

# A1. Our approach to modelling market impacts and assessment of impact on SVoD and pay-TV services

## Introduction

- A1.1 In this Annex we set out; i) our overarching approach to the market impact assessment; ii) how we estimate the impact on viewing and revenue of commercial broadcasters (i.e. static impacts) arising due to the BBC’s proposal; and iii) our assessment of the potential impacts on SVoD and pay-TV services. The assessment of dynamic impacts for commercial broadcasters and wider impacts are covered in Section 4.
- A1.2 We discuss stakeholder comments on the market impact assessment in Section 4, except for one detailed point on the counterfactual which is discussed at A1.31 to A1.34 below. We received limited stakeholder comments on our modelling approach and our methodology remains the same as the consultation. The remainder of this Annex is largely as set out in the [consultation](#) and is structured as follows:
- a) Potential competition concern
  - b) How we approached our assessment
  - c) Modelling static impacts
    - i) Counterfactual
    - ii) Factual
    - iii) Diversion
    - iv) Financial impact on broadcasters
    - v) Sensitivity analysis
  - d) SVoD and pay-TV services

## Potential competition concern

- A1.3 Competition is valued because it can produce good outcomes for consumers, and for society in general. Changes which the BBC proposes to make to its public services could have an impact on competition in the UK’s media markets. Some of that impact may be positive, serving to stimulate investment or encourage innovation. However, some changes may also harm competition.
- A1.4 Where the BBC offers a new public service, as is the case for BBC Three, this may reduce the potential audience for commercial rivals. This could have a consequential impact on

the advertising revenues or subscription fees of rivals which, in turn, could lower profitability.

- A1.5 An adverse impact on competition could arise if the relaunch of BBC Three would reduce commercial operators' revenues and profits to such an extent that it affects their ability and incentive to invest in new services or in improving the quality of their existing services. It may also result in some commercial operators ceasing to provide services or being deterred from entering the market. This ultimately has the potential to harm audiences in the long run by reducing choice, quality and or innovation.
- A1.6 Where a change proposed by the BBC may have an adverse impact on fair and effective competition, our competition assessment must consider whether the public value of the proposed change justifies the adverse impact.<sup>1</sup>

## **How we approached our assessment**

- A1.7 We consider there are two possible ways to approach the assessment: i) we could look at what happened when BBC Three went off-air in 2016 (and consider what this might tell us about its reinstatement in 2022); or ii) we could model the impact of relaunching BBC Three as a linear channel.
- A1.8 Our analysis suggests that it is difficult to determine a clear impact on other channels due to BBC Three going off-air. This reflects that BBC Three was a relatively small linear channel in 2016, so the consequent viewing released was small and likely spread across several channels. There may have been an impact on individual channels, but it is difficult to disentangle the impact of BBC Three going off-air from other factors such as general trends in viewing and idiosyncratic factors that affect individual channels (e.g. the popularity of content shown at particular points in time).
- A1.9 In the light of this we have focused on an approach which models the impact of relaunching BBC Three as a linear channel. Our assessment involved the following stages:
- a) We identified the set of products and services likely to be affected by the BBC's proposal; and
  - b) We assessed the impact of the BBC's proposals on those products and services.

## **Identification of affected services**

- A1.10 In summary, we consider that the services most likely to be directly affected by the BBC proposal are:
- a) Commercial broadcasters' (PSB and non-PSB) channels and on-demand services, due to changes in audiences and potential impact on advertising revenues; and
  - b) Other VoD, SVoD and pay-TV providers, as a result of changes in audience volumes.

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<sup>1</sup> Agreement, 10(3)(c)-(d).

A1.11 As discussed in Section 3 of the consultation, we consider the main comparator channels to BBC Three are ITV2, E4 and Sky One as these are aimed at a similar audience profile to BBC Three.

## Assessment of impacts

A1.12 We assess the impact of the BBC's proposal in three steps:

- a) we assess the current and future prospects of the affected services in the absence of the BBC's service proposals (the counterfactual);
- b) we consider the likely changes to the BBC's viewing as a result of the service proposals; and
- c) we assess the impact of the change in BBC viewing on affected services (so assessing where the change in viewing of BBC services is likely to come from or flow to). Where appropriate, we assess the financial implications of the change in viewing on the affected services.

A1.13 Considering b) and c) allows us to estimate the 'factual' situation if the BBC implements its proposal. The difference between the factual and the counterfactual measures the impact of the proposal. Drawing these together allows us to reach overall conclusions on the market impact of the BBC's service proposals.

A1.14 In assessing the market impacts, we have considered:

- a) Static impacts – the first-order effects of the BBC's proposals on directly affected services, without taking account of how other service providers might respond, for example by altering their pricing policies or investment plans. Where possible, we have sought to quantify the static impacts. We look at the impact on viewing share and revenues of commercial broadcasters.
- b) Dynamic impacts – the effects of the BBC's proposals on directly affected products and services that result from changes in competitor behaviour (for example, incentives to invest and innovate) as a result of the BBC's proposal. We have not quantified these effects, which are inherently more uncertain (and potentially span a longer future period than the static impacts).
- c) Wider impacts – the effects of the BBC's proposal on other products and services that are not directly affected. For example, this could include the impact for services that are further up the value chain such as competition for the production of content.

## Modelling static impacts

A1.15 The BBC undertook its own modelling exercise to estimate the static impacts which follows the process we set out above (i.e. estimating a counterfactual and a factual situation) over a three-year period (2022-2024). The BBC estimated viewing in the counterfactual and factual for all individuals aged 4+ and separately for the 16-34 age group (given the latter is the target audience for BBC Three). The BBC noted that the modelling required

simplifications and assumptions. It considered that it had taken a conservative approach to addressing uncertainties i.e. overestimating the BBC’s impact rather than underestimating.<sup>2</sup>

A1.16 We consider that the BBC’s model is a reasonable starting point for our own analysis of the static impacts. We have considered the BBC’s inputs and assumptions and made changes where we deem this is appropriate. Where we have made changes, the reasons are discussed in more detail below. An overview of the model structure is provided below.

Figure A1: Overview of model structure



Source: Ofcom

A1.17 We have taken a ‘conservative’ approach in our modelling which is likely to overestimate BBC Three’s impact rather than underestimate it. For example:

- Where assumptions are uncertain, we have used values which are more likely to overstate rather than understate BBC Three’s viewing and impact. For example, we have assumed that adopting an ‘iPlayer first’ commissioning strategy will not reduce BBC Three linear viewing (see A1.73).
- We have assumed that all additional BBC Three viewing due to the proposal will be at the expense of broadcast viewing (linear and BVoD) or SVoD. In reality, some viewing may come from other activities such as video sharing platforms (e.g. YouTube) or non-video activities (see A1.89).

A1.18 The result is that in our modelling, BBC Three is expected to account for a higher share of total viewing than it had previously achieved in 2015. This is likely to be an overstatement. This is a conservative approach as it means that the projected impact on rivals will tend to

<sup>2</sup> [BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact](#), p.2 [accessed 16 November 2021].

be higher. We have also tested the impact of changing the most uncertain assumptions using sensitivity analysis.

- A1.19 We have quantified the static impact by estimating the change in advertising revenues for commercial broadcasters arising from the proposal. The BBC presented the static impacts for 2022 and assumed that the maximum impact of the channel would be reached in the first year of launch (due to viewing shifting to BBC Three). For ease of comparison we have also presented results for 2022.<sup>3</sup> We note that if the channel is slow to gain traction then the market impact may be lower in the year of launch.
- A1.20 We have separately considered the potential impact on subscription revenues for pay-TV providers such as Sky or Virgin Media, and SVoD services such as Netflix.

## Counterfactual

- A1.21 The counterfactual represents our view of the situation were the BBC's proposal not to happen. This a baseline against which the proposal is assessed.<sup>4</sup>
- A1.22 To construct the counterfactual, we have forecast:
- a) Total viewing hours for 2021-2024 split into the following categories:
    - i) Live broadcast;
    - ii) Non-live broadcast (BVoD and PVR);<sup>5</sup> and
    - iii) SVoD.
  - b) BBC's total live, PVR and BVoD viewing over 2021-2024. This includes a forecast for BBC Three online viewing considering the planned change to BBC Three's budget,<sup>6</sup> and a separate forecast for CBBC viewing from 7-9pm.
  - c) Total viewing (live, PVR and BVoD combined) for each other broadcast channel portfolios (i.e. ITV portfolio, Channel 4 portfolio, Channel 5 portfolio, and other channels) over 2021-2024.
  - d) Advertising revenues of ITV portfolio, Channel 4 portfolio and other channels combined over 2021-2024.

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<sup>3</sup> The estimated impact on commercial broadcasters is very similar for each of 2022, 2023 and 2024.

<sup>4</sup> In response to the consultation some stakeholders commented that the BBC is proposing to introduce a BBC Three linear channel at a time when broadcasters are facing broader market challenges. For example, ITV commented on pressures in advertising markets arising from the prospect of a pre 9pm TV advertising ban on certain products that are high in fat, sugar or salt (HFSS) (ITV consultation response, page 6). In addition, COBA noted that channels are facing challenges from declining linear audiences and the impact of Covid-19 on advertising revenues (COBA consultation response, paragraph 8). Our model does not explicitly reflect future initiatives which are outside the scope of the BBC proposal (e.g. the pre watershed ban on TV advertising for certain products that are HFSS). When the HFSS advertising rules come into force (at the end of 2022) they could reduce TV advertising revenues (in both the counterfactual and the factual) but this would not change our assessment of the impact of the BBC's proposal. With respect to COBA's points, our counterfactual uses TV advertising revenue projections taken from Group M which do reflect a reduction due to Covid in 2020. Our counterfactual also reflects the long-term decline in linear viewing (see A1.25 to A1.28).

<sup>5</sup> Enders included DVD in this category. We have not included DVD as it is not broadcast.

<sup>6</sup> BBC Three's budget is planned to increase irrespective of the proposal to relaunch the linear channel.

A1.23 Below we discuss how the BBC approached the counterfactual forecast and the adjustments we have made.

## Forecast total viewing hours in counterfactual

A1.24 To form its counterfactual total viewing hours (i.e. part a) above) the BBC used Enders Analysis forecasts for the three main categories of viewing: broadcast live, broadcast non-live and SVoD viewing.<sup>7</sup> This is done separately for all individuals aged 4+ and 16-34s. We do not have full visibility on the assumptions and judgements underpinning the Enders forecast. Also, we have our own established approach for estimating total audio-visual viewing, and so this forms the basis for our counterfactual viewing forecasts.<sup>8</sup> We consider that the assumptions we have made to form our forecast are reasonable but recognise there could be plausible alternative approaches. A complicating factor is the Covid pandemic which temporarily resulted in significantly higher levels of video viewing (particularly for SVoD).<sup>9</sup> We assume that this is not sustained when forecasting viewing to 2024.

A1.25 In forming our forecast viewing for all individuals 4+ we have made the following assumptions:

- a) 2021 will be a 'transition' year where viewing levels are somewhat elevated compared to long term trends due to the ongoing Covid pandemic. For each category of viewing we have assumed a weighted average represented by 25% of the 2020 viewing level and 75% the 2019 level.
- b) For 2022 to 2024 we have assumed:
- c) Aggregate viewing across the three categories reverts to the 2019 level and remains at this level (which was consistent over 2018 and 2019). This provides us with total viewing forecasted to 2024.
- d) Live broadcast viewing will continue to decline relative to the 2019 level in line with the reduction for 2018 and 2019 (around 6% per year).
- e) Non-live broadcast viewing remains constant at 2019 levels (which is similar to the levels observed in 2017 and 2018).
- f) SVoD makes up the difference between total viewing and live and non-live broadcast viewing.

A1.26 The resulting forecast is shown in below.

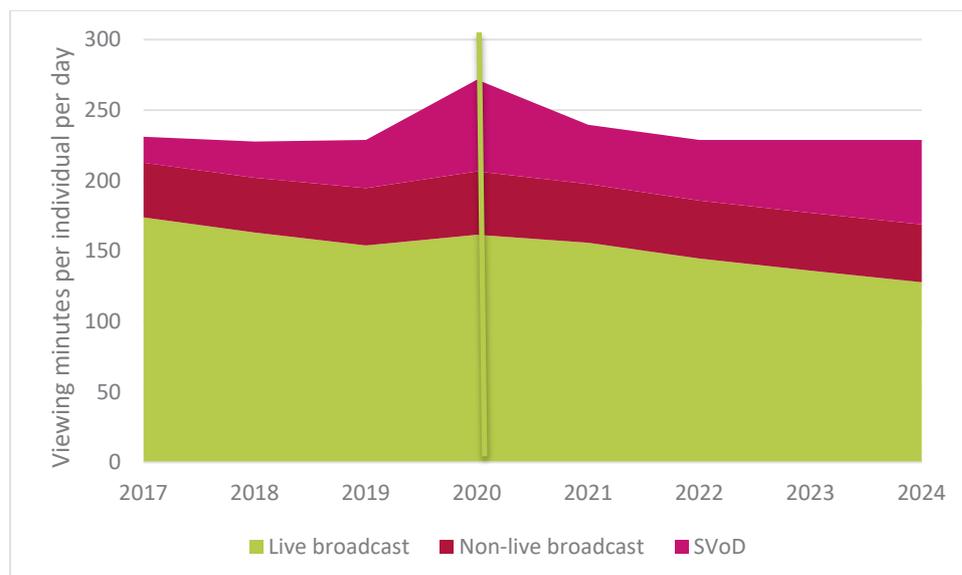
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<sup>7</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.3.

<sup>8</sup> Ofcom estimates of total audio-video viewing is modelled from BARB, Comscore and TouchPoints data.

<sup>9</sup> See [Ofcom Media Nations 2021](#) p.6-7 [accessed 16 November 2021].

Figure A2: Counterfactual viewing, all individuals aged 4+



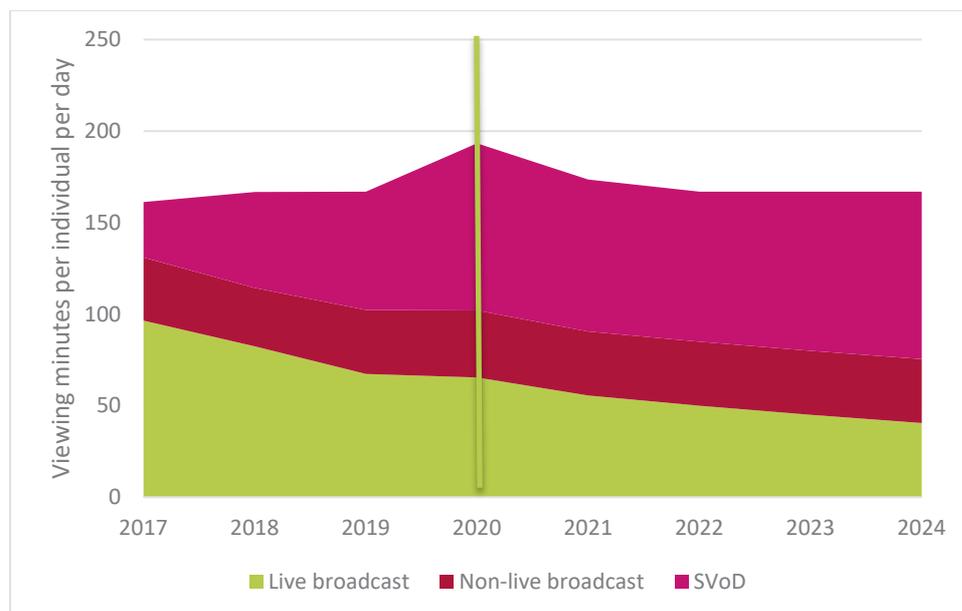
Source: Ofcom analysis based on BARB, TouchPoints and Comscore data

A1.27 In forming our forecast viewing for 16-34s we have made the following assumptions. In 2021:

- Aggregate viewing across the three categories is a weighted average of the 2020 (25%) and 2019 (75%) levels to obtain total viewing.
  - Live broadcast viewing declines by 15% relative to 2020. This assumption reflects that live broadcast viewing across 16-34s declined in 2020 despite the pandemic significantly lifting video viewing generally. (Previously live broadcast viewing declined by 15% in 2018 and 18% in 2019).
  - Non-live broadcast viewing remains constant at the 2019 level.
  - SVoD makes up the difference between total viewing and live and non-live broadcast viewing.
- e) For 2022 to 2024:
- Aggregate viewing across the three categories reverts to the 2019 level and remains at this level (which was also consistent over 2018 and 2019).
  - Live broadcast viewing declines by 10% per year – this is based on a judgement that the decline in live viewing will reduce relative to that over 2018-2020).
  - Non-live broadcast viewing remains constant at the 2019 level.
  - SVoD makes up the difference between total viewing and live and non-live broadcast viewing.

A1.28 The resulting forecast is shown in below.

Figure A3: Counterfactual viewing, 16-34 year old audience



Source: Ofcom analysis based on BARB, TouchPoints and Comscore data

A1.29 Our forecasts tend to imply higher overall levels of viewing per individual compared to the Enders Analysis forecast, however, the broad trends in viewing are similar (i.e. we both forecast a decline in live broadcast and an increase in SVoD viewing).<sup>10</sup> We have used our forecast to model the counterfactual but note that this does not make a material difference to our estimate of the impact of relaunching BBC Three as a linear channel.<sup>11</sup>

### Forecast BBC viewing in counterfactual

A1.30 The BBC took 2020 viewing for each of live broadcast, PVR and iPlayer and forecast viewing for each for all individuals aged 4+ and 16-34s over 2021-2024 as follows:<sup>12</sup>

- a) BBC live viewing was assumed to decline in line with the overall reduction in live viewing.<sup>13</sup>
- b) PVR viewing was assumed to decline in line with the recent trend observed by the BBC based on its own data.

<sup>10</sup> The BBC noted that Enders' and BARB's 2020 estimates for broadcast live and non-live viewing minutes were similar but had slightly different scopes, and it made minor adjustments for this. For 2020, our counterfactual also implies a higher level of broadcast live and non-live viewing per individual than is suggested by BARB dovetail data (even when the latter has been adjusted to include viewing on smartphones, which is not captured by BARB data). We have followed the BBC's approach in making an adjustment to scale the absolute level of broadcast live and non-live viewing down to BARB Dovetail levels in 2020 (adjusted for viewing on smartphones), this scaling factor is applied in subsequent years for consistency. This does not affect the forecast viewing trends.

<sup>11</sup> It does result in some changes to channel portfolio viewing shares in the counterfactual. For example, the BBC estimated the BBC portfolio viewing share at 31.1% in 2022, in our model this is 31.8%. The viewing share for BBC Three remains largely the same using both approaches.

<sup>12</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.3-4

<sup>13</sup> In the BBC model this was based on Enders forecasts, as noted above, we have replaced this with our own forecast.

- c) iPlayer viewing was forecast to increase based on applying a linear trend to historic viewing.
- d) An adjustment was applied to BBC Three iPlayer viewing to reflect the BBC Three budget increase in 2022/23 (which is not contingent on the relaunch of BBC Three as a linear channel). The BBC assumed BBC Three iPlayer viewing would increase in proportion to the real terms rise in budget (implying an increase of 66% from 2020 to 2022). It stated that the increase in BBC Three’s budget was at the expense of other channel budgets and so overall viewing of iPlayer would not change.

A1.31 In response to the consultation ITV questioned whether the forecast for BBC Three iPlayer viewing in the counterfactual was correct based on cross checking calculations it had performed using BARB data. It used BARB information to derive an estimate for iPlayer viewing by 16-34s over the first half of 2021. It considered that this, combined with the BBC’s model outputs, would imply that BBC Three represents 83% of iPlayer viewing by 16-34s in the counterfactual, which was unfeasibly high. It considered that this meant BBC Three’s share of on-demand viewing in the counterfactual was overstated and the increment in viewing attributed to the proposal (i.e. the difference between the factual and counterfactual), and therefore the impact on competitors and on fair and effective competition, was understated.<sup>14</sup>

A1.32 The forecast iPlayer viewing in the model is based on actual iPlayer viewing data provided by the BBC. We consider that the BBC’s actual iPlayer viewing data is more accurate than estimates based on BARB data. We consider that the BBC iPlayer viewing estimate derived by ITV is likely to be inaccurate because BARB does not provide a complete measure of BBC iPlayer viewing for two main reasons:

- a) Viewing post 28 days after broadcast transmission is omitted - BARB can accurately allocate viewing up to 28 days after the programme’s transmission on a broadcast channel. Viewing of programmes after 28 days from broadcast goes into BARB’s ‘unmatched viewing’ that is not assigned to any broadcasters. Viewing of programmes on BBC iPlayer beyond 28 days after transmission is likely to be significant, particularly given the longer availability of content on iPlayer since our BBC iPlayer Competition Assessment Determination in 2019.<sup>15</sup>

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<sup>14</sup> ITV consultation response, p. 4-5.

<sup>15</sup> In 2019, the BBC changed BBC iPlayer from a service where programmes are available to ‘catch-up’ for 30 days after broadcast, to one where programmes are available for 12 months as standard, with some available for longer. This change was approved subject to conditions. See [BBC iPlayer competition assessment: final determination](#) [accessed 18 November 2021].

- b) Incomplete programme logs – To assign non-broadcast (non-linear) BVoD content to the correct broadcaster, BARB uses programme logs which allow the content to be matched based on audio matching between the logs and the content viewed. We understand that the BBC do not provide all of the programme logs for its non-linear programming to BARB. Where logs are missing, BARB is unable to correctly assign non-linear viewing to BBC iPlayer. This viewing would also go into the pool of BARB’s unmatched viewing data.
- A1.33 As a result, the BARB data underestimates iPlayer viewing. It is not clear that ITV has attempted to attribute any of the unmatched viewing data to iPlayer.<sup>16</sup> The overall result is ITV estimates a much smaller quantity of iPlayer viewing compared to actual iPlayer data, which we expect to be accurate.<sup>17</sup> We would agree with ITV that, if BBC Three represented 83% of iPlayer viewing made by 16-34s in the counterfactual, that would appear unfeasible. However, this is not the case. Using our model, in the counterfactual BBC Three represents 21% of iPlayer viewing of 16-34s in 2022.
- A1.34 Even if BBC Three’s share of iPlayer viewing for 16-34s was overstated in the counterfactual (as suggested by ITV), this would not mean the incremental viewing attributed to the proposal was understated. This is because we modelled incremental iPlayer viewing attributed to the proposal (for example, the shop window effect) as a percentage uplift to BBC Three iPlayer viewing absent the proposals (see A1.75 to A1.84). For example, this means if BBC Three iPlayer viewing absent the proposals doubled, the incremental BBC Three iPlayer viewing attributed to the proposal also doubles. This implies that if the estimation did overstate the counterfactual, the viewing attributable to the proposal would also be overstated (and not understated as implied by ITV).
- A1.35 We remain of the view that the BBC’s approach and assumptions set out at paragraph A1.30 are reasonable.
- A1.36 If BBC Three is relaunched as a linear channel, then CBBC will finish broadcasting at 7pm, rather than 9pm. To assess the impact of this, a counterfactual forecast of CBBC viewing from 7-9pm over 2021 to 2024 is needed. To do this, the BBC took historic CBBC live viewing from 7-9pm and applied an exponential growth trend to forecast future viewing.<sup>18</sup> The resulting forecast (shown below) for all individuals aged 4+ shows an increase in viewing minutes in 2021. Given that CBBC viewing minutes in the 7-9pm slot have declined since 2017, this was unexpected. We examined BARB actual data from January to June 2021 which confirms that CBBC 7-9pm viewing minutes are ~40% lower compared to viewing minutes over the same period for 2020.

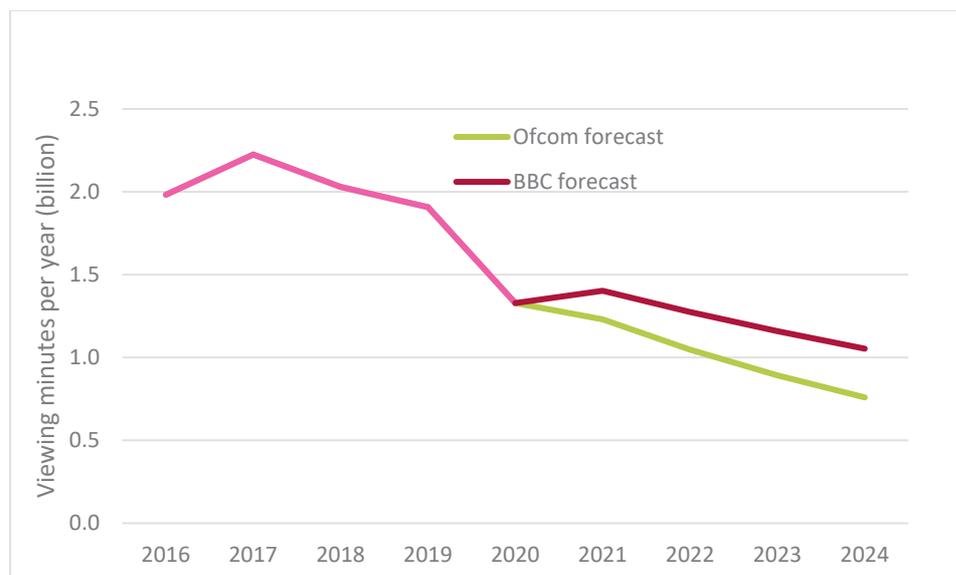
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<sup>16</sup> It is unclear whether ITV has tried to include viewing post 28 days from broadcast transmission within its iPlayer estimate and, if so, how it could accurately estimate the proportion of unmatched viewing that is BBC iPlayer viewing.

<sup>17</sup> ITV estimates iPlayer viewing for 16-34s at 0.14 billion hours across the first half of 2021. Based on BBC internal data, iPlayer viewing for 16-34s over the same period was significantly higher at 0.46 billion hours.

<sup>18</sup> The BBC assumed children’s PVR rates are minor given the trend of young audiences using BVoD for catchup, and it ignored PVR in this analysis. It noted this was conservative, since it understated the potential lost viewing to the BBC in these hours (see BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, footnote 28). We consider this is a reasonable simplifying assumption.

Figure A4: CBBC viewing minutes 7-9pm all individuals aged 4+, actual and forecast



Source: BARB data, BBC and Ofcom Analysis

A1.37 In light of this we have adjusted the CBBC viewing minutes for all individuals aged 4+ to reflect a decline in 2021, with an ongoing decline thereafter.<sup>19</sup> This small change does not make a material difference to the overall results.

### Forecast viewing for other channel portfolios in the counterfactual

A1.38 The BBC forecast viewing of the other channel portfolios (ITV portfolio,<sup>20</sup> Channel 4 portfolio, Channel 5 portfolio, Sky portfolio and other channels combined) by multiplying their respective 2020 shares of total broadcast (live, PVR and BVoD) viewing excluding the BBC, by the total broadcast TV forecast viewing excluding the BBC in each year.

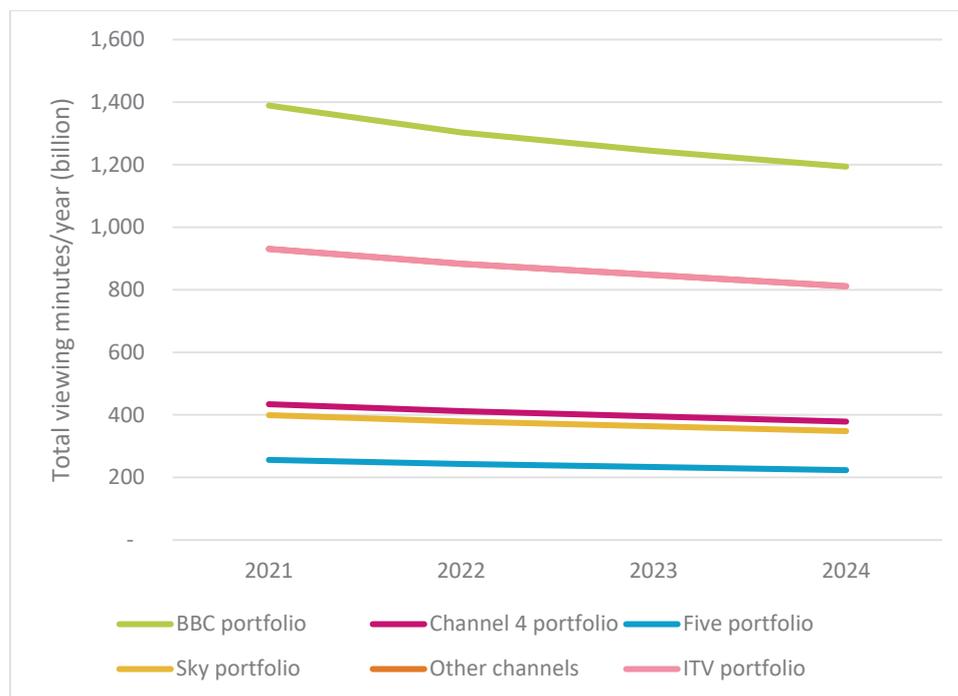
A1.39 Viewing shares for each channel portfolio have been broadly stable over time, therefore we consider these are a reasonable basis for viewing shares over 2021-2024.

A1.40 The resulting forecast viewing for each channel portfolio in the counterfactual for all individuals aged 4+ is shown below.

<sup>19</sup>We did not adjust the BBC forecast for CBBC viewing for the 16-34 year old audience as this was consistent with the historic general downward trend.

<sup>20</sup>STV holds the Channel 3 licences in North and Central Scotland and operates the STV Player across the UK. BARB measurement includes STV viewing within ITV viewing. Therefore, STV viewing is included as part of the ITV portfolio in the model.

Figure A5: Total forecast viewing (live, BVoD and PVR) for each channel portfolio<sup>21</sup>



Source: BARB data and Ofcom analysis. Note that the ITV portfolio and other channels (combined) are forecast to have the same viewing share - therefore the lines are indistinguishable on the chart.

## Advertising revenues in counterfactual

- A1.41 To assess the commercial impact of the BBC’s proposals we consider the impact on advertising revenues<sup>22</sup> – focusing on ITV and Channel 4.
- A1.42 To estimate counterfactual advertising revenues, the BBC took ITV’s advertising revenues from its 2020 annual report and Channel 4’s digital revenue and TV advertising and sponsorship revenue from its 2019 annual report. It forecast these forward assuming the year to year percentage change was in line with Group M’s forecast for total UK TV advertising revenue.<sup>23</sup>
- A1.43 Since the BBC completed its modelling Channel 4 has released its 2020 Annual report. In the 2020 report Channel 4 has reclassified and restated its revenues so these are now classed as i) linear advertising revenues, ii) digital advertising revenues and iii) non

<sup>21</sup> BBC portfolio: BBC One, BBC Two, BBC Four, BBC News, BBC Parliament, BBC Scotland, CBBC, CBeebies, BBC iPlayer, BBC streaming channels and HD variants are included where applicable. Channel 4 portfolio includes Channel 4, E4, More4, Film4, 4Music, 4seven, All4 and 1+ and HD variants are included where applicable. Channel 5 portfolio: Channel 5, 5Star, 5USA, 5 Select, Paramount Network, My5 and HD variants are included where applicable. ITV portfolio: ITV1, ITV2, ITV3, ITV4, ITVBe, CITV, ITV Hub and +1 and HD variants are included where applicable. This includes STV and UTV. Sky portfolio includes Sky One (now Sky Showcase and Sky Max), Sky Atlantic, Sky Witness, Sky Arts, Sky Replay, Pick, Challenge, Sky Crime, Sky News, Sky Sports channels, Sky Cinema channels, and +1 and HD variants are included where applicable. ‘Other channels’ includes channels not part of the BBC, ITV, Channel 4, Channel 5 or Sky portfolios.

<sup>22</sup> This includes live TV and VoD advertising revenue.

<sup>23</sup> Group M, March 2021: <https://www.groupm.com/united-kingdom-advertising-market-update> [website accessed 16 November 2021].

advertising revenues.<sup>24</sup> We have reflected these updates in our model by i) including 2020 revenues and ii) including linear and digital advertising revenues only. The reclassified advertising revenues are slightly lower than the figures used by the BBC.

- A1.44 Using Group M's total UK TV advertising revenue forecasts implies that ITV and Channel 4's advertising revenues would increase by approximately 11% and 3% in 2021 and 2022 respectively. The Advertising Association and WARC project slightly higher annual increases of TV advertising spend of roughly 15% in 2021 and 3% in 2022.<sup>25</sup> ITV's 2021 H1 results show a 29% increase in total advertising revenues compared to the same period in 2020 – although it is uncertain whether this will be sustained over the second half over the year.<sup>26</sup> Overall we consider the use of Group M forecasts is reasonable.
- A1.45 Advertising revenues for all other broadcasters are estimated by taking the Group M UK wide total for each year and then subtracting the revenues for ITV and Channel 4.<sup>27</sup>

## Factual – estimating the impact on the BBC's viewing

### Changes to BBC's viewing arising from the proposals

- A1.46 The BBC considered its proposal will alter its viewing through three avenues:
- a) The new BBC Three linear channel;
  - b) BBC Three on iPlayer; and
  - c) Reduced hours on the CBBC linear channel.
- A1.47 It estimated how each of these avenues would be affected by the channel launch and combined the individual impacts to produce a net change to the BBC's portfolio post-channel launch. Overall, we consider this is a reasonable approach.

### Forecasting viewing of the BBC Three linear channel

- A1.48 The BBC started with viewing of the old BBC Three channel in its final year of broadcast based on BARB live data (48 billion minutes for all individuals aged 4+). It then made a number of adjustments to reflect anticipated differences between BBC Three linear viewing in 2015 and in 2022. Using 2015 viewing is a reasonable starting point and reflects the best available information to forecast viewing of the BBC Three linear channel in 2022. We discuss each of the adjustments made to the 2015 viewing figures below.

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<sup>24</sup> [Channel 4 2020 Annual Report](#), p.191 [accessed 16 November 2021].

<sup>25</sup> [Advertising Association/WARC](#), July 2021 [accessed 16 November 2021].

<sup>26</sup> [ITV H1 report and results 2021](#) [Website accessed 16 November 2021].

<sup>27</sup> The changes in viewing for STV arising due to the linear relaunch of BBC Three are included in the ITV portfolio. We therefore include the advertising revenues for STV in 2020 in the ITV portfolio figure. The addition of STV advertising revenues within the ITV portfolio is a change compared to the BBC model. STV advertising revenue was £90.9m in 2020. Source: [STV 2020 annual report and accounts](#) [website accessed 16 November 2021].

### Editorial differences between the old and new channel

- A1.49 The old BBC Three channel aired *Family Guy* and *American Dad!* which were popular acquired programmes. In the 2015 Market Impact Assessment (“2015 MIA”), which considered the impact of moving BBC Three online only, we noted that *Family Guy* and *American Dad!* accounted for 27.3% of BBC Three viewing hours in 2014.<sup>28</sup> The BBC noted that the new BBC Three channel (with a focus on UK originations) is not expected to air acquisitions with similar levels of performance. Therefore, it adjusted BBC Three viewing down to reflect the average for the rest of the channel viewing.<sup>29</sup>
- A1.50 It is difficult to estimate precisely what impact no longer showing *Family Guy* and *American Dad!* will have on BBC Three viewing. This will depend on the content that the BBC acquires for BBC Three and its popularity. However, *Family Guy* and *American Dad!* do appear to have significantly overperformed relative to other BBC Three programs on the old channel. On this basis, the adjustment the BBC has made seems reasonable. The adjustment reduces old BBC Three’s linear viewing minutes by around 10% for all individuals aged 4+ and around 20% for 16-34s.
- A1.51 In response to the Invitation to Comment, ITV noted that BBC Three plans to show some live sport which is a change compared to the old channel. It questioned whether the BBC has taken account of the impact of this.<sup>30</sup> The BBC has not made any adjustments in the model to reflect showing live sport in the schedule. Given it is unclear how much sport will be shown, its nature or popularity, we consider any adjustment would be speculative.

### General decline in linear viewing

- A1.52 Linear viewing has declined since 2015 and this is particularly pronounced for younger age groups. The BBC proxied the expected decline of BBC Three linear viewing between 2015 and 2022 using the actual decline of other young-skewing channels – specifically it used E4, Sky One and ITV2. It adjusted ITV2’s viewing to strip out the exceptional performance (from 2016 onwards) of *Love Island* in its two months of broadcast every year. The BBC’s approach suggested a 49% decline in BBC Three linear viewing over the period for all individuals aged 4+ and a 72% decline for 16-34s.<sup>31</sup>
- A1.53 We agree that the general decline in linear viewing would have affected BBC Three. The accuracy of the BBC’s approach relies on the evolution in viewing of the channels chosen (E4, ITV2 and Sky One) being a good proxy for (hypothetical) BBC Three linear viewing.
- A1.54 We have performed a cross check which considers how viewing could have evolved based on the age group profile for BBC Three in 2015. For each age group we estimated the decline in live TV viewing from 2016 to 2022. For 2015 to 2019, it is based on actual viewing information taken from BARB. We did not use actual information for 2020 given

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<sup>28</sup> Ofcom, 2015, [Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC: Market impact assessment](#), paragraph 4.26 [accessed 16 November 2021].

<sup>29</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.5.

<sup>30</sup> ITV confidential response to the Invitation to Comment, p.5-6.

<sup>31</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.5-6.

that this was influenced by the pandemic, the effect of which we expect to be temporary.<sup>32</sup> Instead we used the 2015 to 2019 data points and a linear forecast to predict viewing for each group in 2022.

- A1.55 We then used the age group profile for BBC Three to create a weighted average decline for BBC Three viewing. The result was a decline in viewing of 53% over the period for all individuals aged 4+. For 16-34s, we used the actual decline in viewing for the age group over 2015-2019 and a linear forecast to 2022. This gives a decline in viewing of 74% over the period. This method yields a marginally greater decrease in viewing compared to the approach used by the BBC.
- A1.56 Neither this approach nor the BBC's approach is likely to be a perfect proxy for the hypothetical decline in linear viewing of BBC Three, while it has been an online only channel. However, we are reassured by the fact that both approaches yield similar results. Given that the BBC's approach is more conservative (as it implies a slightly smaller reduction in BBC Three live minutes) we have used that approach in the model.

### PVR viewing

- A1.57 The BBC estimated BBC Three PVR viewing in 2022 by applying an uplift to 2015 BBC Three live minutes, after the adjustments for editorial changes and decline in linear viewing (described above) had been applied. It used BBC Four's PVR uplift (relative to live viewing) as a proxy for BBC Three, noting that both act as secondary channels in BBC's linear portfolio (thus experiencing higher PVR rates).<sup>33</sup> PVR viewing is assumed to decline over time as noted in paragraph A1.30b above.
- A1.58 BBC Three and BBC Four are likely to have quite different audience profiles, therefore we have tried to check whether the proportion of PVR viewing would likely be similar across the two. This is challenging because PVR-only viewing is not available via BARB, and the BBC only has a limited timeseries for PVR viewing. We have looked at the proportion of viewing that is timeshifted (i.e. PVR plus BVoD watched on the TV set) compared to total viewing from 7pm to 4am across ITV2 and E4 (considered to have a similar audience profile to BBC Three) and how this compares with the same data for BBC Four. The proportion of viewing that is timeshifted is very similar for ITV2 and BBC Four (22% for both in 2020) and somewhat higher for E4 (36% in 2020).<sup>34</sup> Overall, we consider the BBC's approach of using BBC Four's PVR uplift as a proxy for BBC Three is reasonable, given the lack of alternative data. PVR viewing is relatively small and applying different assumptions would not materially affect the overall results.

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<sup>32</sup> Because of the restrictions put in place due to COVID-19, a lot of the population were at home more than usual. Large spikes in audio-visual viewing, including broadcast TV for some age groups, largely mirrored the times of the national lockdowns. Source: BARB and Ofcom's total audio-visual estimates as discussed in Ofcom's Media Nations 2021 report.

<sup>33</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, footnote 12.

<sup>34</sup> We recognise that commercial channels may generally have higher levels of timeshifted viewing than BBC channels (as a means to 'fast forward' adverts).

## EPG slot

A1.59 The BBC made an adjustment to reflect the fact that the new channel is likely to have a lower EPG slot on most platforms in any region compared to the old channel.<sup>35</sup> In doing so it modelled the highest slot which the new channel could plausibly obtain in 2022 on each platform.<sup>36</sup> The highest assumed EPG slots are shown below:

**Figure A6: BBC Three modelled EPG slots**

Platform	Modelled slot for BBC Three in 2022
Freeview	24
Sky	15
Virgin Media	8
Freesat	10

Source: BBC

A1.60 It noted that this was conservative since any resulting lower slot would reduce the channel’s viewing, and therefore the channel’s market impact.

A1.61 For each slot movement of BBC Three down the EPG, the BBC applied a 1.5% viewing reduction, as was applied in Ofcom’s Review of prominence for public service broadcasting in 2019.<sup>37</sup> The slot changes were weighted by each platform’s share of broadcast TV viewing, to produce a platform-weighted EPG-induced viewing change between the old and the new channel of -13%.

A1.62 We recognise there is uncertainty over exactly which EPG slot BBC Three will obtain in 2022. We consider the BBC’s relatively conservative approach of assuming the highest plausible slot is reasonable for the purpose of this market impact assessment.

A1.63 The 1.5% reduction in viewing per downward slot move, used in Ofcom’s 2019 Review of prominence for public service broadcasting, was estimated by O&O through analysis of historic channel moves.<sup>38</sup> In our 2019 Review of prominence for public service broadcasting we acknowledged the limitations of O&O’s model and “key assumption” of 1.5%, but we considered that it provides a reasonable proxy for estimating potential commercial effects which could arise due to changes in positions of designated channels.

A1.64 For the purposes of this assessment, we have cross-checked the 1.5% assumption by collating evidence on historic channel moves, and have found that this additional evidence broadly supports a 1.5% assumption of the change in channel viewing per slot move. We

<sup>35</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.6.

<sup>36</sup> The BBC assumed that BBC Three would be at a slot no lower than slot 24 in accordance with Ofcom’s prominence provisions for PSB channels (or higher where available).

<sup>37</sup> [Review of prominence for public service broadcasting: Statement on changes to the EPG Code](#), 2019 [accessed 16 November 2021].

<sup>38</sup> O&O, Estimating the impact to commercial broadcasters of proposed changes to Ofcom’s EPG prominence rules, A report for COBA by Oliver & Ohlbaum, September 2018.

considered the statistically highly significant channel moves in the Attentional and FEH reports,<sup>39</sup> and E4's move from 144 to 106 on the Virgin Media EPG in 2016. Using these 34 historic channel moves, we have calculated a median change in channel viewing per slot move of 1.53%. However, the mean of these channel moves is 2.32%, and there are also a number of channel moves with an associated implied viewing change per slot move of around 1%. While the use of a median better controls for outliers, the observed range in the available evidence highlights that per slot viewing changes due to channel moves will vary depending on the individual context of each channel. Taken altogether, we believe that a 1.5% assumption provides a reasonable average of historic channel moves. However, given the uncertainty around the 1.5% assumption, we have tested the impact of using a more conservative 0.5% assumption in our sensitivity analysis.

- A1.65 The BBC recognised that there may be a potential loss in viewing, and hence loss in revenue, to broadcasters from shifting down EPGs due to BBC Three's channel launch. The BBC considered this potential loss in viewing was captured by its model, as the model estimates BBC Three's viewing share conditional on its positioning on EPGs. In other words, the BBC consider the estimated market share of BBC Three captures both the competitive impact of channels which lose viewing due to the launch of BBC Three, as well as the EPG impact whereby in order to free up a slot for BBC Three, channels have to move down EPGs, potentially losing viewing to BBC Three. We consider that this view is reasonable, as BBC Three's viewing share is reflective of the total viewing that it could potentially capture.
- A1.66 We have also considered the impact if BBC Three were to take BBC Four's EPG slot (on platforms where this implies a higher slot position) in our sensitivity analysis.

### Budget change

- A1.67 The BBC plans to significantly increase the content budget for BBC Three. While this budget change is proposed irrespective of the linear relaunch of BBC Three, the budget is likely to affect viewing. It accounted for this by assuming viewing would increase in the same proportion as the planned budget increase, after adjusting for inflation. This resulted in a budget-driven viewing uplift of 42%.<sup>40</sup>
- A1.68 We agree that the amount of budget is likely to influence the quality and/or quantity of content and therefore viewing. While it is not necessarily the case that a change in the budget would cause the same proportional change in viewing, we consider this is a reasonable modelling assumption.

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<sup>39</sup> Attentional LTD, 2010 [An Analysis of the Audience Impact of Page One EPG Prominence](#); FEH Media Insight, An Analysis of the Audience Impact of Page One EPG Prominence: A Report for Ofcom, 2013, authored by Dr Farid El-Husseini. These reports analysed the effect on viewing of a number of historic channel moves using statistical techniques, and these channel moves were grouped by how statistically significant the effect on viewing was in each case. [Websites accessed 16 November 2021]

<sup>40</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.7.

### iPlayer First commissioning

- A1.69 The BBC noted that its strategy since 2016 has been to optimise BBC Three viewing on iPlayer. Although it plans to relaunch BBC Three as a linear channel, it intends to maintain an ‘iPlayer-first’ commissioning approach.<sup>41</sup> It explained this means BBC Three’s budget will be spent on high impact content with longevity on iPlayer (i.e. higher tariff but lower volume content), which may not be as repeatable on a linear schedule due to the nature of the content or ease with which casual viewers could tune in part way. It considered this would reduce linear viewing relative to the old channel. It applied a 25% reduction to viewing of the old channel. It noted there was no data to support the figure, but it was consistent with the 25% uplift figure applied to BBC Three online viewing to reflect the optimisation of content for iPlayer when BBC Three went off-air.
- A1.70 In response to the Invitation to Comment, ITV considered that the BBC’s iPlayer first commissioning model may involve content premiering on iPlayer and BBC Three at the same time. For this reason, it considered that the 25% reduction in viewing overstates the impact of iPlayer first commissioning.<sup>42</sup>
- A1.71 In 2015 the BBC commissioned Competition Chambers (CC) to model the impact of moving BBC Three online only. It applied a 25% uplift to its estimate of BBC Three online viewing to reflect optimising content for online. In our 2015 MIA we noted that it was difficult to quantify the impact of optimising content for online. At that time, we decided not to revise the 25% uplift assumption given that making significant changes to it had very little impact on the BBC’s viewing share.<sup>43</sup>
- A1.72 In 2015 the uplift for optimising content for online was applied to iPlayer viewing. In this case the BBC is proposing an equivalent reduction to linear viewing to account for the fact that it expects to continue to optimise content for BBC iPlayer even after BBC Three has launched as a linear channel. We consider the situations are quite distinct and an uplift to online viewing does not necessarily translate into an equivalent reduction in linear viewing – therefore it may not be the case that a 25% uplift to online viewing means there would be a 25% reduction in linear viewing. We do not consider the adjustment applied in 2015 (which itself was not supported by any evidence) is particularly informative to this situation.
- A1.73 It is possible that the BBC’s iPlayer-first commissioning strategy could result in lower linear viewing relative to 2015. However, the BBC will need to fill the linear schedule, and it is very difficult to predict in advance the popularity of the (as yet unknown) content. There is very little basis from which to form an assumption on the potential reduction in linear viewing compared to 2015 from the BBC’s iPlayer first commissioning strategy. In the light of this, and in keeping with the BBC’s stated intention of taking a conservative approach to address uncertainties, we have not applied a reduction to linear viewing to reflect iPlayer

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<sup>41</sup> BBC Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.7.

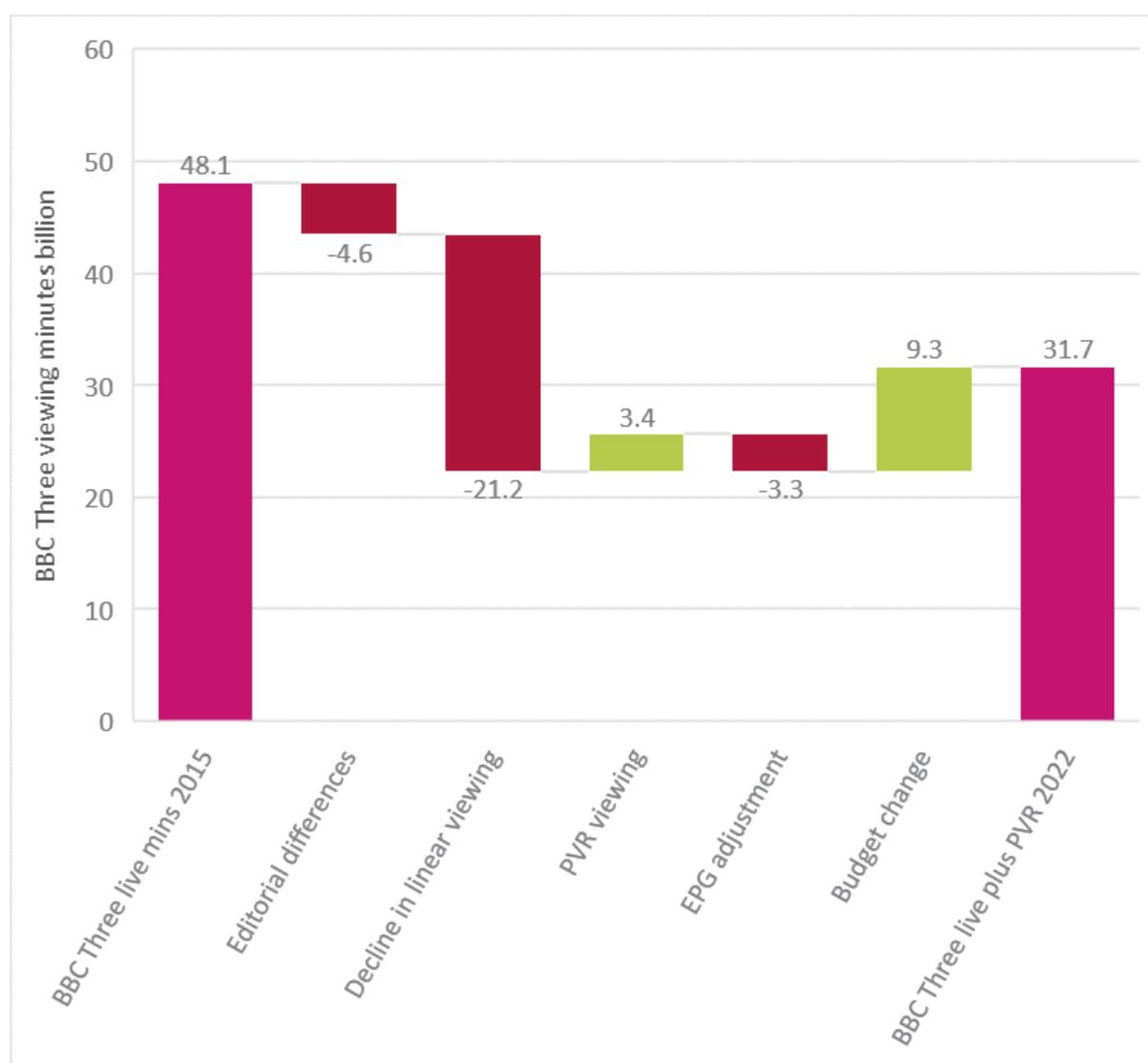
<sup>42</sup> ITV confidential response to the Invitation to Comment, p.6-7.

<sup>43</sup> Ofcom, 2015, [Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC: Market impact assessment](#), paragraphs 6.45-6.47.

first commissioning. We recognise this is a conservative assumption which could lead to higher linear viewing predictions than will actually be achieved.

### Summary – BBC Three live plus PVR viewing in factual

A1.74 The Figure below shows the starting point of BBC Three live minutes in 2015 and the impact of the various adjustments described above, finally arriving at forecast BBC Three live plus PVR minutes in 2022 (all individuals aged 4+). It shows that compared to BBC Three live viewing in 2015 (of just over 48 billion minutes), we estimate that live viewing (plus PVR) will be reduced by around a third (to ~32 billion minutes in 2022).



Source: Ofcom analysis

## Forecasting additional BBC Three viewing on iPlayer

A1.75 The BBC considered that the launch of a BBC linear channel could lead to additional viewing of BBC Three on iPlayer (i.e. over and above BBC Three iPlayer viewing in the counterfactual) via two main mechanisms – marketing trails and shop window effect. We discuss these below.

### Marketing trails

A1.76 The new BBC Three channel will include marketing trails to push viewers toward BBC Three content on iPlayer. The BBC used its econometric marketing model (which quantifies the impact of BBC marketing on iPlayer time spent) to predict incremental BBC Three iPlayer viewing minutes from BBC Three marketing trails on the proposed linear channel. It estimated a marketing trail-specific uplift to BBC Three iPlayer viewing of 2% for all audiences, and 4% for 16-34s.<sup>44</sup>

A1.77 We agree that marketing trails on the BBC Three linear channel are likely to increase viewing of BBC Three content on iPlayer, and the BBC’s econometric model is a reasonable way to estimate this. We note that the anticipated uplift due to marketing trails is relatively small i.e. 2% for all audiences. However, even with a much larger uplift of 10% the impact on BBC Three viewing is small.

### Shop window effect

A1.78 The BBC considered that the BBC Three channel will act as a ‘shop window’ for BBC Three content available on iPlayer. It noted a range of effects, including: individuals seeking out the previous, same or next episode(s) in a boxset on iPlayer after an episode is broadcast; word of mouth, marketing and media coverage around the time of broadcast on the new channel; and heightened brand awareness for BBC Three more generally. It noted the difficulty in quantifying this impact. While it had attempted some analysis, it was difficult to isolate the potential ‘shop window’ impact. It therefore applied a “subjective” 5% shop window-specific uplift to BBC Three iPlayer viewing.<sup>45</sup>

A1.79 In response to the Invitation to Comment ITV noted that the BBC PIT demonstrates that the shop window effect is a driver of BBC Three’s value, with supporting research indicating that the new channel would make BBC Three programs easier to watch or find. ITV questioned whether the 5% assumption may understate the shop window effect.<sup>46</sup>

A1.80 We recognise that a BBC Three linear channel is likely to drive awareness of the channel which would lead audiences to seek BBC Three content on iPlayer. We also note that it is difficult to estimate this quantitatively. We have tested the impact by using significantly higher ‘shop window’ uplifts. If we double the uplift to 10% BBC Three’s viewing share remains at 1.5% in 2022 for all individuals aged 4+ and increases by 0.1 percentage points

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<sup>44</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.8.

<sup>45</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.8.

<sup>46</sup> ITV confidential response to the Invitation to Comment, p.7.

(to 4.7%) for 16-34s. Quadrupling the assumption increases BBC Three’s viewing share to 1.6% for all individuals aged 4+ and 5% for 16-34s. Given the small impact of this assumption we have not revised the BBC’s assumption in the base case, but we have included a higher uplift in our sensitivity analysis.

### Acceleration of transition to iPlayer

- A1.81 The BBC considered that the marketing trail and the shop window uplifts would likely diminish over time as the viewing of the BBC Three linear channel falls (in line with the general fall in linear viewing). However, it also considered that the new channel could stimulate some long-term transition to iPlayer, because some viewers could plausibly discover BBC Three on iPlayer via the channel and transition to long-term iPlayer usage as a result. It therefore allowed for the BBC Three iPlayer uplifts to decline 33% more slowly than the linear channel decline, noting this ‘attenuation for permanent shifts in behaviour’ figure of 33% was not possible to measure and is therefore subjective.<sup>47</sup>
- A1.82 In its response to the Invitation to Comment ITV interpreted this adjustment to mean that the launch of BBC Three will result in a slower shift of viewing from linear to on demand.<sup>48</sup> This not our understanding – the adjustment assumes the transition to iPlayer is stimulated, thus leading to higher viewing on iPlayer compared to the situation where the adjustment is not present.
- A1.83 We agree that a BBC Three linear channel could stimulate a further long-term transition to iPlayer, although the extent of this is difficult to determine. This assumption increases BBC Three viewing on iPlayer, thus increases the impact of relaunching BBC Three as a linear channel, although the overall impact is minor. Given the minor impact of the assumption and because it is conservative (i.e. increases BBC Three viewing), we have retained it.

### Summary – BBC Three iPlayer viewing in factual

- A1.84 In the counterfactual for 2022 BBC Three viewing in iPlayer is estimated to be 27 billion minutes for all individuals aged 4+ and 12 billion minutes for 16-34s in 2022. The adjustments described above result in incremental additional BBC Three iPlayer viewing of 2 billion minutes for all individuals aged 4+ and 1 billion minutes for 16-34s in 2022.

### Reduced hours on CBBC

- A1.85 The BBC adjusted the viewing of the CBBC linear channel to reflect the fact that the channel will stop broadcasting at 7pm rather than 9pm.<sup>49</sup> We have described above how the BBC’s forecast for CBBC viewing from 7 to 9 pm was derived and how we have amended it. We assume that CBBC loses these viewing minutes due to the earlier closure of its broadcast. This reduces BBC viewing by around 1 billion minutes in 2022 for all individuals (aged 4+) and 0.06 billion minutes for 16-34s.

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<sup>47</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.9.

<sup>48</sup> ITV confidential response to the Invitation to Comment, p.7.

<sup>49</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.9.

## Summary – factual viewing minutes and share for BBC Three

A1.86 In our base case we estimate that relaunching BBC Three as a linear channel will increase BBC Three viewing (across linear, PVR and iPlayer combined) by 34 billion minutes/year in 2022 for all individuals aged 4+, including 7 billion minutes for 16-34s. This increases the viewing share for BBC Three for all individuals from 0.7% (in the counterfactual) to 1.5% in 2022, which is slightly above its share in 2015 (1.2%). However, it should be noted the viewing shares in 2015 and 2022 are not directly comparable, given that the 2022 estimate is conservative (so is likely to overstate the BBC’s viewing share). Viewing share for 16-34s increases from 2.9% in the counterfactual to 4.6% in 2022 if the BBC Three channel is relaunched, which compares to 2.8% in 2015. These figures are slightly higher than those estimated by the BBC (e.g. BBC estimated a BBC Three viewing share of 1.3% for all individuals in the factual). This is primarily because we have removed the assumption that BBC Three linear viewing is reduced by 25% due to the ‘iPlayer first’ commissioning strategy.

**Figure A8: Projected BBC Three viewing share in 2022**

	All individuals 4+		16-34s	
	With linear channel	Without linear channel	With linear channel	Without linear channel
<b>Ofcom estimate</b>	1.5%	0.7%	4.6%	2.9%
<b>BBC estimate</b>	1.3%	0.7%	4.3%	2.9%

Source: Ofcom and BBC analysis

Notes: Share of all UK broadcast linear and BVoD viewing (i.e. excludes subscription video on demand). This includes all BBC Three viewing on iPlayer (which differs from BARB C7 shares since it includes all iPlayer content irrespective of its broadcast date, viewed through any device).

A1.87 Netting out the impact of lost CBBC minutes gives an overall gain to BBC viewing of 33 billion minutes/year in 2022 for individuals (aged 4+). The increase in viewing for 16–34s remains 7 billion minutes/year.

## Diversion – estimating the impact on other services

A1.88 Having estimated the net viewing gain to the BBC from its proposal, we then need to consider which services will lose viewing due to diversion to BBC Three.

A1.89 The BBC commissioned MTM to undertake quantitative audience research to estimate diversion.<sup>50</sup> This comprised a consumer survey where responders were asked to estimate how much time they would spend watching a BBC Three linear channel each week, and which channels/services this time would come from. Respondents were able to choose from the full range of linear channels, BVoD and SVoD services, other video sharing services like YouTube and TikTok, and other non-video activity. The BBC assumed that viewing would be gained by the BBC only from other linear and on-demand video services. It considered this overstated the hypothetical impact on these commercial services, since

<sup>50</sup> BBC PIT Annex 1: Modelling the expected viewing for BBC Three and its market impact, p.11-12

in reality some of the viewing gained by the BBC could come from sources outside of TV. We agree this is a conservative assumption.

A1.90 A share of the diverted hours was calculated for each broadcaster portfolio and SVoD, which was then translated into lost viewing for these players. The Figure below shows the proportion of BBC Three viewing that is diverted from each channel portfolio and SVoD.

**Figure A9: Sources of viewing lost to the new BBC Three channel<sup>51</sup>**

	All individuals 4+	16-34s
<b>BBC portfolio</b>	32%	30%
<b>ITV portfolio<sup>52</sup></b>	22%	19%
<b>Channel 4 portfolio</b>	11%	11%
<b>Five portfolio</b>	7%	5%
<b>Sky portfolio</b>	6%	5%
<b>Other linear and BVoD</b>	5%	6%
<b>SVoD</b>	17%	25%

Source: MTM survey and BBC analysis. See BBC PIT Figure 24.

- A1.91 For all individuals aged 4+ and 16-34s, around 9% of BBC Three viewing is expected to come from the four main PSB BVoD services. Half of this is from iPlayer, with the remaining from ITV Hub, All4 and My5 combined.
- A1.92 In response to the Invitation to Comment, ITV questioned the results of the survey. It considered that diversion from other BBC services may be overstated given the older audience profile for existing BBC channels compared to the target audience for BBC Three. Consequently, it considered the impact on ITV was understated and suggested that 40% of BBC Three viewing would come from ITV channels. It believed the impact on ITV would fall disproportionately on ITV2 and provided its own calculations.<sup>53</sup>
- A1.93 Consumer surveys that require people to make ‘hypothetical’ decisions need to be interpreted with caution as claimed and actual behaviour may differ. To cross check the results the BBC compared the diversion figures from the survey to those used by CC in 2015 when estimating the impact of BBC Three’s linear closure. In the 2015 MIA CC assumed that the viewing hours released from the closure of BBC Three were distributed across other broadcast channels according to the viewing patterns of ‘heavy’ BBC Three viewers. The ‘heavy’ viewers represented roughly 90% viewing of the channel (derived from BARB 2013/14 data) – see Figure A10 below.
- A1.94 In the 2015 MIA we used a different measure of BBC Three ‘heavy’ viewers to calculate diversion. We used the top third of viewing hours to BBC Three in 2014. We have updated this measure to reflect 2015 BARB data and the implied diversion ratios are not materially different to the results of the survey, with the exception of the other category (as shown below).

<sup>51</sup> Each channel portfolio includes its respective on demand platform.

<sup>52</sup> Lost viewing for STV is included within the ITV portfolio.

<sup>53</sup> ITV confidential response to the Invitation to Comment, p.6 and 8. We also met with ITV to understand their particular concerns with the BBC’s model and ITV shared the basis for their own estimations.

Figure A10: Comparison of diversion estimates from survey and BBC Three heavy viewer metrics

	Survey diversion (all individuals)	BBC Three heavy viewers (CC measure, 2013/14)	BBC Three heavy viewers (Ofcom measure, 2015)
<b>BBC portfolio</b>	32%	31%	32%
<b>ITV portfolio</b>	22%	22%	21%
<b>Channel 4 portfolio</b>	11%	13%	13%
<b>Five portfolio</b>	7%	7%	7%
<b>Others</b>	11%	28%	27%
<b>SVoD</b>	17%	N/A	N/A

Source for BBC diversion: MTM survey and BBC analysis. Source for BBC Three heavy viewers: BARB.

- A1.95 The survey and the BBC Three heavy viewers metrics are not directly comparable. The survey allowed respondents to ‘take’ BBC Three viewing from SVoD (and other activities). The BBC Three heavy viewing metric is based only on broadcast TV viewing from BARB data and does not capture SVoD viewing. Overall, we consider it plausible that BBC Three viewing could come from SVoD, which has grown substantially since 2015. On balance, we consider the survey could therefore more accurately represent where BBC Three viewing is likely to come from. While there can be issues around the reliability answers to hypothetical questions in surveys, we take reassurance from the fact that the results for the main channel portfolios are very similar for both the survey and the BBC Three heavy viewing metric.<sup>54</sup>
- A1.96 With regard to ITV’s comments and own estimations – we understand ITV’s approach to modelling diversion assumed that all incremental BBC Three viewing would come from a limited set of relatively smaller channels which it considered to be similarly targeted - Sky 1, ITV2, ITV2+1, Quest, ITVBe, ITVBe+1, Really, E4, E4+1, C4+1, Dave, Dave ja vu, 4Seven, 4Music, ITV+1, Comedy Central, Comedy Central +1, Comedy Central Extra, TLC, Fox and MTV.<sup>55</sup> It considered that these channels had a similar audience demographic to BBC Three.
- A1.97 While BBC Three may target a younger audience (16-34s), the most watched channels by BBC Three heavy viewers in 2015 were BBC One (20% of broadcast viewing) and ITV (14%), followed by Channel 4 (7%) and BBC Two (6%). Further, across 16-34s the most widely viewed channels in 2020 were BBC One and ITV (14% of viewing each).<sup>56</sup> We do not consider that ITV’s diversion assumption is realistic as it does not reflect actual viewing patterns of audiences.
- A1.98 ITV also considered that ITV2 would be disproportionately impacted. Based on the survey, 4% of BBC Three viewing would come from ITV2,<sup>57</sup> this is consistent with the 2015 BBC Three ‘heavy’ viewers which shows that 3% of viewing was ITV2. We recognise that ITV2

<sup>54</sup> The BBC noted that the survey asked specifically about time taken away from other services in order to watch the new BBC Three linear channel, however, it applied the results to the BBC net viewing gain which included the BBC Three linear and iPlayer gain and the much smaller CBBC loss. We consider that this is a reasonable modelling simplification.

<sup>55</sup> ITV said it crossed checked the result using an alternative methodology which yielded similar results. Discussed at meeting between ITV and Ofcom, 29 July 2021. We note that FOX closed its linear channel in the UK on 30 June 2021.

<sup>56</sup> BARB 7 day consolidated total minutes.

<sup>57</sup> For all individuals aged 4+.

targets a similar audience to BBC Three and the channel is likely to be impacted. However, we consider that this is already reflected in the model through the diversion ratios.

A1.99 The estimated impact of relaunching BBC Three as a linear channel on channel portfolio viewing and viewing shares is shown separately for 16-34s and all individual aged 4+ in the Figures below.

**Figure A11: Impact of relaunching BBC Three linear channel on viewing, all individuals aged 4+**

Channel portfolio	Change in viewing (billion mins)	Change in viewing %	Share of viewing – without BBC Three linear	Share of viewing with BBC Three Linear	Change in viewing share (percentage points)
<b>BBC</b>	22.3	1.7%	31.8%	32.3%	0.50
<b>ITV</b>	-7.2	-0.8%	21.5%	21.3%	-0.21
<b>Channel 4</b>	-3.7	-0.9%	10.0%	9.9%	-0.10
<b>Five</b>	-2.2	-0.9%	5.9%	5.9%	-0.06
<b>Sky</b>	-1.9	-0.5%	9.2%	9.2%	-0.06
<b>Others</b>	-1.7	-0.2%	21.5%	21.5%	-0.07

Source: Ofcom analysis

**Figure A12: Impact of relaunching BBC Three linear channel on viewing, 16-34s**

Channel portfolio	Change in viewing (billion mins)	Change in viewing %	Share of viewing – without BBC Three linear	Share of viewing with BBC Three Linear	Change in viewing share (percentage points)
<b>BBC</b>	5.0	4.0%	29.3%	30.4%	1.06
<b>ITV</b>	-1.4	-1.7%	18.9%	18.5%	-0.40
<b>Channel 4</b>	-0.8	-1.3%	14.3%	14.0%	-0.24
<b>Five</b>	-0.4	-1.7%	5.2%	5.0%	-0.11
<b>Sky</b>	-0.3	-0.6%	11.9%	11.8%	-0.13
<b>Others</b>	-0.4	-0.5%	20.4%	20.3%	-0.18

Source: Ofcom analysis

A1.100 For all individuals, the BBC portfolio viewing share is increased by 0.5 percentage points. ITV and Channel 4 portfolios lose 0.2 and 0.1 percentage points of viewing share respectively. For 16-34s, the BBC gains around 1.1 percentage points of viewing share, with ITV and Channel 4 families losing 0.4 and 0.2 percentage points respectively. Other channels also lose around 0.2 percentage points of viewing share.

A1.101 We recognise that within the channel families some channels are likely to be more affected than others. For example, 16-34s tend to watch E4, ITV2 and Sky One to a greater extent than the population at large.<sup>58</sup> We have considered the impact on these channels specifically given that they are likely to be closer competitors to BBC Three. We have estimated the minutes that each channel could lose to BBC Three in 2022 (based on the

<sup>58</sup> Sky has recently announced it is rebranding Sky One from September 2021 and this will become Sky Showcase. Source: [Sky News](#) [Website accessed 16 November].

diversion ratios from the survey) and compared these to total viewing minutes for each channel in 2019.<sup>59</sup>

**Figure A13: Estimated loss of viewing minutes for selected channels**

	All individuals aged 4+		16-34s	
	Mins lost to BBC Three (2022) (billion)	As % of total 2019 viewing mins	Mins lost to BBC Three (2022) (billion)	As % of total 2019 viewing mins
<b>ITV2</b>	1.5	1.6%	0.3	1.1%
<b>E4</b>	0.9	1.5%	0.2	1.0%
<b>Sky One</b>	0.9	3.0%	0.2	2.1%

Source: BARB data, MTM survey and Ofcom analysis

A1.102 The largest proportional impact is for Sky One which is predicted to lose 0.9 billion viewing minutes to BBC Three, representing 3% of its total minutes in 2019 (all individuals aged 4+). The impact on ITV2 and E4 is smaller, ranging from 1.0-1.6% of 2019 viewing minutes.

## Estimating the financial impact on broadcasters

A1.103 Having estimated the change in viewing for commercial broadcasters, the final step is to translate this into a revenue impact. Lower volumes of viewing are anticipated to reduce advertising impacts, which could affect advertising revenues.

A1.104 The BBC assumed that the reduction in the supply of impacts would reduce advertising revenue, but by a less-than equal fall in the share of viewing. This is because they assumed that a reduction in the supply of impacts would likely lead to an increase in the unit price of those impacts (given that the supply of advertising impacts is constrained in the short to medium term) thereby partially offsetting the revenue impact of a reduction in advertising impacts. This elasticity effect<sup>60</sup> was modelled by incorporating “offsets” of 67%, 50% and 33%. This is the same approach that we took in the 2015 MIA.

A1.105 In response to the Invitation to Comment ITV questioned the validity of applying the 2015 MIA approach as “much has changed in the advertising market since 2015 and it is not clear whether these measures of market elasticity are valid in a modern advertising market.”<sup>61</sup>

A1.106 It is not a straightforward exercise to estimate the change in advertising revenue resulting from a change in viewership. While the BBC will draw audiences away from commercial broadcasters, it does not directly compete for advertising with commercial broadcasters.

<sup>59</sup> This is based on seven-day consolidated viewing from BARB. We did not use 2020 viewing minutes as these may have been affected by the Covid pandemic.

<sup>60</sup> The price elasticity of demand is a measure of the change in quantity demanded of a good in relation to a change in the price of that good

<sup>61</sup> ITV confidential response to the Invitation to Comment, p.8

However, the BBC Three linear channel could impact the advertising revenue of commercial broadcasters, as it could affect first, the distribution and second, the total amount of viewing to commercial channels (known as ‘commercial impacts’). We consider these in turn below.

- A1.107 A broadcaster’s share of commercial impacts is a key determinant of the share of advertising revenue the broadcaster is able to achieve.<sup>62</sup> If BBC Three’s increased viewing particularly impacted an individual broadcaster, it could affect their SOCI, and so the amount of advertising revenue they receive.<sup>63</sup>
- A1.108 We have examined this and we do not expect there to be a material change to SOCI. When BBC viewing is excluded, our model shows that the viewing shares for the main commercial channel portfolios (ITV, Channel 4, Five and Sky) are virtually identical in the counterfactual and the factual. This is true for all audiences and 16-34s<sup>64</sup> (even for individual channels which are closer competitors to BBC Three, the anticipated impact on viewing is modest as show in Figure A13 above).
- A1.109 Another way in which commercial broadcasters may be impacted would be if advertising revenues with commercial channels falls, as a result of reduced viewing. Whether this occurs will depend on how advertisers adjust their advertising expenditure in response to the reduction in the supply of commercial impacts.<sup>65</sup> In our view, it is likely that total advertising spend will fall, but by proportionally less than the fall in viewership. This is because the volume decrease will be partially offset by an increase in price reflecting increased scarcity. Our reasoning is as follows:
- TV advertising continues to deliver mass audiences which are attractive to advertisers who want quick, high levels of reach and a ‘safe’ environment for brands. In our 2021 Media Nations report, we found that even with the increase in online alternatives, TV advertising remains the medium of choice for big brands wanting to reach an audience quickly and at scale, with advertisers citing TV’s ability to drive both short-term sales and longer-term brand equity as a major advantage.<sup>66</sup>
  - For advertisers looking to reach mass audiences (including consumers in the 16-34 age category), the relaunch of BBC Three is unlikely to change the mass market appeal of TV advertising, nor does it change TV options available to advertisers. While some advertisers may on the margin switch to online alternatives, these are not perfect

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<sup>62</sup> The majority of advertising is sold on a share of broadcast revenue basis. What this means is that advertisers and/or media buyers commit to spend a certain percentage of their future total TV advertising spend with a broadcaster (or its sales house), in return for a share of the commercial impacts which the broadcaster promises to deliver over the next year.

<sup>63</sup> This could potentially happen if, for example, BBC Three draws audiences disproportionately from some channels compared to others.

<sup>64</sup> Our model combines viewing estimates for BVoD and linear viewing and therefore this estimate includes BVoD viewing. We recognise that the competitive dynamics for linear advertising is likely to be different to that of BVoD viewing. However, given that BVoD viewing is small relative to linear viewing, we would not expect share estimates for linear viewing only to be materially different from those we estimate using combined viewing.

<sup>65</sup> If, for example, advertisers have good substitutes, they can switch to these substitutes in the event of a fall in the supply of impacts and we would expect to observe a decline in total advertising revenue.

<sup>66</sup> [Media Nations 2021](#): UK report, p.55 [Website accessed 18 November 2021]

substitutes and it is therefore reasonable to assume that TV advertising expenditure overall would not reduce by as much as the proportionate reduction in volumes.<sup>67</sup>

- This implies that the price of advertising (which functions as an adjusting mechanism in the market) is expected to increase in response to the reduction in the supply of commercial impacts and that this would offset the reduction in volumes to some extent. This outcome would be consistent with Channel 4's observation that the proposal may lead to price inflation for advertisers as audiences shift from the commercial sector to the BBC.<sup>68</sup>

A1.110 Although we consider that the fall in advertising revenues is likely to be less than the fall in viewing, some reduction in revenues in the medium to long run is reasonable. This is broadly consistent with academic studies which have looked at the demand for TV advertising.<sup>69</sup>

A1.111 We therefore consider that the impact on advertising revenue is likely to lie somewhere between the two scenarios of no change in revenue and a reduction in revenue that entirely matches the fall in viewers.<sup>70</sup> Because it is difficult to determine the precise relationship between viewing and revenue, we consider it appropriate to model a plausible range. We have assumed the percentage change in revenue would fall by one-third to two-thirds<sup>71</sup> of the estimated percentage change in viewing. This is also the approach that was adopted in the 2015 MIA as well as in the 2018 BBC Scotland Competition Assessment with respect to regional advertising.

A1.112 Finally, we recognise that audiences in the 16-34 age category are a particularly valuable demographic and are worth more to advertisers compared to all audiences. This is reflected in a higher cost per thousand (CPT) for audiences in the 16-34 age category. The BBC recognised this in their own model and used information from ThinkBox which estimated that the CPT for 16-34s was roughly 5 times that for all adults.<sup>72</sup> Using the proportion of the BBC's additional viewing that comes from 16-34s implies a 1.5 times scaling factor for the revenue impact. It is appropriate to incorporate this impact in the model and we have checked that a CPT for 16-34s of 5 times that of all adults is accurate. We apply this scaling factor to derive the revenue impact for both the high and low end of our range.

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<sup>67</sup> We note that with respect to BVoD, advertisers may have more substitutes, but given our diversion estimates, we expect that the impact on BVoD to be relatively small

<sup>68</sup> Channel 4 response to Public Interest Test consultation, p.9

<sup>69</sup> In our 2015 MIA, where we first applied the price offsets (of a third, a half and two-thirds), we referenced various elasticity studies which informed our approach but noted that there were limitations with applying these studies and they were not entirely consistent with each other. However, we noted that the range of price offsets that we used did broadly encompass the range of estimates of the price elasticity of demand. The price offset range applied suggests that a fall in commercial impacts will result in an increase in price that partially (but not fully) offsets the fall in impacts.

<sup>70</sup> Note however that this is not necessarily the best-case scenario as this does not reflect the possibility that a fall in commercial impacts could theoretically lead to an increase in revenues (where the increase in price more than offsets the fall in impacts).

<sup>71</sup> The scenario where revenue falls by one-third corresponds to the price offset scenario of 67%, while the scenario where revenue falls by two-thirds corresponds to the price offset of 33%.

<sup>72</sup> See [Thinkbox \(2019\), Targeting Explained](#) [accessed 16 November 2021]

A1.113 The figure below provides the revenue impacts for the low and high end of the range. The low end corresponds to the scenario where revenue falls by one-third of the decline in viewership, while the high end corresponds to the scenario where revenue falls by two-thirds of the corresponding fall in viewing.<sup>73</sup> Based on this range, we have estimated that the total loss in revenues could be between £15m and £30m per annum. This represents less than 1% of estimated national TV advertising in 2022. This is likely to be most felt by ITV and Channel 4, who might lose 0.4% to 0.8% (~£8-15m per annum), and 0.4% to 0.9% (~£5-10m per annum) of their revenues respectively.<sup>74</sup> The remaining revenue loss of £3-5m per annum is split across all other commercial broadcasters.

**Figure A14: Impact on commercial broadcasters, 2022**

	Change in viewing	2022 TV and VOD advertising revenue (£m)	£m revenue impact (low)	£m revenue impact (high)	Impact as a % of advertising revenues (low)	Impact as a % of advertising revenues (high)
ITV portfolio <sup>75</sup>	-0.8%	1904	-8	-15	-0.4%	-0.8%
Channel 4 portfolio	-0.9%	1102	-5	-10	-0.4%	-0.9%
Other commercial <sup>76</sup>	-0.4%	1461	-3	-5	-0.2%	-0.4%
<b>Total</b>		<b>4467</b>	<b>-15</b>	<b>-30</b>	<b>-0.3%</b>	<b>-0.7%</b>

Source: Ofcom analysis, ITV annual reports, Channel 4 annual reports, STV annual reports, Group M TV advertising revenue forecasts.

A1.114 As noted above, the plausible range we present in the table above does not encompass the more extreme scenarios of no revenue impact or a fall in revenue that is proportional to the fall in viewership. However, even in the unlikely worse-case scenario where advertising revenue falls in proportion to the fall in viewing, we note that this would not change our conclusions. In this scenario, revenue would fall by £45m per annum across all the effected channels which remains relatively small in the context of national TV advertising revenues.<sup>77</sup>

## Sensitivity analysis

A1.115 The results presented above represent our ‘base case’. We consider our base case to be conservative, since where assumptions are uncertain we have tended to take an approach which overstates the BBC’s viewing and impact (for example, we have removed the

<sup>73</sup> Since we apply the scaling factor of 1.5 times to reflect the higher CPT in both the high end and the low end of the range, in practice this means that we observe a higher percentage loss in revenue than we would expect if we simply applied the one-third and two-third reduction factors to revenue.

<sup>74</sup> In response to the consultation ITV provided its own estimates of the revenue impact on the ITV portfolio and ITV2 specifically due to the BBC’s proposals. We discuss in paragraphs 4.19 to 4.25 why we do not agree with elements of the methodology adopted by ITV.

<sup>75</sup> Including STV.

<sup>76</sup> Other commercial includes all other channels not included in the BBC, ITV or Channel 4 portfolios.

<sup>77</sup> As discussed above, we adopted conservative assumptions for our base case viewing estimations which are likely to overstate the impact on viewing and therefore the impact on revenue.

assumption that BBC Three viewing will be reduced due to the BBC’s ‘iPlayer first’ commissioning strategy).

A1.116 For the most subjective and uncertain assumptions we have tested how the model outputs change when the assumptions change. We have looked specifically at the shop window uplift and the EPG assumptions. We consider that several of our assumptions could change in a way that reduces BBC Three’s impact. However, as we are concerned with identifying the maximum potential market impact, we have changed the assumptions to increase the potential impact of relaunching a BBC Three linear channel.

A1.117 The impact on commercial broadcasters is summarised below, alongside the base case for comparison. We have presented the change in viewing for each channel portfolio and the maximum anticipated impact as a share of total TV advertising revenue (corresponding to the ‘high’ scenario above). In each sensitivity test we have changed one assumption, leaving the other assumptions as per the base case.

**Figure A15: Sensitivity tests**

	Base case		Shop window uplift sensitivity (10% uplift)		Using BBC Four EPG slots		0.5% viewing reduction per downward EPG slot move	
	Change in viewing	Maximum impact as a share of total revenue	Change in viewing	Maximum impact as a share of total revenue	Change in viewing	Maximum impact as a share of total revenue	Change in viewing	Maximum impact as a share of total revenue
<b>ITV portfolio</b>	-0.82%	-0.8%	-0.85%	-0.9%	-0.92%	-0.9%	-0.90%	-0.9%
<b>Channel 4 portfolio</b>	-0.90%	-0.9%	-0.94%	-0.9%	-1.02%	-1.0%	-0.99%	-1.0%
<b>Other commercial</b>	-0.38%	-0.4%	-0.39%	-0.4%	-0.43%	-0.4%	-0.42%	-0.4%
<b>Total</b>		-0.7%		-0.7%		-0.8%		-0.7%

Source: Ofcom analysis, ITV annual reports, Channel 4 annual reports, STV annual reports, Group M TV advertising revenue forecasts

## Shop window uplift

A1.118 In the base case we have assumed a 5% shop window uplift. We have tested the impact of increasing this assumption to 10%. The results in the Figure A15 show the impact on commercial broadcasters is slightly higher, however, revenue impact remains less than 1% of total advertising revenues.

## EPG slot position

A1.119 In response to the BBC’s PIT consultation Channel 4 and ITV commented that, in future, the BBC may want to swap the EPG positions of BBC Four and BBC Three, in order to gain a

more prominent position for BBC Three.<sup>78</sup> Channel 4 reiterated this point in response to the BCA consultation.<sup>79</sup> While the BBC has stated this is not its current intention, we recognise that, provided that it is line with the EPG provider’s slot allocation policy, it could be a future possibility. We have tested the impact if BBC Three and BBC Four were to swap EPG positions. BBC Three’s modelled EPG slot in 2022 and BBC Four’s current EPG slot positions are shown in the Figure below:

**Figure A16: BBC Four and BBC Three EPG slots**

Platform	EPG position of BBC Four	Modelled slot for BBC Three in 2022
Freeview	9 <sup>80</sup>	24
Sky	16	15
Virgin Media	7	8
Freesat	7	10

Source: Ofcom and BBC

- A1.120 Were BBC Three to swap EPG positions with BBC Four, the largest change would be for Freeview, where BBC Three could move up by 15 slots. There would be no change for Sky, where BBC Four currently has a lower position than that modelled for BBC Three.
- A1.121 We have made the conservative assumption that BBC Four’s viewing is unchanged, despite it moving to a lower EPG position due to the swap.
- A1.122 Effecting the above EPG slot changes (assuming no other changes to the base case) increases BBC Three’s viewing share by 0.1 percentage point to 1.6% for all individuals aged 4+, and 0.2 percentage points to 4.8% for 16-34s. As shown in Figure A15, the revenue impact remains 1% or less for ITV and Channel 4.

## Viewing change per EPG slot move

- A1.123 In the base case we have assumed a viewing reduction of 1.5% per downward EPG slot move for the new BBC Three channel relative to the old channel (see paragraph A1.64). We have tested the impact of changing this assumption to 0.5%. Figure A15 shows that a 0.5% assumption increases the impact on commercial broadcasters (because it implies higher overall BBC Three minutes), however, the revenue impact for each of ITV and Channel 4 remains 1% or less.

<sup>78</sup> Channel 4 response to Public Interest Test consultation, p.10; ITV confidential response to Public Interest Test consultation, p.6.

<sup>79</sup> Channel 4 consultation response, p 4.

<sup>80</sup> In Scotland BBC Four is at slot 24. We made the simplifying and conservative assumption that, if BBC Three is moved to BBC Four’s slot, it achieves slot 9 across the whole of the UK.

## SVoD and pay-TV subscriptions services

### Our approach

- A1.124 Free to air broadcasters (e.g. BBC and ITV) compete against pay-TV services (e.g. Sky and Virgin Media) and SVoD services (e.g. Netflix) that are subscription funded. A BBC Three linear channel could divert viewing from pay-TV and SVoD services. This may be a concern if it resulted in both; i) a loss of SVoD/pay-TV customers and thus subscriptions revenues, and ultimately ii) SVoD/pay-TV providers cut back on offerings, investment or innovation leading to reduced consumer choice.
- A1.125 For the reasons set out below, we do not consider that the launch of a BBC Three linear channel is likely to result in a material number of households altering their subscription purchasing decisions. Therefore, we consider that the impact on subscription revenues will be minimal and we have not attempted to quantify it.<sup>81</sup>

### Our view

#### SVoD

- A1.126 The MTM survey indicated that 17% of BBC Three viewing would come from SVoD for all individuals 4+. The respective figure for 16-34s is 25%.<sup>82</sup> This suggests that around 6 billion minutes of BBC Three viewing could come from SVoD in 2022 for all individuals aged 4+, with the corresponding figure for 16-34s 2 billion minutes. For both groups this is very small (less than 1%) of forecast SVoD viewing minutes in 2022.
- A1.127 The survey asked respondents whether they would be likely to cancel their SVoD subscriptions in response to the channel launch. The results are shown below:

**Figure A17: Intention to cancel SVoD service**

SVoD service	Proportion of respondents that would definitely or consider cancelling the service due to the launch of BBC Three linear
Netflix	8%
Amazon prime video	13%
Disney+	17%
NOW	22%
BritBox	23%

<sup>81</sup> We note that pay-TV providers may also lose advertising revenues. However, we consider that advertising revenues are small in relation to subscription revenues, and any limited loss in advertising revenue due to a BBC Three linear channel is unlikely to have an impact on overall incentives to invest.

<sup>82</sup> This is the proportion of BBC Three viewing that is diverted from SVoD assuming that BBC Three viewing is gained only from other linear and on-demand video services.

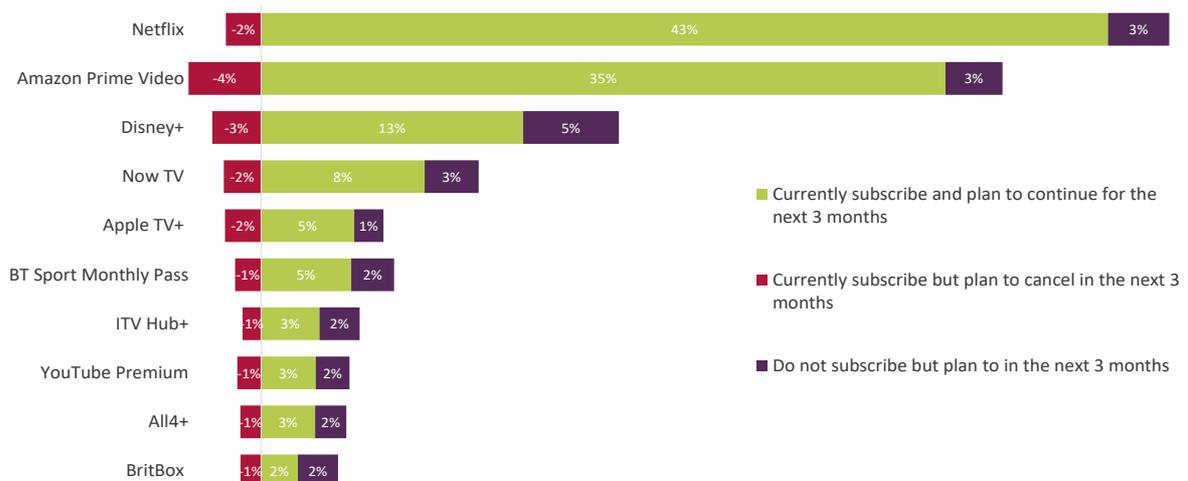
Source: MTM survey (March 2021) question D13 – Impact on SVoD services (results rebased to exclude those who stated ‘don’t know’. Base: All in national representative sample who currently use the following services on a weekly basis - Netflix (915), Amazon prime video (657), Disney+ (420), NOW TV (307) and BritBox (203)

A1.128 The BBC considered the survey results were likely to overstate SVoD churn in response to the channel launch for several reasons:<sup>83</sup>

- survey results which ask about specific actions can be subject to overstatement bias, particularly in regard to subscription cancellations;
- the results do not account for the fact that the decision to cancel a subscription may depend on the attitudes of all members of the household; and
- the survey did not ask about respondents’ intention to cancel their subscriptions prior to the channel launch.

A1.129 We tend to agree that the consumer survey is likely to overstate SVoD churn intentions in response to the launch of BBC Three. Our own survey conducted for the 2020 Media Nations report indicated that a very small proportion of households intended to cancel their SVoD subscription in the next 3 months (see Figure below) i.e. consumers are ‘attached’ to their SVoD subscriptions.

Figure A18: Household subscription status and intention of UK online adults, by SVoD service



Source: Ofcom TRP Covid-19 Media Behaviours survey. Fieldwork conducted 4-5 July 2020. Note: Those who selected ‘Do not subscribe and do not plan to subscribe in the next 3 months’ and ‘Don’t know’ not charted. Base: Online adults aged 16+.

A1.130 The largest proportion of the UK’s top three SVoD services (Netflix, Amazon prime video and Disney+) catalogue is made up of content produced predominantly outside the UK, resulting in these SVoDs providing a somewhat different offering to BBC Three. According to our Technology Tracker, series originally made for, or exclusive to, individual SVoD providers were an important driver behind the decision to subscribe – with the intention ‘to watch exclusive content not available elsewhere’ listed as a top-three reason for

<sup>83</sup> BBC PIT, p.92

household subscription for all services, with the exception of Britbox and All4+.<sup>84</sup> Overall, it seems unlikely that the relaunch of BBC Three alone would materially increase the propensity to cancel SVoD subscriptions.

A1.131 We do not expect a significant reduction in revenues for SVoD services due to a BBC Three linear channel and we do not anticipate that incentives to invest and innovate will be materially affected. Further we note that competition in the sector has grown over recent years, therefore SVoD providers are likely to be incentivised to invest and innovate in order to retain and attract consumers. We do not anticipate any material impact on the choice of services offered to consumers as a result of the BBC's proposals.

### Pay-TV

A1.132 We do not have a specific figures for viewing diversion from pay-TV channels due to a BBC Three linear channel, however, we know diversion from all 'other' (non-PSB) channels is 11% for all individuals aged 4+ and 16-34s, and pay-TV channels would be a subset of this.

A1.133 The MTM survey asked the subscribers of pay-TV services whether they would be likely to cancel their subscription as a result of the channel launch.<sup>85</sup> 6%, 3% and 5% of BT, Virgin Media and Sky subscribers, respectively, claim that they would definitely cancel their pay-TV package. 20%, 15% and 14% of BT, Virgin Media and Sky subscribers, respectively, claim that they would consider making changes to their pay-TV package.

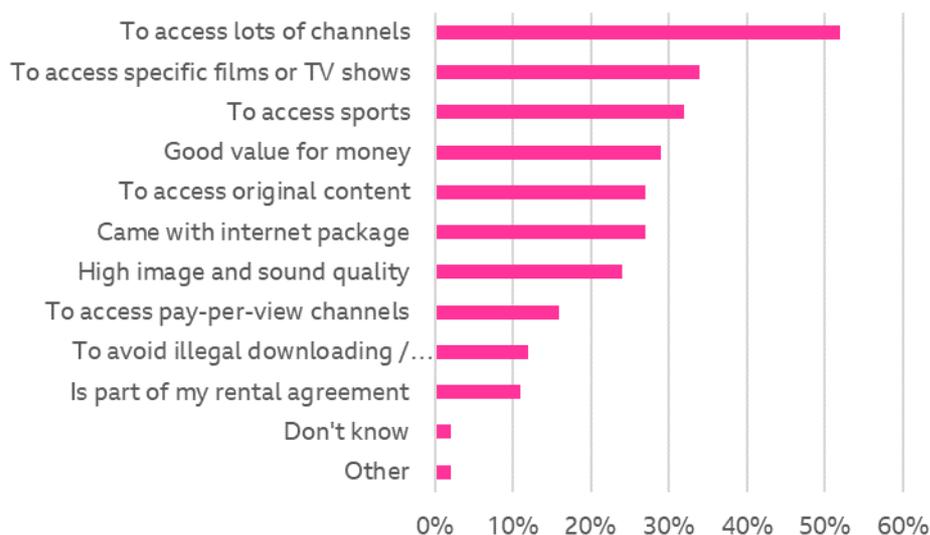
A1.134 The BBC suggested the survey results were likely to overstate churn from pay-TV packages because of the channel launch for the reasons set out at paragraph A1.128 above. In addition, the BBC noted that many pay-TV subscriptions are part of a wider package of services, including broadband and phone packages. This means that respondents may have failed to consider that the decision to subscribe is not solely determined by the relative attractiveness of the pay-TV service itself. 27% of pay-TV subscribers in the UK gave "came with internet package" as a reason for subscribing (see Figure below).

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<sup>84</sup> Ofcom Technology Tracker 2021. The full list of reasons to subscribe to SVoD can be found in the [interactive report](#) [accessed 16 November 2021].

<sup>85</sup> MTM survey question D13b: "Earlier you told us you subscribe to [X pay-TV service]. How likely, if at all, would you be to cancel or downgrade your [X pay-TV service] subscription if the new BBC Three channel were to launch?"

Figure A19: Reasons for paying for a TV subscription (cable/satellite) in the UK, 2020



Source: Statista Global Consumer Survey.

Notes: Multiple answers were possible. Results should be interpreted as, e.g., 52% of respondents subscribe to pay-TV in order to access lots of channels.

A1.135 We tend to agree that the survey is likely to overstate pay-TV churn intentions in response to the launch of BBC Three. The Figure above indicates the top reasons for taking pay-TV are to access lots of channels, to access specific films or TV shows and to access sports. Therefore it seems unlikely that a BBC Three linear channel would be a close substitute for a pay-TV subscription.

A1.136 We do not consider that the BBC's proposals are likely to result in a material number of households altering their pay-TV subscription purchasing decisions and the impact on pay-TV revenues is likely to be minimal. For this reason we do not anticipate that incentives to invest and innovate will be materially affected. Further we note that competition from SVoD has grown over recent years and pay-TV providers are likely to be incentivised to invest and innovate to retain and attract consumers.