

Response to Ofcom

Call for evidence on regulating the quantity and scheduling of television advertising on public service channels

October 2022

1. About ISBA

- 1.1. ISBA is the only body in the UK that enables advertisers to understand their industry and shape its future, because it brings together a powerful network of marketers with common interests, empowers decision-making with knowledge and insight, and gives single voice to advocacy for the improvement of the industry.
- 1.2. ISBA is a member of the Advertising Association and represents advertisers on the Committee of Advertising Practice and the Broadcast Committee of Advertising Practice, sister organisations of the Advertising Standards Association, which are responsible for writing the Advertising Codes. We are also members of the World Federation of Advertisers. We are able to use our leadership role in such bodies to set and promote high industry standards as well as a robust self-regulatory regime.

2. Summary

- 2.1. Broadcast TV is fundamentally changing in the way it is consumed and delivered, within an increasingly fragmented media landscape. ISBA's membership includes leading TV advertisers, and our work on TV is led and informed by two member groups. Our TV & Video Action Group seeks to ensure members have the necessary information to navigate and to measure the effectiveness of their campaigns in this new audio-visual world, whilst at the same time challenging the marketplace so that advertisers' interests are protected. ISBA's Broadcast Taskforce, formed in 2020, comprises senior members with strong media experience, and is focused both on short-term broadcaster flexibility and the longer-term evolution of trading models. The ongoing concern of advertisers regarding the TV advertising ecosystem is the soaring cost of overall reach and the increasing difficulty of reaching younger audiences.
- 2.2. Brand advertisers tell us that their priority for in any TV ad campaign is to reach a broad audience, while limiting excess frequency to avoid bombardment and ineffective spend. Linear TV remains an effective form of media to reach a broad mass audience. However, additional minutage within schedules will not be of appeal to existing brand advertisers. Brands have told us that they do not want additional frequency within their TV ad campaigns and are prioritizing reach.
- 2.3. Due to audience reach being the focus for advertisers, brands do not want to see changes to scheduling and programming which are detrimental to the viewing experience, in which the audience feels bombarded and results in an increased decline in Linear TV viewing figures, thereby decreasing reach.
- 2.4. While there may be some short-term deflation created through the increased supply of added minutage, we believe this will be narrow in its time and scope, partly due to limited demand for additional minutage from advertisers. The primary driver of inflation in the Linear TV advertising market is the long-term trend of declining audience figures and the knock-on rising cost of audience reach – which this proposed amendment to

the Code on the Scheduling of Television Advertising (COSTA) regulations does nothing to address.

- 2.5. Our primary concern is that there are too many unknown factors and consequences which an amendment to COSTA could bring to the audience experience, competition, and long-term financial sustainability of the TV advertising market. We would, therefore, ask Ofcom to conduct a thorough independent assessment of the implications of the proposed change, alongside a holistic review of the TV trading market.
- 2.6. We would see that the more pressing issues for brand advertisers is that there is a competitive advertising environment across Linear, BVOD and VOD services to take account of the rapidly evolving media landscape. To ensure public trust in advertising, BVOD and VOD services need to provide good consumer viewing experience and avoid bombardment. ISBA's Origin project, to produce effective cross media measurement, is once example of an industry-led initiative which will provide advertisers with the tools to deliver this.
- 2.7. We would recommend that a holistic review of the market is necessary following the findings of the Enders Analysis report, commissioned by ISBA, on '[TV advertising: Evolving the model](#)'. The study identified the need for a transparent TV trading system – notably the call for a cross media measurement solution, and transparency of the Station Average Price trading model.

3. Do you have any comments on our proposals?

Bombardment and audience experience

- 3.1. The underlying reason for COSTA restricting the amount of TV advertising was to protect the viewing experience of audiences who do not like to have their viewing interrupted by commercial breaks and excessive advertising. The Advertising Association's 2018 '[Public Trust in Advertising](#)' research highlighted that:

“Bombardment is the biggest issue of all the public concerns about advertising and accounts for half of the “negatives” in our consumer research. Within that broad umbrella of “bombardment”, 45% of people are annoyed by repetition and obtrusiveness (getting in the way of their media experience), and 35% are irritated about volume.”

The '[Rebuilding Public Trust in UK Advertising](#)' report, which revisited the original 2018 research, restated that *“bombardment is the most important driver of the public's distrust in advertising”*.

- 3.2. The recommendations of the 2021 '[Rebuilding Public Trust in UK Advertising](#)' report to improve public trust in advertising included reducing bombardment, and stated that:

“Bombardment was the most important negative driver in 2021, especially among the old (the most negative demographic). By bombarding consumers, we are overloading them with adverts and making them fatigued and annoyed. This means that moving forward, consumers are going to do everything they can to avoid advertising. This is a cross-media issue that contains many market challenges for brands and advertisers.”

- 3.3. ISBA has consulted with its membership and found that many advertisers are concerned that consumers are overexposed to advertising, and any further alienation of consumers will ultimately reduce advertising effectiveness. Advertisers want a strong and resilient TV market to continue to invest in. There is great concern among TV advertisers regarding the falling audience reach of Linear TV and anything that would potentially exacerbate that decline, such as increased minutage, would be a negative outcome for brand advertisers.
- 3.4. If the Public Service Broadcaster (PSB) advertising minutage restriction is raised to an average of nine minutes per broadcast hour, with a cap of 12 minutes in any one hour, there would be limited opportunity for additional minutage within peak broadcast schedules. ISBA's analysis shows that the supply opportunities in minutage are to be largely found both in daytime and in news hours. The audiences during these periods also tend to be older, more female and C2DE demographics. August 2022 saw just under 83% of adult advertising impacts delivered against over-45s.¹
- 3.5. Broadcaster TV still accounts for 87% of video advertising views each day, with an individual watching an average of 18 minutes of video advertising per day.² On Linear, it is unclear whether, how, or to what extent additional advertising minutage could affect this value exchange and how it will be perceived by consumers. We would ask Ofcom to carry out audience research before any regulatory change takes place.
- 3.6. We would, therefore, urge caution against increases in TV advertising minutage and frequency to an extent that could both undermine public trust in advertising and viewing experience.
- 3.7. We are also not aware of any mechanism by which Ofcom could mandate a level of reinvestment in programming and viewer experience to utilise the proceeds of ad revenue, rather than for example increasing profit or shareholder dividends.

Financial sustainability

- 3.8. Our assessment is that financial stability in the TV trading market can only be brought about through three scenarios:
- Overall TV advertising market growth;
 - The growth of the PSB share of the TV advertising market, at the expense of non-PSBs; or
 - PSB market share resilience to new services (e.g. Netflix and Disney+) which compete for the same advertising budget spend of brand advertisers.
- Of these, only the second scenario of the growth of the PSB share of the market is a given under these this COSTA proposal. This would be because of an increased share of commercial impacts, leading to a shifting share of the TV media market. ISBA's brand advertiser members have told us that the first scenario of overall market growth is unlikely due to economic conditions and the decline of Linear TV reach over time.
- 3.9. We have consulted our membership who have the industry expertise and will be most impacted by these proposed changes. The consensus view of ISBA's TV & Video Working Group and our TV Broadcast Taskforce has been that any alleviation of TV ad price inflation, resulting from minutage realignment, would not lead to increase in leading advertisers' budgets allocated to TV. This is especially the case when factoring

¹ BARB data, August 2022. More information available at: <https://www.barb.co.uk/viewing-data/>

² [TV viewing report 2021](#), Thinkbox, April 2022

that additional ad placement would not deliver further reach but would increase frequency of ad views. In the event of a further consultation and market review, ISBA would survey its full membership and seek to work with Ofcom to ensure the industry's voice is clearly heard.

- 3.10. While there may be some short-term deflation in price created through the supply into the market of added minutage, we believe this will be limited in time and scope. Firstly, broadcaster programming will need to be adjusted over time to accommodate the additional minutage of advertising within each programming hour. This will be a gradual process as new programming is commissioned and schedules adjusted. Secondly, annual and multi-year agency deals are already in place between brands, agencies and media owners, which will take time to renegotiate or be amended over time. Benefits would be in the medium to long-term and would not support business with the current short term inflationary pressures.
- 3.11. From our analysis, the overall change in share of commercial impacts resulting from the increased minutage could result in a two percentage-point swing of impact from the Sky saleshouse to ITV. Without accounting for any premium from peak minutage – which delivers 75% of the gain – this could equate to approximately £100m of market share transferring from Sky to ITV if the share of broadcast follows the share of commercial impacts in the mid-term. With the premium for peak, this could be up to a £150m market share changing hands.
- 3.12. The primary driver of inflation in the TV advertising market is the long-term trend of declining audience figures in Linear TV and the knock-on rising cost of audience reach, which this proposed amendment to COSTA does nothing to address. Audience reach, not frequency, is the primary concern of brand advertisers. While there may be some temporary alleviation of inflationary pressure brought about by amending COSTA, this will be short lived and unsustainable. In the medium to long-term the impact will be minimal in relation to the long-term changes in TV pricing where since 2015³ we have seen:
- A cost-per-thousand increase of 40-50% for adult audiences.
 - A 305% cost-per-thousand increase for audiences aged 16-24.
- 3.13. As previously mentioned, the impact of levelling the minutage rules would be significant for all broadcasters and saleshouses, therefore we see that the proposal would need an independent review, research and further consultation before implementation can be considered.

Competition

- 3.14. The call for evidence cites concern over the anti-competitive effect of COSTA. However, PSBs do enjoy significant market advantages, for example prominence, which contribute to their market position and ability to charge a premium for media space. They already have an advantageous market position. It is unclear how a levelling of the minutage rules would impact the broader market and competition between PSBs and non-PSBs. Therefore, we see that further research and an independent review of the competition implications of these changes is needed.
- 3.15. Programming content is commissioned and written typically with a 12-month gap between production and airing. The shows being broadcast now and in the near future

³ Research conducted by Ebiquty, on behalf of ISBA, Sept 2022

will have been made with advertising minutage set at current levels (i.e. content + ads = one hour). Adding additional advertising minutes into each hour would require a scheduling change or edit. This could be more challenging for those broadcasters who commission or rebroadcast programming, but do not produce their own content – setting them at a competitive disadvantage.

The ownership of Channel 4

- 3.16. We are concerned about the potential impact that such changes may have upon the Government’s stated policy of privatising Channel 4. How does the increase in minutage impact the Government’s assessment of the long-term financial sustainability of Channel 4? Does this increase in minutage allowance raise the value and price of the broadcaster, thereby increasing the revenue captured by HM Treasury with no guarantee of reinvestment in Channel 4’s programming or PSB licence requirements by a new owner?
- 3.17. We would highlight that, if Channel 4 were to be sold to another domestic broadcaster such as ITV or Sky, this combined broadcaster and media buyer could be in a position to secure undue dominance in the TV advertising market. If bought by ITV, this would mean that the combined saleshouses would hold 70% of the market.⁴ The reduction in the number of TV advertising saleshouses would reduce competition in the market and be a significant concern for advertisers. While TV media advertising space is traded in an effective way through supply and demand, there are already distortions that take place within it. We are concerned that this could be manipulated further if a broadcaster has undue dominance in the market, to the detriment of advertisers. We would ask that Ofcom take this into consideration when assessing the impacts of the proposed COSTA change.
- 3.18. The Secretary of State for Digital, Culture, Media and Sport Michelle Donelan has said that her department will review the business case for the sale of Channel 4. We would, therefore, ask Ofcom to either conduct an assessment of these regulatory changes on Channel 4’s proposed sale to inform the government policy process, or wait for the business case review and potential sale to be completed so that the market can be assessed before any regulatory changes are undertaken.

BVOD and VOD regulation

- 3.19. We would see that the more pressing issues for brand advertisers is that there is a competitive advertising environment across Linear, BVOD and VOD services to take account of the rapidly evolving media landscape. To ensure public trust in advertising, BVOD and VOD services need to provide good consumer viewing experience and avoid bombardment. ISBA’s Origin project, to produce effective cross media measurement, is once example of an industry-led initiative which will provide advertisers with the tools to deliver this.
- 3.20. PSBs are investing in their BVOD services to compete with new streaming services and to follow the consumer transition to new viewing experiences and hardware forms. The market continues to evolve at speed. Brand advertisers tell us that they have concern over a negative viewer experience on BVOD due to excessive advertising, poor targeting and excessive frequency. Some brands are cautious about this and see it as a brand reputation issue.

⁴ Research conducted by Ebiquity, on behalf of ISBA, Sept 2022

- 3.21. The TV BVOD and VOD ecosystem continues to evolve with the introduction of advertising onto Netflix and Disney+. It is expected that these platforms will launch with low advertising minutage loads of around four minutes, which would contrast even more starkly with increased minutage on broadcast Linear TV. We foresee that this could increase the likelihood of viewers switching away from PSBs. Linear broadcasters will have to make a long-term commercial decision on whether higher linear minutage will be in their interest in terms of attracting or losing viewers during peak programming hours.
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