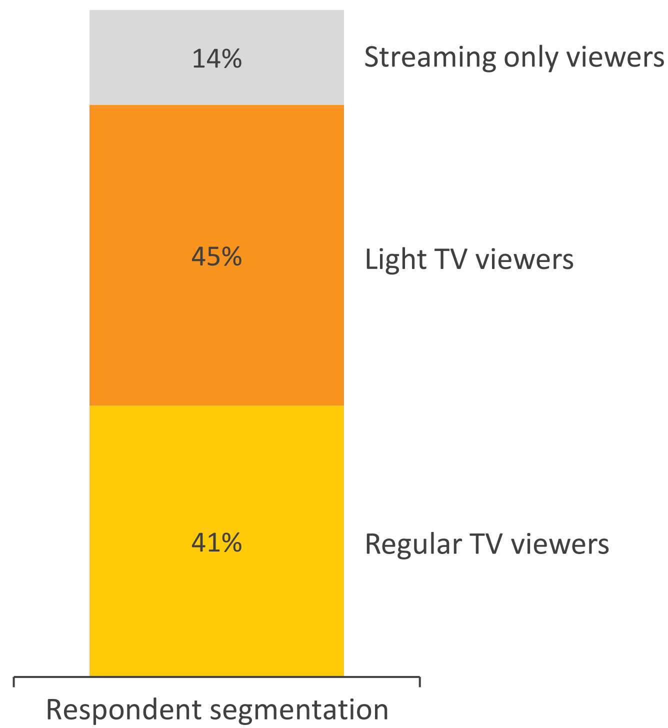
- In order to understand the impact of potential changes to TV advertising minutage restrictions on viewer behaviour we undertook detailed consumer research in September 2022, results of which indicated that:
  - The majority of TV viewers in the UK expressed a negative opinion of TV advertising, with 30% of adults stating they would rather watch TV content without advertisements
  - One-third of UK adults described themselves as having concerns about TV advertising, raising issue with both the current levels of TV advertising and the potentially harmful nature of certain TV adverts
  - Nearly half of respondents are unhappy with the current level of advertising (both in volume and frequency) on traditional broadcast TV and would like this to be reduced
  - More than half of respondents indicated that they have become less tolerant of TV advertising since the emergence of SVODs
  - A potential increase in the volume of TV advertising minutes or frequency of TV advertising breaks would be unpopular among viewers
  - 69% of respondents indicated that an increase on the commercial PSB channels would lead to them watching less of these channels; 44% of these respondents stated they would transition their viewing further to SVODs

Methodology and definitions

- Our consumer research was conducted in September 2022 using a significant nationally representative sample of 1,027 TV viewing adults living in the UK
  - The survey was carried out by our long-term market research partner, Fly Research who have extensive experience in conducting bespoke consumer research programmes
  - This large sample size has allowed us to analyse the dynamic of TV advertising opinions within key subgroups
- We categorised respondents by the amount of traditional broadcast television they consume, placing them into one of three mutually exclusive categories:
  - **Streaming only viewers:** those who only watch via streaming services or watch traditional scheduled broadcast less than once a month
  - **Light TV viewers:** those who consume less than one hour of traditional scheduled broadcast TV per day
  - **Regular TV viewers:** those who consume two or more hours of traditional scheduled broadcast TV per day

Breakdown of respondents by TV viewing habits

%



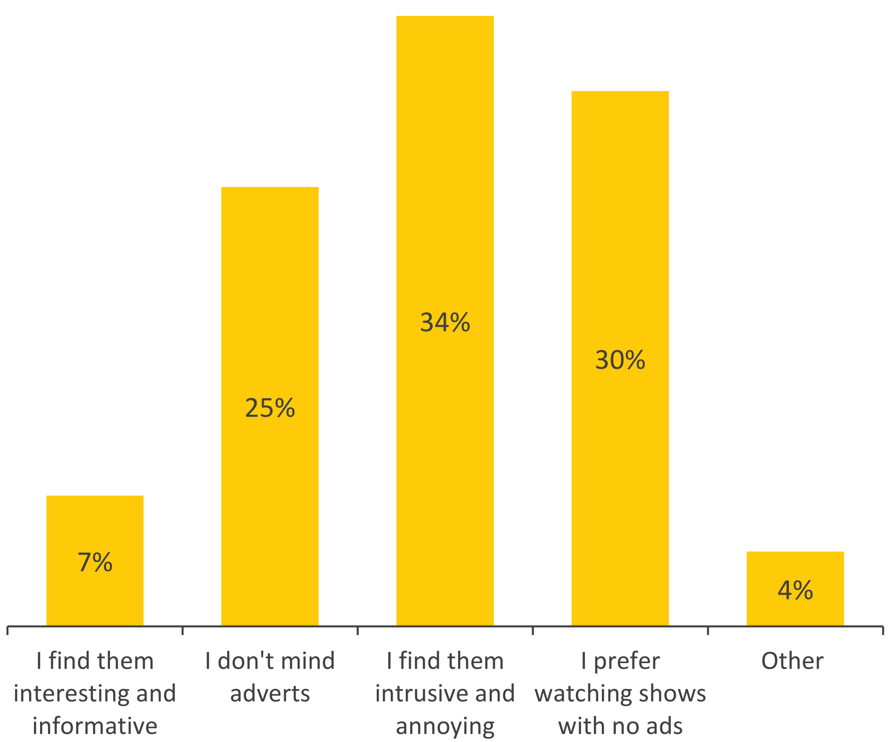
Source: Fly Research (n = 1,027), Oliver & Ohlbaum analysis

The majority of TV viewers find adverts detrimental to the TV viewing experience

Nearly a third of viewers go out of their way to avoid adverts, while for the most frequent watchers of scheduled TV the plurality of respondents found advertising annoying

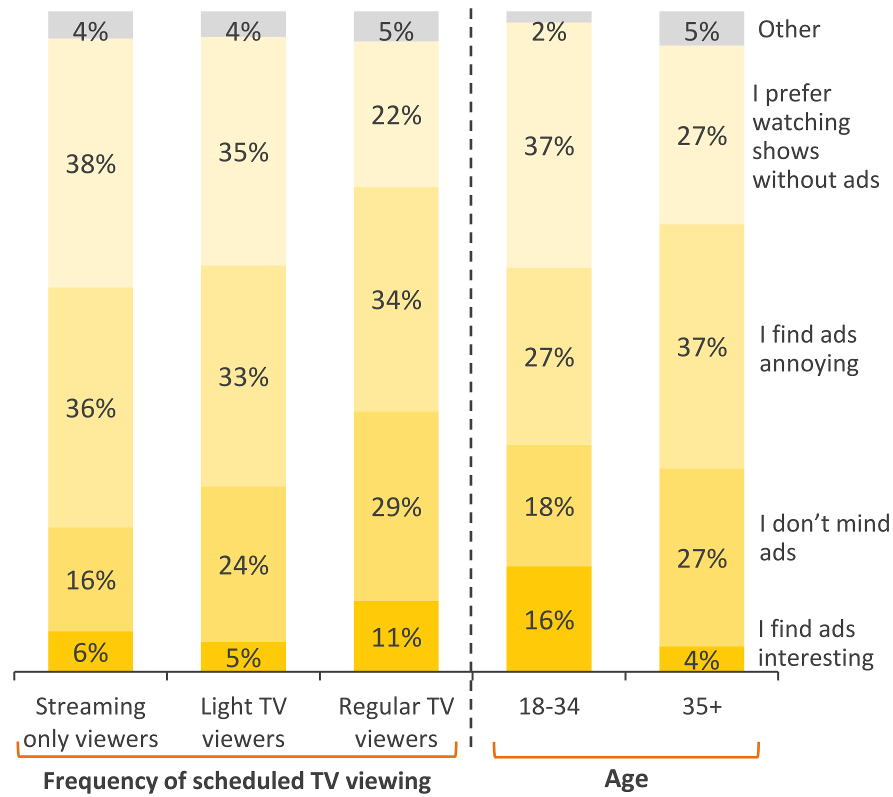
UK TV viewers' opinions of TV advertising, 2022

%



UK TV viewers' opinions of TV advertising split by frequency of scheduled TV viewing and age, 2022

%

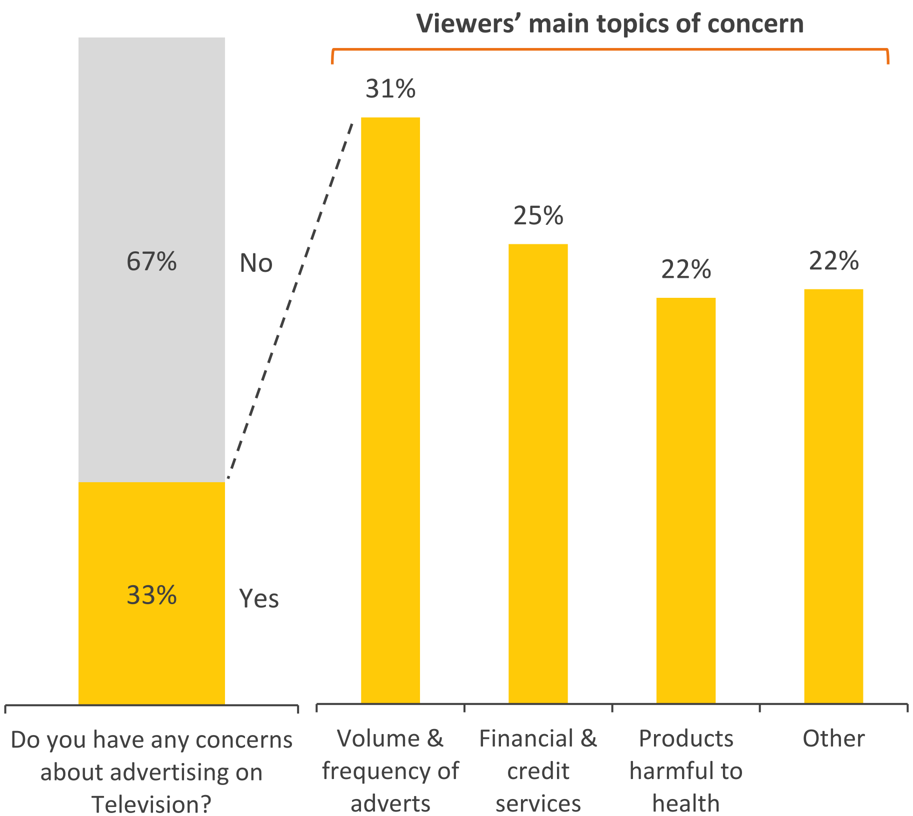


Q: 'In general, what are your opinions on advertising on television services?'
Source: Fly Research (n = 1,027), Oliver & Ohlbaum analysis

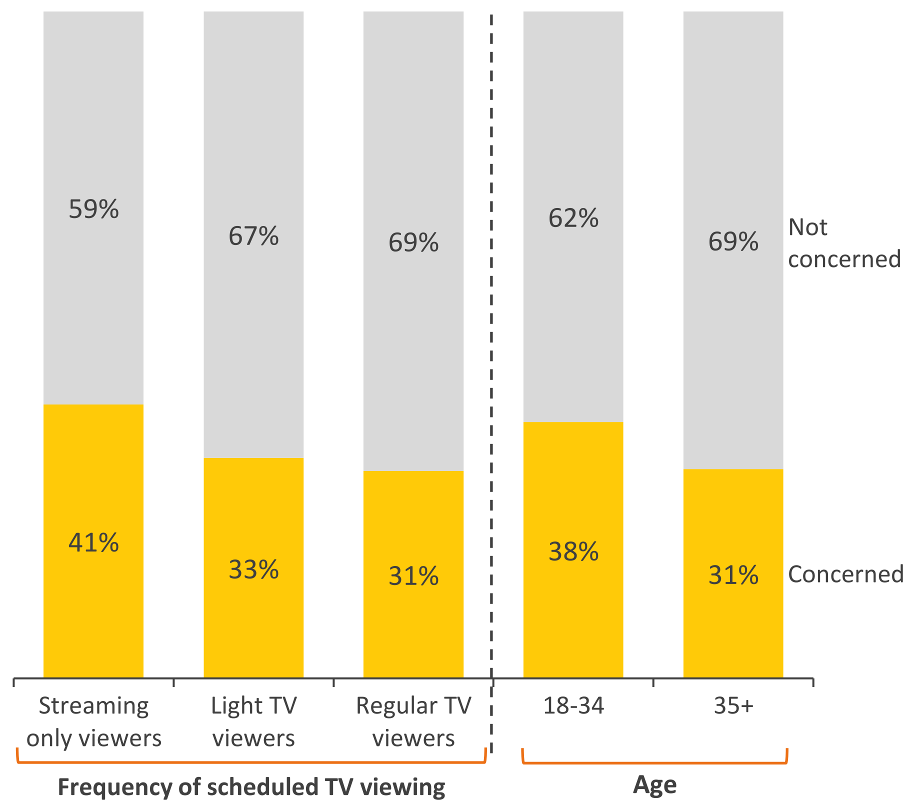
One-third of respondents were concerned about current television advertising

The most common concerns among UK TV viewers were related to the volume and frequency of advertising, however a significant proportion raised concerns over advertising promoting harmful products (alcohol, gambling, etc)

UK TV viewers' concerns around TV advertising, 2022
%



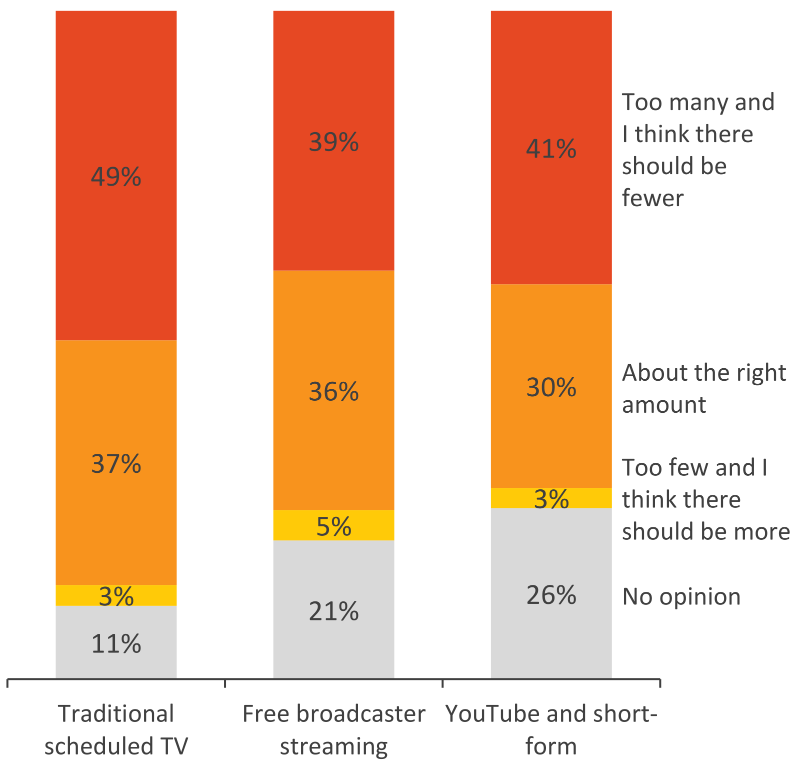
UK TV viewers' concerns around TV advertising split by frequency of scheduled TV viewing and age, 2022
%



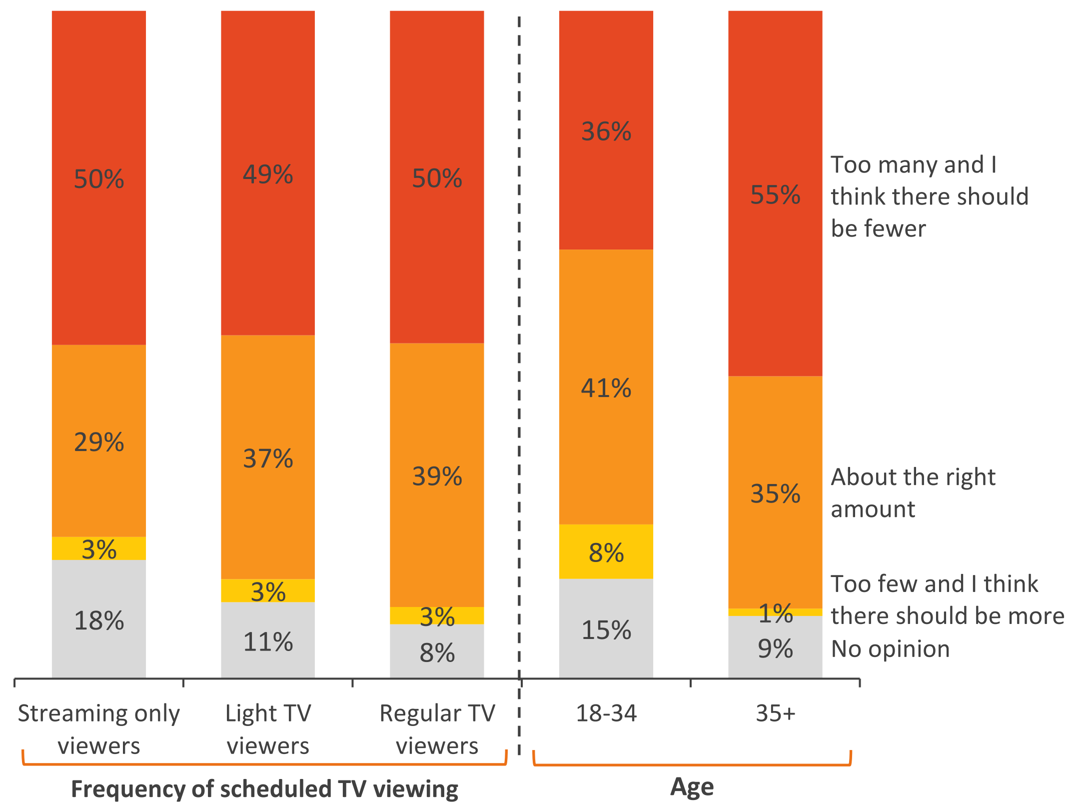
Q: *'Do you have any concerns about advertising on television?' / 'What are the main concerns you have about advertising on television?'*
Source: *Fly Research (n = 1,027), Oliver & Ohlbaum analysis*

Almost half of UK TV viewers believe there are too many adverts on traditional TV

UK TV viewers' opinion on the number of TV adverts by platform, 2022
%



UK TV viewers' opinion on the number of TV adverts on traditional scheduled TV by frequency of viewing and age, 2022
%



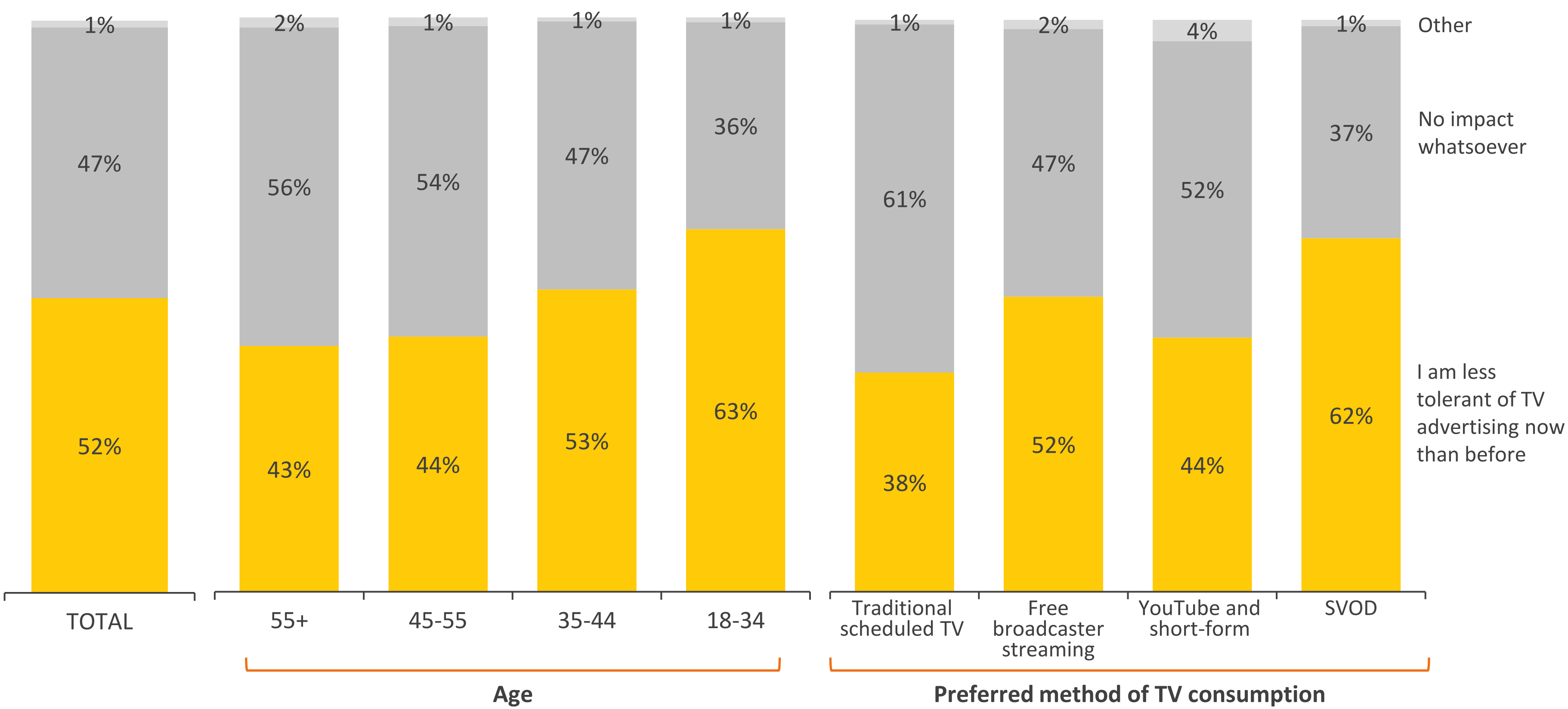
Q: *'Which of these statements best describes how you feel about the number of adverts shown on the following services?'*
Source: *Fly Research (n = 1,027), Oliver & Ohlbaum analysis*

SVOD viewing has lowered viewers' tolerance for advertising

More than half of respondents using SVOD services indicated that they are now less tolerant of advertising due to their change in viewing. This trend is most pronounced among younger viewers and those who prefer to watch content via SVODs

Impact of SVOD viewing on tolerance of TV advertising among UK SVOD users, 2022

%

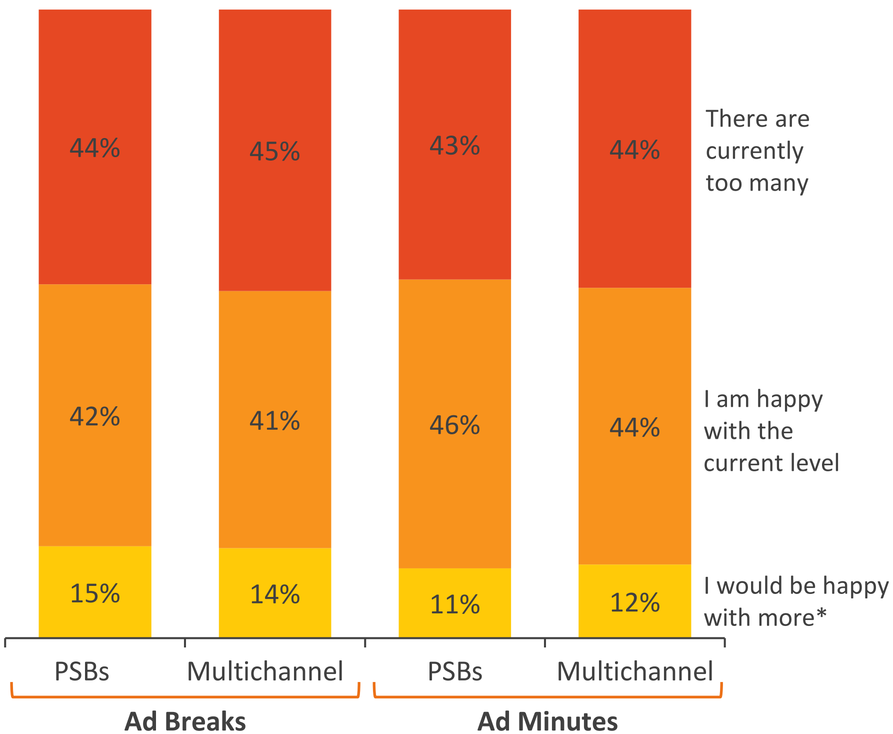


Q: 'How has your viewing of subscription streaming services (e.g. Netflix, Disney+, etc) impacted your opinion of advertising on television?'
Source: Fly Research (n = 768), Oliver & Ohlbaum analysis

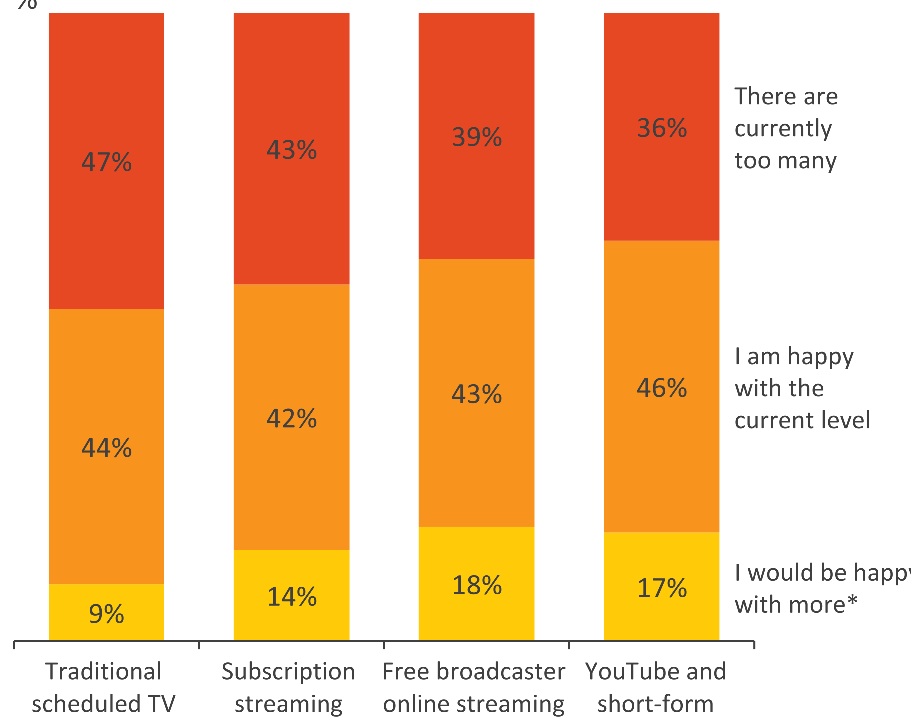
Increases in advertising for multichannel and PSBs are equally unpopular

There is little change in opinion based on whether an increase is achieved through more breaks or more minutes. Opposition to increased advertising is strongest amongst those who state traditional scheduled TV as their favourite method of watching television

UK TV viewers' opinion on the current levels of advertising on PSBs vs multichannels, 2022
%



UK TV viewers' opinion on the current levels of advertising on traditional scheduled TV by preferred method of TV consumption, 2022
%

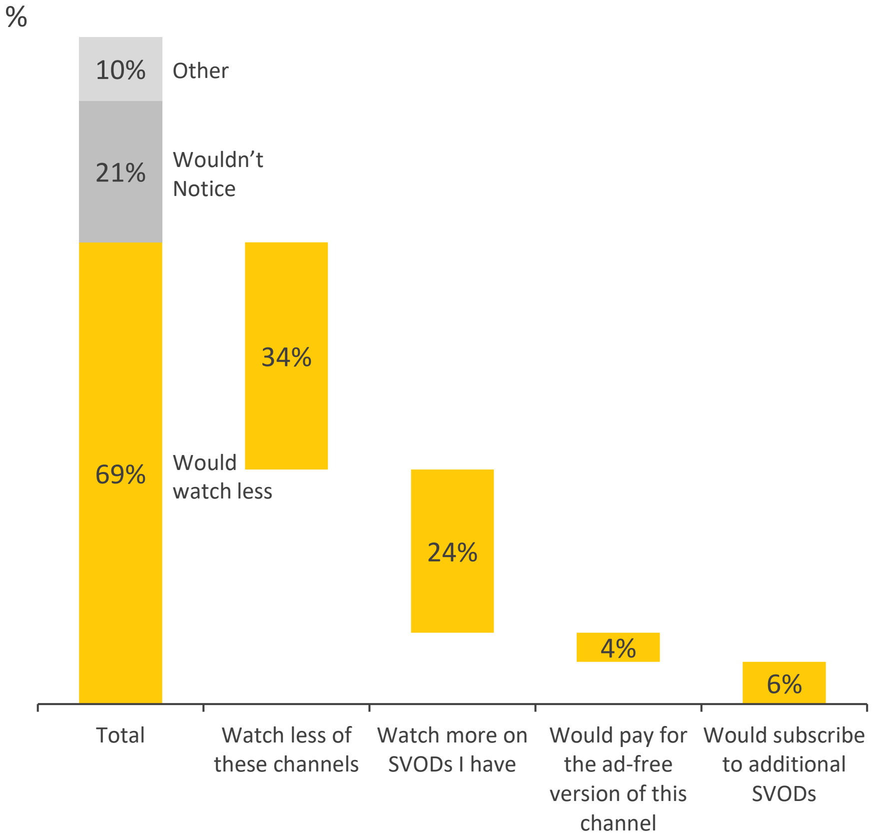


Q: *'Which of these statements best describes how you feel about the amount of advertising breaks / number of advertising minuets shown on the main commercial free-to-air channels (ITV1, Channel 4, Channel 5) vs the other commercial channels within an hour?'*
Note: **This segment includes respondents who would be happy with a small increase and those who would be happy with quite a few more minutes/breaks*
Source: *Fly Research (n = 1,027), Oliver & Ohlbaum analysis*

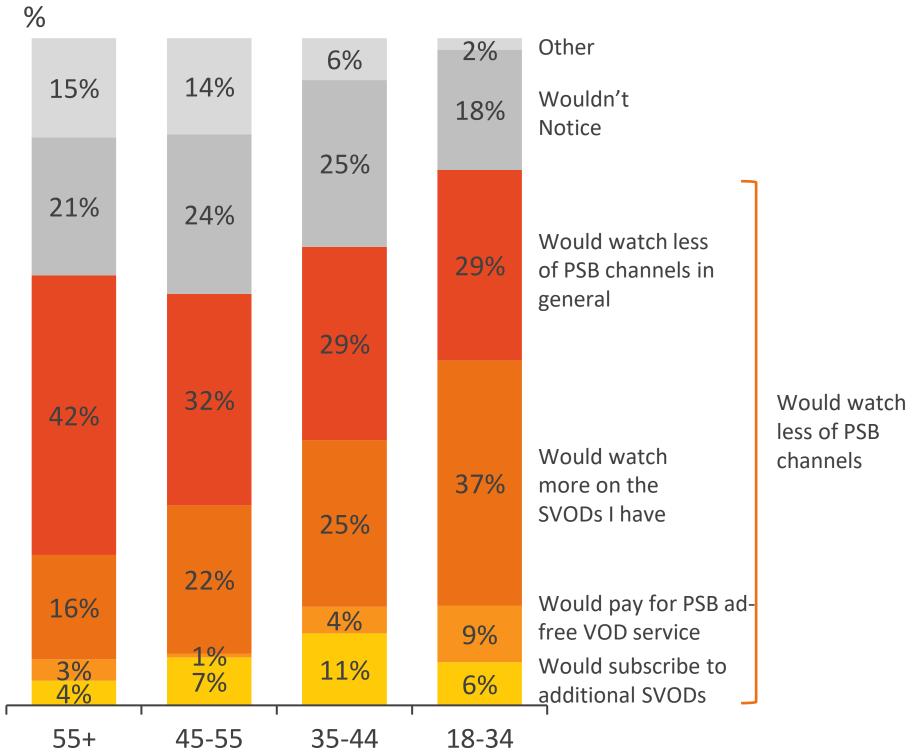
Increased advertising on commercial PSBs is likely to result in less viewership

In total nearly 70% of respondents stated increased advertising would result in them watching less of these channels. For those aged 18-34 this number increases to 80%, with most of this reduction in commercial PSB viewing time being replaced by SVODs

Response to an increase in advertising on the commercial PSBs, 2022



Response to an increase in advertising on the commercial PSBs by age, 2022



Q: *'Currently the amount of advertising shown on ITV1, Channel 4, and Channel 5 is limited, how would you react if the amount of advertising on these channels increased in the future?'*

Source: *Fly Research (n = 1,027). Oliver & Ohlbaum analysis*

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