



# Review of Public Service Broadcasting around the world

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This document summarises a review conducted by McKinsey and Company in spring 2004 in support of Ofcom's review of Public Service Broadcasting (PSB). It is in two sections: the first describes the patterns observed in 12 Western industrialised countries<sup>1</sup>; the second offers some observations on their implications for the U.K. Detailed exhibits follow, and are referenced in the text.

Our observations are based on desk research and interviews, together with statistical analysis of the quantity of domestically produced content that is broadcast, and the quantity of programming broadcast and viewed in PSB genres<sup>2</sup>. We have not attempted to judge the nature or quality of programming beyond this broad genre classification.

## INTERNATIONAL PATTERNS OBSERVED

Our review of international Public Service Broadcasting revealed six interesting patterns:

### 1. Programmes in PSB genres are similarly prominent in most of the countries we examined, although the U.K. is an outlier

A similar number of hours are broadcast in PSB genres across all of the countries examined. In the majority of countries 34–44% of content broadcast is in a PSB genre. Outliers are the U.K., at 58%, and Spain, at 31% [Exhibit 1].

There is no strong evidence to suggest that the quantity of PSB genre output is affected by the level of public funding per head, or by GDP, or by language spoken [Exhibit 2].

The quantity of viewing in PSB genres is even more homogeneous. In every country examined 31–42% of viewing is in PSB genres [Exhibit 3]. Our analysis of the relationship between viewing in PSB genres and language spoken, GDP and level of public funding did not suggest any explanation for the differences in viewing levels between countries [Exhibit 4].

### 2. While levels of domestic production are similar between most countries, several less-populated English-speaking nations broadcast significantly less domestic content than the average

The quantity of domestically produced content that is broadcast is generally similar between countries. In the majority of countries we examined more than three quarters of content broadcast in peak hours is domestically produced [Exhibit 5].

Our statistical analysis did not find significant evidence that domestic production was widely affected by GDP or levels of public funding. It did, however, suggest some significance in the language a country speaks [Exhibit 6].

<sup>1</sup> Australia, Canada, France, Germany, Italy, Japan, Netherlands, New Zealand, Spain, Sweden, U.K. and U.S.

<sup>2</sup> Genre classification schemes vary between countries examined. For the purposes of the quantitative analysis in this review, we have defined PSB genres as the local genre categories containing only cultural, religious, news, factual or children's programming

Three less-populated English-speaking countries, Canada, New Zealand and Australia, bring up the rear of the domestic production ranking. On average, English-speaking countries deliver 25% less domestically produced content than non-English-speaking countries in peak hours.

Canada offers a clear illustration of this pattern. Peak-time English-speaking television is 32% domestically produced, but television for the smaller French-speaking community is 76% domestically produced.

### 3. We have observed three broad intervention approaches to encourage PSB

In the course of this research we have not encountered a government that did not intervene in the broadcasting system – whether through regulation or by providing funding. Within the countries examined in detail, we observed three distinct approaches to this intervention [Exhibit 7]:

- **Minimalist:** There is no regulation of the genre or quality of programming broadcast by commercial channels. Public funding is under \$30 per head. Examples include Italy, New Zealand, Portugal, Spain and the U.S.
- **Cultural exception:** Regulation compels commercial broadcasters to produce particular types of programming, often on the basis of maintaining a national identity. Public funding is under \$30 per head. Examples include Australia, Canada and France.
- **Broad PSB intervention:** Regulation requires commercial broadcasters to show particular types of programming. Public funding is over \$50 per head. Examples include Germany, Netherlands, Sweden and the U.K.

Regardless of the model of intervention, funding for PSB remains strong. Public funding for PSB increased at an average of 5.5% p.a. between 1998 and 2003 across the countries we evaluated. Growth as a percentage of current public funding levels was particularly strong in countries with lower levels of PSB funding. For example, public funding in New Zealand grew by an average of 20.9% p.a. between 2000 and 2003, while funding in the U.S. grew by 7.7% between 1998 and 2003 [Exhibit 8].

### 4. There is no evidence that commercial funding is commonly “crowded out” by high levels of public funding

Commercial broadcasters often complain that high levels of public funding “crowd out” commercial funding, reducing the revenue that can be generated through advertising and subscription. Our analysis has not identified a common pattern of crowding out.

We examined the effect of public funding, GDP and language on the level of commercial funding. The level of public funding per head has no statistically significant effect on the level of advertising funding per head or the level of subscription funding per head.

The most statistically significant effect came from GDP, which has a particularly strong effect on the level of advertising funding. Language also has an effect of some statistical significance on the level of advertising funding, but not on subscription funding [Exhibits 9, 10, 11].

We also did not find evidence of common crowding out as levels of funding changed. Between 1998 and 2003 both advertising and subscription funding grew in every country evaluated, despite significant growth in public funding [Exhibit 12].

## 5. During the period of distributing a portion of public funds through grants, Canada and New Zealand have increased domestic production levels

As previously noted, the quantity of domestically produced television in Canada and New Zealand is particularly low. Both countries distribute part, but not all, of the public funds for television through per-programme grants. During the operation of both schemes, levels of domestic output have risen faster than the growth in funding [Exhibits 13, 14].

Canada perceives a particular risk in losing its cultural identity, given its long shared border with the U.S. The grant system is operated in concert with tough quotas requiring broadcast of Canadian 'priority programmes'. While the system has been successful in raising domestic production output, it has also sent some television viewing underground.

An estimated 20% of Canadian multi-channel viewers illegally watch U.S. satellite TV, rather than Canadian-licensed platforms. These 'grey-market' viewers are believed to include many viewers from ethnic minorities, for whom content is licensed in the U.S., but is considered insufficiently Canadian to be licensed in Canada.

In New Zealand per-programme grant funding is particularly closely correlated with levels of domestic content broadcasting [Exhibit 14]. Between 1989 and 2003 all public funding in New Zealand was distributed via per-programme grants.

New Zealand has now reverted to a combined system of grants and direct funding for a publicly owned broadcaster, as in Canada. By 2003 the New Zealand government considered that TVNZ, the state-owned broadcaster, had become too commercial in its aims. The government introduced a charter stating TVNZ's public service aims, and re-introducing some direct public funding to cover the associated costs.

## 6. Subscription TV in the U.S. delivers viewing in PSB genres

In the U.S., subscription-funded broadcasting delivers a significant quantity of viewing in PSB genres. While we have not been able to measure the quality of this programming, the viewing statistics clearly indicate that viewers are watching significant quantities of programming on news, factual and specialist children's channels.

The U.S. has one of the highest penetrations of multi-channel television in the world. Subscribers are being migrated to digital platforms, offering hundreds of channels. Overall, 38% of viewing in the U.S. is in PSB genres, 3% above average. This viewing is delivered primarily by subscription-funded thematic channels, rather than the mainstream Free To Air (FTA) networks.

U.S. thematic channels attract 54% of viewing, versus 43% for commercial FTA networks. Substantially more of the viewing in thematic channels is in PSB genres – 47%, versus 25% on the FTA networks. Hence, more than two thirds of viewing in PSB genres is on thematic channels [Exhibit 15]. Furthermore, audience share on FTA networks is

declining, suggesting that the quantity of viewing in PSB genres in the U.S. will continue to increase.

Many of the countries examined are also moving towards high penetration of multi-channel television, and may be able to build viewing in PSB genres through thematic channels. [Exhibit 16].

## LESSONS FOR THE U.K.

International experience is of obvious interest in considering what the U.K. broadcasting market would look like if there were significant changes in policy. However, in common with any attempt to predict the future, inferences drawn from international experience are not reliably accurate.

First, there are significant differences between the countries we have examined. With a changed broadcasting policy, the U.K. broadcast sector may perform differently from the typical models we have observed. In particular, it is notable that in much of our analysis the U.K. proved to be an outlier, possibly because its consumers are particularly keen on domestic programming and PSB genres, and possibly because its broadcasting policy and institutions have been exceptionally successful in delivering them. Second, in this analysis we have not attempted to compare the quality of television output between countries.

There are two observations from our research that are particularly noteworthy:

- Public funding levels do not have a significant effect on the quantity of output and viewing in PSB genres, or domestic output<sup>3</sup>.
- Public funding levels do not have a significant effect on commercial funding levels, suggesting that “crowding out” of commercial funding by public funding does not commonly occur.

These observations imply that in most countries reducing the level of public funding would change very little: quantities of domestic output, output and viewing in PSB genres, and commercial funding would stay as they are.

This raises the question of whether the same would be true in the U.K. Given the U.K.’s unique broadcasting profile, with among the highest levels of both funding and quality, this is far from certain. To determine whether the international observations apply to the U.K., the following three assertions would each need to be tested and found to be true:

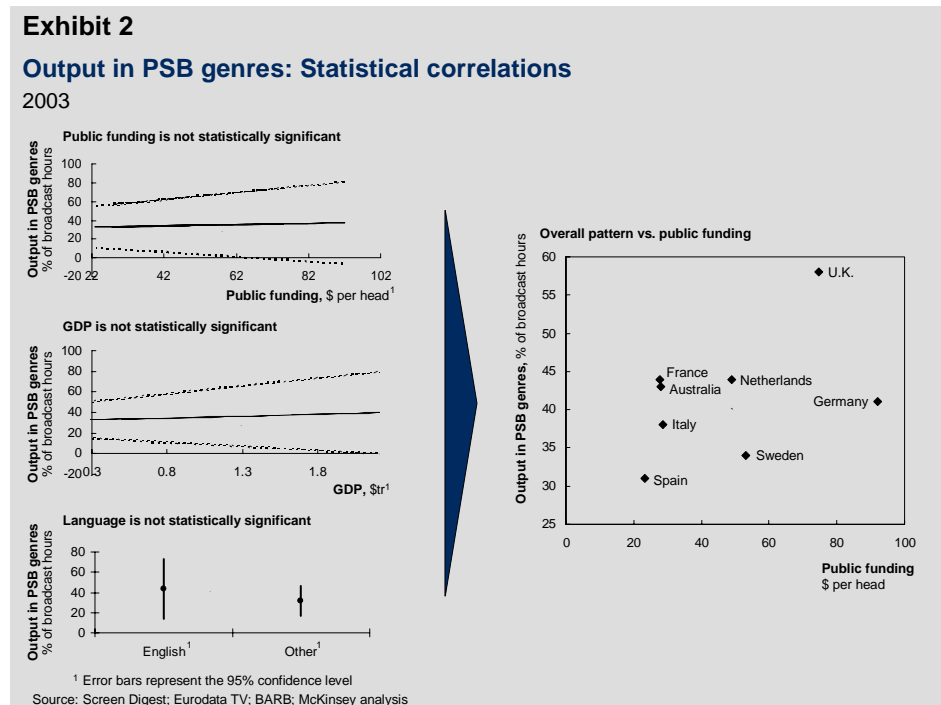
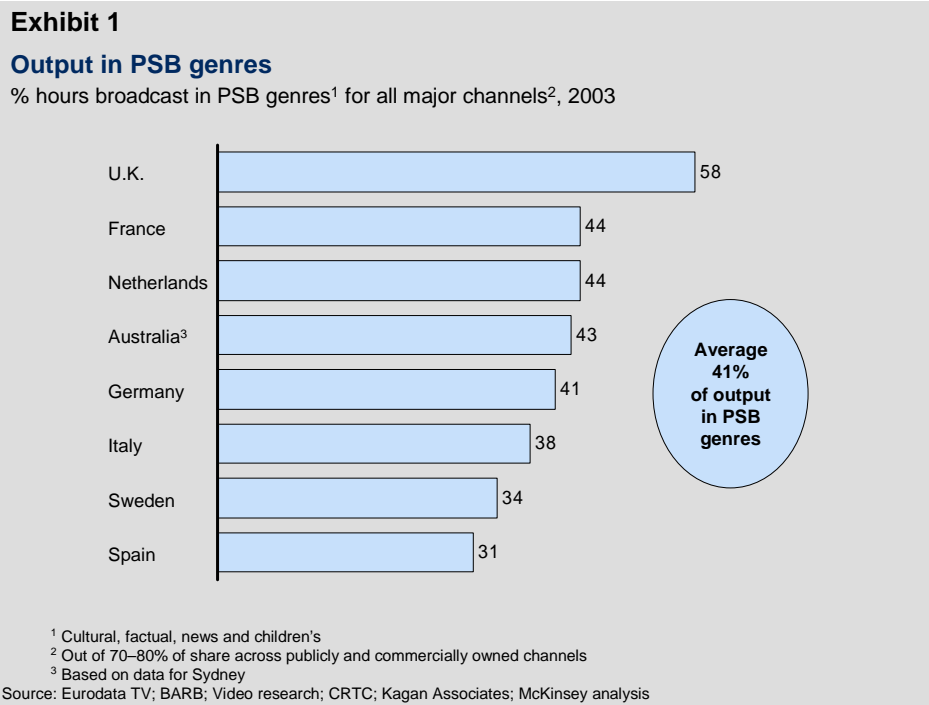
- **Consumer taste drives the U.K.’s television quality, rather than broadcasting policy and institutions.** If so, the system is robust and consumers would continue to demand high-quality television even if policy and market shape no longer guaranteed it.
- **Public funding does not “crowd out” commercial funding in the U.K.** If so, altering public funding would have little or no effect on the commercial sector.

<sup>3</sup> An overall pattern derived from the regression analysis. In New Zealand a 20.9% p.a. increase in public funding from a base below \$10 per head has succeeded in boosting levels of domestically produced output

- **Some of the U.K.'s public funding is not contributing to delivering high-quality television viewing.** If so, it may be possible to eliminate inefficiencies in the current system without affecting television quality, improving overall value for money.

If these assertions do not all hold, reducing public funds would risk destabilising the U.K. television ecology, with an unpredictable impact on television viewing.

**EXHIBITS**

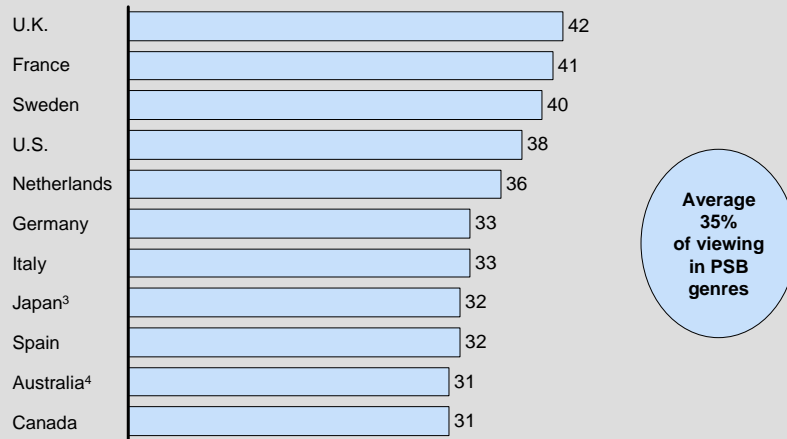




**Exhibit 3**

**Viewing in PSB genres**

% audience share in PSB genres<sup>1</sup> for all major channels<sup>2</sup>, 2003



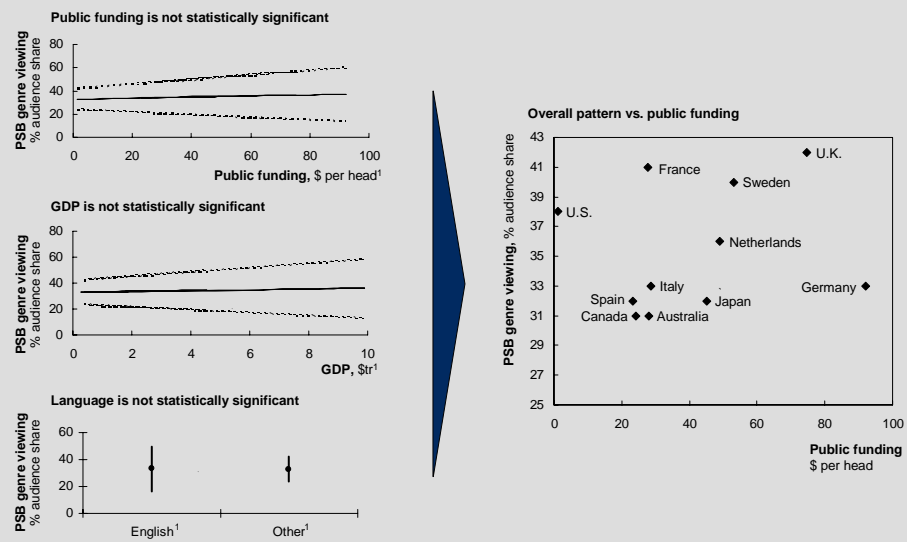
<sup>1</sup> Cultural, factual, news and children's  
<sup>2</sup> Out of 70–80% of share across publicly and commercially owned channels  
<sup>3</sup> Based on normalised ratings, rather than share  
<sup>4</sup> Based on data for Sydney

Source: Eurodata TV; BARB; Video research; CRTC; Kagan Associates; McKinsey analysis

**Exhibit 4**

**Viewing in PSB genres: Statistical correlations**

2003



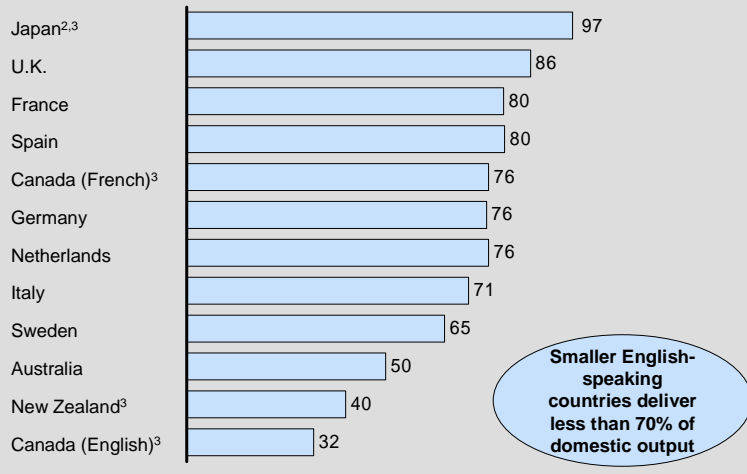
<sup>1</sup> Error bars represent the 95% confidence level

Source: Screen Digest; Eurodata TV; BARB; McKinsey analysis

**Exhibit 5**

**Domestically produced output**

% of peak time output<sup>1</sup> produced domestically, 2003



Smaller English-speaking countries deliver less than 70% of domestic output

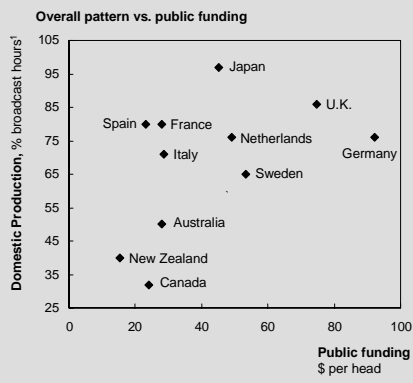
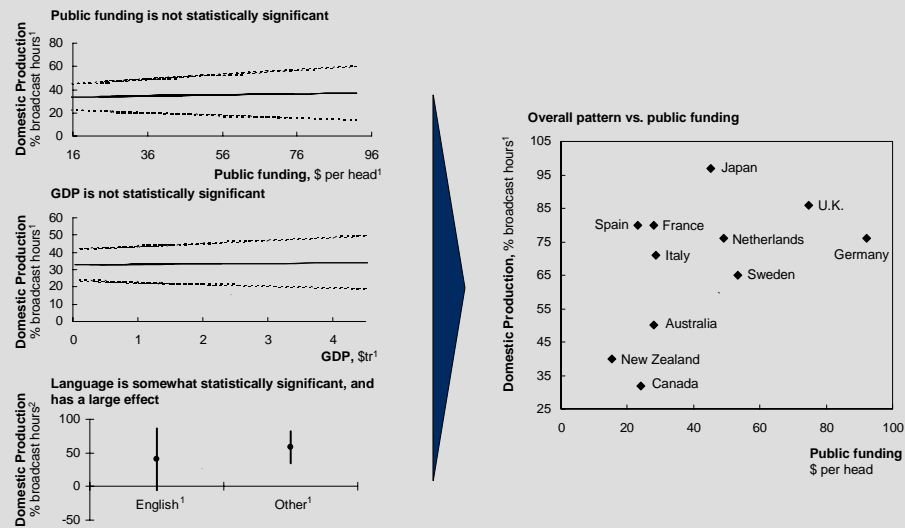
<sup>1</sup> For largest channels in each country (70–90% of audience share), weighted by audience share  
<sup>2</sup> Based on Kanto region  
<sup>3</sup> 2002

Source: ETS; Eurodata TV; Zenith Optimedia; CRTG; New Zealand On Air; McKinsey analysis

**Exhibit 6**

**Domestically produced output: Statistical correlations**

2003



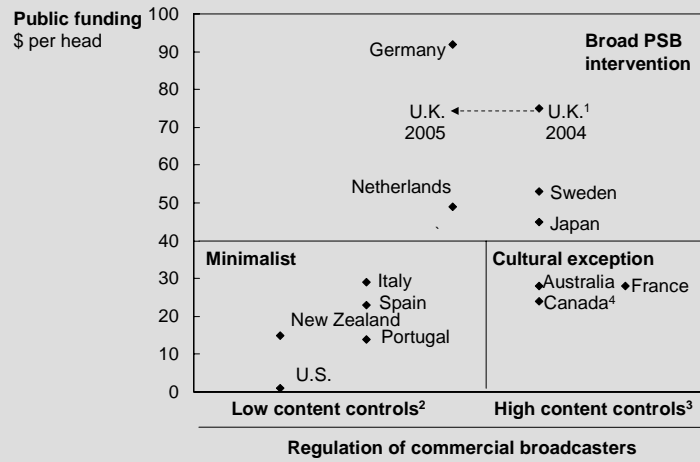
<sup>1</sup> Error bars represent the 95% confidence level  
<sup>2</sup> Across peak-time broadcasts only

Source: Screen Digest; Eurodata TV; BARB; McKinsey analysis

**Exhibit 7**

**Approaches to PSB intervention**

2003



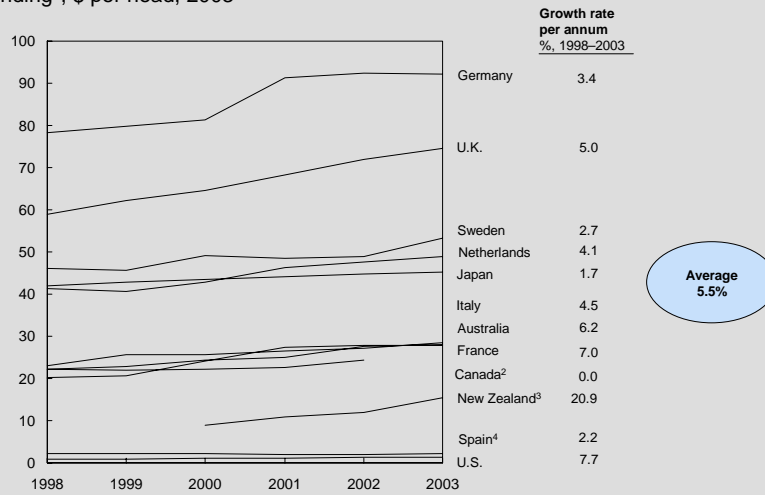
<sup>1</sup> Planning to reduce content controls for commercial broadcasters from 2005  
<sup>2</sup> Typically confined to simple domestic content control and decency/protection of minors  
<sup>3</sup> More stringent regulation, such as genre quotas  
<sup>4</sup> 2002 public funding data

Source: Screen Digest; Global Insight; McKinsey analysis

**Exhibit 8**

**Funding from public sources**

Public funding<sup>1</sup>, \$ per head, 2003



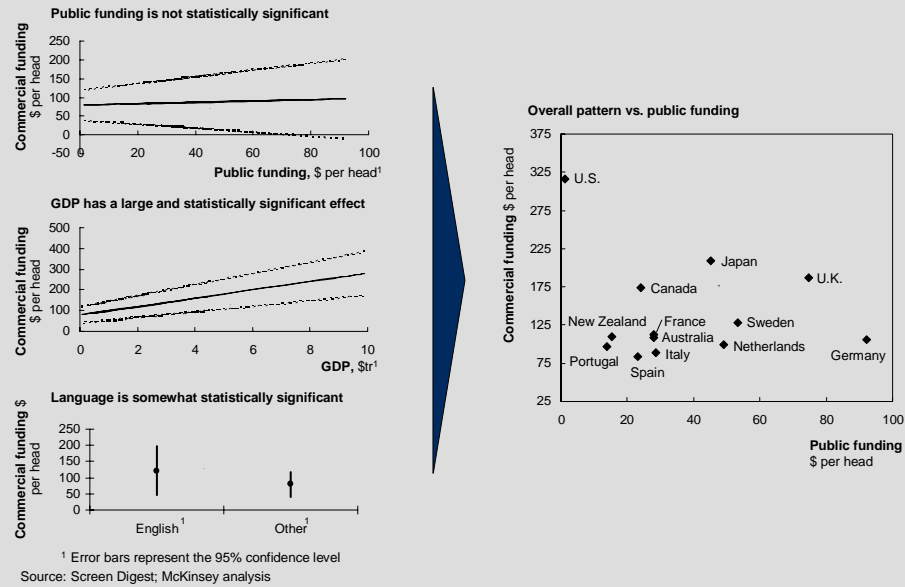
<sup>1</sup> Licence fees and grants from general taxation  
<sup>2</sup> 1998-2002  
<sup>3</sup> 2000-2003  
<sup>4</sup> National channels only

Source: Screen Digest; Global Insight; Zenith Optimedia; McKinsey analysis

**Exhibit 9**

**Commercial funding: Statistical correlations**

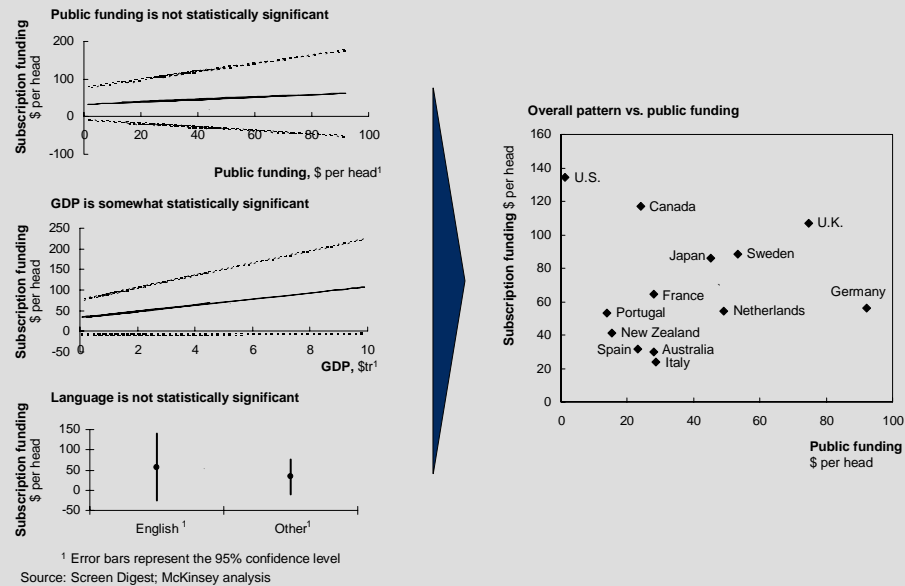
2003



**Exhibit 10**

**Subscription funding: Statistical correlations**

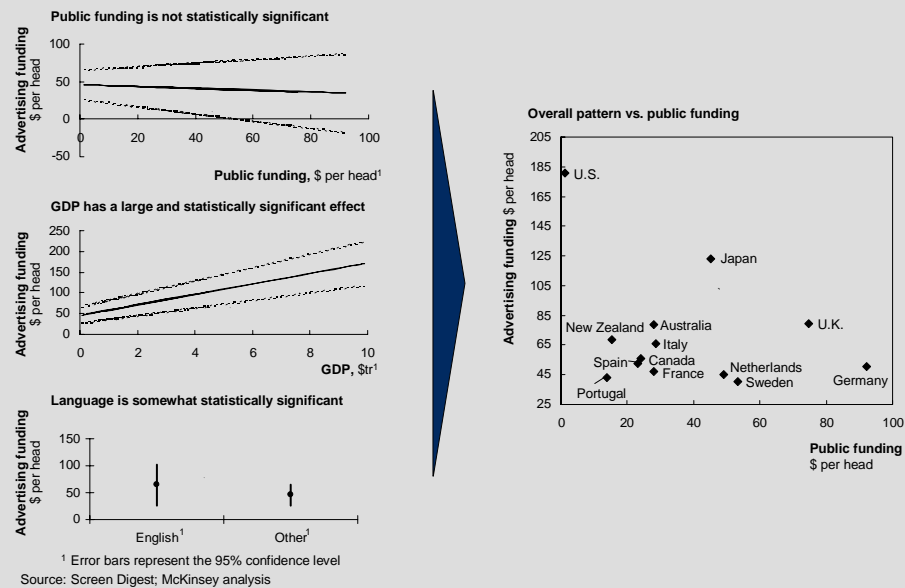
2003



**Exhibit 11**

**Advertising funding: Statistical correlations**

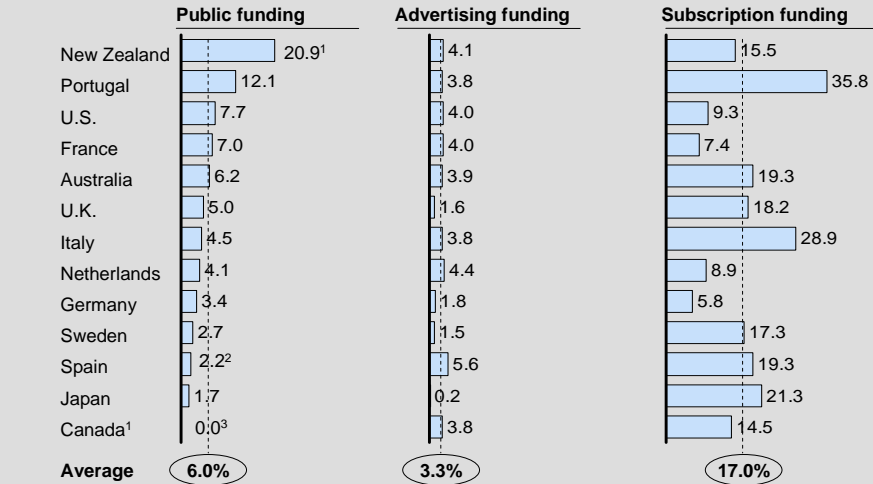
2003



**Exhibit 12**

**Funding growth**

% average growth per annum, 1998–2003



<sup>1</sup> 2000-2002

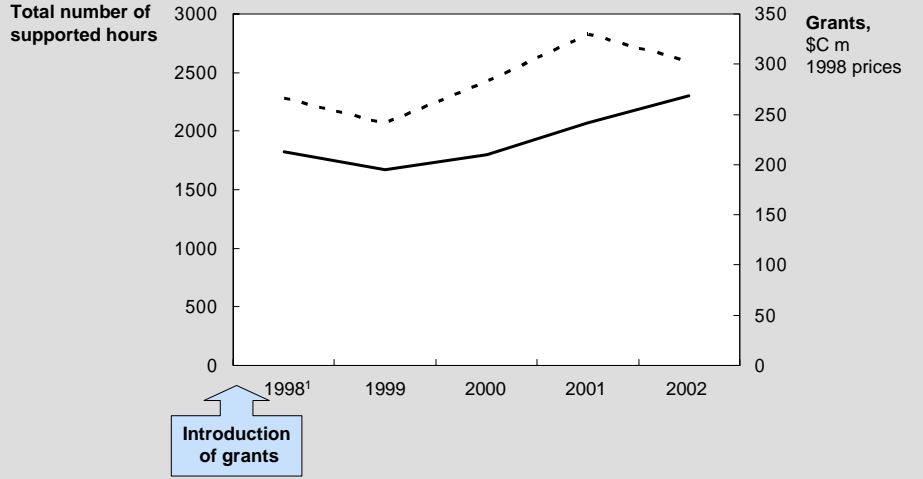
<sup>2</sup> National channels only

<sup>3</sup> 1998–2002

Source: Screen Digest; McKinsey analysis

**Exhibit 13**

**Canadian per-programme grant funding and domestic output**

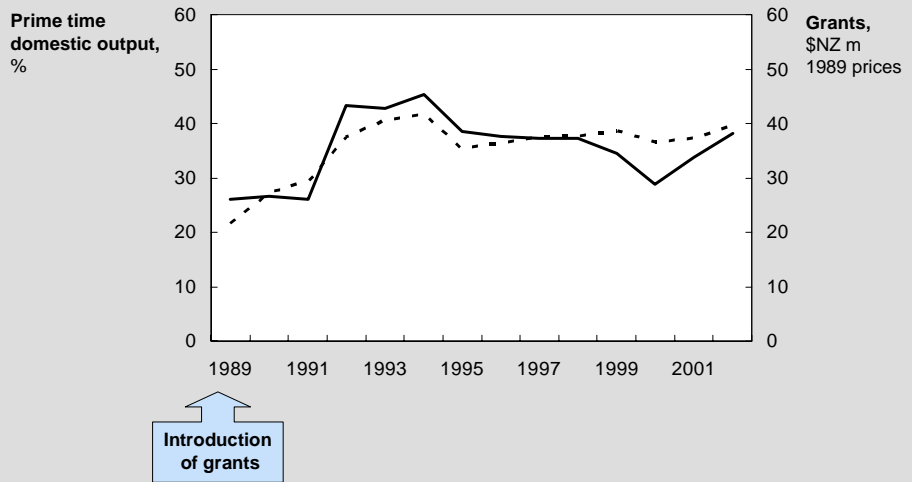


<sup>1</sup> Years beginning on April 1st

Source: Canadian Television Fund 2002-2003 Annual Report

**Exhibit 14**

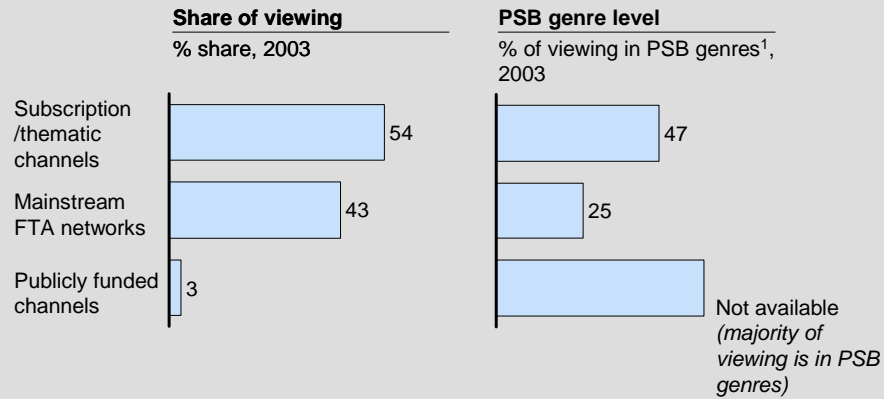
**New Zealand per-programme grant funding and domestic output**



Source: SPADA; New Zealand on Air; New Zealand Ministry of Commerce, Global Insight

**Exhibit 15**

**Comparison of U.S. channels' share and PSB genre viewing**



<sup>1</sup> Children's, factual, news and cultural

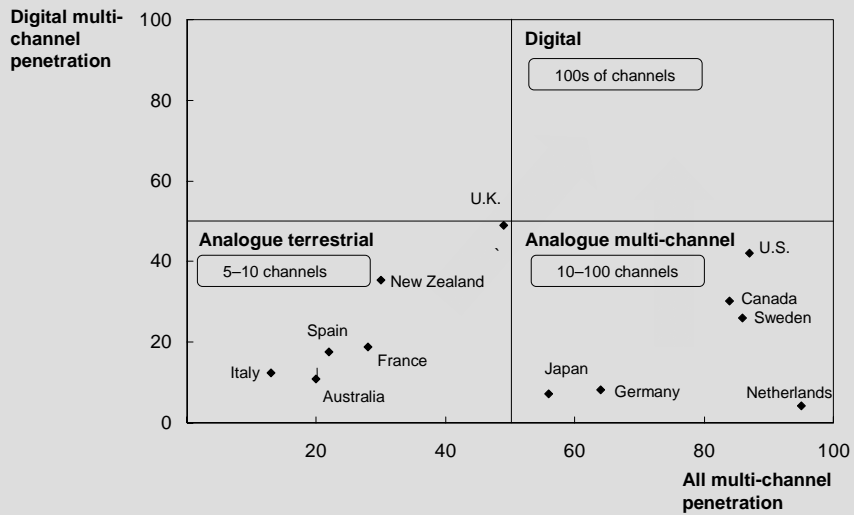
Source: Zenith Optimedia; Eurodata TV; Kagan Associates

**Exhibit 16**

**Distribution models**

% of households, 2003

□ Typical number of channels available



Source: Screen Digest; Zenith Optimedia; McKinsey analysis

## **A NOTE ON MCKINSEY'S WORK IN MEDIA AND ENTERTAINMENT**

McKinsey's Media and Entertainment Practice works with the senior management of leading companies in the industry all around the world. McKinsey's reputation rests on its unique ability to combine strategic insight with a pragmatic operating orientation. With an in-depth understanding of the media and entertainment industry's issues, a global network of knowledge and best practices across other industries, and hands-on experience in driving change, we have a track record of delivering significant improvements in our clients' operating performance and strategic positioning.

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