



The Communications Market 2010

2 TV and audio-visual

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2.1 Key market developments in TV and audio-visual

2.1.1 Industry metrics and summary

Figure 2.1 Industry metrics

UK television industry	2004	2005	2006	2007	2008	2009
Total TV industry revenue (£bn)	10.0	10.5	10.6	11.1	11.2	11.1
Proportion of revenue generated by public funds	24%	25%	25%	25%	24%	25%
Proportion of revenue generated by advertising	35%	35%	33%	32%	31%	28%
Proportion of revenue generated by subscriptions	34%	35%	36%	37%	39%	41%
TV as a proportion of total advertising spend	29.6%	29.6%	27.9%	26.9%	26.5%	27.5%
Spend on originated output by 5 main networks (£bn)	3.1	3.0	2.8	2.7	2.6	2.4
Digital TV take-up	53.0%	61.9%	69.7%	86.3%	87.1%	91.4%
Proportion of DTV homes paying for TV (Q1)	71.7%	64.3%	60.0%	55.0%	53.1%	54.6%
Viewing per head, per day (hours) in all homes	3.70	3.65	3.60	3.63	3.74	3.75
Share of the five main networks in all homes	73.8%	70.4%	66.7%	63.5%	60.8%	57.8%
Number of channels broadcasting in the UK	379	416	433	470	495	490

Source: Ofcom/broadcasters/Advertising Association/Warc/BARB/GfK. Note: Public funds include the DCMS grant to S4C and BBC funding that is allocated to TV; TV as a proportion of total advertising spend excludes direct mail and is based on © Advertising Association/Warc Expenditure Report (www.warc.com/expenditurereport); spend on originations includes spend on nations and regions programming (not Welsh and Gaelic language programmes but some Irish language). Note that digital television take-up in Q1 2010 had reached 92%.

The section looks at key developments and trends seen in the UK television market during the past year. These include:

- TV industry revenues contracted by 0.4% in 2009 to £1.1bn as continued growth in pay-TV subscriptions failed to offset reductions in TV advertising.** UK television broadcasters experienced a 9.6% decline in net advertising revenue in 2009, to reach £3.1bn. The commercial PSB services – ITV1 and the other Channel 3 licensees, GMTV1, Channel 4, Five and S4C - saw the steepest decline, down 14.0% year on year to £1.9bn (page 99).
- Time-shifted television viewing accounted for 5.9% of all viewing, more than three times the amount in 2006.** A major factor behind this increase was the growing popularity of digital video recorders (DVR) (page 100).
- Catch-up TV services continued to grow in popularity in 2009** as increasing numbers of consumers watched internet-based content via their PC and other devices. Ofcom research in Q1 2010 found that 31% of adults with the internet had watched catch-up TV, up from 23% a year earlier, but this still constitutes a small amount of overall viewing (page 103).

- **The average person spends 252 minutes per week watching non-linear (on-demand) audio-visual content across a variety of platforms and devices (17% of all viewing)**, according to Ofcom research. Average non-linear viewing is highest among 25-44s and 16-24s. It is lowest among those aged 55+ (page 106)¹⁵.
- **Around 5.1 million homes had access to high-definition television channels by the end of Q1 2010**, up from 1.9 million in Q1 2009. A niche product for some years, HD is now being embraced by a growing number of homes. Sales of HD-ready TV sets passed 24 million at the end of Q1 2010, Sky began to invest more in marketing HD, and Freesat HD device sales exceeded 800,000 in 2010. The choice of HD services was further expanded when Freeview HD launched in March 2010 (page 106).
- **3DTV became a reality as content and 3D-capable equipment began to appear in the UK market.** In April 2010, BSkyB launched Europe's first dedicated 3D channel to selected pubs and clubs around the UK. A growing number of televisions are incorporating broadband connectivity to offer a range of web content and applications (page 111).
- **Viewing of the PSB channels and their portfolios began to plateau in 2009, falling slightly from 71.8% to 71.6%.** In the past, the increase in share of the PSB portfolio channels has outweighed declining share of the main PSB channels (page 113).
- **During 2009 and early 2010 the TV switchover programme gathered pace across the UK.** By the end of June 2010, analogue television signals had been switched off at 21 transmitter groups, covering five ITV regions (Wales, South West, West, Border and Granada); and 92% of UK homes had upgraded their main set to digital by the end of Q1 2010 (page 117).

2.1.2 TV industry revenue down 0.4% to £11.1bn in 2009, as advertising is hit

Growth in pay-TV subscription revenue failed to offset falling television advertising revenue in 2009, which led to a £49m (0.4%) year-on-year fall in TV industry revenues, to £11.1bn. This marked the first time that the TV industry has contracted since Ofcom began reporting on the size of the television market, as broadcasters contended with the impact of an economic downturn.

Net advertising revenue (NAR) was the worst hit of all revenue streams, down by £335m (9.6%) in 2009 to £3.1bn. TV was not the only industry to experience a more challenging advertising market in 2009; the total UK advertising market was worth £14.5bn across all sectors in 2009, 12.5% lower than the £16.6bn spent in 2008 (although this relates to advertising spend rather than revenue)¹⁶.

Pay-TV operator revenues appeared comparatively unaffected throughout the recession and this was reflected in the continued growth in the sector, with revenues up by £319m (7.5%) in 2009 to £4.6bn. This was in spite of the closure of Setanta Sports in June 2009, which paved the way for ESPN to launch a new premium sports subscription channel two months later.

¹⁵ Note: our research was a diary-based survey, and respondents were more likely to remember higher-attention activities, such as watching recorded programmes, than lower-attention activities such as scheduled television. It is also important to note that our data are for adults (16+), while BARB data are for all individuals (4+).

¹⁶ © Advertising Association/Warc Expenditure Report (www.warc.com/expenditurereport)

The number of TV channels decreased in 2009

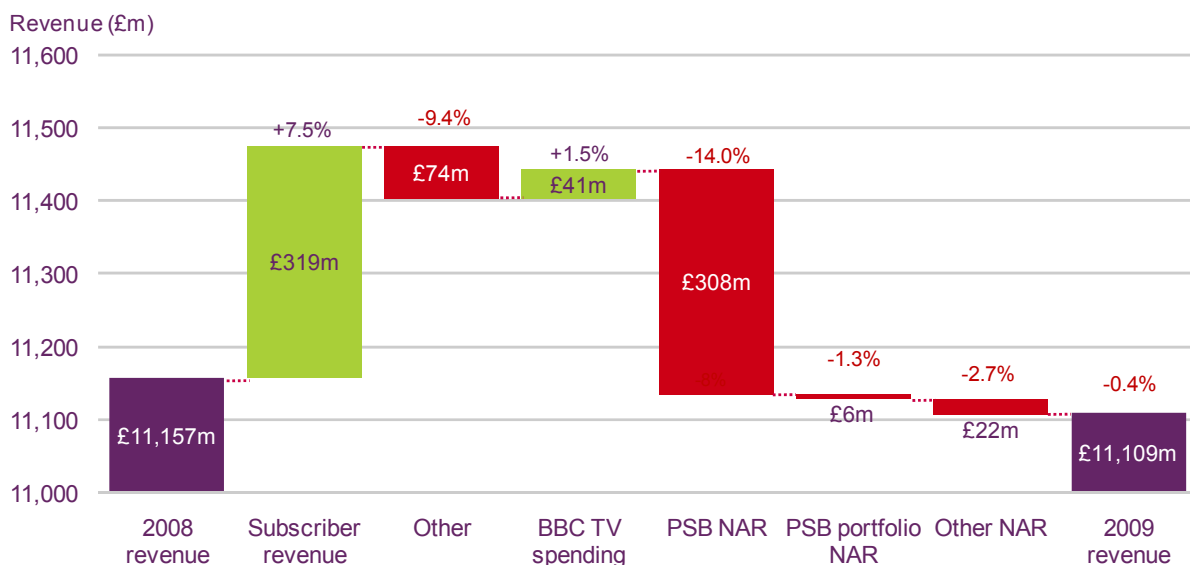
The closure of Setanta Sports and its UK channels contributed towards the first ever annual fall in the number of UK television channels, down from 495 at the end of 2008 to 490 in 2009. Following years of consistent growth, the contraction in the number of channels could suggest that the multichannel market is reaching saturation point.

The closure, in October 2007, of the launch queue for channels on the Sky Digital satellite platform was another contributing factor towards the slowdown. The move, taken to maintain the technical integrity of Sky Digital set-top boxes, meant that the number of standard definition channels on Sky Digital could not increase further. However, broadcasters wishing to launch new channels are able to 'trade' slots with existing channels on the Sky electronic programme guide (EPG).

The launch queue was subsequently reopened for high-definition channels, as the Sky+HD set-top boxes are not limited by the same memory constraints as the standard definition receivers.

Ofcom estimates that the amount of the BBC's revenue allocated to TV, the third biggest component of TV industry revenue, grew marginally in 2009, up by £41m (1.5%) to £2.7bn.

Figure 2.2 Changes in TV industry revenue, 2008 - 2009



Source: Ofcom/broadcasters

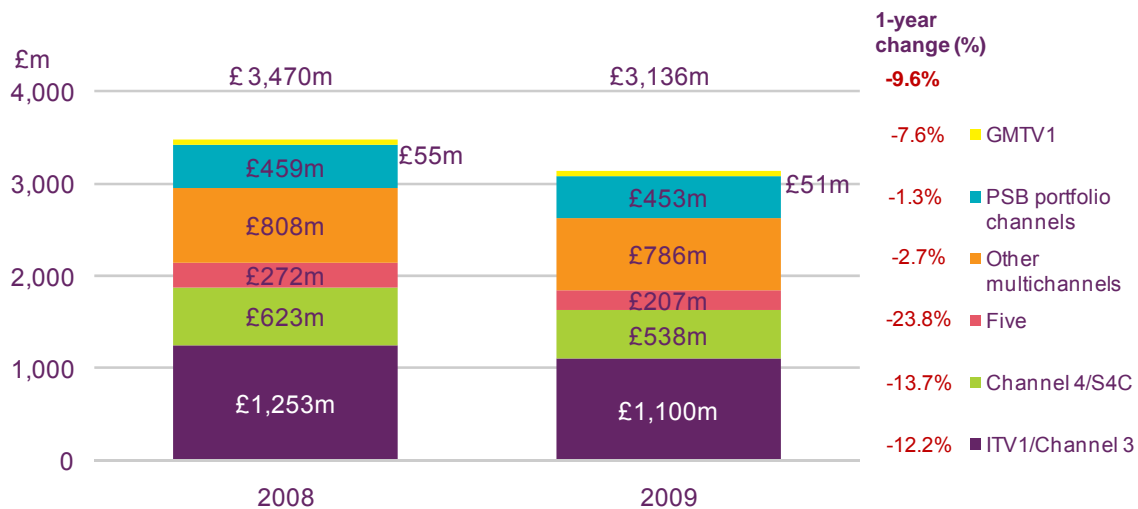
Note: Figures expressed in nominal terms. PSB NAR comprises Channel 3 licensees (including GMTV1), Channel 4, Five and S4C. PSB portfolio NAR includes the commercial channels owned by the PSBs. 'Other NAR' comprises the rest of the multichannel market. Platform operator revenues do not include any installation costs, equipment sales or subsidies. BBC TV spending represents the amount of BBC revenue that is allocated to TV.

Advertising revenue across all commercial television channels fell in 2009 - including commercial PSBs, PSB portfolio channels and other multichannel services. The main commercial PSB channels – ITV1, STV, UTV, Channel Television, GMTV1, Channel 4/S4C and Five - felt the brunt of the declining advertising market, with NAR generated by these channels down 14.0% in the year to £1.9bn. Five experienced the largest reduction in NAR during 2009, down by 23.8% to £207m. The Channel 3 licensees collectively saw NAR fall by 12.2% in the 12 months, to £1.1bn, while Channel 4/S4C generated £538m in advertising,

a 13.7% drop. All of these channels together generated £333m in non-advertising-related revenue in 2009, a 1.4% increase year on year (excluding S4C's grant from the DCMS).

The PSB portfolio channels' NAR declined for the first time in 2009, down by 1.3% to £453m. The rest of the multichannel market saw a 2.7% reduction, down £22m to £786m.

Figure 2.3 TV net advertising revenues



Source: Ofcom/broadcasters. Note: Totals may not equal the sum of the components due to rounding. ITV1/Channel 3 includes ITV1, STV, UTV and Channel Television.

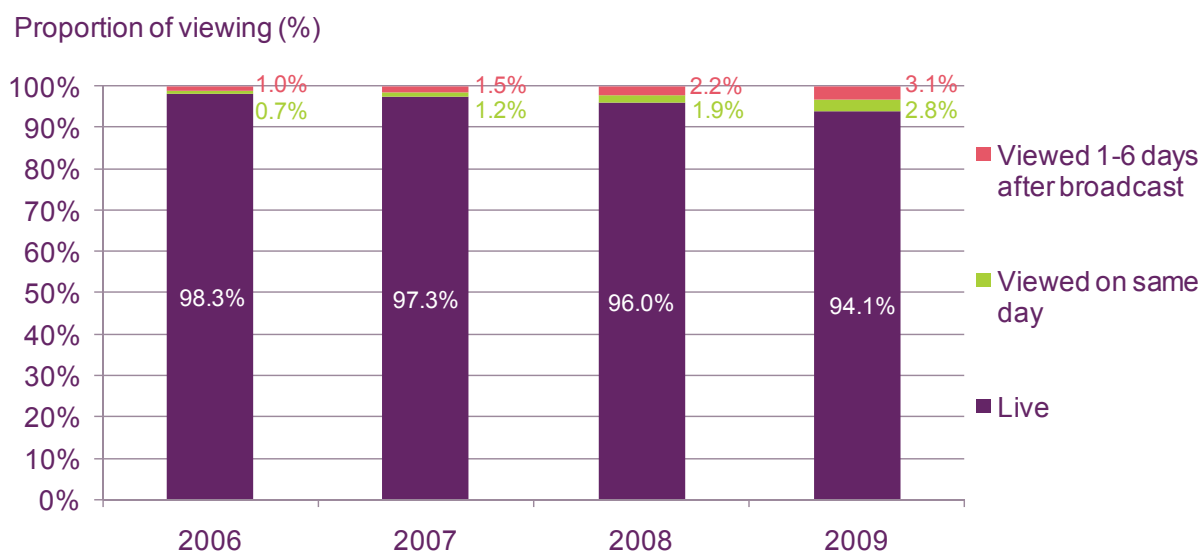
2.1.3 The dynamics of DVR-based TV viewing

DVR adoption has risen steadily over the past five years, rising more than threefold from 11% in 2005 to 37% of homes in 2010¹⁷. And DVRs are already exerting a substantial influence over consumers' viewing habits. According to BARB, the percentage of all TV viewing that was time-shifted through a recording device more than tripled between 2006 and 2009, from 1.7% to 5.9% (the proportion of recorded viewing among people with access to a DVR in their home is 15.1%).

Moreover, the proportion of all time-shifted viewing of content recorded and watched on the day of broadcast has risen fourfold over the last three years. When we refer to time-shifted viewing this does not include live viewing of '+1' channels, which are sometimes described as time-shift channels.

¹⁷ Ofcom Technology Tracker, Q1 2010

Figure 2.4 Live versus time-shifted TV viewing, all individuals, all homes

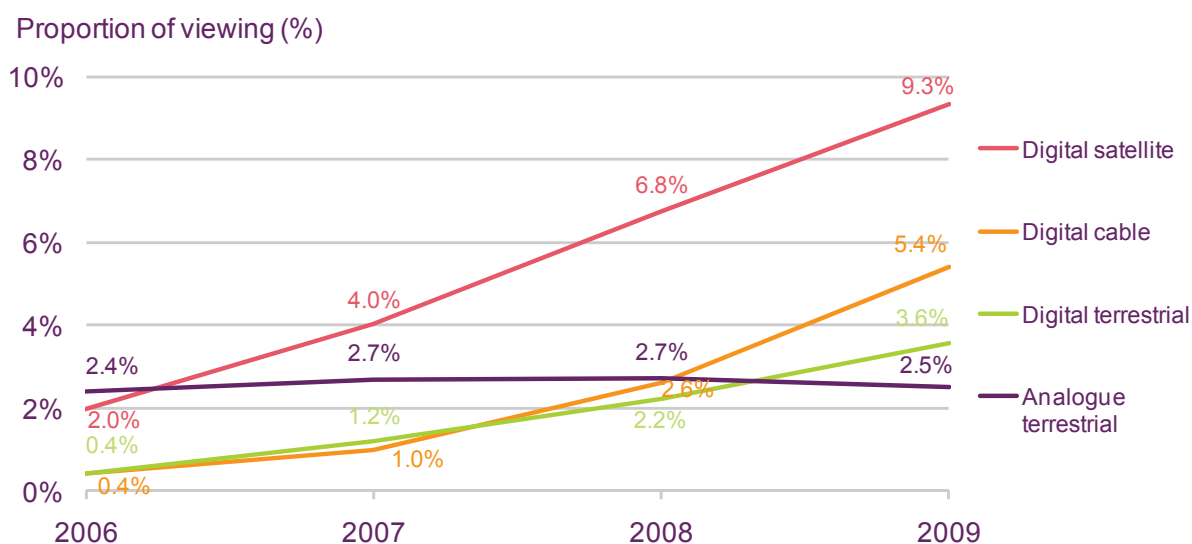


Source: BARB, all individuals, all homes

Across all digital television platforms, the growing popularity of DVRs has resulted in a marked shift in recorded viewing during 2009. The prevalence of recorded viewing in digital TV homes has risen on each platform during 2009. By contrast, in analogue television homes, the proportion of recorded viewing using video cassette recorders (VCRs) has remained fairly steady since 2006, at around 2.5% of all viewing.

On digital satellite, recorded viewing accounted for 2% of all viewing on the platform; by 2009, the figure had increased to 9.3%. On the digital cable and digital terrestrial platforms, the shift towards recorded viewing has been even more pronounced. In 2006, recorded viewing accounted for just 0.4% of viewing, on both platforms, but by 2009 this had increased to 3.6% of DTT viewing (more than eight times higher than in 2006) and 5.4% on cable (over twelve times higher).

Figure 2.5 Proportion of viewing that is time-shifted, by platform



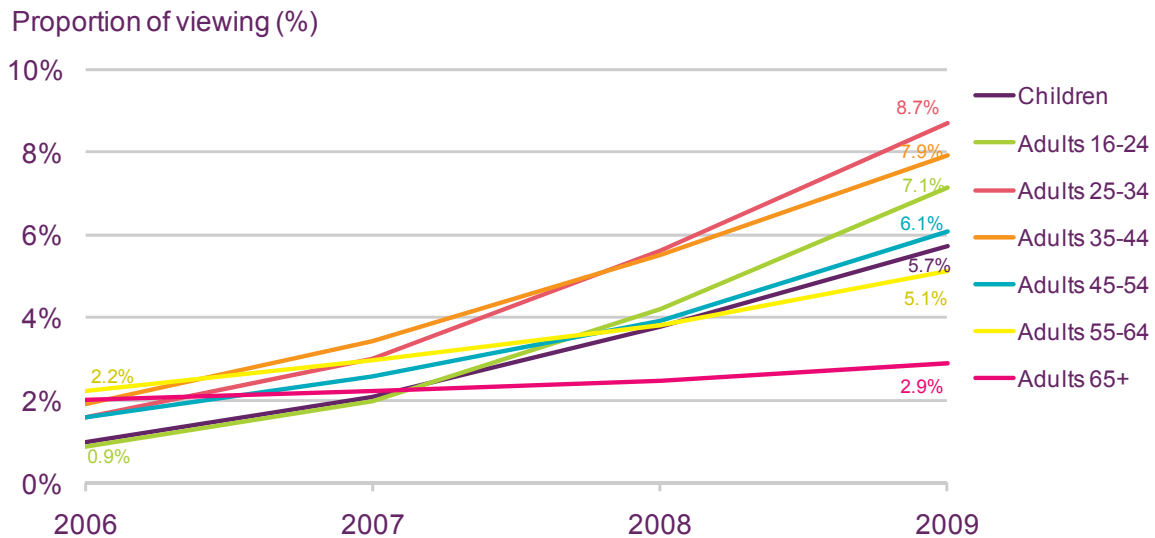
Source: BARB, all individuals, all homes

Adoption of DVR technologies is growing fast among younger people in particular, and this has given rise to changing patterns of time-shifted viewing among viewers by age. In 2006,

recorded viewing was more common among the older demographics, representing 2.2% of viewing of adults aged 55-64 and 2% of viewing of those aged 65+. In contrast, just 0.9% of viewing among 16-24 year olds was time-shifted.

By 2009, the situation was quite different. The proportion of recorded viewing among viewers aged 65+ had grown to 2.9%. For those aged 55-64, the figure had increased to 5.1% of all viewing, a little over double the amount in 2006. Among viewers aged 16-24, recorded TV viewing increased eight-fold, to 7.1%, but the group with the highest relative consumption of recorded TV in 2009 were 25-34 year olds, at 8.7% of all viewing.

Figure 2.6 Proportion of viewing that is time-shifted, by age



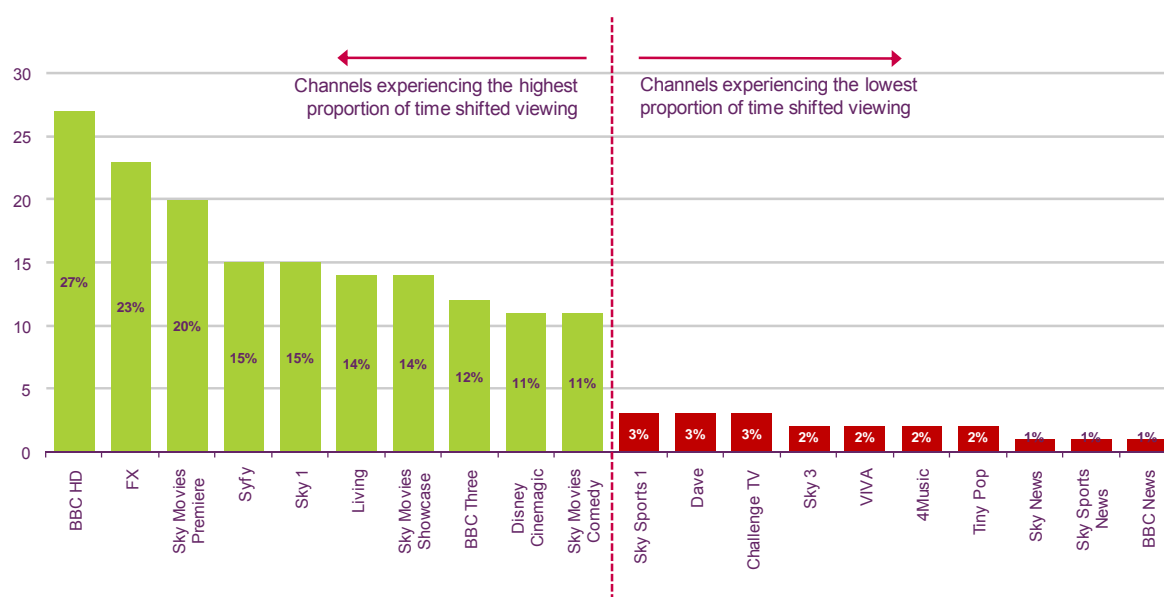
Source: BARB, all homes

Figure 2.7 shows the ten most and least time-shifted channels during 2009 (excluding those with a less than 0.1% share in multichannel homes). BBC HD tops the list of the most time-shifted channels with over a quarter of all viewing (27%) being recorded in 2009, compared with just under 6% for all television. There are four film channels among the top ten, and four of the channels – FX, Sky1, Syfy, and Living – rely relatively heavily on acquired content, particularly US drama series.

The three channels with the highest proportion of live viewing are all news channels, as would be expected from channels whose *raison d'être* is their topicality. Similarly, Sky Sports 1 is also in the bottom ten as its appeal is live sports coverage. Two music channels, 4Music and VIVA, are in the bottom ten, as are three channels (Dave, Sky3 and Challenge TV) which have a tendency to rely on repeat programming.

Figure 2.7 Channels with highest and lowest proportion of recorded viewing, 2009

Proportion of viewing that is recorded (%)



Source: BARB. Includes +1 channels, viewing in multichannel homes, excluding channels with <0.1% share

2.1.4 The rise of catch-up TV

Although watching audio-visual content stored on a DVR accounts for much of non-linear viewing (Figure 2.13), online catch-up services delivered over the internet offer another way for consumers to view recently-broadcast content. These services commonly allow consumers to view content on demand on a computer or other internet-connected device up to a month after it was first broadcast. Since the launch of early services by Sky, Five and Channel 4 in 2006, all major broadcasters now offer catch-up services, but it was the launch of BBC's iPlayer in December 2007 that seemed to drive awareness in these services, and their popularity grew throughout 2008.

The 2009 *Communications Market Report* highlighted that online catch-up TV services showed signs of becoming a mainstream form of audio-visual content consumption. Monthly iPlayer streams had trebled in a year, innovation was continuing, and access was widening to more platforms – with content increasingly delivered to the TV as well as the computer screen. The rapid growth in online catch-up TV continues, and is spreading to a broader range of devices.

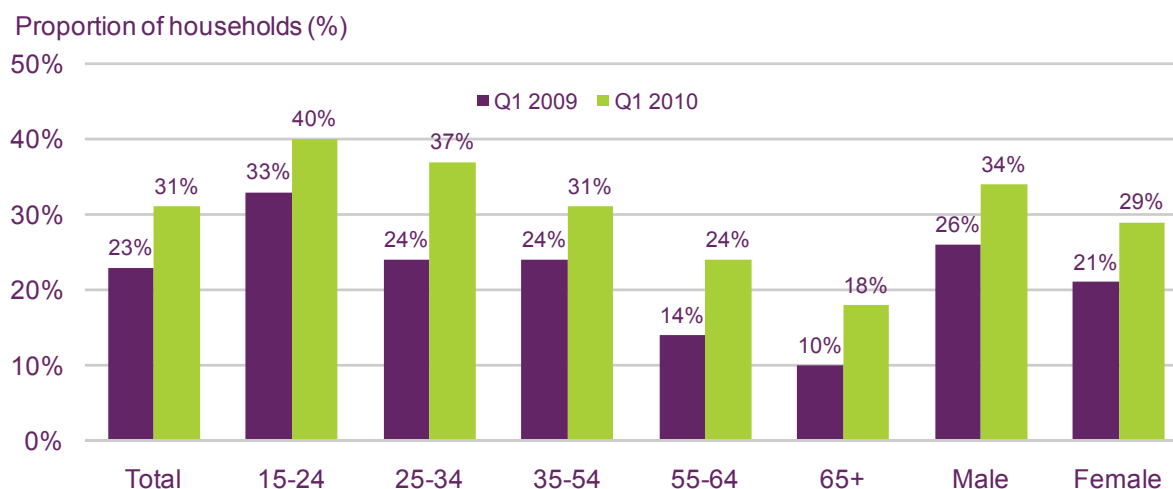
Take-up of catch-up TV grew by a third, to 31% of internet users in Q1 2010

Our consumer research from the first quarter of 2010 (Figure 2.8), shows that 31% of households with internet access used it to watch online catch-up TV. This is up eight percentage points over the year and represents growth of more than a third. Among 15-24 year-olds, take-up rises to 40%, reflecting greater interest in, and familiarity with, technology among this group. It may also reflect the larger numbers of the transient population such as students in this age group, for whom catch-up TV may be the primary way they consume audio-visual content. Overall, men reported greater use of the internet to watch catch-up TV than women, by 34% to 29%.

Growing numbers of people in older age groups also claim to live in households that watch catch-up TV. The number of 55-64 year olds with the internet who claim that they or

someone in their household watches catch-up TV rose by 10 percentage points to reach 24% in Q1 2010. The figure for people aged 65+ rose by eight percentage points, to 18%.

Figure 2.8 Proportion of adults with home internet who watch online catch-up TV



Source: Ofcom research Q1 2010.

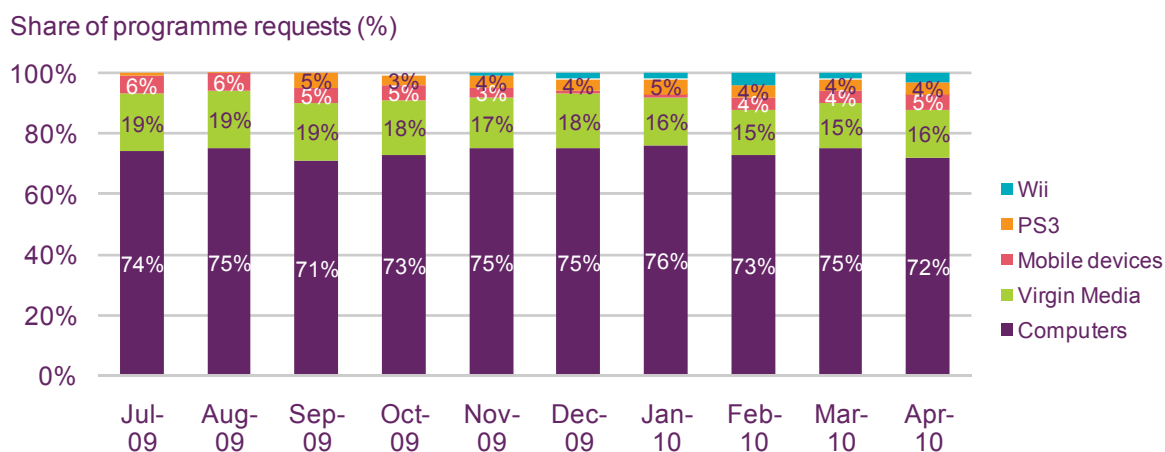
QE12. Which, if any, of these do you or your household use the internet for whilst at home?

Base: All adults who have the internet at home (n=6163 UK, 1048 15-24, 1100 25-34, 2464 35-54, 860 55-64, 691 65+, 3015 Male, 3148 Female).

Consumers are watching catch-up TV on a growing range of platforms

While the number of people watching catch-up TV is growing, the platforms on which they view this type of content are also increasing in number. Data from the BBC show that in July 2009, 99% of iPlayer consumption (including audio content) was accounted for by just three platforms: computers, Virgin Media's cable TV service and mobile devices. But by April 2010, the mix was much richer, with the Nintendo Wii (3%) and the Sony Playstation 3 (4%) accounting for similar levels of viewing as mobile devices (5%).

Figure 2.9 BBC iPlayer share of programme requests, by device type



Source: BBC iStats.

Note: Includes requests for radio programmes. Data from iPhones not available from 10 November to 2 February and data from Wii not available from 22 to 31 March, due to technical problems.

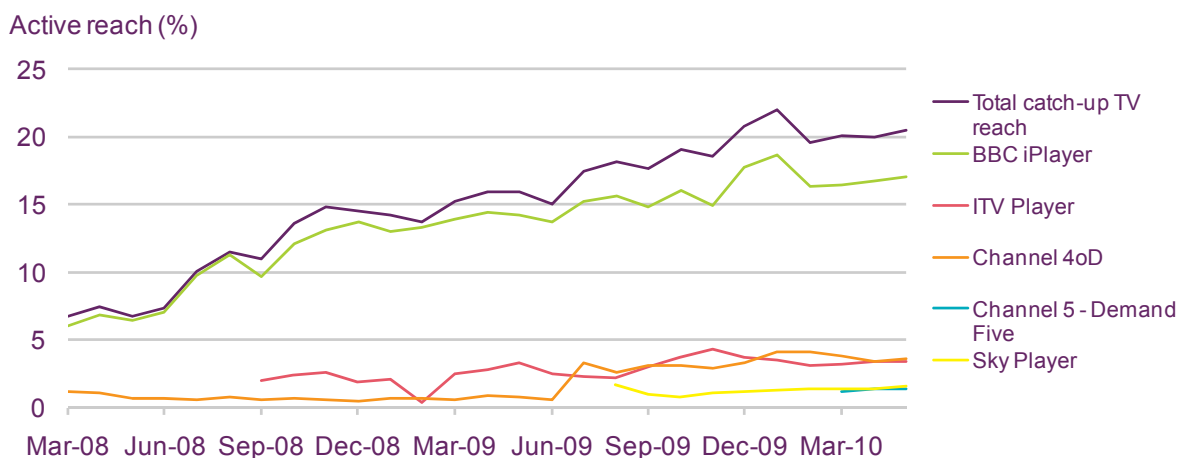
The number of platforms over which consumers can view catch-up TV is continuing to grow.

- The BBC publicly launched the iPlayer on Freesat set-top boxes in January 2010. Freesat has also announced that it is planning to make ITV Player available on the platform.
- Both iPlayer and Sky Player are now available via Fetch TV, a service provided by IP Vision that combines a Freeview tuner with 'over-the-top' content (delivered via the open internet to PCs and other devices rather than over a managed IPTV network).
- In the fourth quarter of 2009, Channel 4 and Five announced deals with YouTube to make their catch-up and archive content available via the video-sharing site (although the deal allowed both broadcasters to retain control of their advertising spots). By July 2010, nearly 1.5 million people had viewed the 4OD channel on YouTube, and more than 500,000 had viewed Demand Five's YouTube channel.

BBC iPlayer remains the most popular online service, but others are increasing share

UKOM/Nielsen data provide an indication of the reach of the various services from the major broadcasters¹⁸. The BBC iPlayer has by far the highest reach of the main catch-up TV services, used by 17% of active internet users in May 2010 (Figure 2.10). 4OD's reach stood at 3.6%, closely followed by ITV Player with 3.4%. Despite the iPlayer's lead, the data in Figure 2.10 suggest that other broadcasters are managing to increase their share of total catch-up TV reach. The gap between iPlayer reach and total catch-up TV reach has widened over the past year, although this may partly reflect the fact that iPlayer reach includes those using the platform to consume catch-up radio content.

Figure 2.10 Active reach of major online catch-up TV services



Source: UKOM/Nielsen, home and work panel.

Note: 'Active reach' is the percentage of all active persons aged 2+ who visited the site or used the application. 'Active' is defined as anyone who used an internet-enabled computer within the time period. 'Demand Five trend data not available prior to March 2010 due to change in UKOM/Nielsen definitions. Total catch-up TV reach is the unduplicated reach of all five services.

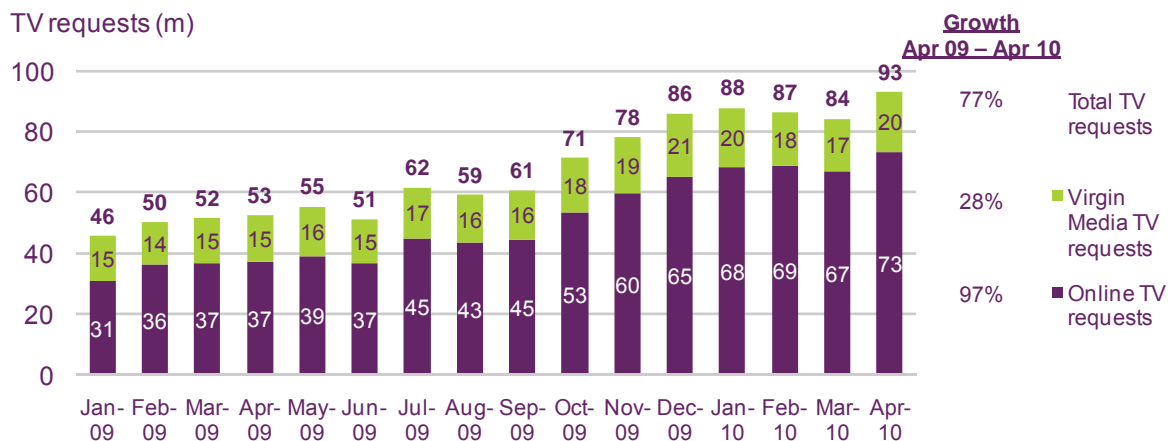
¹⁸ Audience data from UK Online Measurement (UKOM) show a lower overall reach than our consumer research for catch-up TV (just over 20%, and 31%). This is likely to be due to methodological differences, given that our research looks at reported behaviour while UKOM records audiences. And while UKOM focuses on individuals, our data reports on households. It is also possible that some respondents to our survey misreport their behaviour, perhaps thinking that catch-up TV includes content hosted on sites that infringe copyright.

iPlayer use almost doubled during the past year

Data from the BBC show that the total number of requests to view TV streams on iPlayer almost doubled from 53 million to 93 million in the 12 months to April 2010, a growth rate of 77% (Figure 2.11). While a small proportion of TV streams (8% in April 2010) consist of 'live' streams of programmes, the great majority (92% in April 2010) are on-demand streams.

Most of the growth in iPlayer use was driven by iPlayer delivered online, where requests increased by 97% year on year. The iPlayer's requests delivered over Virgin Media's platform also rose, but at a slower rate of 28%.

Figure 2.11 Total monthly iPlayer TV requests across all platforms



Source: BBC iStats.

Note: Does not include radio. Includes both simulcast and on-demand.

2.1.5 Non-linear viewing of audio-visual content is a small but growing component of all viewing

Alongside existing industry data on DVR and online TV viewing (see pages 100 and 103), Ofcom research offers insights into how consumers use a range of communications devices for media consumption (see Consumer's digital day). Our research was a diary-based survey, and respondents were more likely to remember higher-attention activities such as watching recorded programmes than lower-attention activities such as scheduled television. It is also important to note that our data relate to adults (16+), while BARB data relates to all individuals (4+).

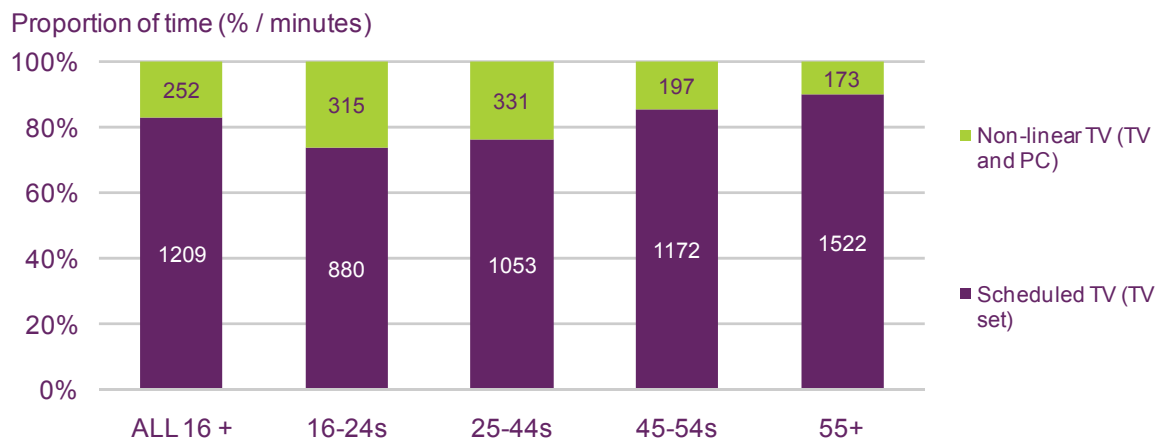
Before the year 2000, non-linear television viewing was made possible through the use of VHS video recorders and DVD players. But the growing adoption of digital video recorders (DVRs) and rising broadband take-up have opened up new ways in which consumers can watch audio-visual content at their convenience. These two technologies allow them to watch television on demand through a TV set or PC and download content from the internet. Non-linear viewing is now a small but growing part of consumers' viewing habits, and many people watch content on demand on a variety of devices.

Consumers watch an average of more than four hours of non-linear content per week

Ofcom research shows that adults aged 16+ spend an average of more than four hours (252 minutes) a week watching non-linear TV content via a television set or PC. This accounts for 17% of the 1,461 minutes of average weekly viewing of TV-like content on a TV or PC (Figure 2.12).

The proportion of time spent viewing non-linear TV content decreases with age. It accounts for 26% of average weekly viewing among 16-24s, but falls to 10% for those aged over 55.

Figure 2.12 Linear/non-linear split of weekly time spent consuming audio-visual content on TV and computers



Source: Ofcom research

Base: All respondent days - 16+ = 7966; 16-24s = 1106; 25-44s = 3003; 45-54s = 1484; 55+ = 2373

Note: Scheduled TV does not include live online TV streaming; content consumed via mobile devices is also not included. Non-linear TV includes content consumed on DVRs, rented/purchased DVDs/VHS, recorded TV on DVDs/VHS/games consoles/on demand TV through a TV set or PC, and content downloaded from the internet.

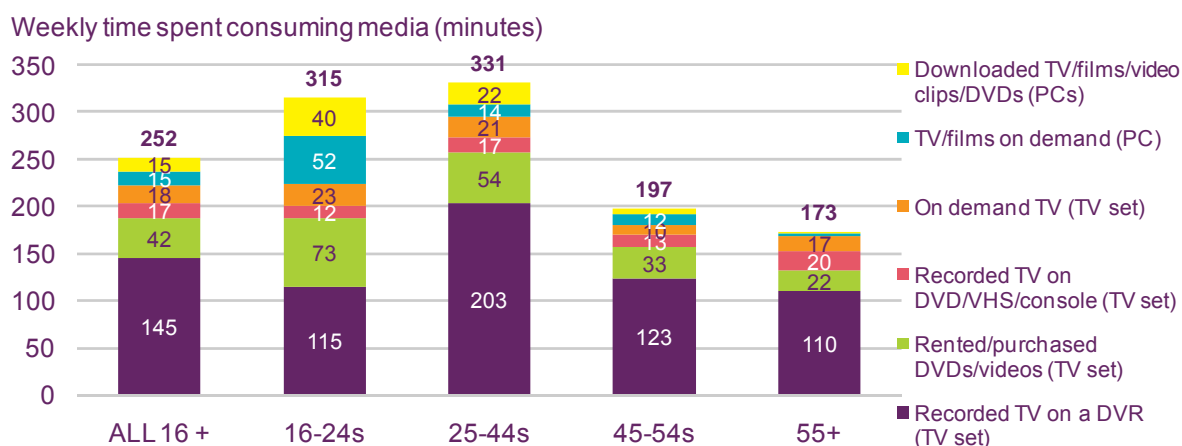
DVR viewing is driving consumption of on-demand content, and is the most popular way for consumers to view non-linear broadcast content. The average time per week spent viewing content on a DVR is nearly 2.5 hours (145 minutes), more than half (57%) of total average non-linear viewing. On-demand viewing (on the TV or via the internet on a PC) accounts for an average of 33 minutes each week, with this split fairly evenly between TV-based (18%) and PC-based (15%) on-demand content.

Across most age groups, DVR viewing accounts for more than half of total non-linear viewing time. The exception is among 16-24s; within this group, while it remains the largest component of non-linear viewing, at 115 minutes per week, DVR viewing accounts for only just over a third (36%) of the total. Instead, viewers in this age group spend larger amounts of time watching DVDs/VHSs (73 minutes), on-demand content on PCs (52 minutes) and downloading content to a PC (40 minutes).

All in all, DVR viewing accounts for 57% of total non-linear viewing time, and this varies from 63% among 45-54s to just 36% among 16-24s.

Across all age groups, on-demand delivered to a PC or TV set comprises 13% of weekly non-linear viewing time. On-demand as a proportion of total non-linear viewing is highest among 16-24s (24% of weekly viewing) and lowest among 25-44s (11% of weekly viewing). PC-based on-demand is highest among 16-24s (17%), but, perhaps surprisingly, TV-based on-demand is highest among the over-55s, accounting for 10% of time spent viewing non-linear content by this group.

Figure 2.13 Weekly time spent consuming selected non-linear audio-visual content



Source: Ofcom research

Base: All respondent days - 16+ = 7966; 16-24s = 1106; 25-44s = 3003; 45-54s = 1484; 55+ = 2373

2.1.6 HDTV begins to enter the mainstream

HDTV now available on all digital television platforms, with HD-ready set sales passing 24 million during 2009

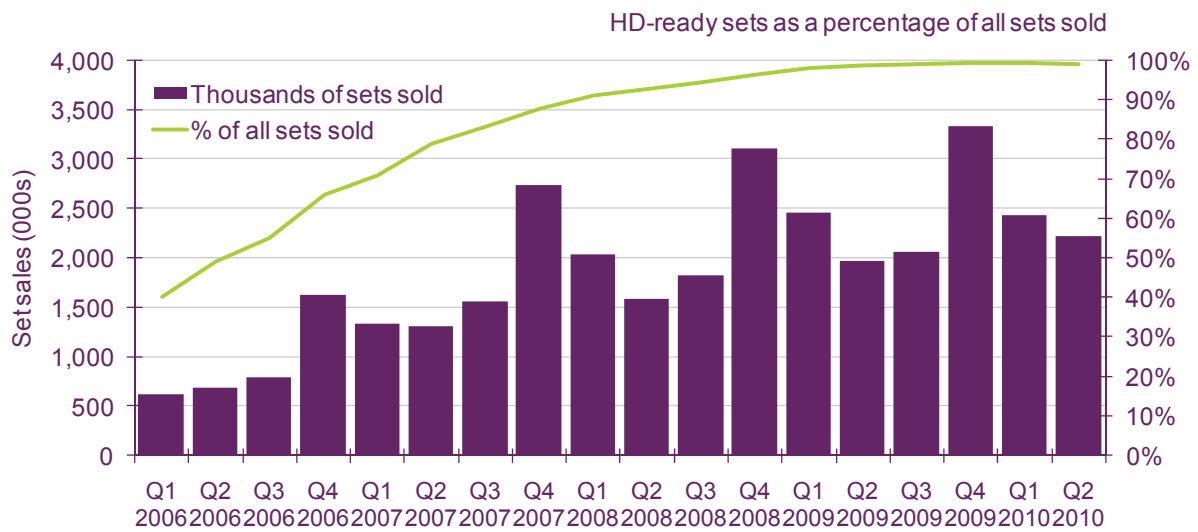
High-definition TV services launched at the end of 2005 but began to show signs of broader appeal during 2009 as sales of HD-ready TV sets passed 24 million and BSkyB reduced the price of its Sky+ HD receivers. In 2010, Sky started to give away HD set-top boxes, sales of Freesat HD devices passed the 800,000 mark and the availability of HD services was further extended with the arrival of HD on Freeview in March.

Another catalyst was the 2010 FIFA World Cup, with research company GfK reporting 71,000 Freeview HDTV sets sold in May 2010, the month before the tournament started¹⁹. These developments have been accompanied by a marked increase in the availability of HD content, as more broadcasters have released HD versions of their channels.

As Figure 2.14 illustrates, the addressable market for HD-ready television sets is now substantial; nearly ten million sets were sold in 2009 and now HD-ready sets account for nearly 100% of all TV sets sold.

¹⁹ http://www.gfkr.com/uk/news_events/gfk_rt_uk_news/technology_newsletter/single_sites/006093/index.en.html

Figure 2.14 HD-ready sets: sales



Source: GfK sales data

The number of homes with access to HDTV channels passes five million

Around 5.1 million UK homes had access to HDTV channels across satellite, cable and digital terrestrial television at Q2 2010, up from around 1.9 million at the end of Q1 2009.

Telewest (now part of Virgin Media) was the first UK platform to launch HDTV at the end of 2005. BSkyB followed in April 2006, with a £10 per month HD subscription package. BSkyB has consolidated its position as the largest HD platform in the country with 2.9 million HD subscribers by Q2 2010, announcing in March that it expected to take its HD channel line-up to 50 channels by the end of 2010²⁰.

In contrast to BSkyB’s subscription-based approach, Virgin Media offers HD content to its M+ pack and above TV subscribers without a monthly fee, for a one-off £49 payment to rent a HD set-top box. The cable operator offers 18 HD channels (as of August 2010) and reached 1.2 million HD subscribers at Q2 2010²¹.

Freesat, the digital satellite joint venture between the BBC and ITV, launched in May 2008 and offers BBC and ITV HD channels. HD-enabled receivers have accounted for 80% of Freesat sales so far, equivalent to more than 800,000 cumulative sales by Q1 2010.

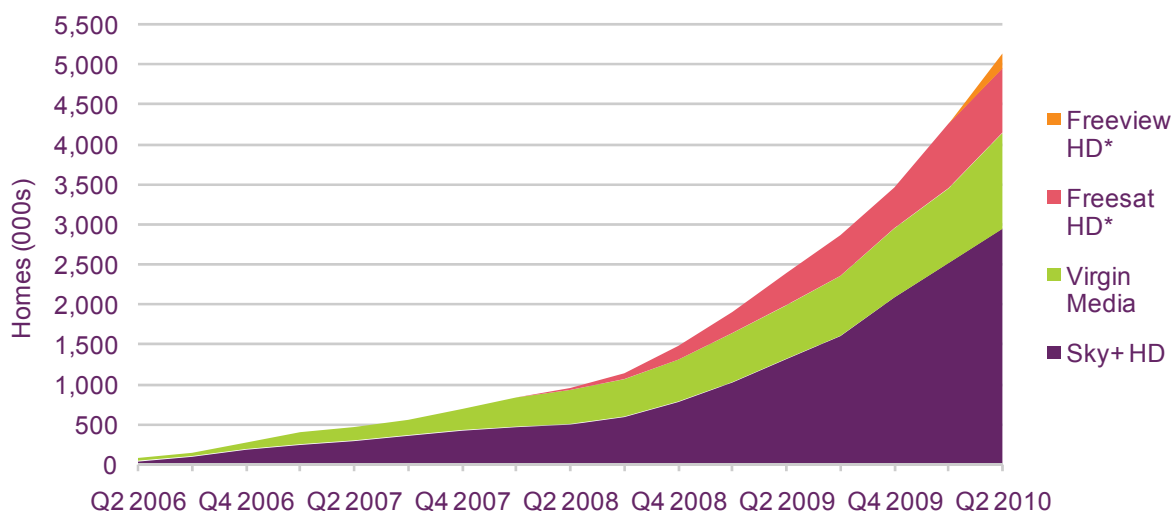
After a technical launch in December 2009, HD arrived on the free-to-air digital TV service Freeview, with the first Freeview HD set-top boxes going on sale in March. The service currently has four HD channels: BBC, ITV1, Channel 4 and S4C. Five HD is expected to launch in 2012. Coverage of Freeview HD is currently limited to 50% of the population, although this is set to rise to 98.5% by 2012, in line with plans for analogue switch-off²². By Q2 2010 there were just over 188,000 sales of Freeview HD set-top boxes and TV sets. Several other pay-TV operators offer HD content on demand, including BT Vision, Virgin Media, TalkTalk TV and Fetch TV. The BBC also offers a selection of HD content online via its iPlayer service, which can be streamed, depending on the speed of internet connection, or downloaded to computers.

²⁰ http://corporate.sky.com/media/press_releases/2010/Five_HD.htm

²¹ <http://pressoffice.virginmedia.com/phoenix.zhtml?c=205406&p=irol-newsArticle&ID=1434556&highlight>

²² <http://www.freeview.co.uk/freeview/HD-launch>

Figure 2.15 Number of HD broadcast homes: BSkyB, Virgin Media, Freesat and Freeview



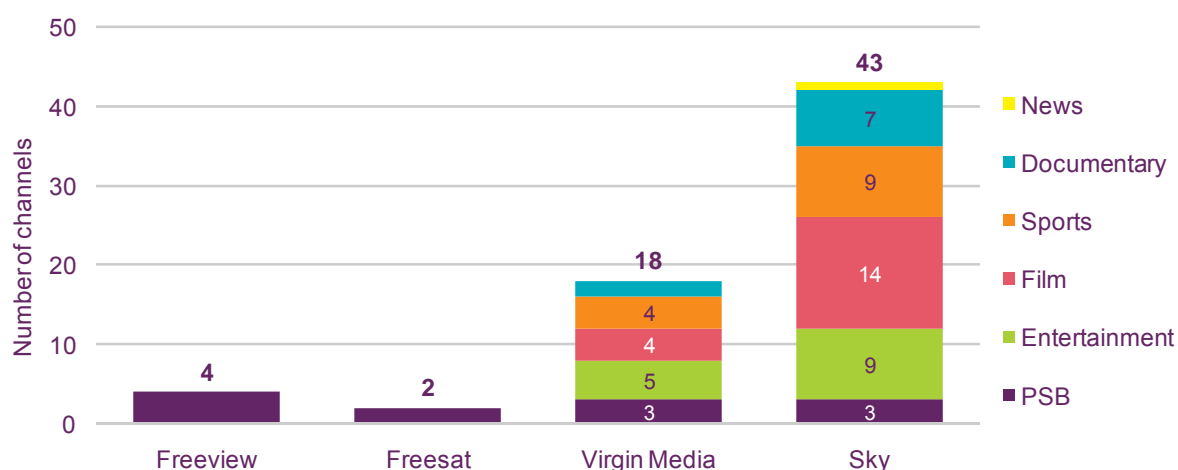
Source: Operators/GfK

Note: Figures represent latest available data. Freesat HD and Freeview HD figures are based on HD device sales, therefore the cumulative number of HD homes is indicative only.

The availability of HD content continues to grow

The continuing appeal of HD is further illustrated by the growing availability of HD channels. ITV HD launched in April on Sky, Virgin Media, Freeview and Freesat. Looking ahead, BBC One HD is expected to launch in autumn 2010 as a simulcast channel available on all digital platforms, with plans to make the majority of programmes available by 2012²³. Figure 2.16 details each of the main UK TV platforms and their HD channels by genre.

Figure 2.16 HD channel availability by platform and genre, 2010



Sources: Ofcom, Operators

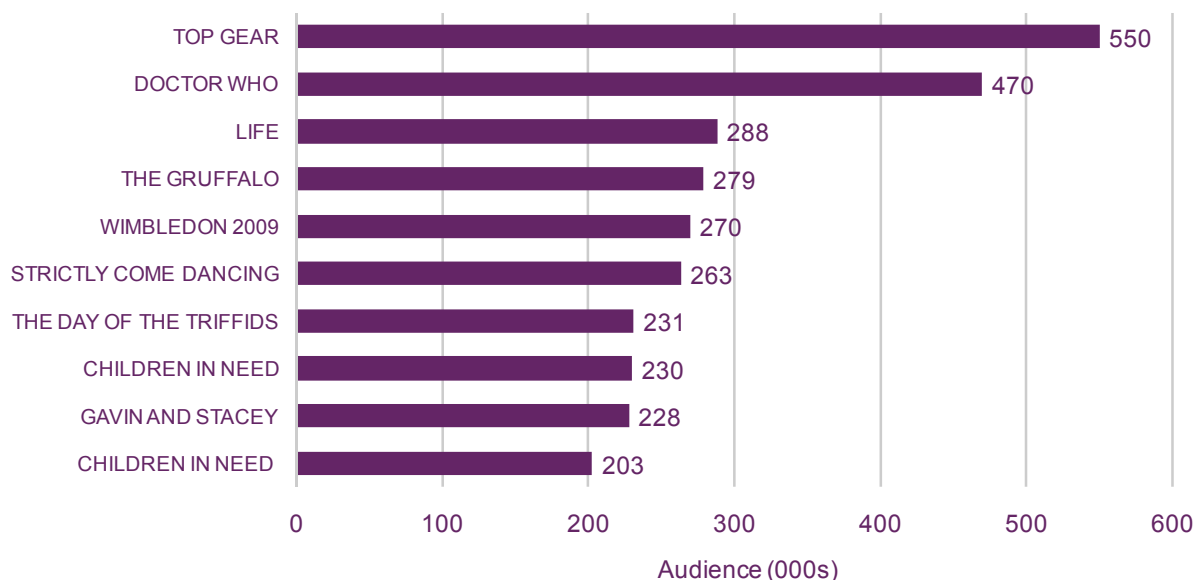
Notes: Sky includes two PPV HD channels. Does not include HD VoD available from Virgin Media, BT Vision, TalkTalk TV, Fetch TV and iPlayer on Freesat. Data correct as of August 2010.

Figure 2.17 lists the top ten most-viewed programmes on BBC's HD channel, which at the time was available on satellite and cable. The top-rated show was an episode of *Top Gear*,

²³ http://www.bbc.co.uk/pressoffice/pressreleases/stories/2010/05_may/28/hd.shtml

which attracted an audience of 550,000 viewers, followed by *Doctor Who* with 470,000. Programmes that are popular in standard-definition format are also among the most viewed on BBC HD²⁴.

Figure 2.17 Top 10 most-viewed programmes on BBC HD in 2009



Source: BARB, all individuals 4+, highest occurrence per title

2.1.7 3DTV becomes a reality

BSkyB launches the UK's first 3DTV channel

The release of 3D films such as *Avatar* has fuelled interest in three-dimensional viewing, and broadcasters and manufacturers are looking to expand the distribution of 3D viewing to the home. Pay-TV operators have played a significant role in this, with a number of 3D channels launching around the world. Recent figures from GfK suggest that 25,000 3DTV sets had been sold in Europe by May 2010²⁵.

On 3 April, BSkyB launched Europe's first dedicated 3D channel with a live transmission of the Premier League match between Manchester United and Chelsea, shown in selected pubs and clubs around the UK. Sky 3D will become available to residential customers (Sky+ HD subscribers) on 1 October, offering live sports content and movies²⁶. In late 2009, Virgin Media conducted trial broadcasts in 3D, over VoD rather than linear TV, while V+ set-top boxes are already compatible with 3D transmissions.

As Figure 2.18 illustrates, some international platform operators are also making early moves into 3D programming, with the recent FIFA World Cup providing a showcase. In France, broadcaster TF1 signed deals with five platform operators for its 3D event channel, which featured five World Cup matches in 3D. US sports network ESPN also launched a 3D channel in time for the tournament, available to 40 million Comcast and DirecTV homes.

²⁴ BARB measured BBC HD for the duration of 2009.

²⁵ http://www.gfkrt.com/news_events/market_news/single_sites/006056/index.en.html

²⁶ [http://corporate.sky.com/media/press_releases/2010/Sky_3D\(3\).htm](http://corporate.sky.com/media/press_releases/2010/Sky_3D(3).htm)

Figure 2.18 Selected international 3DTV services

Operator	Platform	Product	Launch date	Content	Business model
BSkyB (UK)	Satellite	Sky 3D channel	April 2010 (commercial) Autumn 2010 (residential)	Launched with Premier League football; intends to add movies, documentaries and arts programmes by late 2010	Residential: Free with a premium subscription to Sky + HD Commercial: appointment to view sports events
Canal+ (France)	Satellite	3D events channel	By end of 2010	Sports events, including the World Cup and French Open	Linear programmes and VoD
DirecTV (US)	Satellite	3 DirecTV 3D channels and ESPN 3D channel	June 2010	Movies, sports, special events, arts, music and documentaries	Channels 1 & 3 based on PPV model, Channel 2 showing linear broadcasts available to all subscribers
Numericable (France)	Cable	3D VoD channel	Autumn 2010	Mixed content	Available to subscribers, pricing and packaging to be confirmed in 2010
J:Com (Japan)	Cable	3D linear and VoD channels	April 2010	Content provided by existing channel providers, as well as outside production companies,	Linear programmes and VoD, via existing set-top boxes.

Source: Operators, Informa Telecoms & Media

3D technology in focus

3D viewing works by capturing and broadcasting two separate images from slightly different angles, thus replicating human vision as the brain thinks it is seeing a single, three-dimensional image. Although a variety of technologies can be used to deliver 3D, these can be split into two broad types: with glasses (stereoscopic) or without glasses (auto-stereoscopic). Currently, there are three main technologies used for viewing 3D content:

Polarisation 3D uses low-cost glasses and is a well-established technique in cinema. Left- and right-eye images are projected simultaneously onto the screen and the glasses are used to separate the two images. The 3D effect is generated because the lenses filter the image and allow only one direction of polarised light to reach each eye.

Active shutter requires advanced, more expensive glasses and works via the refresh rate of new TV displays. This technique relies on displaying separate full frames for each eye, alternating between them at a very fast pace. The viewer's glasses block the view of each eye at the same frequency, synchronised with the screen, and this produces a 3D image.

Auto-stereoscopic has been described as the most desirable form of 3D as it does not require glasses. Instead, filters are applied to the screen, which direct light coming from each pixel at a slightly different angle, producing a 3D image without glasses. A disadvantage of this technology is that there are viewing angles where the 3D effect breaks up, meaning that viewers must sit at a defined angle and distance from the TV.

However, despite the emergence of new ways of watching 3D, viewers with poor binocular vision may still experience inconsistencies, or even visual discomfort and headaches²⁷.

Rather like the experience of HD service providers, an installed base of 3D-ready sets will play an important role in the development of this market. Samsung was the first manufacturer to launch 3D-enabled TVs in the UK, with a range of sets launching in April

²⁷ http://www.eyecaretrust.org.uk/view.php?item_id=566

2010, priced between £1,200 and £3,000. As Figure 2.19 shows, other manufacturers have followed suit; Panasonic launched a range of 3DTVs in April, before LG (in May) and Sony (in June). In July, commercial requirements for the broadcast of 3DTV were established by the Digital Video Broadcasting (DVB) project²⁸.

Figure 2.19 Comparison of 3D television sets

Manufacturer	Launch date	Price	Panel type	3D viewing technology
Sony	June 2010	£1,799	LCD	Active shutter glasses
LG	May 2010	£2,799	LCD	Polarised glasses
Toshiba	Q4 2010	TBC	LCD	Active shutter glasses
Panasonic	May 2010	£2,295	Plasma	Active shutter glasses
Samsung	April 2010	£2,300	Plasma, LCD	Active shutter glasses

Source: Manufacturers, prices at launch

2.1.8 TVs get connected

A number of manufacturers are now incorporating broadband connections into their television sets, which allow viewers to access web-based content and applications. These 'connected' TVs are already available from a growing list of manufacturers including LG, Panasonic, Philips, Samsung, Philips and Cello.

As TVs incorporate more advanced features, consumers are upgrading their sets at a faster rate: nearly ten million TVs were sold in 2009, compared to four million 15 years ago, according to research firm GfK. While internet connectivity may still be behind HD-ready, built-in HD or even 3D-ready sets as the most popular functionality, it is already emerging as a common feature among high-end TV sets.

TV manufacturers are already signing deals with internet companies and content providers to offer viewers a suite of applications and services on the TV, sometimes called widgets. These pre-loaded applications are typically focused on popular internet destinations such as social networking sites, news and weather information and video content services such as BBC iPlayer, YouTube and LOVEFiLM.

The recent rise in consumers' use of catch-up TV services on the internet, such as the BBC iPlayer, may well have encouraged a range of device manufacturers to bring these services to the TV. The proposed Project Canvas video-on-demand (VoD) initiative plans to bring catch-up TV to the television via the internet. A range of set-top boxes already support similar services, with Humax, 3View and Fetch TV devices offering access to content such as Sky Player and iPlayer. Most HD set-top boxes for the BBC/ITV Freesat service also offer access to the BBC iPlayer.

Internet connectivity is not just the domain for the TV device market: Sky plans to launch its Sky Anytime + VoD service to Sky+ HD receivers later this year²⁹. This will rely on the

²⁸ http://www.dvb.org/technology/standards/a151_CR_for_DVB-3DTV.pdf

²⁹ http://corporate.sky.com/documents/pdf/latest_results/Q3_Press_Release_0910

internet (rather than a satellite broadcast) to deliver on-demand content to set-top boxes. Virgin Media, BT Vision and TalkTalkTV already offer VoD over their closed TV networks.

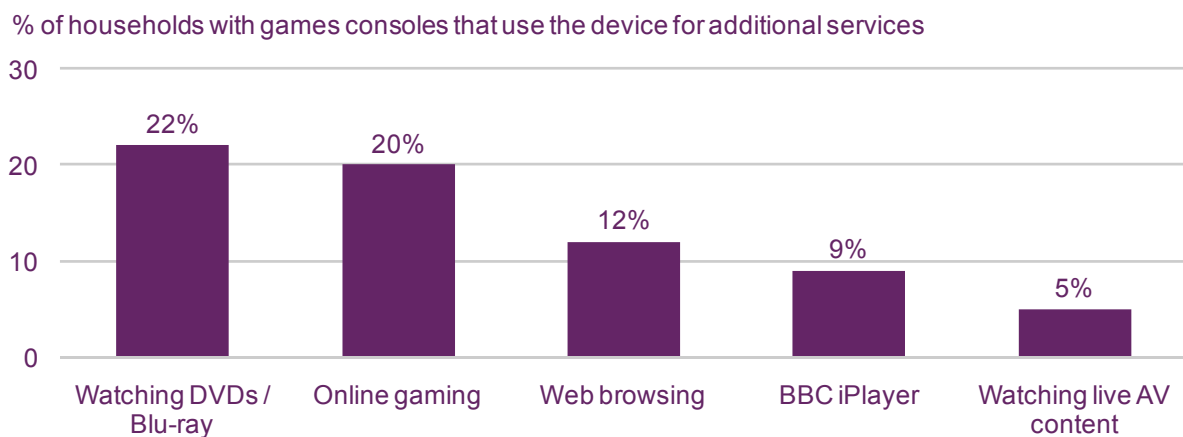
Games consoles as media hubs

Video games consoles are also emerging as important platforms for delivering video to the television. Devices such as the Nintendo Wii, Microsoft's Xbox 360 and Sony's Playstation 3 include internet connectivity and allow access to varying amounts of audio-visual content.

Ofcom research in Q1 2010 found that nearly one in ten households with a games console used it to access the BBC's iPlayer on their television. BBC iPlayer usage data found that the Wii and PS3 consoles jointly accounted for 10% of all iPlayer requests for TV programmes in February 2010, higher than its use on Macs (7%). Split by console, the Playstation 3 accounted for 6% (4.9 million requests) while the Wii accounted for 4% (3.2 million requests), according to BBC iStats³⁰.

Figure 2.20 also shows that one in twenty homes are watching live audio-visual material via their games consoles. Xbox Live customers, for instance, can access live premium and basic channels from the Sky Player service.

Figure 2.20 Additional use of games consoles



Source: Ofcom research, Q1 2010; Base: UK adults 15+ who have access to a games console at home (n=4374); QB4 Which, if any, of these do you use your games console for?

2.1.9 Viewing to PSB channels and their multichannel portfolios began to plateau in 2009

The main PSB channels³¹ and their multichannel portfolio services³² combined built audience share every year between 2003 and 2008. But in 2009, for the first time in six years, this combined share began to plateau, falling slightly from 71.8% to 71.6%. This was because movements in PSB portfolio channels' share failed to outweigh falling share among the main PSB services.

In 2003, their combined share stood at 63.5%, and this rose to 71.8% by 2008. The increase in share occurred even as the share of the main PSB channels began to fall – in 2005 the five largest channels commanded 57.7% of all viewing in multichannel homes, but this had

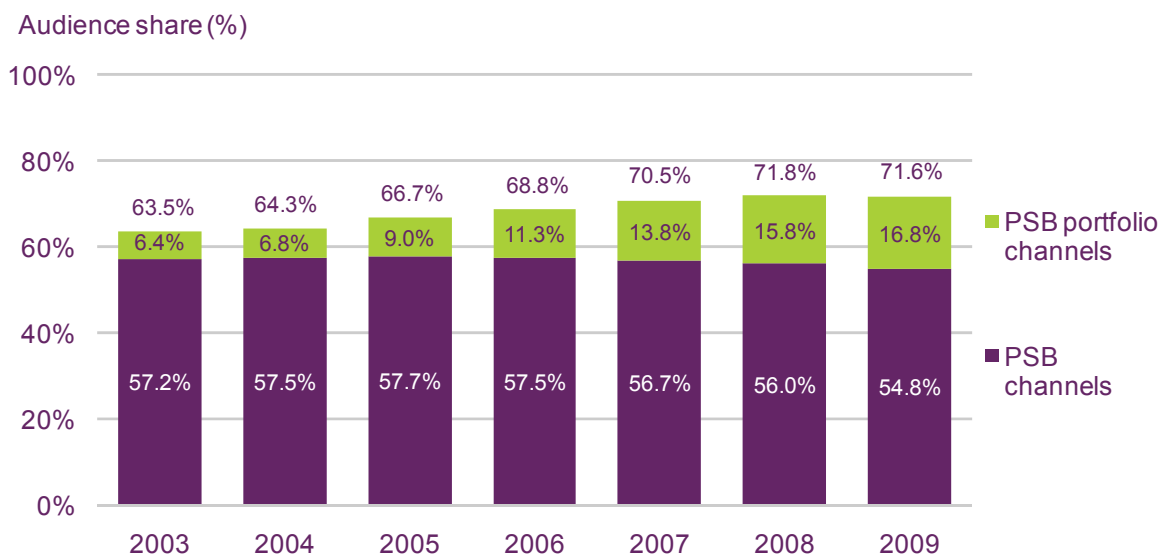
³⁰ http://www.bbc.co.uk/blogs/bbcinternet/img/Publicity_pack_February_2010.pdf

³¹ The main PSB channels are defined as BBC One, BBC Two, ITV1, Channel 4 and Five.

³² The PSB portfolio channels are defined as BBC Three, BBC Four, CBBC, CBeebies, BBC News, BBC HD, BBC Parliament, ITV2, ITV3, ITV4, CITV, Men & Motors, ITV News, Channel 4 +1, E4, More4, Film4, 4Music, Fiver and Five USA.

dropped by 1.7 percentage points to 56.0% by 2008. This reduction was more than made up for by the strong increase in share for the PSB portfolio channels, whose share rose by 6.7 percentage points between 2005 and 2008 (Figure 2.21).

Figure 2.21 PSB portfolios' share in multichannel homes

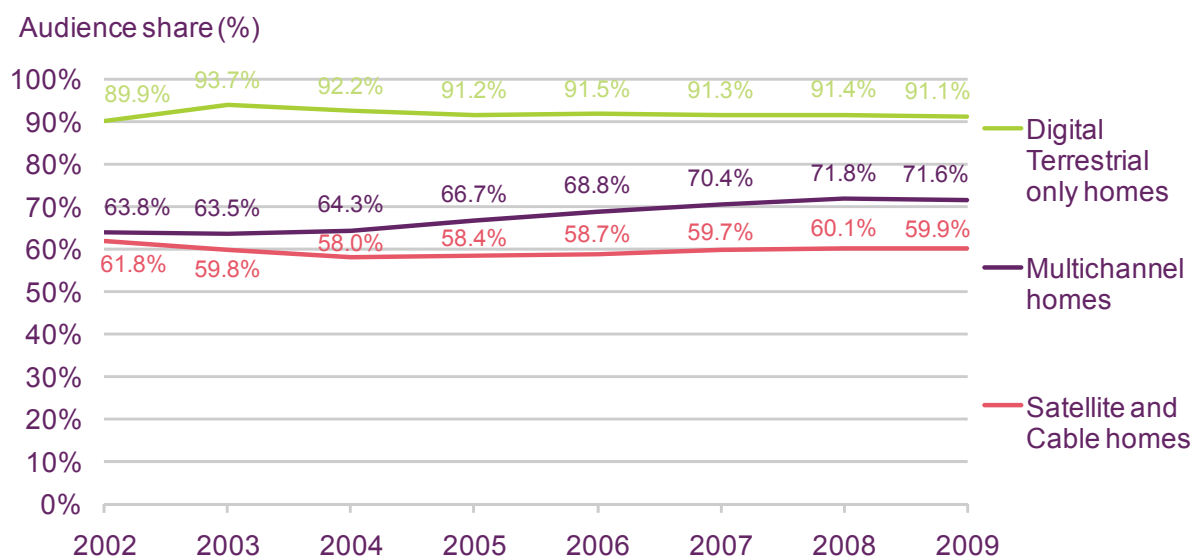


Source: BARB, all individuals

The trends set out in Figure 2.22 suggest that the pattern of increase and the subsequent decline in multichannel homes had two causes:

- Within satellite and cable homes, there was a modest increase in the viewing share of the PSB portfolio channels between 2004 and 2008. This was caused by the growing share among those channels already on air, and the launch of new channels by various PSBs, which attracted further share. In 2009, there were no new channel launches within the PSB portfolios, and at the same time non-PSB multichannel services began to build audience share.
- The PSB portfolios of multichannel services have always attracted a higher share in Freeview-only homes relative to satellite or cable homes. As the take-up of the digital terrestrial (DTT) platform rose, the PSB portfolio channels' average weighted share also rose. And as the rate of Freeview adoption has slowed, so has the average weighted growth in viewing of the PSB portfolio channels.

Figure 2.22 PSB portfolios' combined share

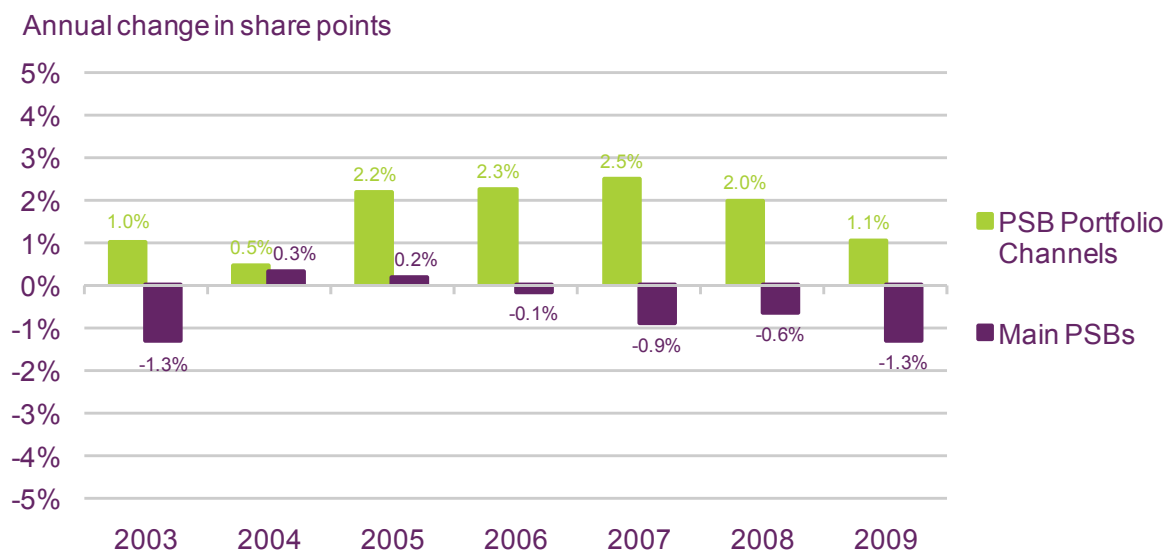


Source: BARB, all individuals

Figure 2.23 illustrates the combined share in multichannel homes of the main PSB channels, and the share added by their multichannel services. The former has fallen every year since 2006, but in 2009 the reduction was greater than at any point in the last six years (share fell by 1.2 percentage points).

Meanwhile, the PSB portfolio channels' share has increased in multichannel homes since 2003. Between 2005 and 2008, this increase was greater than two percentage points a year, but in 2009 the rate of growth slowed to 1.1 percentage points.

Figure 2.23 Annual growth in share of the main PSBs and their portfolio channels



Source: BARB, all individuals in multichannel homes

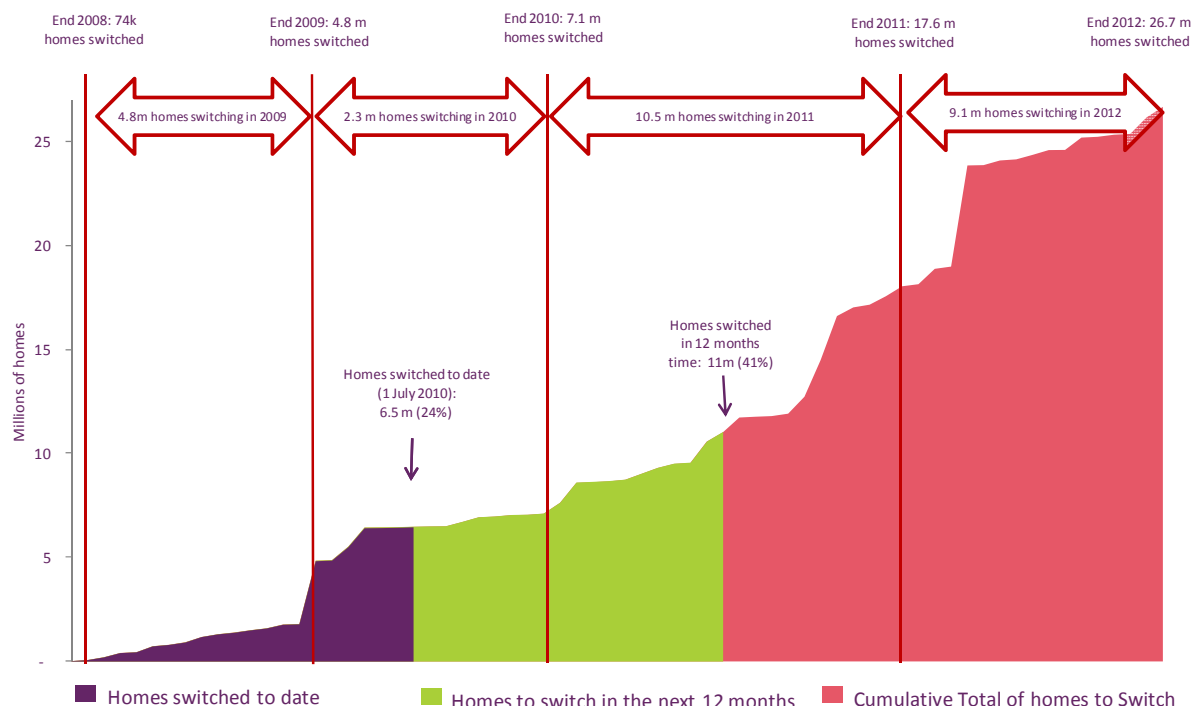
2.1.10 Roll-out of digital switchover drives digital TV take-up

During 2009 and early 2010, the TV switchover programme gathered pace across the UK. At the end of June 2010, analogue terrestrial television signals were switched off at 21 transmitter groups, creating the first all-digital TV regions.

With digital switchover (DSO) complete in the Border, Wales, West Country, Granada and West TV regions, and switchover well under way in the north of Scotland by June 2010, the programme had been completed for nearly a quarter (24%) of homes.

Over the next 12 months a further 4.5 million homes will be switching to digital, which will bring the programme to over 40% completion. The two largest remaining parts of the programme are the Central and Yorkshire switchovers, early in 2011, and London in 2012.

Figure 2.24 Digital switchover programme status to end of June 2010



Source: Digital UK programme office

Digital TV take-up is being driven in part by TV switchover

By the end of March 2010, 92% of UK homes had digital TV on at least the main TV set. Research in the ITV regions that have switched to digital suggests that the TV switchover process was a trigger for homes to convert to digital television. In those regions, 60% said that they converted at least one TV set in their home to get ready for switchover. In most cases secondary TV sets were upgraded in the run-up to DSO (primary sets having already been converted). But on average 5%, of homes in each switchover region took digital TV for the first time in preparation for switchover.

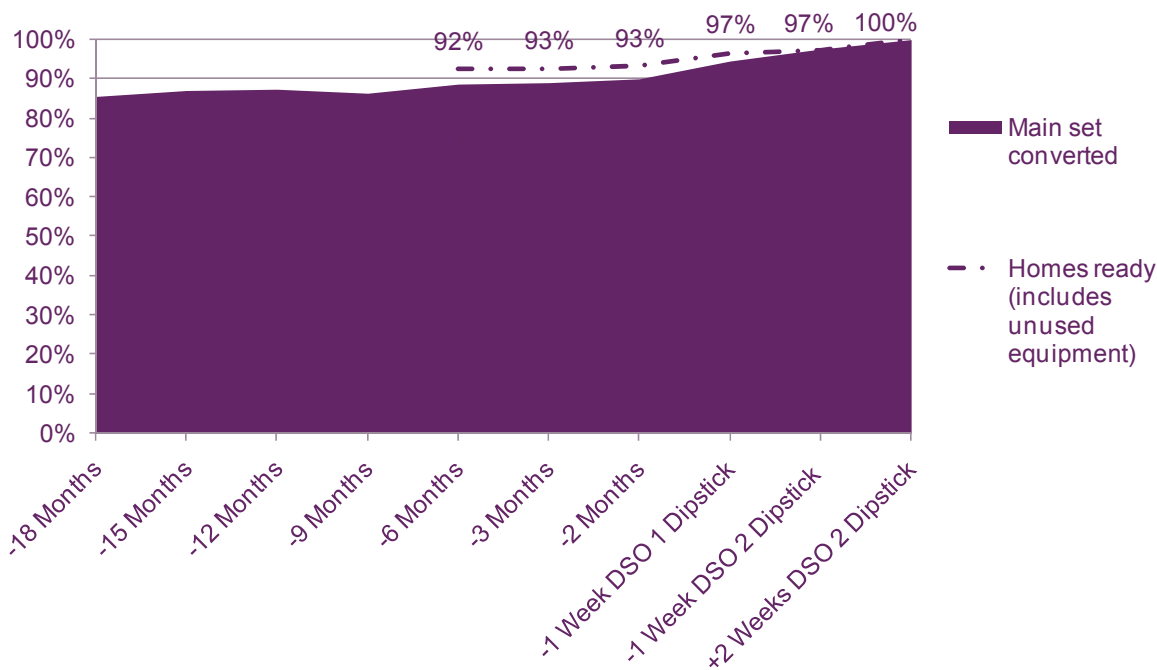
The 8% of analogue-only homes in the UK have different demographic characteristics to those that have switched to digital. Analogue TV viewers are more likely to be female, living on their own and older (i.e. 75+). This makes large parts of the remaining analogue population in the UK eligible for the BBC-run Digital Switchover Help Scheme, which provides additional help with the TV switchover to vulnerable groups. Although digital TV

take-up is high across all income groups, analogue-only homes are slightly more likely to rely on low incomes (27% analogue compared to 19% digital).

High digital TV take-up on main and secondary sets in switched regions

With switchover complete in Border, West Country, Wales, Granada and West TV regions, research conducted after DSO showed that all households in the switchover region had access to digital TV two weeks after the switch.

Figure 2.25 Average main TV set take-up across regions switched (Border, Wales, West Country, Granada and West)



Source: 2008 to 2010 Digital UK Switchover Tracker Survey, pre- and post-switchover dipstick surveys in Border, Wales, West Country Granada and West. Sample sizes $n > 150$ respondents for all data points. *Owning equipment in preparation for switchover was only tracked from 6 months out point. Q Which, if any, of these types of television does your household receive at the moment?

The high levels of main-set conversion at, or shortly after, switchover disproved the predictions that 5% of homes would not be ready to switch to digital at the point of switchover³³.

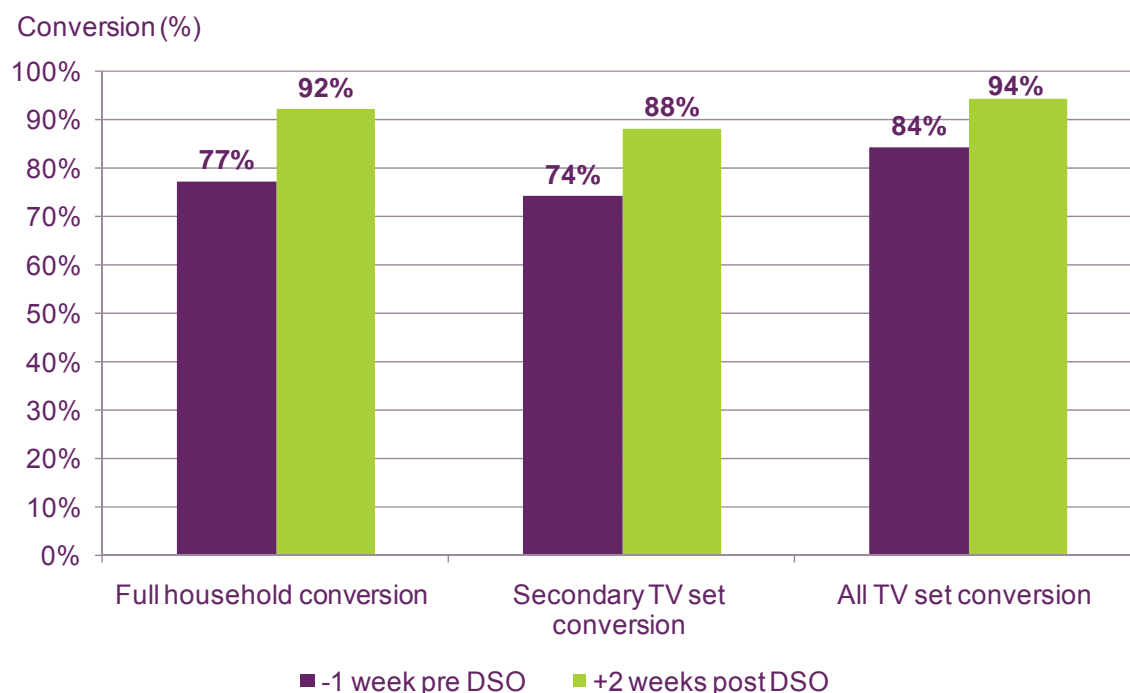
Digital UK's Switchover Tracker, monitoring the number of 'resisters', showed that the proportion of people planning to go without TV after switchover had dropped to around 2% by 2007. When questioned more closely, 0.2% said they intended to go without digital TV after switchover.

High conversion rates of main TV sets for switchover have been matched by higher than expected take-up on secondary TV sets in the regions that have switched. On average, 92% of homes switched their sets to digital, up 15 percentage points from the 77% average conversion before switchover. The proportion of fully-converted homes was highest in the Granada TV region (97%), the largest TV region switched to date, with more than three

³³ Generics report, 'Attitudes to Digital Switchover', March 2004

million homes. On average, 88% of secondary sets were upgraded and, overall, 94% of all TVs in the areas switched are now receiving digital.

Figure 2.26 Digital TV growth on secondary sets, before and after switchover



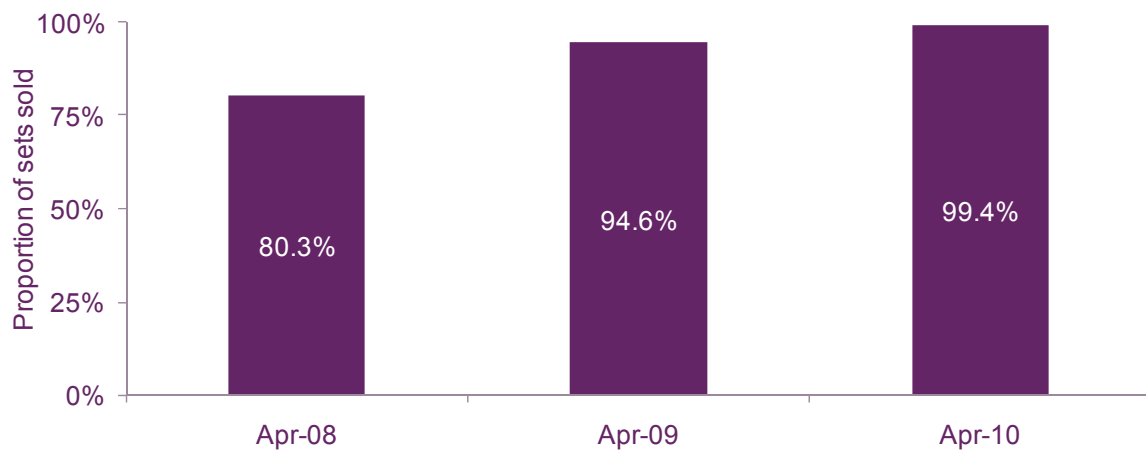
Source: Digital UK programme office, pre- and post-switchover dipstick surveys in Border, Wales, West Country Granada and West, sample size n>150 respondents on each survey
 Q Which, if any, of these types of television does your household receive at the moment?

Conversion results by TV platform indicate that the market shares on all major TV platforms - satellite, cable and DTT - increased following switchover. The majority of main set conversions in regions switched were through satellite and Freeview, the most widely-used digital TV platforms on main sets.

More than 99% of TVs sold last year had DTT built in

In April 2010, 99.4% of all TV sets sold had an integrated DTT tuner to receive Freeview services, a significant increase since 2005, when less than 50% of televisions sold had a digital tuner built in. Even in 2008, after the switchover pilot in Copeland, West Cumbria, had been completed, just 80% of TV sales were digital.

Figure 2.27 Sales of integrated digital TV sets as a proportion of all TV sets sold



Source: GfK Retail and Technology equipment sales data

2.2 The TV and audio-visual industries

2.2.1 Introduction

This section examines some of the key characteristics of the UK's audio-visual sector during 2009. It focuses on a range of metrics from the broadcast television industry and from those companies delivering audio-visual content over the internet.

Key points in this section include:

- **UK television broadcasters generated £11.1bn of revenue in 2009, a fall of £49m (-0.4%) on 2008 as growing subscription revenue was more than offset by a declining advertising market.** Of all revenue streams analysed by Ofcom, net advertising revenue (NAR) saw the sharpest decline, down 9.6% to £3.1bn. Pay-TV providers recorded revenue of £4.6bn, a 7.5% increase on 2008 (page 123).
- **Revenue in the multichannel broadcasting sector grew by 6% (£186m) in 2009 to reach £3.2bn,** with income to all the main channel genres included in our analysis growing during 2009. Revenue among channels in the Sport and Entertainment genres both increased by 5%, to £1.6bn and £1.0bn respectively (page 127).
- **UK television channels invested marginally less on programming (originated, acquired, repeated) in 2009 in the face of challenging market conditions.** They spent £5.1bn on programmes, a 0.3% decline on 2008 (page 128).
- **Spend on first-run originated programming for the five main PSB channels fell in 2009, down by 7.4% to £2.41bn.** The five main PSBs invested £3.05bn on first-run originations in 2004, representing a decline of 20.9% over the last five years. All of the five main PSB channels – BBC One, BBC 2, Channels 3 (plus GMTV1), 4, 5 – invested less in all network programming – including commissions, acquisitions and repeats – during the year (page 129).
- **In line with reduced spending on originations by the PSBs, total broadcast hours of originated programming fell in 2009,** down 8.1% (2,680 hours) to 30,484 hours, the lowest for more than five years. The sharpest decline was in programming for nations and regions, down by 13.2% (1,593 hours) to 10,439 (page 131).
- **Independent producers are commanding a growing share of the PSB origination spend.** Despite a drop in spending across the production sector of 3% in real terms during 2009, the in-house sector experienced a reduction of 25%. The result was that the independents' share of available production expenditure grew from 40% in 2005 to 46% in 2009 (page 143).
- **Independent producers attract a large and growing share of both funding and hours among the largest genres in peak time.** Their share of funding in Drama, Entertainment and Factual has grown over the last decade from 49.8% to 61.4% (page 146).
- **For the first time, in 2009 advertising made up more than half of online TV revenue.** Advertising revenues from free-to-view streams now account for £54.3m out of total online TV revenue of £94m. This accounted for more than pay-per-view, downloads and subscription revenue combined (page 177).

2.2.2 Television industry revenue

UK television industry generated revenue of £11.1bn in 2009

The UK television industry generated £11.1bn of revenue in 2009, a fall of £49m (-0.4%) on 2008, as growing subscription revenues were offset by a declining advertising market (Figure 2.28).

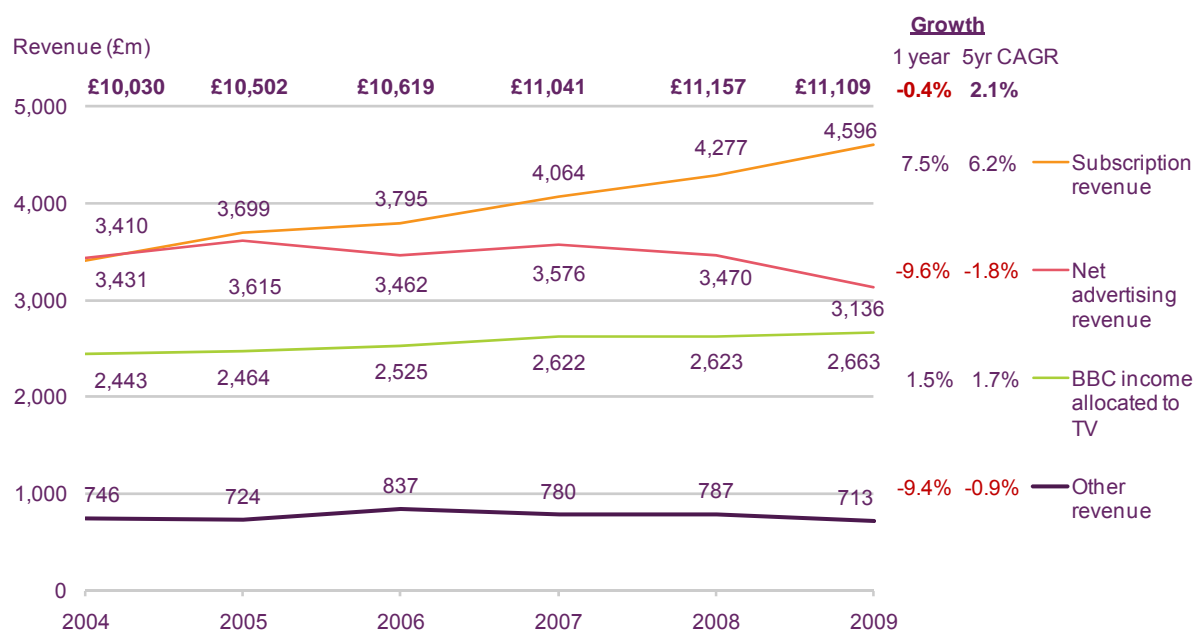
TV broadcasters experienced a 9.6% fall in net advertising revenues (NAR), down by £335m year on year, as the effects of the recession took hold. This was against a backdrop of a shrinking UK advertising market overall. Advertising spend (which includes the costs of advertisement production and agency fees) across all sectors was £14.5bn in 2009, 12.5% lower than the £16.6bn spent in 2008³⁴.

Pay-TV subscriber revenue reached £4.6bn, a 7.5% increase on 2008. The gap between subscription and net advertising revenue nearly doubled (up by 81%) in 2009, reaching £1.5bn, up from £807m in 2008. Subscription revenue's share of total TV industry revenue was up by three percentage points, from 38% to 41%. This came at the expense of television NAR, which saw its share of the market fall from 31% to 28%.

Ofcom estimates that the amount of the BBC's annual revenue allocated to TV stood at £2.7bn in 2009, a slight (1.5%) increase year on year, representing a 24% share of the total market. Other revenue (including sponsorship and teleshopping) declined by 9% in 2009 to £713m, taking a 6% share of the market, down marginally on 2008.

³⁴ © Advertising Association/Warc Expenditure Report (www.warc.com/expenditurereport)

Figure 2.28 Total TV industry revenue, by source



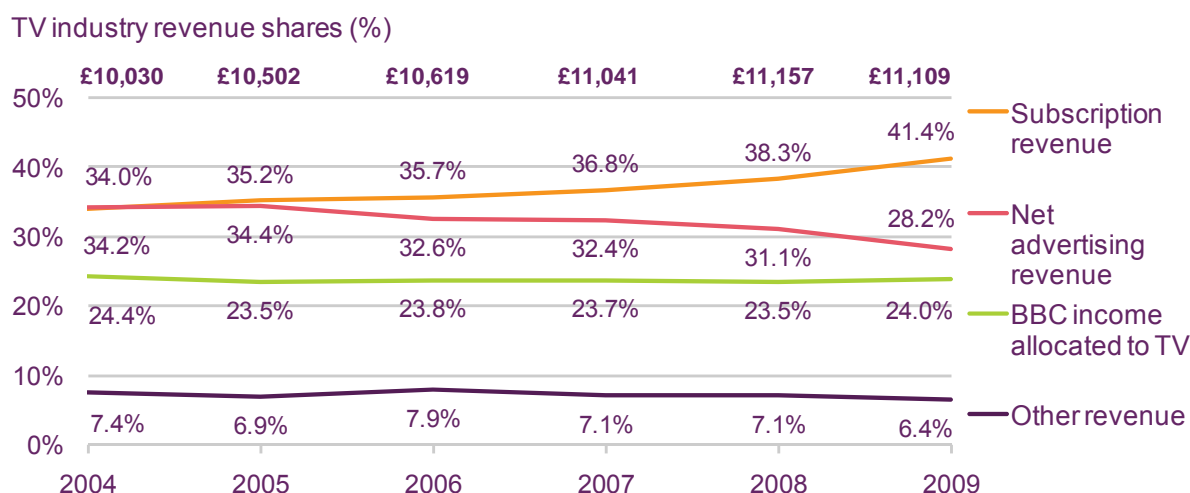
Source: Ofcom/broadcasters

Note: Figures expressed in nominal terms and replace previous Ofcom revenue data for TV industry, owing to restatements and improvements in methodologies. 'Subscription revenue' includes Ofcom's estimates of BSkyB, Virgin Media, BT Vision, TalkTalkTV, Setanta Sports (until its closure), ESPN and Top Up TV television subscriber revenue in the UK (Republic of Ireland revenue is excluded). It also excludes revenue generated by broadband and telephony. 'Other' includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS. The BBC restated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

When focusing on the four main revenue sources by share, the key trends of declining net advertising revenue and rising subscription revenue are clear. NAR experienced a fall in share of revenues of six percentage points between 2004 and 2009 to 28.2%, while subscriptions have increased share by 7.4 percentage points to 41.4%.

The amount the BBC spends on television services has been broadly stable over the five-year period, falling slightly (-0.4%) to 24.0% in 2009. Other revenue, explored in detail in Section 2.2.3, constituted 6.4% of the 2009 total, down by 1.4 percentage points since 2004.

Figure 2.29 Total TV industry revenue sources, by share



Source: Ofcom/broadcasters

Note: Figures expressed in nominal terms and replace previous Ofcom revenue data for TV industry, owing to restatements and improvements in methodologies. 'Subscription revenue' includes Ofcom's estimates of BSkyB, Virgin Media, BT Vision, TalkTalkTV, Setanta Sports (until its closure), ESPN and Top Up TV television subscriber revenue in the UK (Republic of Ireland revenue is excluded). It also excludes revenue generated by broadband and telephony. 'Other' includes TV shopping, sponsorship, interactive (including premium-rate telephony services), programme sales and S4C's grant from the DCMS. The BBC restated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

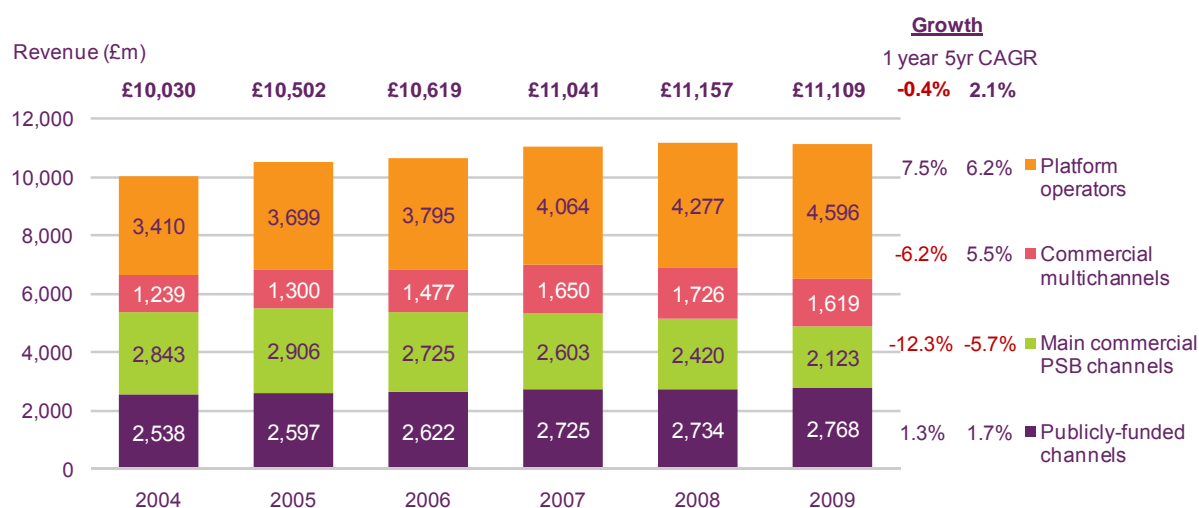
The TV channel sector's revenues fell in 2009

Figure 2.30 highlights the declining revenues of the main commercial PSB channels and multichannel broadcasters. The former (Channels 3 (plus GMTV1), 4, 5 and S4C) saw revenues fall by £297m (12.3%) in 2009 to £2.12bn, down from a high of £2.9bn in 2005. The commercial PSBs attracted a 19% share of TV revenue, down three percentage points over the 12-month period.

The multichannel sector (which includes the digital portfolio channels of the PSBs) also saw revenues fall, down £107m (6.2%) year on year to £1.6bn. This marks the first year of decline in revenues for multichannel broadcasters since Ofcom started analysis of revenues by sector, although the sector held its share of total TV industry revenues last year at 15%.

Publicly-funded channels, which include Ofcom's estimate of BBC revenue allocated to TV and S4C's grant from the Department for Culture, Media and Sport, accounted for £2.8bn of revenue (a stable 25% share).

Figure 2.30 Total TV industry revenue, by sector



Source: Ofcom/broadcasters

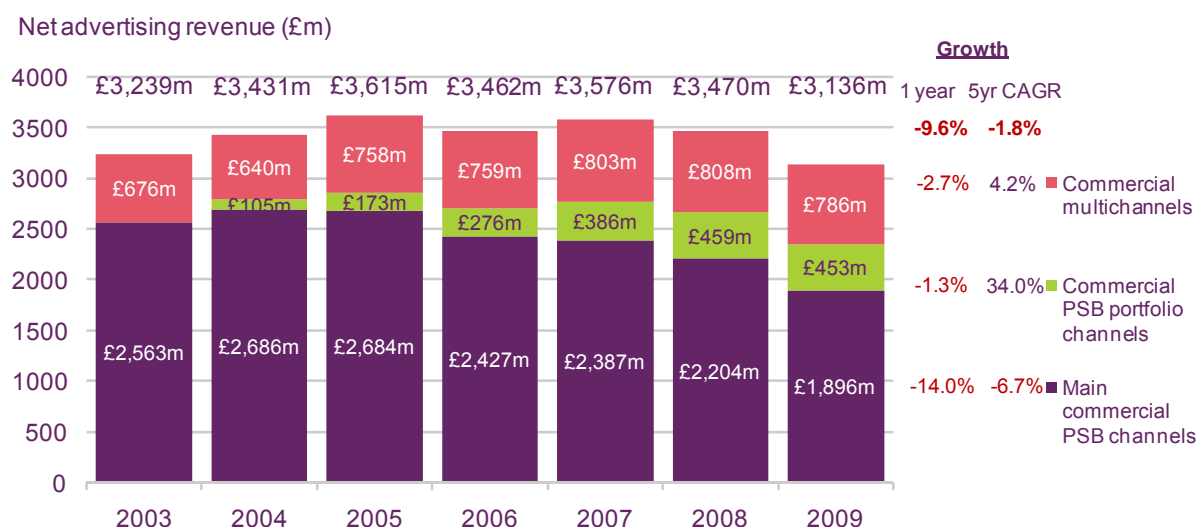
Note: Figures expressed in nominal terms. Main commercial PSB channels comprise ITV1, STV, UTV, Channel Television, GMTV1, Channel 4, Five and S4C. Commercial multichannels comprise all multichannels other than those owned by ITV1, Channel 4 and Five. Publicly-funded channels comprise BBC One, BBC Two, the BBC's portfolio of digital-only television channels and S4C. S4C is listed under publicly-funded and commercial analogue channels because it has a mixed advertising and public funding model. The BBC restated licence fee revenue in 2008. Totals may not equal the sum of the components due to rounding.

PSB portfolio channels experienced their first decline in advertising revenues during 2009

Growing advertising revenue among the PSBs' portfolio channels – such as ITV2, E4 and Fiver – has historically helped to offset reductions in revenue across the main PSB channels. Figure 2.31 shows that the PSB portfolio channels have been the fastest-growing component of the market in recent years, with a compound annual growth rate of 34% per year since 2004. This can be explained by factors such as the growing adoption of Freeview, on which viewing share of the PSBs is highest; a move to free-to-air business models to maximise viewership, and an increasing number of channels from the PSBs.

However, Figure 2.31 also shows that revenue generated by the portfolio channels fell for the first time in 2009, down by £6m (1.3%) – consistent with our analysis of their share of viewing, which is set out in Section 2.1.9.

Figure 2.31 TV net advertising revenues, by source

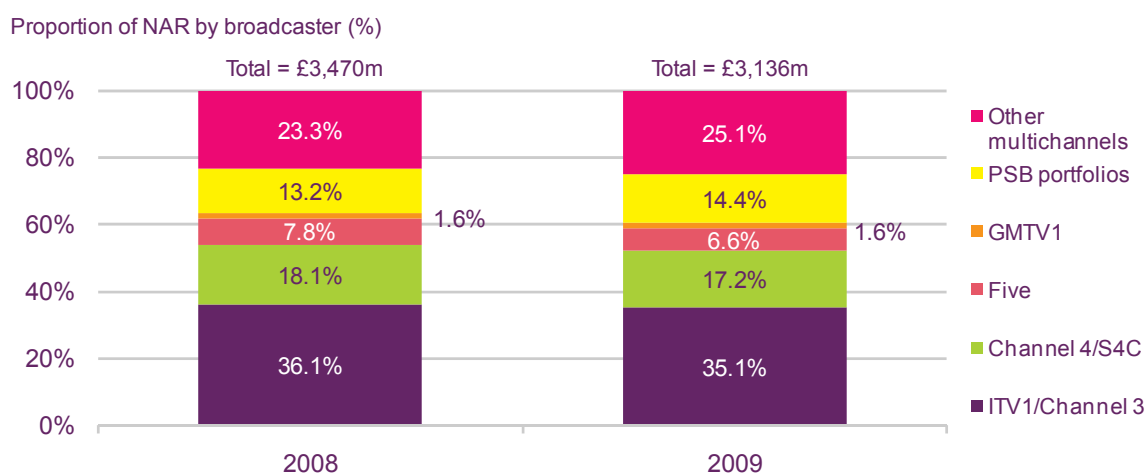


Source: Ofcom/broadcasters. Note: Figures expressed are in nominal terms and replace previous data published by Ofcom. Main commercial PSB channels comprise ITV1, STV, UTV, Channel Television, GMTV1, Channel 4, Five and S4C; Commercial PSB portfolio channels include ITV2, 3, 4, Men & Motors, CiTV, E4, More 4, Film 4, 4Music, Five USA and Fiver (plus their '+1' channels). For previous years closed channels have also been included. Sponsorship revenues are not included. Totals may not equal the sum of the components due to rounding.

Along with their absolute levels of advertising revenue falling, the commercial PSBs also saw their share of TV advertising fall, to the benefit of multichannel broadcasters. Five had the sharpest fall, down 1.2 percentage points from 7.8% in 2008 to 6.6% in 2009. ITV1/Channel 3 licensees and Channel 4/S4C also experienced reductions in shares (by one percentage point and 0.9 of a percentage point respectively) while GMTV1 managed to maintain its NAR share between 2008 and 2009.

While the portfolio channels of the PSBs experienced declining NAR in 2009, their share of the market rose by 1.2 percentage points to 14.4%. The share of the remaining multichannel players (excluding the PSB portfolio channels) rose year on year, accounting for just over a quarter (25.1%) of NAR in 2009. This represented an increase of 1.8 percentage points.

Figure 2.32 TV net advertising revenue market shares, 2008 - 2009



Source: Ofcom/broadcasters. ITV1/Channel 3 includes ITV1, STV, UTV and Channel Television.

2.2.3 Other TV revenue

Broadcasters raised less revenue from other/non-broadcast sources in 2009

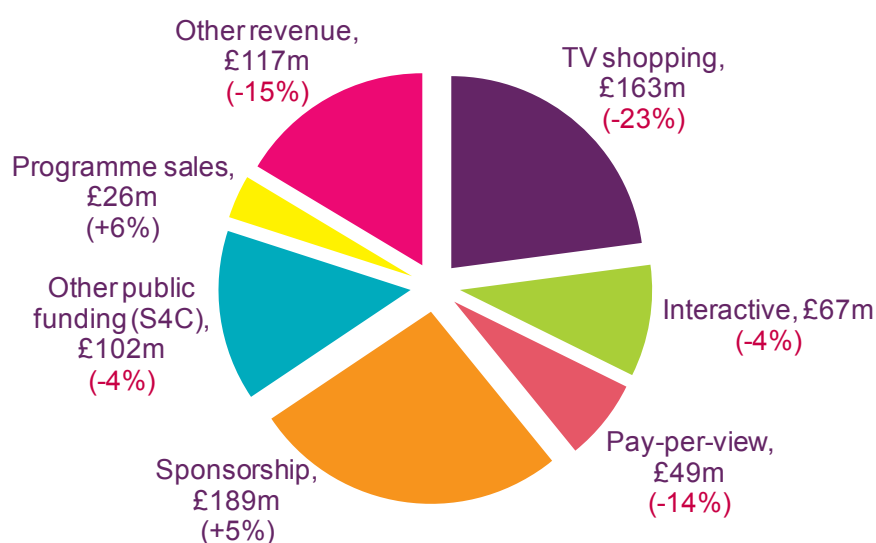
Other revenue, which includes all income other than spot advertising, has become increasingly important for broadcasters. It allows them to diversify their income and reduce reliance on advertising and pay-TV carriage fees. In 2009, both PSB and multichannel broadcasters generated £713m in other revenue, down 9% from 2008 (Figure 2.33).

Most of the category's revenue components fell in 2009, with transactional services in particular reporting decreased revenues. Interactive revenue accounted for £67m in revenues in 2009, down 4% year on year, and little more than half of the £122m earned in 2006 when premium-rate telephony-based 'quiz-TV' services were at their most popular.

Pay-per-view revenue stood at £49m last year, down 14%, while TV shopping revenues dropped by nearly a quarter (23%) to £163m. TV shopping includes all retail-related activities and represents the aggregate operating margin on products and services sold via the channel (excluding the operational costs of the business). Of the categories that did see growth in 2009, programme sales were up by 6% to £26m, while sponsorship, which we identify separately from 'spot' advertising revenue in our analysis, increased by 5% to £189m. We also include S4C's grant from the Department for Culture, Media and Sport in 'other' revenue, which fell in 2009 by 4% to £102m. Revenue that does not fit into the categories outlined ('other') fell by 15% to £117m.

Figure 2.33 Breakdown of other/non-broadcast revenue, 2009

Total non-broadcast revenue = £713m (-9%)



Source: Ofcom/broadcasters. Note: Percentage figures in brackets represent year-on-year change. TV shopping represents aggregate operating margin of products sold via television. Percent figures represent year-on-year change. Totals may not equal the sum of the components due to rounding.

2.2.4 Revenue among multichannel genres

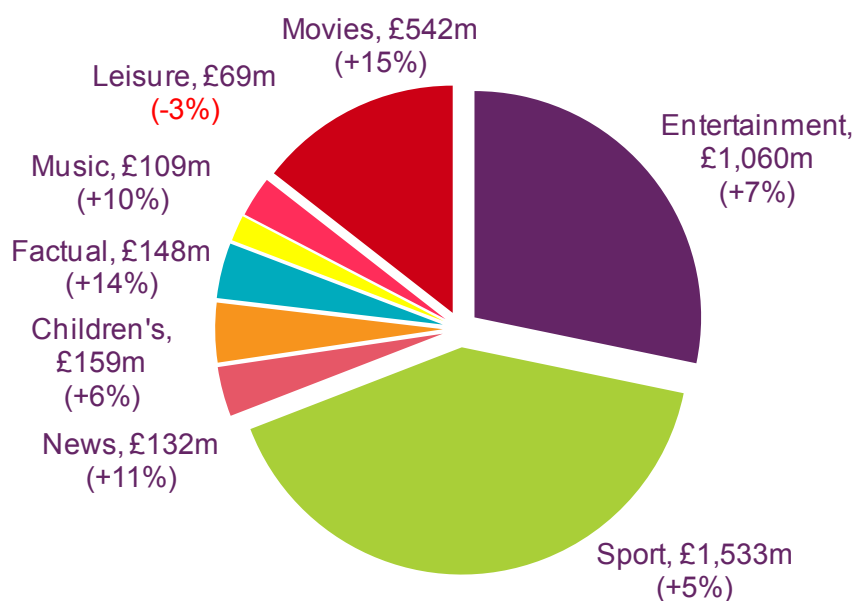
Revenue among key multichannel genres continued to grow in 2009

Figure 2.34 sets out the revenue generated by multichannel services in key genres, most of which experienced growth in 2009, to reach £3.8bn, an increase of £254m (7%). Total multichannel revenue exceeds that of platform operator revenue because this includes wholesale subscriber payments from platform operators to channels (this is not included in the preceding analysis, to avoid double-counting subscription revenue).

Sports remained the channel genre that generated most revenue in 2009, up 5% over 12 months to £1.6bn. Entertainment, the second largest genre by revenue but the largest by number of channels, also saw a 7% uplift in revenues, passing the £1bn mark to reach £1.1bn. Film channels' revenue rose by 15% to reach £542m. Of the eight categories analysed, Leisure was the only genre to experience falling revenues in 2009, down 3% to £69m. The analysis includes all multichannel services in the key genre analysed, including the portfolio channels of the PSBs (but not BBC-owned services).

Figure 2.34 Revenue generated by multichannel broadcasters, by genre, 2009

Total revenue = £ 3,751m across the eight genres included (+7%)



Source: Ofcom/broadcasters

Note: Percentage figures in brackets represent year-on-year change. The figures in this chart include all sources of revenue accruing to multichannels and are expressed in nominal terms. This includes those set out in Figure 2.28 plus wholesale subscriber payments from platform operators.

2.2.5 Spend on UK television programmes

Broadcasters spent marginally less on programmes in 2009

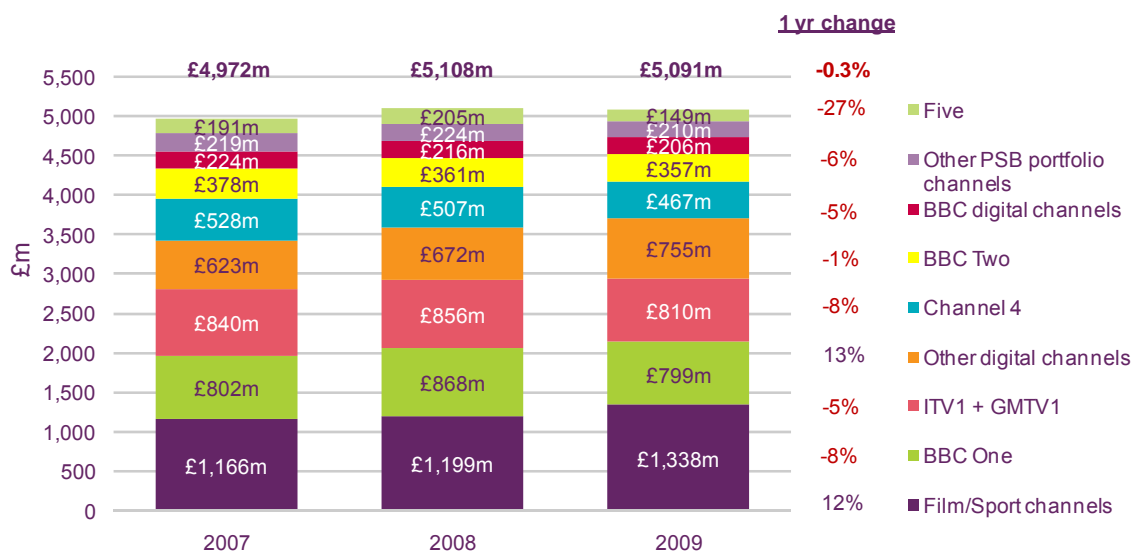
UK broadcasters' expenditure on networked content – including commissions, acquisitions and repeats - fell marginally in 2009 in challenging market conditions; it totalled £5.1bn, a 0.3% decline on 2008.

The PSBs in particular spent less on programmes for their core channels in 2009. Five reduced spend by the highest margin, down by 27% to £149m. It was not alone among PSBs in reducing spend, with BBC One down 8% to £799m, BBC Two down 1% to £357m, ITV1/Channel 3 licensees and GMTV1 down 5% to £810m and Channel 4 down 8% to £467m.

Sports and Film channels increased their programme spend, largely due to the investment made in broadcast rights. The two genres accounted for a combined £1.3bn of spend in 2009, up 12% year on year (accounting for 26% of the total). The biggest increase in content spending was made by digital channels (excluding the PSB portfolio channels as well as Film and Sports), which invested £755m in 2009, up by 13%. Given the dynamic nature of the UK multichannel market, with channels regularly closing and launching, the number and

type of channels included in our analysis changes from year to year and does not therefore allow an exact comparison.

Figure 2.35 Spend on network TV programmes, 2007 - 2009



Source: Ofcom/broadcasters.

Note: Figures expressed in nominal terms. Figures do not include spend on nations and regions output. BBC digital channels includes BBC Three, BBC Four, BBC News Channel, BBC Parliament, CBBC and CBeebies (but not BBC HD). 'Other digital channels' include all genres (excluding Sports and Films). Programme spend comprises in-house commissions, productions, commissions from independents, spend on acquired programmes, spend on rights and repeats.

2.2.6 Spend on first-run originations on the five main PSB channels

Spending on originations continued to decline in 2009

Spend on first-run originated programming for the five main PSB channels fell in 2009 in nominal terms, down by 7.4% to £2.41bn, compared to the £3.05bn spent in 2004 (a decline of 20.9%). Output produced for viewers in the nations and English regions saw the largest decline, down 15.2% to £256m. Peak time and late-night parts of the schedule saw similar proportional falls in spend, down 6.8% and 6.6% to £1.32bn and £230m respectively.

While spend on programming is often seen as a key indicator of the quality of television, Ofcom research, published in the *Public Service Broadcasting Annual Report 2010*, found that despite the reductions in spending among the PSBs, perceived value of PSB programming remained high³⁵.

Reductions in content spending are driven by a variety of dynamics, not all of which suggest that the reductions have an on-screen impact. For example:

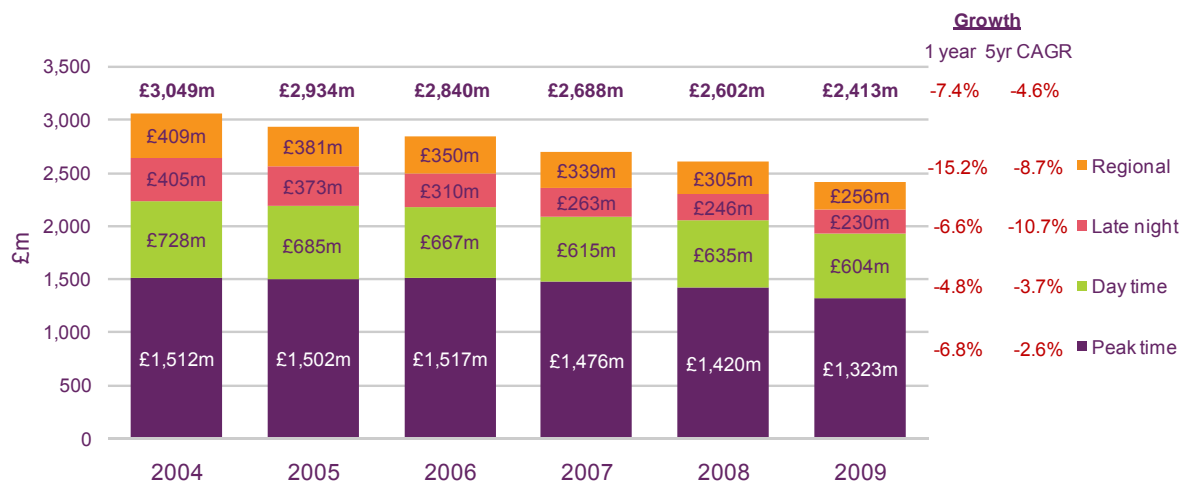
- broadcasters can save money at the point of programme commissioning due to efficiencies in the production value chain across the television industry;
- some broadcasters have taken steps to limit the amount they spend on on-screen talent (presenters);

³⁵ <http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbreport.pdf>

- there have also been changes to programmes, scheduling and commissioning strategies, e.g. the BBC Children’s strategy to produce fewer new programmes, but aiming to make these ‘bigger and better’; and
- some broadcasters are also putting the onus on production companies to generate extra finance to contribute towards programme making from other sources (‘gap funding’). For example, a recent report from producers’ industry body PACT estimated that independent producers were responsible for an increasing contribution to productions, estimated to be in the region of £200m in 2009³⁶.

At the same time, some broadcasters are increasing their content spend as part of a strategy to attract and retain viewers, and in some cases, to recruit subscribers to pay-TV platforms. In July 2010, Sky signed an output deal with US producer HBO, which gives the pay-TV broadcaster rights to broadcast all new HBO-commissioned programmes³⁷. Meanwhile, Channel 4 committed an extra £50m to programming for 2010 – an increase of 10% to around £550m – at the end of July 2010. Other effects that have a tendency to drive up costs include the value of rights increasing, for example on sports and US series, and the inclusion of ancillary rights, such as video on demand, in contracts.

Figure 2.36 Spend on first-run originated output on the five main PSB channels



Source: Ofcom/broadcasters. Note: Figures are expressed in 2009 prices. They include GMTV1, spending in the nations and regions on English-language programming (and a small amount of Irish-language programmes) but do not include the BBC’s digital channels.

As published in Ofcom’s *Public Service Broadcasting Annual Report 2010*³⁸, our analysis indicates that the commercial PSB channels’ content spending as a proportion of revenue rose from 37% in 1998 to 56% in 2009. The ratio has declined for the BBC from 65% in 1998 to 56% in 2009. A variety of factors may have influenced this, including rising expenditure on infrastructure, and higher distribution costs, reflecting new distribution platforms. It is also possible that the ratio has increased for commercial PSBs because content spending strategies have not yet caught up with declining revenue from advertising.

³⁶ PACT policy survey and financial census 2010

³⁷ http://corporate.sky.com/investors/press_releases/2010/HBO.htm

³⁸ <http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbreport.pdf>

2.2.7 TV industry output

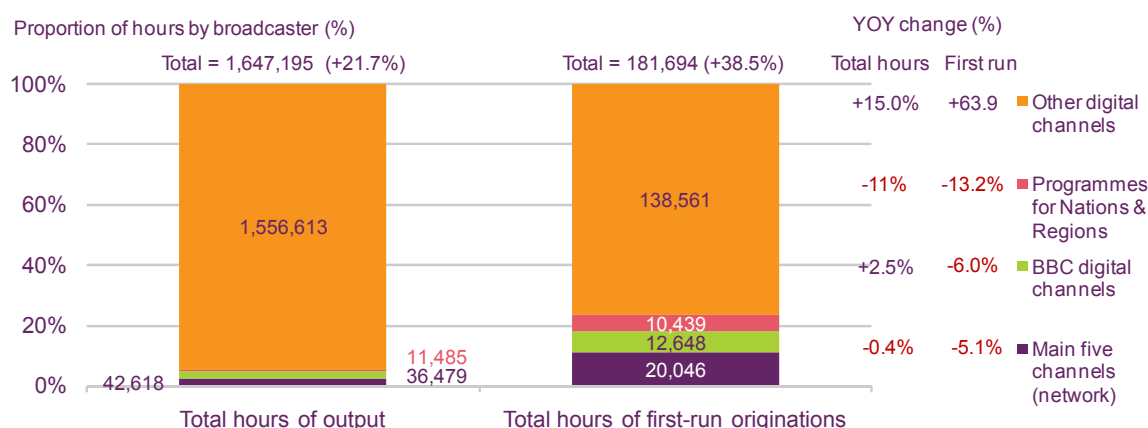
Over 2.9 million hours of television broadcast in 2009, up 14% year on year

UK broadcasters transmitted 2,902,649 hours of programming across all TV channels in 2009, an increase of 14% year on year. Figure 2.37 analyses the broadcast hours of all PSB channels and digital channels included in the key genres of Entertainment, Sports, Films, Factual, Children's, News, Leisure and Music.

Those channels broadcast 1,647,195 hours in 2009, of which 181,694 (11%) were first-run originations produced in-house or made by an external producer. The largest single component of first-run originations was for other digital channels, which includes the commercial multichannel broadcasters. They broadcast 138,561 hours of first-run output in 2009, an increase of 64% year on year. However, this includes a high proportion of live news content: 61,314 hours (44%) of total multichannel first-run originations were shown on the various news channels that broadcast to UK viewers.

Among the five main PSB channels, just under half (47%) of the 42,618 total hours were first-run originations, compared to originated hours on the BBC's digital channels of just over a third (12,648). The majority of programmes made by the BBC and Channel 3 licensees for the nations and regions (91% of the 11,485 hours) were first-run originations.

Figure 2.37 Total and first-run originated hours of output, all day, 2009



Source: Ofcom/broadcasters

Note: Percentage figures in brackets represent year-on-year change. The first-run figures include in-house productions and external commissions, not first-run acquisitions. GMTV1 is included within the figures for the five main channels. 'Other digital channels' includes Entertainment, Sports, Film, Factual, Children's, News, Leisure and Music genres. Regional hours exclude Welsh and Gaelic-language programming but do include a small proportion of Irish-language programmes.

2.2.8 Television output on the five main PSB channels

Hours of first-run originated output on the five main channels fell by 8% in 2009

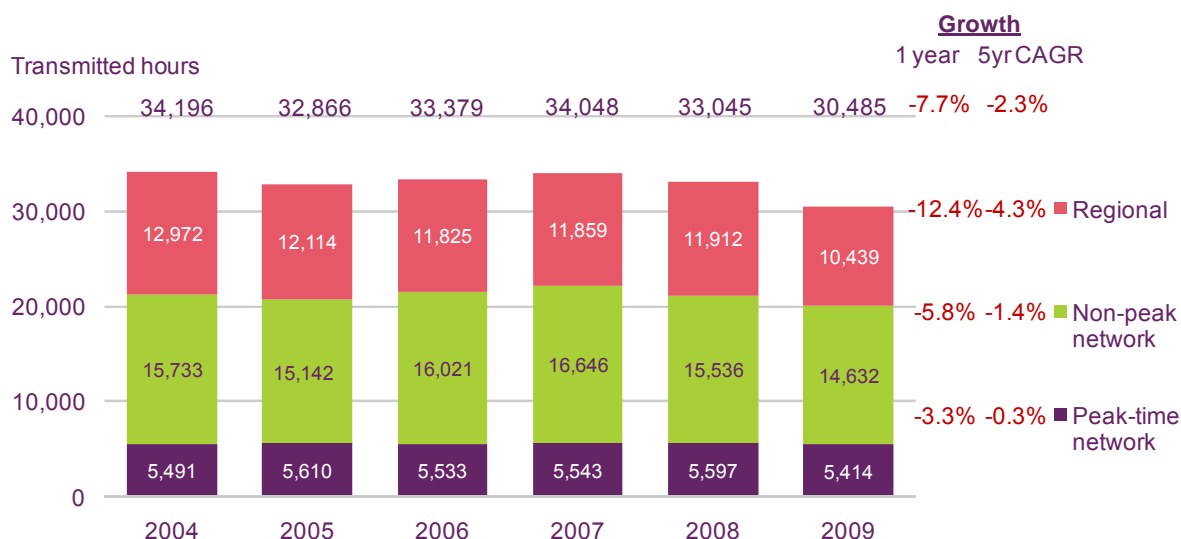
In line with reduced spending on originations by the PSBs, total broadcast hours of originated programming fell in 2009, down by 7.7% (2,560 hours) to 30,485 hours, the lowest level for more than five years.

The sharpest decline was seen in programming for the nations and regions, down by 13.2% (1,593 hours) to 10,439, as broadcasters took advantage of relaxed quotas introduced during 2009. In particular, as part of the *Second Public Service Broadcasting Review*:

*Putting Viewers First*³⁹, Ofcom reduced some of the quotas for the production of regional programming by the Channel 3 licensees, with effect from the beginning of 2009⁴⁰. This was necessary to keep the cost of programme obligations to ITV in balance with the benefits to the broadcaster of continuing to hold the licences.

Meanwhile, network hours of first-run originations in peak time (18:00 – 22:30) declined by 3.3% in 2009 to 5,414 hours, while first-run originations throughout the rest of the schedules of the main PSBs fell by 5.8% (904 hours) to 14,632.

Figure 2.38 Hours of first-run originated output on the five main PSB channels



Source: Ofcom/broadcasters. Note: Figures include GMTV1 but do not include the BBC's digital channels. Regional hours exclude Welsh and Gaelic-language programming but do include a small proportion of Irish-language programmes.

Costs per hour of programming by broadcaster type

Figure 2.39 looks at the average cost per hour (CpH) of all programming - originations, acquisitions and repeats - produced by different types of broadcasters in 2005 and 2009. The CpH for the five main PSB networks⁴¹ was £60,600 in 2009, a 13.8% decline from the £70,300 recorded in 2005. This CpH spend far outweighs that of the multichannel broadcasters. The BBC's digital channels accounted for an average spend per hour of £5,800, down by just over a quarter (26.2%) from £7,900 in 2005.

While investment in multichannel programming has increased in recent years (see Figure 2.35), the number of channels, and therefore broadcast hours, have increased at a faster rate. This has in turn led to a decrease in CPH over the four-year period. The CpH for programming produced by the UK's commercial multichannel broadcasters⁴² fell by 38.9% between 2005 and 2009, from £2,200 to £1,300. This figure includes spending on broadcast rights, which in the case of Sports and Film channels, accounts for the greatest cost of producing output. Most multichannel services rely more heavily on acquired and repeat

³⁹ http://stakeholders.ofcom.org.uk/binaries/consultations/psb2_phase2/statement/psb2statement.pdf

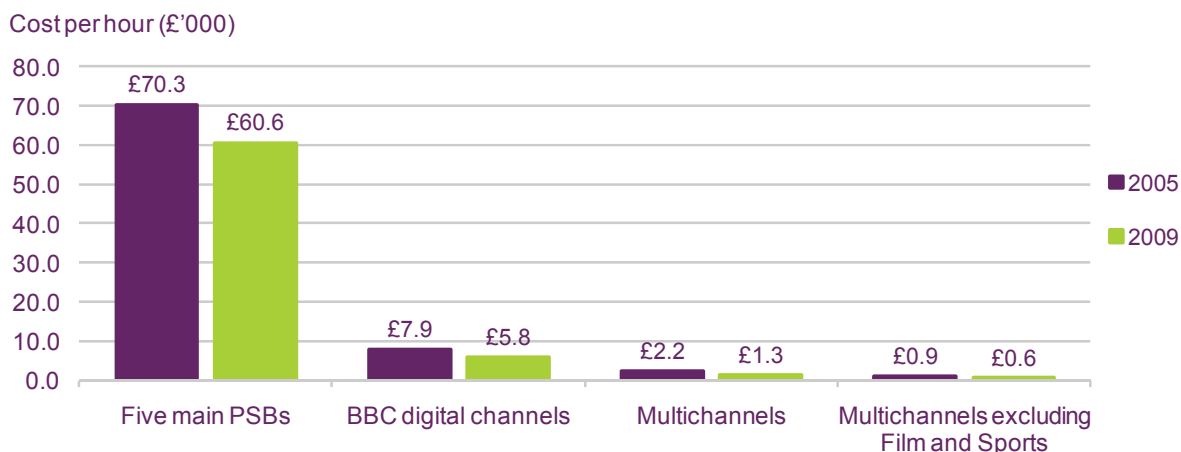
⁴⁰ For more information, read the statement on short-term regulatory decisions: http://www.ofcom.org.uk/consult/condocs/psb2_phase2/shortterm/

⁴¹ The five main PSBs excludes hours produced specifically for viewers in the nations and regions.

⁴² Multichannels include commercial channels in the eight key genre categories of Entertainment, Children's, Factual, Sports, News, Leisure, Music and Film.

programming compared to the PSB channels, which produce a higher proportion of more expensive originated programming (Figure 2.40). When excluding Sports and Film channels from the CpH for commercial multichannel broadcasters, the average cost is lower, at £600 CpH in 2009, which was down by a third (33.7%) on £900 in 2005.

Figure 2.39 Cost per hour for the five main PSB networks and multichannel broadcasters



Source: Ofcom/broadcasters. Note: Figures are expressed in real terms. Data for five main PSBs include GMTV1 and are for network channels. BBC digital channels include BBC Three, BBC Four, BBC News 24, BBC Parliament, CBBC, CBeebies and BBC HD. Multichannels include commercial channels in the eight key genre categories of Entertainment, Children's, Factual, Sports, News, Leisure, Music and Film.

Figure 2.40 illustrates how much, on average, the five main PSBs have spent per hour on first-run originated programming. Peak-time programming, by far the most expensive to produce, saw the average cost per hour reduce in 2009 by £10,000 (3.7%) to £244,000, as broadcasters spent less on their shows. Average costs per hour for first-run originations for regional and daytime programmes remained stable at £25,000 and £65,000 respectively in 2009, while spending on programmes in the late-night schedules increased by 2% to £43,000 per hour. This is in part due to the relatively low cost of production for 'quiz TV' that features less on the late-night schedules of the commercial PSBs.

Figure 2.40 Cost per hour for first-run originated content on five main PSB networks



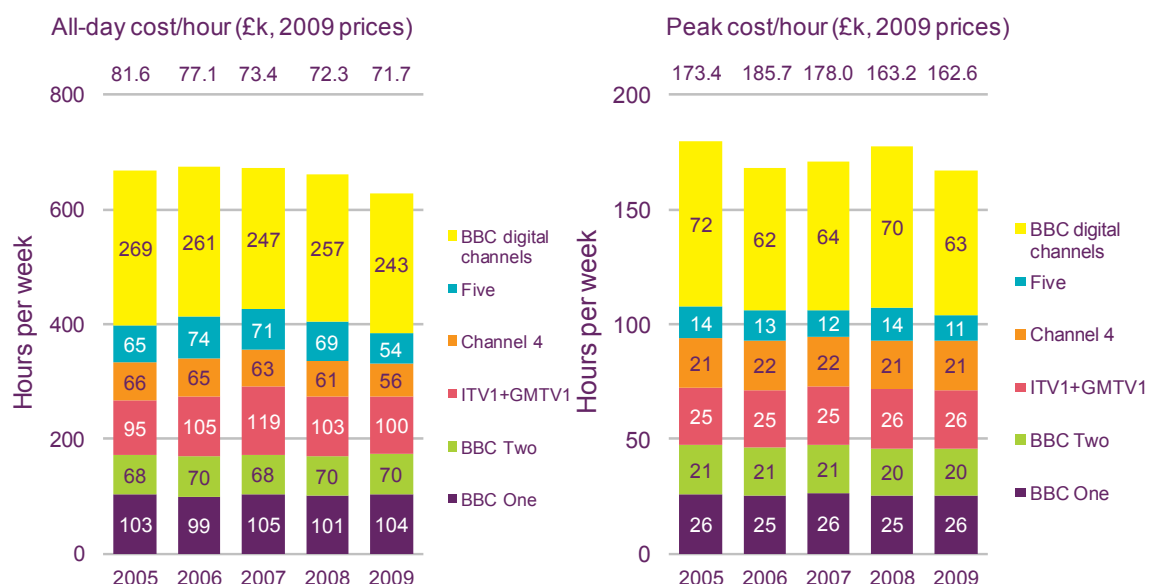
Source: Ofcom/broadcasters. Note: Figures are expressed in 2009 prices. They include GMTV1 but do not include the BBC's digital channels.

Figure 2.41 illustrates how many hours of first-run originations the PSB channels (including the five main PSB channels and the BBC's digital channels) broadcast on average per week. In 2009, the figure stood at an average of 627 first-run originated hours per week across the entire day (24 hours), down from 661 in 2008. The equivalent figure for peak-time hours was 167 in 2009, down from 177 in 2008.

First-run originated hours on BBC One, both all day and in peak time, increased in 2009 by three hours to 104 across the entire schedule and by one hour to 26 in peak. BBC Two managed to maintain its hours of first-run originations in 2009, both all day and in peak time, at 70 and 20 per week respectively.

Similar trends were seen at ITV1/GMTV1 and Channel 4, which maintained levels of average weekly first-run original hours in peak time but declined slightly in all day (by 3% and 8% respectively). The steepest proportional declines were seen at Five, where all day and peak-time first-run originations fell by 15 hours (22%) and three hours (22%) respectively to 54 and 11 hours per week. The BBC's digital channels also reduced first-run originations in all day and peak time by 6% and 10% respectively, to 243 and 63 hours.

Figure 2.41 First-run originated output by the PSBs, all day and peak time

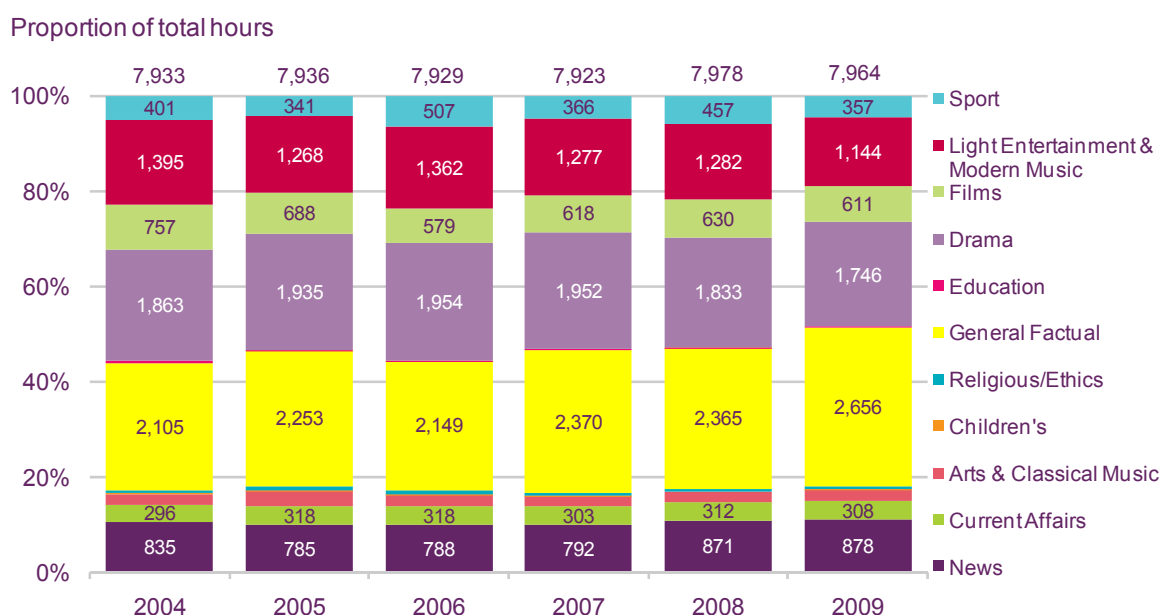


Source: Ofcom/broadcasters. Note: Figures do not include spend on nations and regions output.

At the level of individual programme genres among the five main PSB channels in peak time, there was a marked increase in hours of General Factual programmes during 2009, up by 291 hours (12%) to 2,656. Arts & Classical Music was up by 22% to 197 hours, due to increased hours of Factual Arts programming.

Among the genres that saw decreased hours in peak time, Drama fell by 5% to 1,746 hours, Light Entertainment and Modern Music decreased by 11% to 1,144 hours, and Sports dropped by 22% to 357 hours (the 2008 spike was in large part due to the Olympics and European football championships). News and Current Affairs genres were relatively stable between 2008 and 2009.

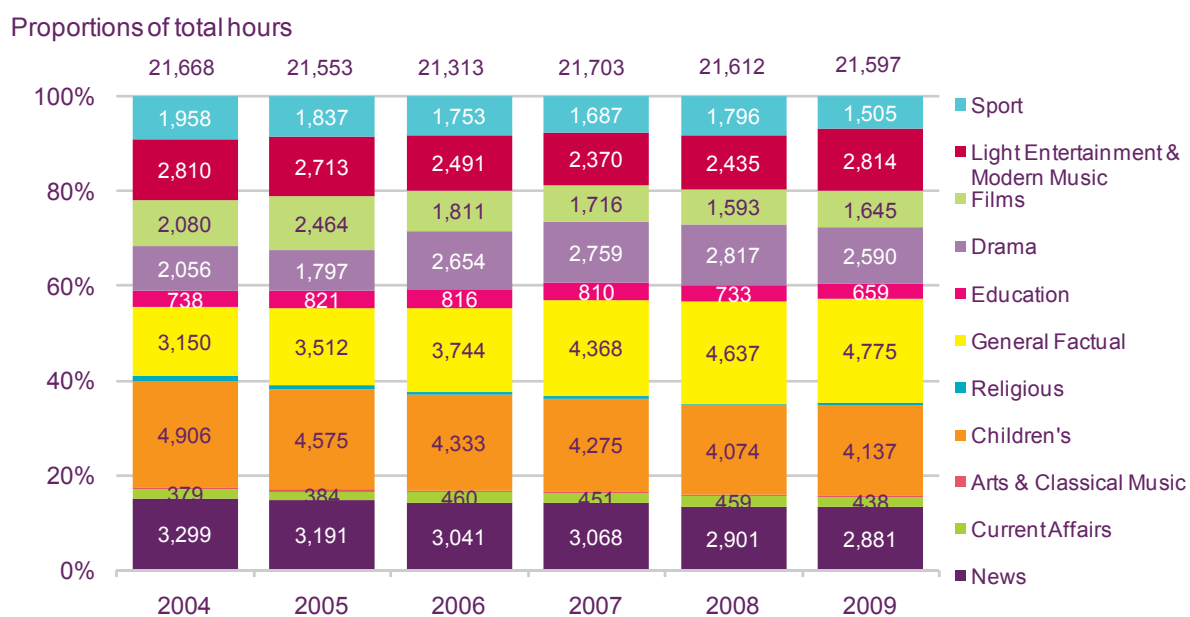
Figure 2.42 Genre mix on five main PSB channels in peak time, by hours



Source: Ofcom/broadcasters. Note: Includes five main channels including GMTV1, figures do not include hours of nations and regions output.

In daytime (6:00 – 18:00) during 2009, there was a similar story for Drama, which declined by 8% to 2,590 hours and Sports, down 16% to 1,505 hours. Light Entertainment and Modern Music increased their hours by 6% to reach 2,814 hours, while Arts & Classical Music was down 12% to 51 hours. Hours of Children's programming in daytime increased year on year by 63 hours (2%) to 4,137, while News hours reduced by 20 hours (0.6%) to 2,881.

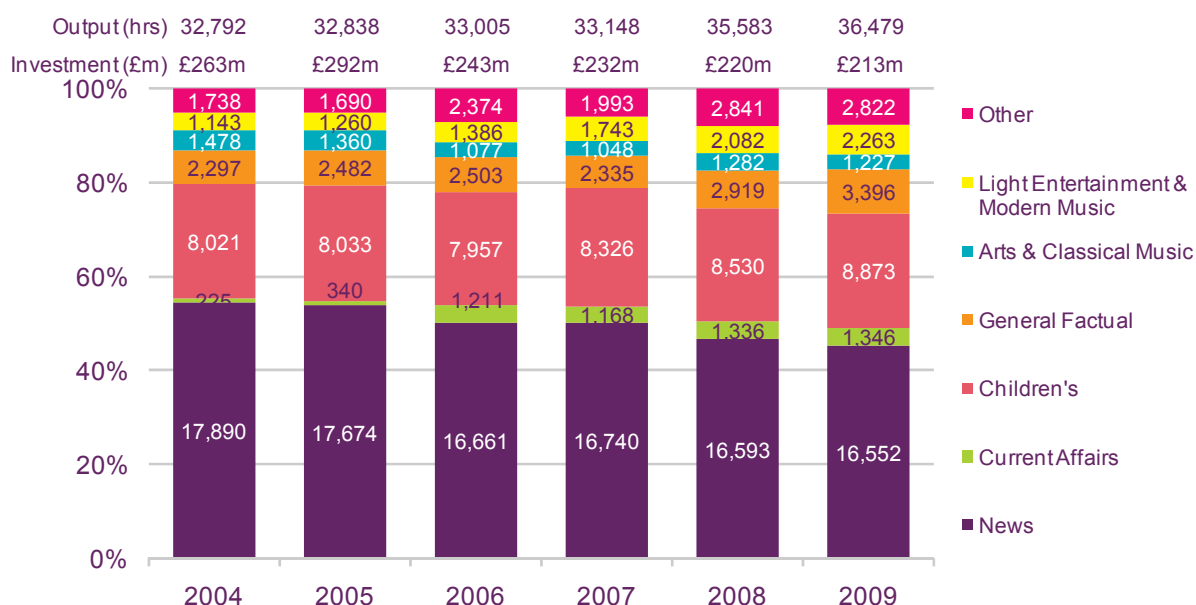
Figure 2.43 Genre mix on five main PSB channels in daytime



Source: Ofcom/broadcasters. Note: Includes five main channels plus GMTV1. Figures do not include hours of nations and regions output.

Figure 2.44 sets out the genre mix of the BBC's digital channels, which dedicated more hours to children's programming in 2009 than they did in 2008, up by 343 hours (4%) to 8,873. Other key genres that saw increased hours in 2009 were General Factual, up 16% to 3,396 hours, and Light Entertainment & Modern Music, up 9% to 2,263 hours. Overall, the BBC reduced the amount it spent on programming for its digital channels by 3% to £213m.

Figure 2.44 The BBC's digital channels genre mix by hours (all day)



Source: Ofcom/broadcasters. Note: BBC digital channels include BBC Three, BBC Four, BBC News 24, BBC Parliament, CBBC, CBeebies and BBC HD. Investment figures are in 2009 prices. Other includes: Education, Drama, Film, Religion and Sports. The BBC allocated Parliamentary coverage to the Current Affairs genre in the data for 1998 to 2003. From 2004, it has been allocated to either News or Current Affairs.

2.2.9 Multichannel output and spend

Entertainment channels accounted for more than a quarter of multichannel hours in key genres

Figure 2.45 focuses on the composition of broadcast hours in the multichannel sector. Channels in the Entertainment genre broadcast 422,053 hours of programming in 2009, more than a quarter of the total hours of output among the eight key genres included in our analysis⁴³; total hours in these genres increased by 16% in 2009 to 1,571,420 hours.

The Entertainment section has become a sought-after area of electronic programme guides (EPGs) because this genre category appears first in EPG listings. The high positioning on the EPG can also create a 'halo effect' for channels situated near bigger channel brands. In recent years, some genre-based multichannel broadcasters, including MTV (music) and Discovery (lifestyle and factual) have launched general entertainment channels, not only to attract viewers but also to cross-promote their channels in other sections of the EPG.

Total first-run multichannel hours increased in 2009, up by 46% year on year to 265,626 hours. This was driven in part by growth in the number of channels in the News category, where hours expanded by 73% in 2009 to reach 89,617 hours. News channels represent a disproportionately high number of first-run hours because the majority of their output is live,

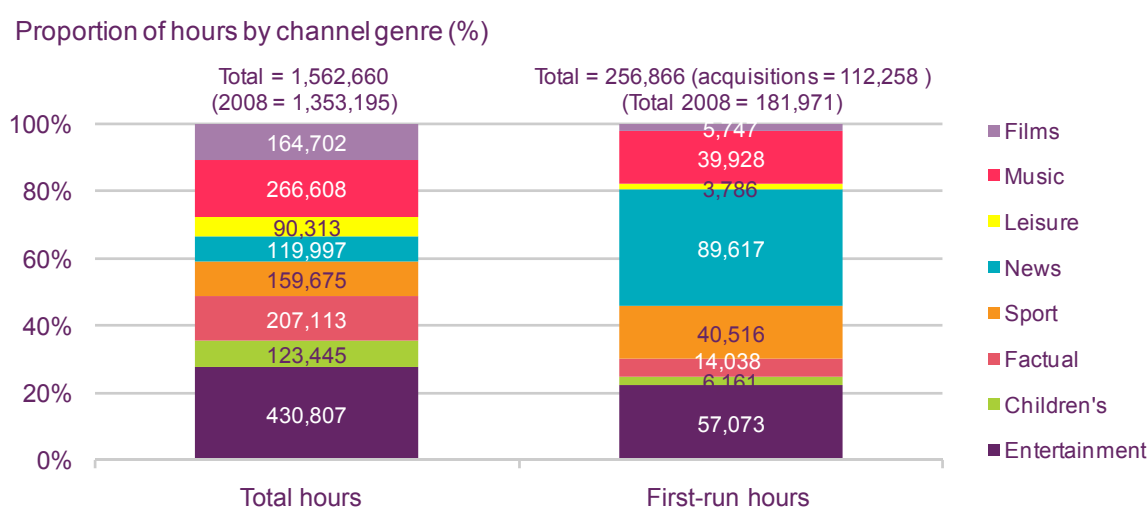
⁴³ These comprise Entertainment, Children's, Factual, Sport, News, Leisure, Music and Film.

studio-based content. The number of news channels broadcasting in the UK has increased in recent years.

First-run hours in other key multichannel genres increased during 2009: Entertainment was up by 113% to 56,388 hours and Factual increased by 250% to 14,038. Possible explanations as to why first-run hours have risen significantly in 2009 include:

- A greater number of channels have been included in the 2009 analysis than in previous years, due to new channel launches.
- A higher volume of data returns had been received from broadcasters at the time of writing, compared to 2008 (the data in the analysis are supplied directly from television licensees and are collected on an annual basis).

Figure 2.45 Total multichannel hours and first-run originations/acquisitions, 2009



Source: Ofcom/broadcasters

Note: Broadcast hours exclude Sky Box Office and 'barker' channels, which promote TV content. First-run hours include first-run in-house, commissioned and acquired content.

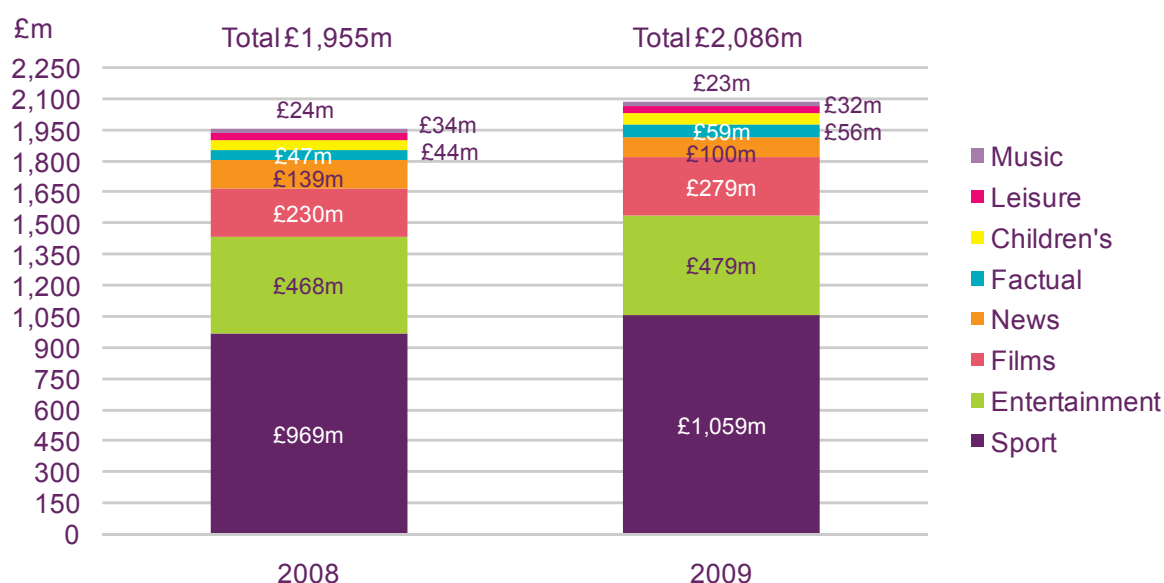
Multichannel content spend up 7% in 2009 to pass £2bn

Commercial multichannel broadcasters in the eight key genres spent £2.1bn on programming in 2009, a 6.7% increase on the £2bn 2008 figure.

Figure 2.46 shows that Sports programming represented more than half of the total multichannel spend, crossing the £1bn mark in 2009 and up 9.2% year on year. The vast majority of spend on Sports programming is for broadcast rights. The next largest category by spend was Entertainment, where channels spent £479m (up 2.3%), followed by the Film channels, which invested 21.3% more in 2009 at £279m. The analysis includes all multichannel services in key genres⁴⁴ except those owned by the BBC.

⁴⁴ The eight key genres are Sports, Entertainment, Film, News, Factual, Children's, Leisure and Music.

Figure 2.46 Content spend by commercial multichannels in key genres, 2008 – 2009



Source: Ofcom/broadcasters. Note: Excludes BBC digital channels.

2.2.10 Other audio-visual revenue

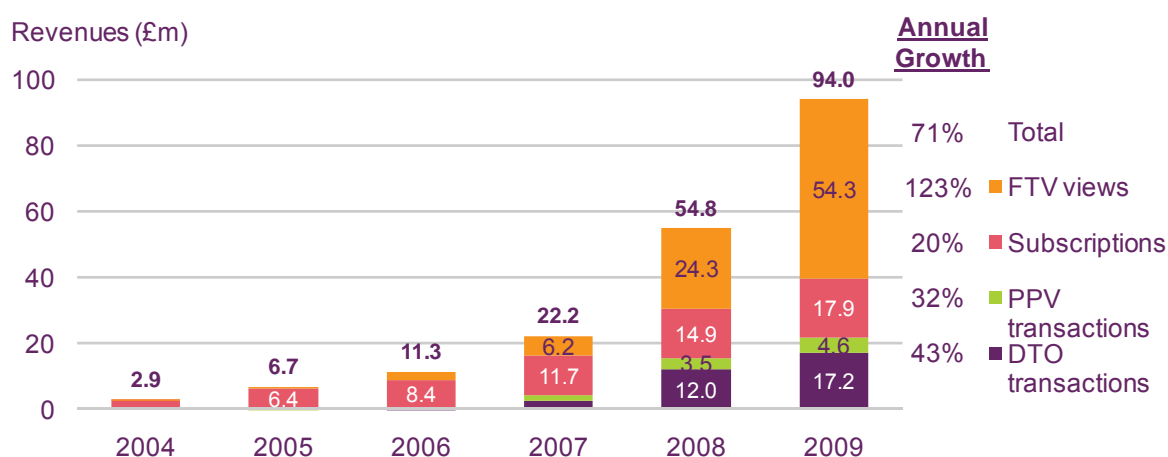
Advertising now the main source of online television revenue

Online TV is still an emerging market and content providers use a number of business models to support the delivery of TV content in this way. The main business models include:

- download-to-own (DTO) – consumers pay a fee to download a permanent copy of a programme. This model is used by services such as Apple's iTunes;
- pay-per-view (PPV) – consumers pay a fee to watch a single stream of content. This model is used by LOVEFiLM. A variant on this model is 'download to rent' (DTR) whereby consumers download content that they must watch within a defined period, often 48 hours. After watching, or after the time period is up, the content expires. DTR services include iTunes, blinkbox and CinemaNow.
- subscription – consumers pay a monthly fee to allow them to download or stream content. Examples include Movie Europe and Sky Player.
- free-to-view (FTV) – advertising-supported free-to-view content, such as provided on ITV Player or services like MSN Video Player.

Data from Screen Digest show that revenues from free-to-view streams have grown rapidly over the past two years to reach £54.3m, well over half the total revenue raised in 2009 by online TV providers in 2009 (£94m). This has been driven by the success of catch-up services like ITV Player, 4OD and Demand Five, and also by the launch of new non-broadcaster advertising-supported services such as MSN Video Player and SeeSaw (a VoD service owned by transmission company Arqiva and based on the platform assets of the BBC Worldwide, ITV and Channel 4 joint venture, Project Kangaroo).

Figure 2.47 Online TV revenues



Source: Screen Digest.

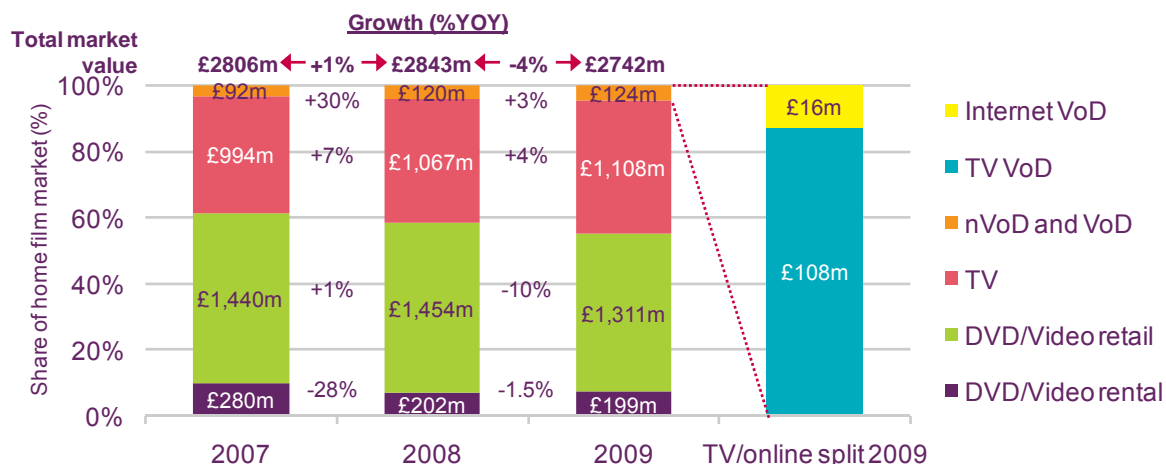
Note: FTV = free to view; PPV = pay per view; DTO = download to own.

On-demand film revenues remain a small part of the overall film market

Alongside TV, on-demand film is another source of revenue for audio-visual content delivered online. Most of the £2.7bn home film revenue in 2009 still accrued to traditional formats such as DVD retail and broadcast film. But film delivered in other ways is growing, albeit slowly. According to the UK Film Council data, revenues both from established pay-per-view (or ‘near-video on demand’) services and newer (‘true’) on-demand grew by 3% in 2009 to reach £124m (Figure 2.48).

Within this category, £16m (13%) of total nVoD/VoD revenues came from online on-demand services, while £108m came from TV-based VoD and nVoD services.

Figure 2.48 Value of UK home film market, and online revenue split



Source: UK Film Council/Ofcom based on Nielsen EDI, MRIB, BVA, Official Charts Company, Attentional, Screen Digest, RSU Analysis.

Notes: Excludes theatrical revenue. ‘TV’ is the market value of film content shown on pay-TV, terrestrial TV and free-multichannel TV. Pay-per-view is included in ‘nVoD’.

2.3 The UK television production sector

2.3.1 Introduction

Until the 1980s, television production in the UK was almost exclusively the domain of the two largest public service broadcasters – the BBC and ITV. The launch of Channel 4 in 1982, based on a publisher-broadcaster model, marked an end to the production duopoly; it signalled the birth of an independent production sector, with a large number of mainly small companies being set up and winning commissions from the new channel. Channel 5, also a publisher-broadcaster, launched in 1997.

Since then, the independent sector has grown in size, bolstered by the 25% quota (introduced under the 1990 Broadcasting Act) which applies to all PSBs, and more recently by the introduction of the BBC's Window of Creative Competition (WOCC), which has increased the BBC's commissions from independents.

Despite the PSBs achieving their quotas, there has been a reduction of 16% in their expenditure on UK-originated productions over the past five years. Given that originated content can be the most costly element of a broadcaster's schedule, and that the sector is now in a state of maturity, it is timely to examine the sector in more detail. This section considers the trends in UK production, by type of producer, in terms of programme volume and spend. It also examines production outside London and by programme genre to illustrate changes in the market over the last five to ten years.

2.3.2 PSBs in context

Total broadcast TV hours almost doubled since 2005 but PSB first-run originations declined

The total number of hours broadcast in the UK almost doubled in the four years to 2009. The increase from 0.78 million hours in 2005 to 1.35 million hours in 2009 can be mainly be attributed to the increase in the number of commercial multichannels, which rose from 180 to 239 in the Entertainment, Factual, Children's, News, Leisure and Music genres. There was also a significant rise in the number of hours of output by commercial PSBs' portfolio channels. ITV4 and More 4 both launched at the end of 2005 and were joined by CITV, Five Life (now Fiver) and Five US (now Five USA) in 2006.

However, for PSBs, this rise in the volume of hours broadcast and the launch of new portfolio channels was not matched by an increase in the volume of first-run original programming produced. Hours of originations across PSB portfolio channels declined by more than half over the period - from just under 14,000 to 6,000. The majority (6,047 hours) of this can be attributed to the closure of the ITV News Channel in late 2005; but discounting this, PSB portfolio channel originations dropped by 7%. First-run originations fared better on the broadcasters' main networks, although this figure was also down slightly from 21,000 to 20,000 hours between 2005 and 2009.

By contrast, the increase in the hours of first-run originations by multichannel broadcasters has been significant, largely due to an increase in the number of channels. There was a rise of 484% or 96,000 hours from 25,000 in 2005 to 121,000 in 2009⁴⁵. Measured in hours, the level of originations on commercial multichannels in 2009 was more than double the main PSB networks and their portfolio channels combined.

⁴⁵ This figure excludes Sport and Film channels.

Original production quotas

Original productions are programmes commissioned by broadcasters from in-house production resources or independent producers with a view to being shown on the broadcaster's channel in the first instance.

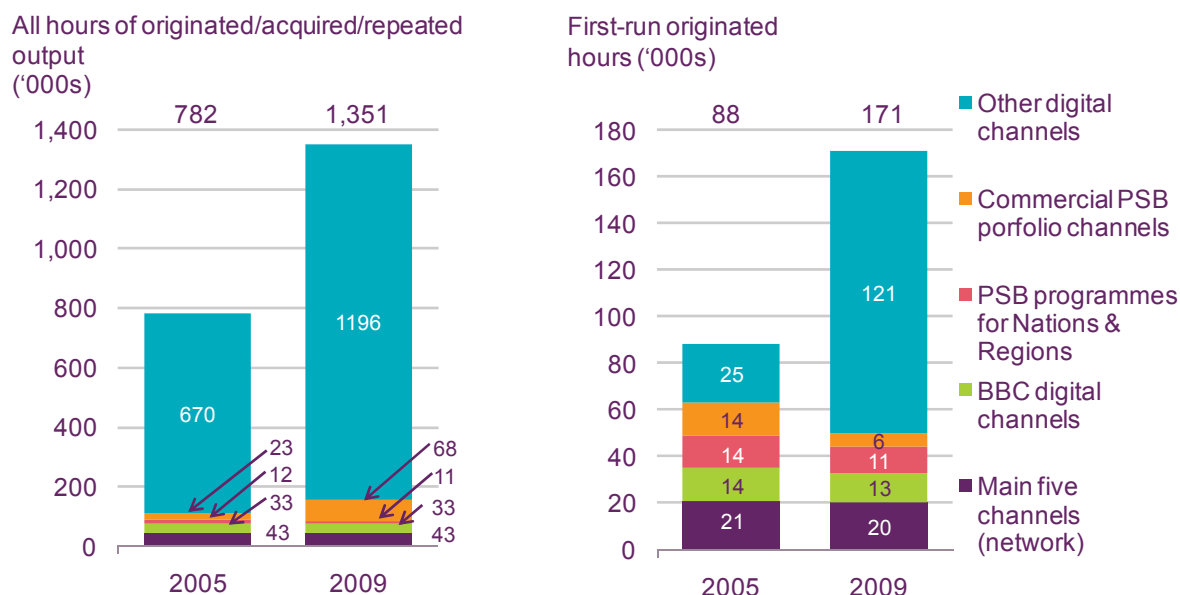
Quotas vary by broadcaster and apply to volume in hours only.

Quotas apply to both the full broadcasting day and to peak- time viewing hours.

For full details of compliance with programme and output quotas, please refer to Ofcom's PSB Annual Report, Section G: PSB Compliance Reporting at:

<http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbcomp.pdf>

Figure 2.49 Total broadcast hours and first-run originated hours on all channels, 2005 – 2009



Source: Ofcom/broadcasters

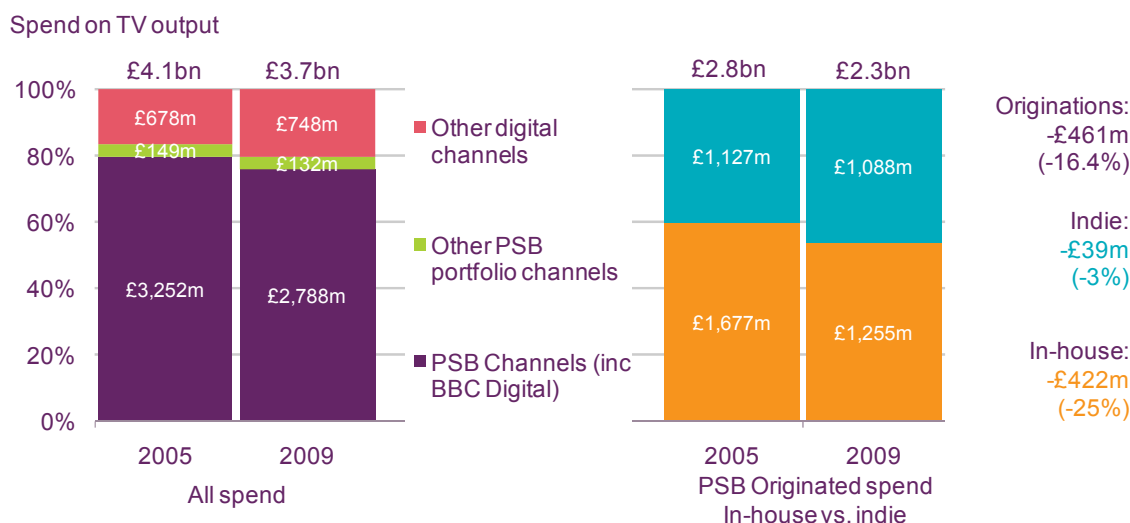
Note: The first-run figures include in-house productions and external commissions, not first-run acquisitions. 'Other digital channels' includes Entertainment, Factual, Children's, News, Leisure and Music genres.

Independents commanding a growing share of spending on originated content

Just over £3.7bn was spent on TV programmes broadcast in 2009 (excluding Film and Sports channels). This represents a decrease in real terms of 10% since 2005. Of that, PSB channels accounted for £2.78bn (down 14.3%). While multichannel broadcasters are responsible for the lion's share of originated hours, the PSBs still account for a large proportion of origination expenditure. In 2009 PSBs spent £2.3bn on originations, compared with £2.8bn in 2005; down by 16.4% over the period.

Within this total, the independent sector's market share grew by 5% to 46%. Despite a 3% reduction in spend on independent output, this growth in share came about as a result of a much larger reduction in in-house commissioning, which was down some £422m to £1.3bn over the four years to 2009.

Figure 2.50 Total broadcast spend on all channels, 2005 – 2009



Source: Ofcom/broadcasters.

Note: Figures do not include nations & regions. BBC digital channels include BBC Three, BBC Four, BBC News, BBC Parliament, CBBC and CBeebies. GMTV included. 'Digital-only commercial channels' include all genres (excluding Sports and Film). Programme spend comprises in-house commissions, independent commissions, acquired programmes, rights and repeats. Figures expressed in 2009 prices.

2.3.3 PSB independent and in-house productions

Independents' share of peak and daytime PSB hours increased over the past decade

Independent production quotas

Independent productions are programmes made by companies that are independent of broadcasters.

Quota applies to volume in hours only.

Quota is fixed at 25% of 'qualifying' hours for all PSBs. Qualifying hours essentially includes all first run originations excluding news and acquisitions.

For full details of compliance with programme and output quotas, please refer to Ofcom's PSB Annual Report, Section G: PSB Compliance Reporting at:

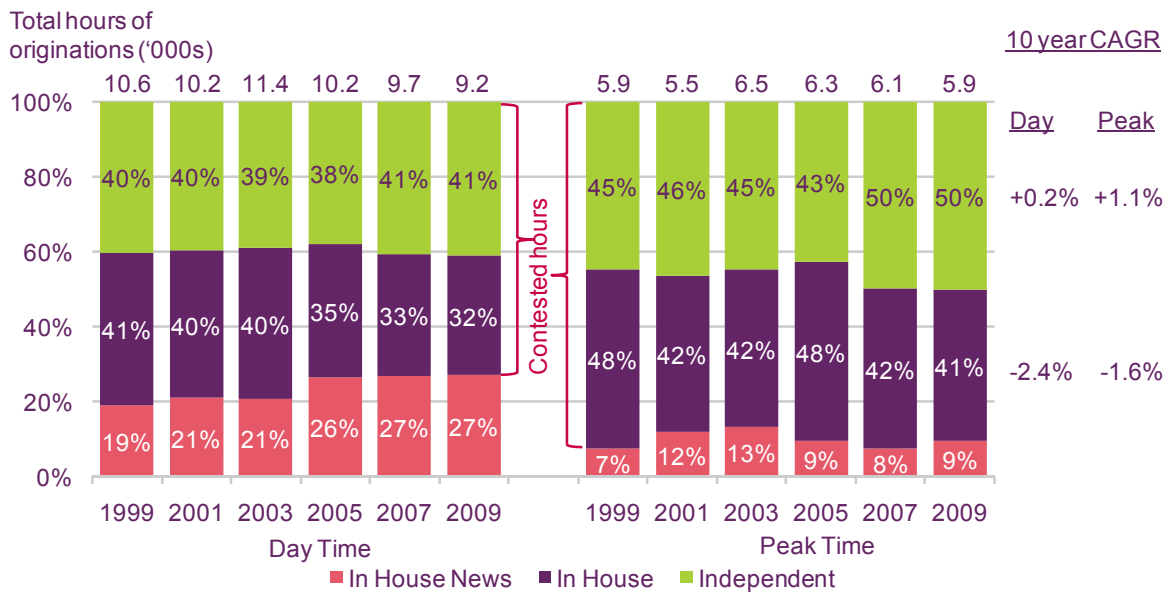
<http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbcomp.pdf>

In peak time, the independents' share of origination hours on PSB channels fluctuated at around 45% before stabilising at a consistent 50% share from 2007 to 2009. In contrast, the proportion of in-house production in peak-time during 2009 was at a ten year low; volumes fell by an average of 1.6% per year over the ten-year period.

As a proportion of all originations in daytime, News rose significantly in the latter half of the decade. This does not represent a rise in real terms but can be explained by a decrease in total originations, which fell from 10,974 hours to 9,601 hours. The effect was an increase in News as a proportion of this lower total. It should be noted that the 'contested hours' figure shown in Figure 2.51 represents the hours for which independent producers can compete. News programmes are excluded from 'qualifying hours' for the independent quota and, being

produced entirely in-house, are therefore not 'available' to be commissioned from independents.

Figure 2.51 PSB originations volume by hours – daytime and peak time, 1999 – 2009

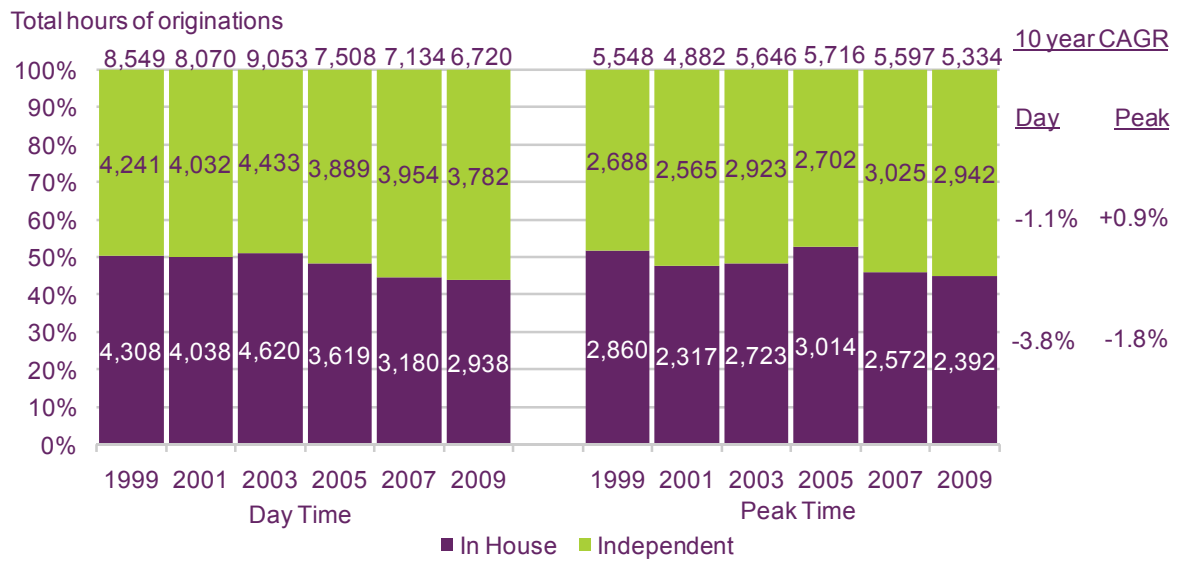


Source: Ofcom/broadcasters.

Chart includes five main networks, BBC Three, BBC Four, CBBC and CBeebies only. News is shown separately as its hours are not included when calculating the independent quota.

Figure 2.52 illustrates the rise in independents' share of originated output over the past ten years, taking account of and excluding content for which independent producers cannot compete. This reveals an increase in their share of 'eligible' peak-time hours from 48% in 1999 to 55% in 2009. The same pattern is true of daytime originated hours, where the independents' proportion of commissioned hours rose from 50% to 56% over the same period.

Figure 2.52 PSB originations volume, excluding News: daytime and peak time, 1999–2009



Source: Ofcom/broadcasters.

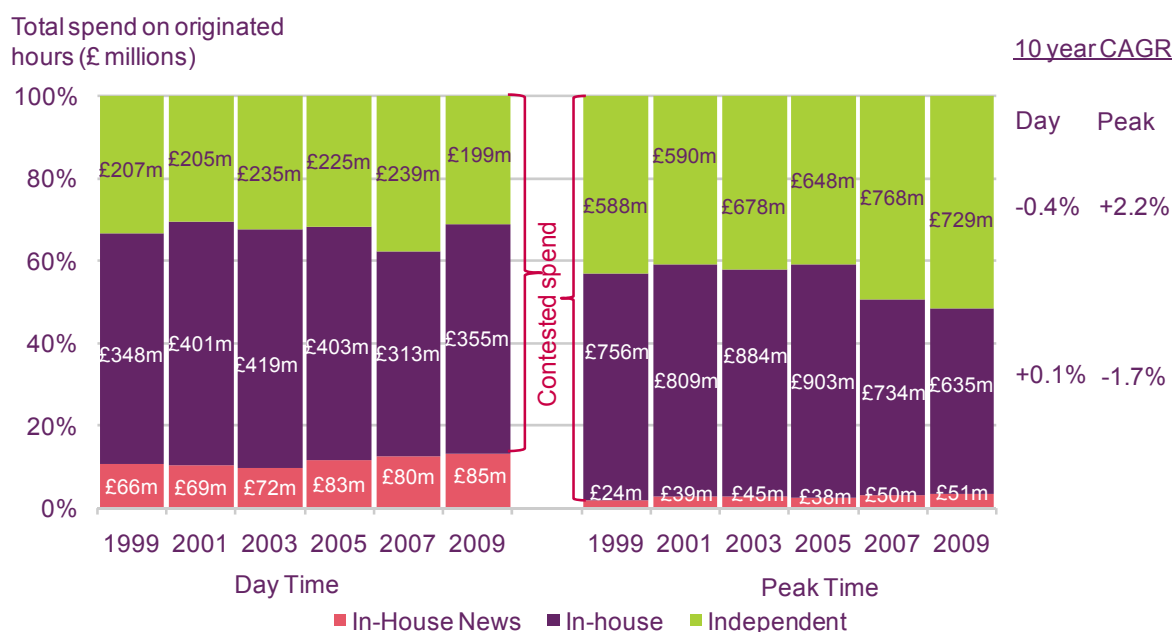
Chart includes five main networks, BBC Three, BBC Four, CBBC and CBeebies only. News is excluded in order to show contested hours only.

The independent sector’s share of PSB spend has grown at a faster rate than its share of hours

The rise in the independents’ share of hours was reflected in a rise in the amount of PSB spend they attracted. In 2009, it amounted to £729m, or 53%, of all PSB spend on originations in peak time, an average rise of 2.2% per year over the period from £588m in 1999, compared with a 0.9% average annual rise in peak hour originations overall. Spend by the PSBs on in-house productions fell by £121m from £756m in 1999 to £635m in 2009, or an average of 1.7% per year.

In the context of the less lucrative daytime hours, the independents’ share of contested spend (excluding News) has fluctuated between 32% and 45% over the past ten years, consistently lower than in-house spend. Expenditure has fallen by an average of 0.4% a year, from £207m in 1999 to £199m in 2009, while in-house spend increased slightly over this period, from £348m in 1999 to £355m in 2009.

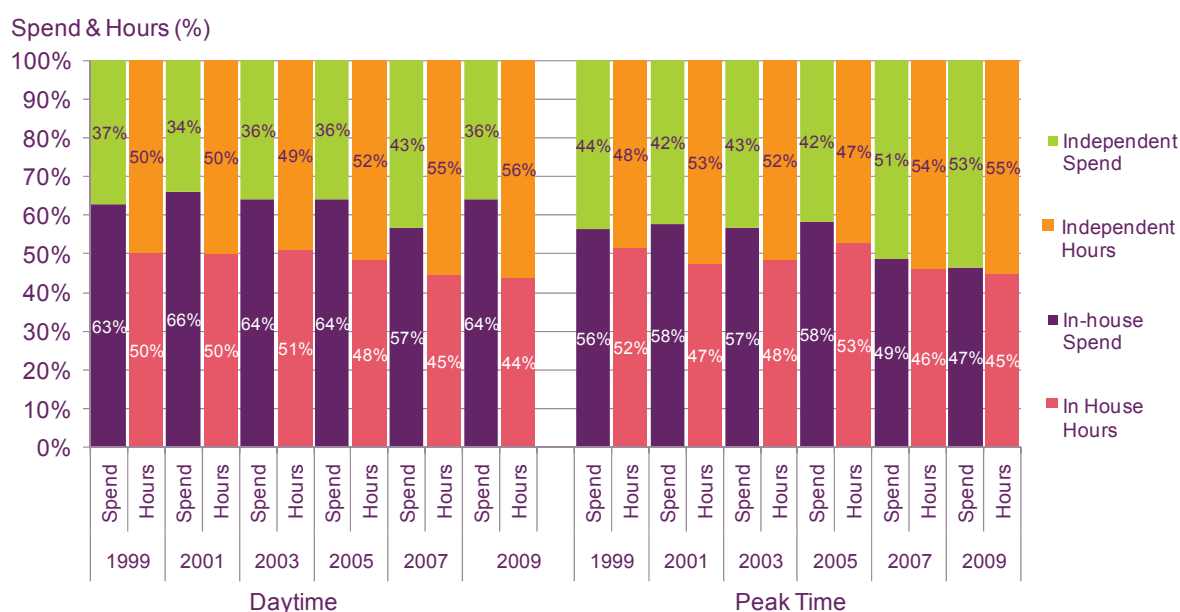
Figure 2.53 PSB originations – daytime and peak time, 1999 - 2009



Source: Ofcom/broadcasters. Note: Chart includes five main networks and BBC Three, BBC Four, CBBC and CBeebies only. News is shown separately as its hours are not included when calculating the independent quota. Figures expressed in 2009 prices.

Taking hours and spend together, in 2009, independents provided 56% of eligible daytime hours in return for 36% of PSB expenditure. In-house originations accounted for 44% of hours in return for 64% of expenditure. There may be a number of explanations for this difference in spend on in-house and independent content in the daytime schedule. It may indicate that independents are delivering higher volumes of programmes in lower-cost genres, or it might be a reflection of the size and nature of those independent companies competing in the daytime arena. Smaller companies may be more successful in competing for daytime slots and, with lower overheads than larger producers or in house teams, may be capable of delivering programmes more cost-effectively.

Figure 2.54 PSB originations spend and hours – daytime and peak time, 1999 – 2009



Source: Ofcom/broadcasters.

Chart Includes five main networks and BBC Three, BBC Four, CBBC and CBeebies only. News is excluded in order to show contested hours only. Figures expressed in 2009 prices

Independent costs per hour rose 13% in peak time over the last decade – converging with in-house levels

Figure 2.55 demonstrates the average value of productions in cost per hour (CpH) terms over the past ten years. Within peak time, independents’ costs rose steadily from £219k per hour in 1999 to a high of £254k per hour in 2007, before experiencing a small drop in 2008 followed by a modest rise to stand at £248k per hour in 2009.

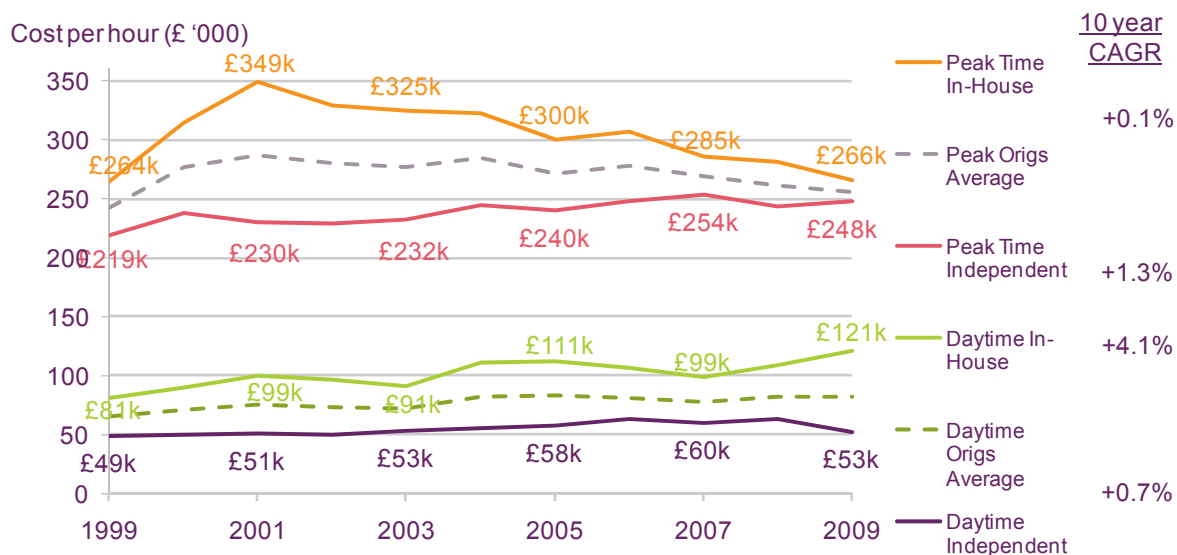
The hourly cost of in-house productions has always been higher than independently-produced programmes, but the gap between the two has steadily narrowed since 2001. In-house cost per hour (CpH) dropped by 24% from a peak of £349k per hour in 2001, to £266k in 2009, almost equal to the 1999 rate of £264k. The rise in peak-time in-house costs in earlier years foreshadowed the re-launch of the BBC’s Choice and Knowledge channels as BBC Three and BBC Four in 2003 and 2002 respectively. Both channels more than doubled their peak-time origination CpH in 2001 and at the same time there was a greater investment per hour on BBC One. Since then the CpH ‘gap’ between independent and in-house productions in peak has narrowed as a result of reductions in the in-house CpH on BBC One and ITV1 in some of the most expensive genres.

Production efficiencies have the potential to deliver programmes of comparable quality and length at a reduced cost and a range of new production techniques and technologies have been adopted to reduce the cost of programme production. Examples include using the same set for the production of a programme format for several different countries. The genres that have suffered the greatest drop in peak time in-house CpH since 2001 are Current Affairs (45%), Sports (20%) and Drama (19%). While the gap between in-house and independent CpH in 2009 continued to narrow, in-house productions remained 7% more expensive to deliver.

In daytime, the gap between independent and in-house CpH remained relatively wide, despite some signs of convergence in 2006 and 2007. The difference in 2009 was

exaggerated by the switching of the Formula1 motor racing contract from ITV1 where it had been an independent commission, to production in-house by the BBC in 2009.

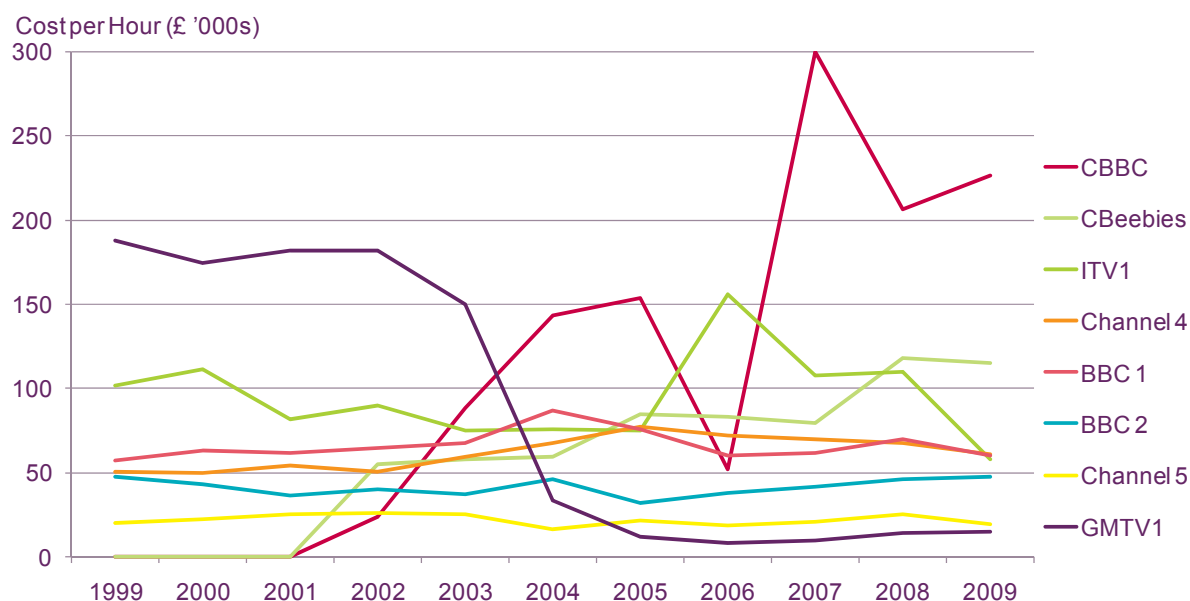
Figure 2.55 PSB cost per hour for first-run origination content – daytime and peak time, ten-year comparison



Source: Ofcom/broadcasters. Note: Chart Includes five main networks and BBC Three, BBC Four, CBBC and CBeebies only. Figures exclude News. Figures expressed in 2009 prices.

Significant changes have taken place in the last ten years in the commissioning of independents in the daytime. Figure 2.56 shows how revenue sources for independents have altered over the period. Commissions by ITV1 and GMTV1 have dropped in value - the sudden drop on ITV1 in 2009 was partly due to the termination of Formula1 racing coverage. For the independent sector as a whole, reductions have been partly offset by the increased value of Children's programming on the BBC. Traditionally, Children's programmes have a stronger secondary rights value than daytime programmes, which may go further in redressing the balance than it is possible to demonstrate here.

Figure 2.56 PSB cost per hour for first-run origination content - daytime independent commissions by channel, ten-year comparison



Source: Ofcom/broadcasters.

Chart Includes five main networks, GMTV, CBBC and CBeebies only. Figures exclude News. Figures expressed in 2009 price.

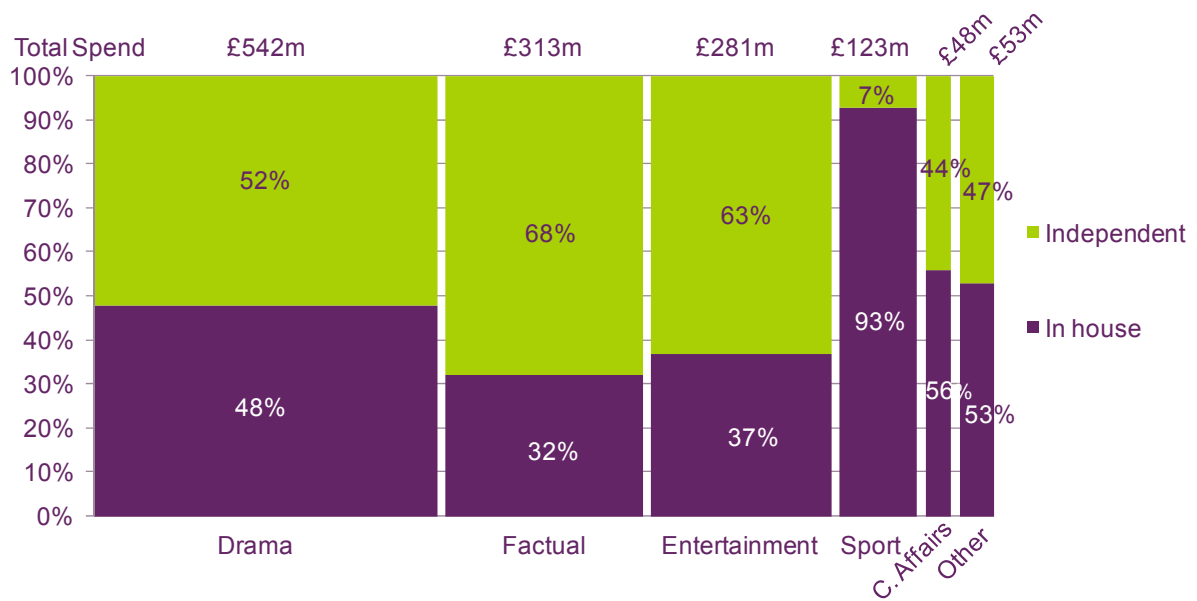
Independent productions command a majority share of main genres in peak time

The majority of expenditure in peak time in 2009 was accounted for by just three programme genres: Drama, Factual and Entertainment. Independents won the largest share of these three genres in terms of spend. They accounted for over half (52%), or £282m, of the largest genre, Drama (including Soaps), over two-thirds of Factual (£211m) and almost two-thirds of Entertainment (£179m) by value.

Independents were strong in Drama but their share of originated expenditure was even higher when Soaps were taken out of the equation. Soaps accounted for 37% of peak-time Drama spend, of which 84% was made in-house. Excluding these from the figures, independent producers accounted for 73% of remaining Drama spend, and produced 364 of the 475 hours, or 77% of peak-time Drama screened in 2009.

The in-house skew in Sports is due to the cost of football rights on ITV1. Of the £123m of Sports spend in peak, a high proportion is accounted for by ITV1's FA Cup, Champions' League and International football coverage.

Figure 2.57 PSB originations spend, by genre – peak time, 2009

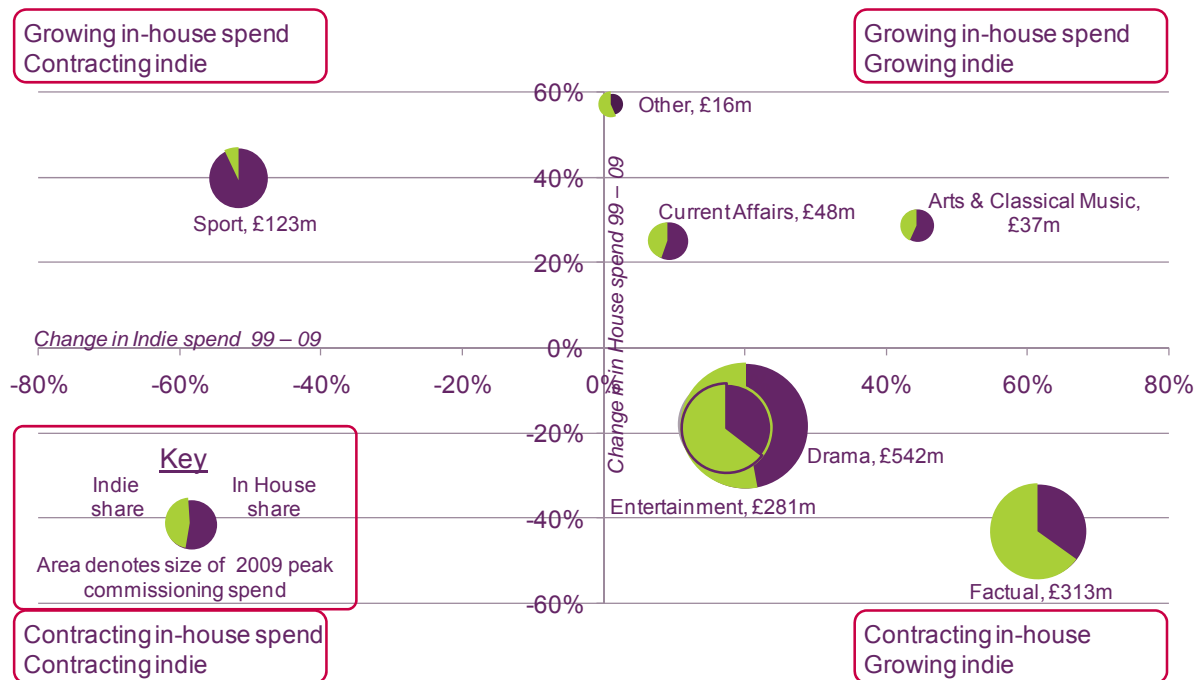


Source: Ofcom/broadcasters.

Chart includes five main networks and BBC Three, BBC Four, CBBC and CBeebies only.

The substantial market shares commanded by independent producers have not always been so pronounced. Figure 2.58 shows the change in distribution of peak-time expenditure, by genre, between in-house and independents. Over the ten-year period, the share won by independent producers has grown in the three major genres, while in-house share has contracted. Independents have gained in all genres, with the exception of Sport. The most substantial increase in independents' share of spend was in the second largest genre, Factual, where spending on independent productions rose by 61% since 1999.

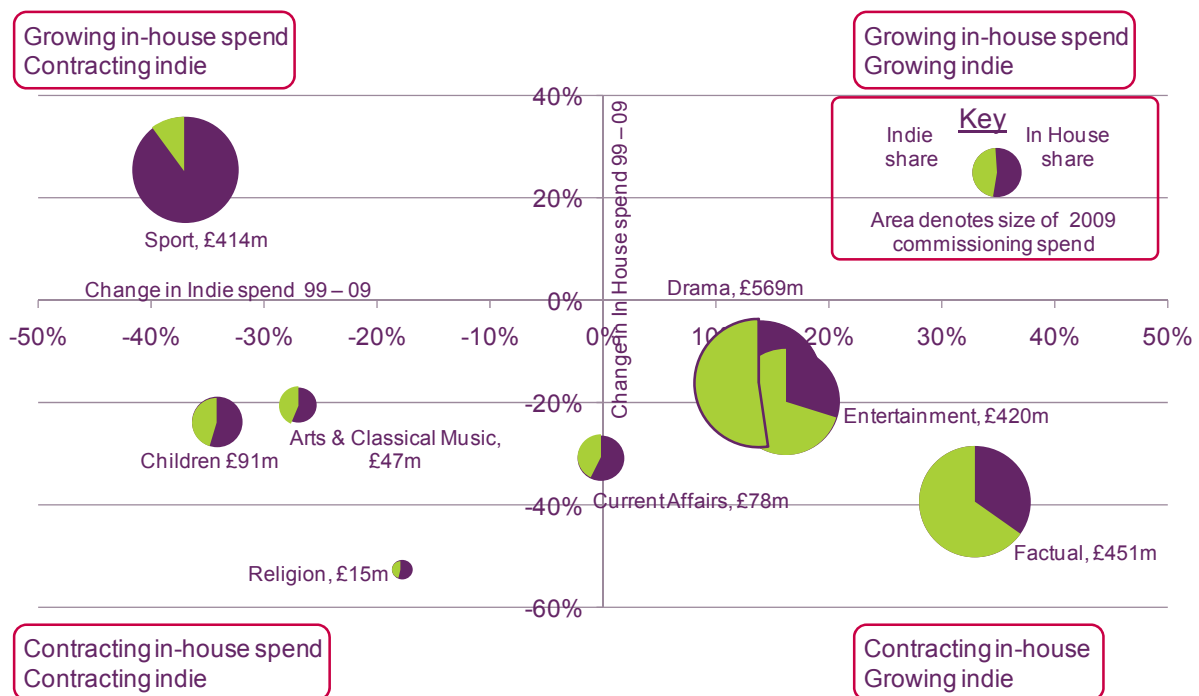
Figure 2.58 2009 distribution of PSB peak-time originations spend, and change over ten-year period, by genre: 1999 – 2009



Source: Ofcom/broadcasters

A similar, but less marked pattern in the larger genres has emerged across the whole day (Figure 2.59). The independents' share of the smaller, and perhaps less profitable genres, such as Arts and Religion decreased over the period, possibly indicating where their priorities have changed. The greater resources of the emerging 'super-indies' may be a reason why they feel better placed to take on the challenges of the higher production values required in the peak-time schedule.

Figure 2.59 2009 distribution of PSB all-day originations' spend and change over 10-year period, by genre: 1999 – 2009



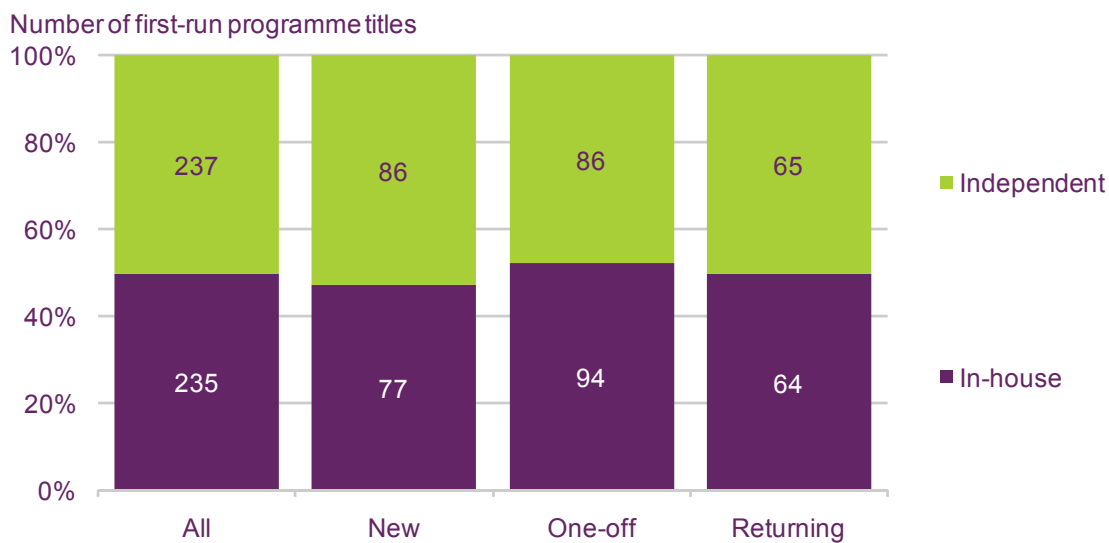
Source: Ofcom/broadcasters

Independents more successful at delivering new series

Figure 2.60 illustrates the number of originated programme titles shown in peak on BBC One and Two and ITV1, split by independent and in-house productions. Output on Channel 4 and Five is excluded because these channels do not produce programmes in-house and therefore there is no competition between independent and in-house titles.

In total, the split in peak time was almost even, with 235 titles produced in-house and 237 by independents. In 2009, independents won more commissions for new series than in-house producers (86 titles, compared with 77) – possibly pointing to a greater degree of innovation. The number of returning series were split evenly, which means that in the 2009 commissioning round there was parity in the number of shows deemed to be suitable for re-commissioning. However, the independent share of one-off programme titles was somewhat lower, with independents delivering 86 titles compared to the in-house total of 94. This may indicate that independents prefer longer running and returning series in order to create a steadier cashflow and more sustainable business, rather than relying on higher-risk, one-off programmes. Alternatively, it may be an indication of the greater ease of access to resources that in-house producers have, allowing them to assemble a production crew for a shorter period of work more readily.

Figure 2.60 BBC One and Two and ITV1 new, one-off and returning series, peak time: 2009



Source: Broadcasters

'New series' includes brand-new series and mini-series. 'One-off' includes one-off programmes and one-offs within series such as *Panorama* and *Dispatches* programmes. Programmes which form part of the core schedule, such as *Eastenders*, *Coronation Street* and *News* have been excluded. Sports programmes and feature films have also been excluded.

The diversification of independents' revenue streams

Despite a decline in TV revenue streams for the first time since 2004, the total revenues of the independent production sector remained static year on year in 2009 at £2.2bn, as reported in PACT's annual Census⁴⁶. Independents managed to maintain total income levels by generating income from other sources beyond traditional TV production, by increasing revenue from international operations and by cutting costs.

Figures from the 2010 PACT Census show that while primary UK commissions fell by 7.5% year on year, from £1,508m in 2008 to £1,395m, revenue from international activities rose by 28%, from £342m to £439m, and UK rights income was also up, from £107m to £115m. Primary UK commissions still accounted for 69.8% of independents' revenue in 2009, although this was down from 74.8% in 2008.

While primary licence fees remain the dominant source of income, other digital media and secondary rights use are increasing as a proportion of overall revenue. According to *Broadcast* magazine's annual *Indies Survey 2010*, 28% of independents who responded were making online content for broadcasters and 23% were creating online content for non-broadcasters. In the same survey, 41% reported revenues from on-demand and 40% cited international sales as areas of growing importance as they sought to maximise the overseas exploitation of intellectual property, formats and finished programmes.

Independents are increasingly looking towards the commercial sector and generating revenue from the supply of online and VoD content. Advertiser-funded programming is also showing signs of growth. In 2009, Five screened *Britain's Best Brain*, produced by Tiger Aspect and funded in part by Nintendo. RDF Contact, part of the RDF Media Group, is currently producing *Carpool* for UKTV commercial channel Dave, a programme entirely funded by Toyota Prius.

In the same PACT-commissioned survey of independent producers, 81% of respondents believed that primary commission prices will decline over the next three years, and 75% predicted a rise in the contribution of ancillary rights to the sector's revenues.

2.3.4 Television production outside London

The south of England is strong in Factual production while the North is the powerhouse for Drama

Regional production quotas

Out-of-London productions are network programmes made in the UK outside the M25. They are broadcast across the UK (i.e. they are not regional opt-outs).

Quotas apply to both value (spend) and volume (hours).

Quotas vary by broadcaster.

For full details of compliance with programme and output quotas, please refer to Ofcom's PSB Annual Report, Section G: PSB Compliance Reporting at:

<http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/psb2010/psbcomp.pdf>

The proportion of television production being made outside London has increased every year since 2006, when Ofcom introduced an industry standard definition. Figure 2.61 shows

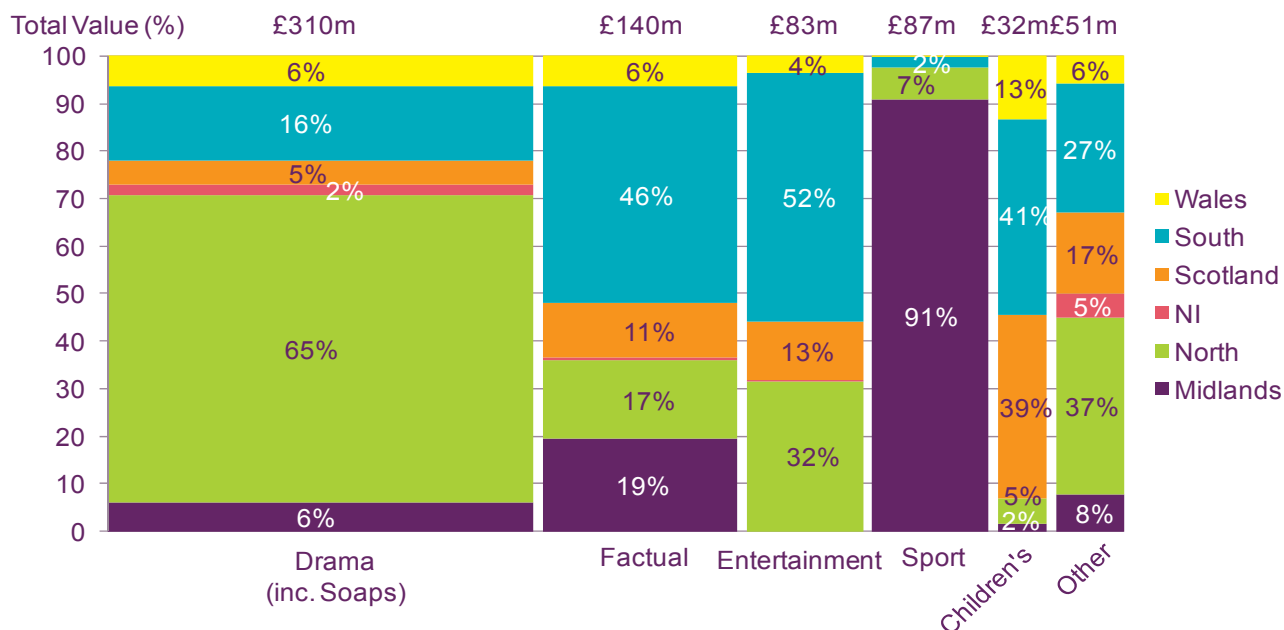
⁴⁶ Source: PACT financial census and survey 2010

that in 2009 there was more spend in Sport than Entertainment outside London. Drama and Factual accounted for the greatest levels of spending overall, in line with overall spend across the genres.

Drama alone accounted for 46% (or £310m) of spend outside the M25 in 2009, £201m or 65% of this was spent in the North of England. The main peak-time Soaps – *Coronation Street*, *Emmerdale* and *Hollyoaks* - accounted for the majority of this spend, *Hollyoaks* being produced by independent production company Lime Pictures. Of the £50m spent in the South, BBC One’s *Casualty* plays a significant role with the remainder spent on one-off and short-run high-end drama across the BBC, ITV1 and Channel 4.

There was more spend outside London in Sports (£87m) than Entertainment (£83m) despite it being a smaller genre in terms of overall spend (£414m in total, compared with £420m). Factual spend outside London is dominated by the BBC, which contributed 66% of the £140m spent by PSBs in 2009. Overall, £64m worth of Factual output was produced by PSBs in the South of England. Nature programmes such as *Life* and *Wildest Dreams* make up a significant contribution to the genre. The high volume of inserts made for *The One Show* also contributed significantly to these figures - work for the programme was commissioned from six different independent producers outside London. Within the Entertainment genre, 52% of total spending went on productions from the South of England and a high proportion of this was accounted for by Bristol-based *Deal or No Deal*.

Figure 2.61 In-house and independent PSB production spend outside London by genre, 2009



Source: Ofcom/broadcasters
 'Other' includes Arts, Current Affairs, Education and Religion

Independents command a lower share than in-house of out-of-London productions

The level of absolute funding associated with the two largest production centres, London and the North, fell between 2006 and 2009, with in-house productions losing the larger proportion of commissions in both cases. The in-house downturn in the North was particularly significant, with a drop of 31% in spending from 2006 to 2009. With the North relying heavily

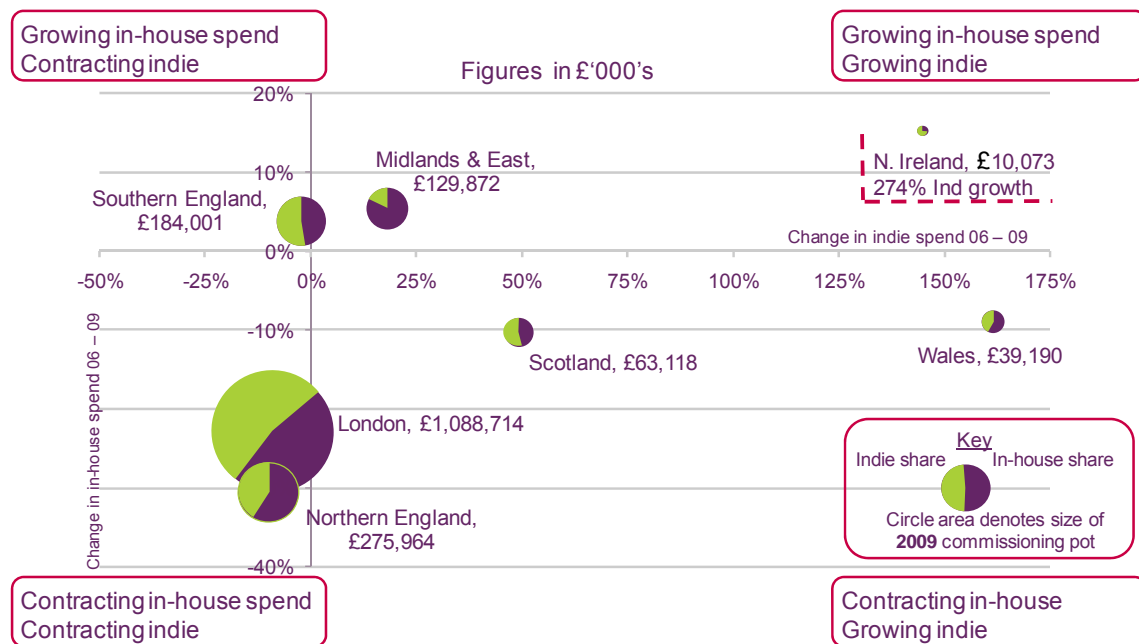
on Drama, the 19% cut across all PSB Drama origination spend accounts for a large proportion of this.

The dominance of in-house production in the Midlands & East of England is due to the cost of Sports coverage by ITV in the region, although there was positive growth (of 18%) for independents in this area between 2006 and 2009.

Overall, independents secured fewer commissions by value outside London compared to their in-house competitors⁴⁷. This is perhaps reflected in the degree to which larger independent producers have a presence outside London. Of the top ten by revenue, only one has its headquarters outside London; Tinopolis in Wales, with turnover of £70m in 2009. Only four regional independents had turnover above £20m (Lime in Liverpool, Twofour in Plymouth, Boomerang in Cardiff and Aardman in Bristol)⁴⁸.

In London, where independents command a larger proportion of expenditure, in-house spend has been contracting at a faster rate than spend on independent commissions, dropping 23% since 2006, compared with the independents' 9% reduction in spend.

Figure 2.62 2009 distribution of PSB production spend, by region, and change in spend: 2006 - 2009



Source: Ofcom/broadcasters.

⁴⁷ Note that Ofcom only holds data for a four-year period, so the trends highlighted here are for a comparatively short period of time.

⁴⁸ Source: *Broadcast Indie Survey 2010* – Total turnover including television and other sources of revenue

The move from London - MediaCityUK

As part of its commitment to producing more than 50% of network output outside London by 2016, the BBC is relocating many of its TV departments. Breakfast, Sports, Children's and Formal Learning will all relocate to Salford Quays in Greater Manchester when it opens in 2011. About 2,300 jobs will move from London to the new facility. BBC Sport will be leaving London the year before the Olympics, although a dedicated team will remain behind to cover the event.

Like Pacific Quay in Glasgow, home to STV and BBC Scotland, MediaCityUK at Salford Quays has been designed to be a hub of creativity. The presence of the BBC from 2011 (and possibly ITV, although reports are unconfirmed) is seen as a means of attracting in-house and independent production talent and jobs to the area.

The North of England is already the UK's second largest production base after London, partly due to its high output of both in-house and independently-produced Drama and Soaps.

2.4 The TV and audio-visual viewer

2.4.1 Summary

This section examines the availability and take up-of digital TV platforms, and key trends in television viewing, including some categories of non-linear viewing, during 2009. It also analyses viewers' attitudes to television. Highlights include:

- **By Q1 2010, 92% of main TV sets in UK homes were connected to a digital television tuner**, either a set-top box or integrated digital TV, an increase of 2.5 percentage points year on year (page 6).
- **The average number of hours of television watched by each viewer increased modestly over five years**, from 3.7 hours a day in 2004 to 3.8 hours in 2009 (up by 3%). This increase was driven largely by viewers aged 55+. But viewing among adults aged 16-24 has fallen over the same period (page 6).
- **The viewing share of multichannel broadcasters continued to increase in 2009, exceeding 40% for the first time, at 41% of all television viewer hours.** As in previous years, the share of the five main PSB channels fell in 2009 (page 6).
- **Virgin Media VoD continues to grow in both reach and intensity of use.** VoD now reaches 58% of Virgin Media TV subscribers, up six percentage points on Q4 2008. The average VoD user watched 35 separate instances of on-demand content (including catch-up TV) per month in Q4 2009, up from 30 in Q4 2008 (page 6).
- **Audiences for video-sharing sites began to level out in 2009.** The total unique audience to the category of sites that UKOM/Nielsen classifies as 'Video and Movies' reached 23.6 million in May 2010, up 9% since May 2009. But growth in the total audience to these sites has slowed over the past two years, and has been flat since Christmas 2009 (page 6).

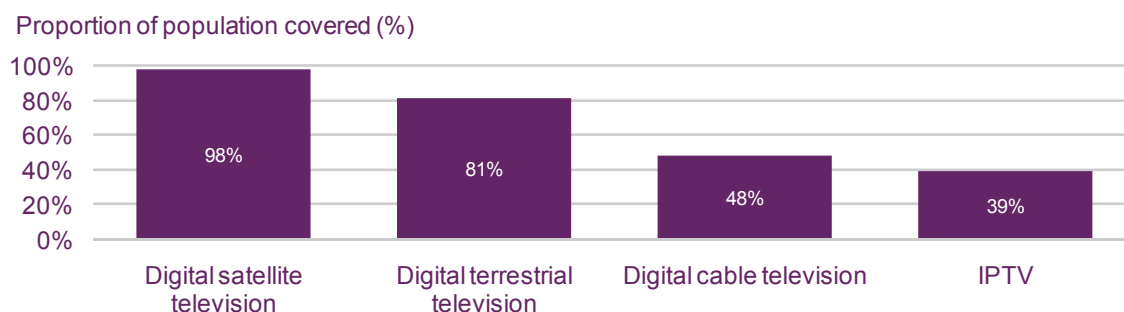
2.4.2 Availability of multichannel TV platforms

UK viewers can choose from four main digital platforms to receive broadcast-quality television - digital terrestrial, cable, satellite and IPTV - which have varying levels of availability.

Digital TV services that are delivered over the airwaves have the highest availability, with digital satellite having near-universal coverage at 98% (Figure 2.63). Digital terrestrial was available to 81% of the population by June 2010, a figure that is rising as digital switchover progresses (conversely, analogue terrestrial decreases). A year ago, DTT coverage was around 73%.

Digital cable (mostly Virgin Media) remained at 49%. IPTV penetration (at 39%) includes TalkTalk TV availability but not BT Vision, as the latter does not currently offer live TV channels over its IPTV network.

Figure 2.63 Availability of digital television platforms



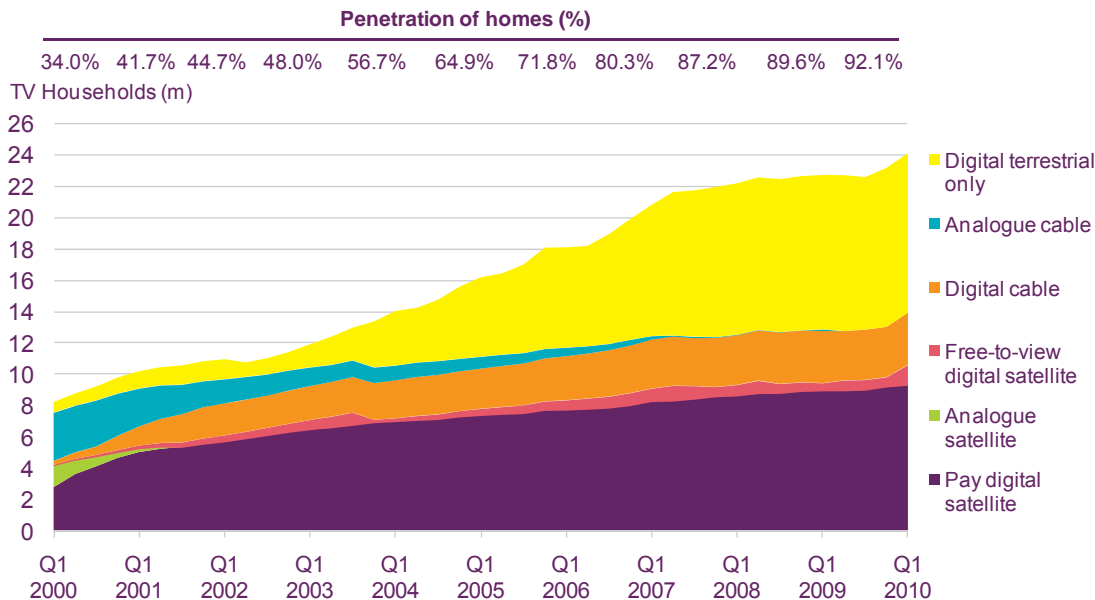
Source: Ofcom research/operators. Note that the DTT coverage figures represent the availability of a service of 17 television channels. DTT coverage levels represent Ofcom estimates. Data correct as of June 2010.

2.4.3 Multichannel television take-up

Digital TV passed the 90% threshold in 2009

Digital TV penetration continued to edge forward throughout 2009 and reached 92.1% of UK homes at Q1 2010, up by 2.5 percentage points year on year. The vast majority of multichannel TV homes are now digital; a small proportion are analogue cable. Digital terrestrial television (Freeview) and pay digital satellite (Sky) continue to be the most common ways that viewers access multichannel television services.

Figure 2.64 Take-up of multichannel TV on main sets

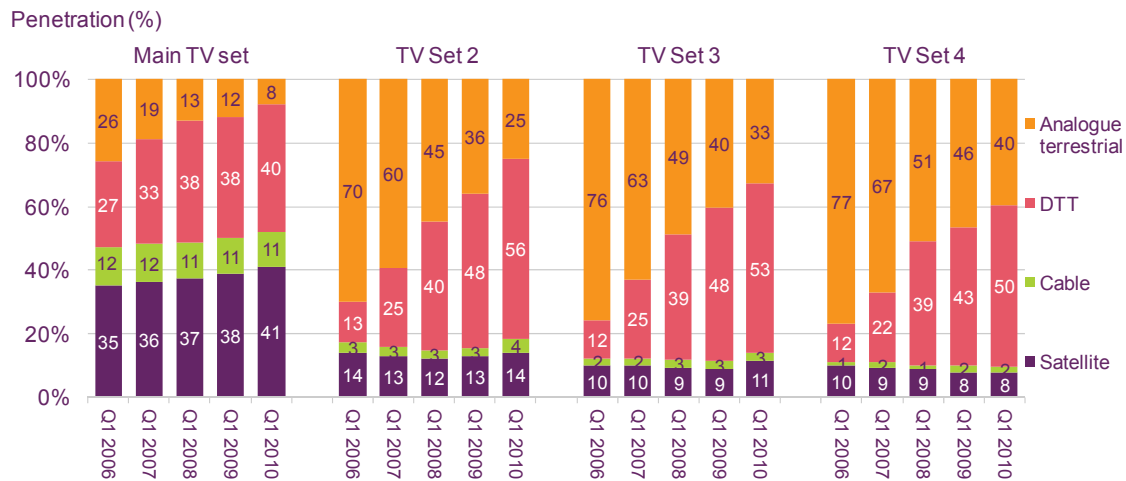


Source: Ofcom, GfK, Sky, Virgin Media. Data from Q1 2007 are based on consumer research, previous quarters use platform operator data, research and Ofcom estimates. Note: Digital terrestrial relates to DTT-only homes.

Figure 2.65 illustrates how platform adoption varies on different television sets in the home. The second to fourth sets in the home follow broadly similar patterns, with digital terrestrial television being the most common service, followed by analogue terrestrial television and satellite. DTT has significantly increased its share on non-main sets. One reason for this is that manufacturers are phasing out the production of analogue tuners as the default means

of reception in TV sets; these are being replaced by digital tuners (integrated digital televisions or IDTVs). In April 99.4% of all TV sets sold had an integrated DTT tuner (see 2.1.10).

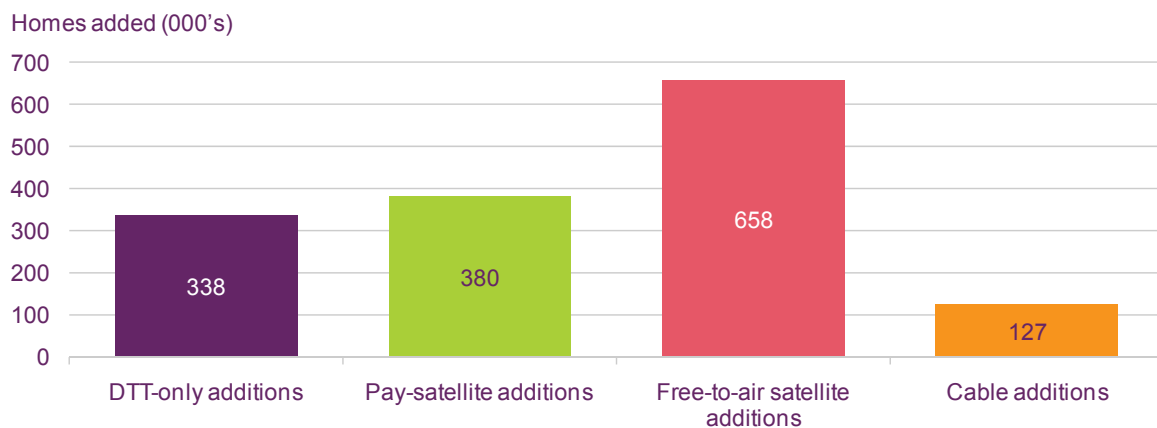
Figure 2.65 Platform shares, by TV set



Source: GfK consumer research

Free-to-air satellite service Freesat added the largest number of homes in the year to the end of Q1 2010, with 658,000 net additions, compared to 311,000 in the same period 12 months earlier (although Freesat launched in May 2008). Figure 2.66 shows that pay satellite (Sky) net additions also increased year on year by 22,000 to 380,000. DTT-only additions increased, up by 138,000 to 338,000, while cable additions were down by 10,000 to 127,000.

Figure 2.66 DTT, satellite and cable net additions, year to Q1 2010



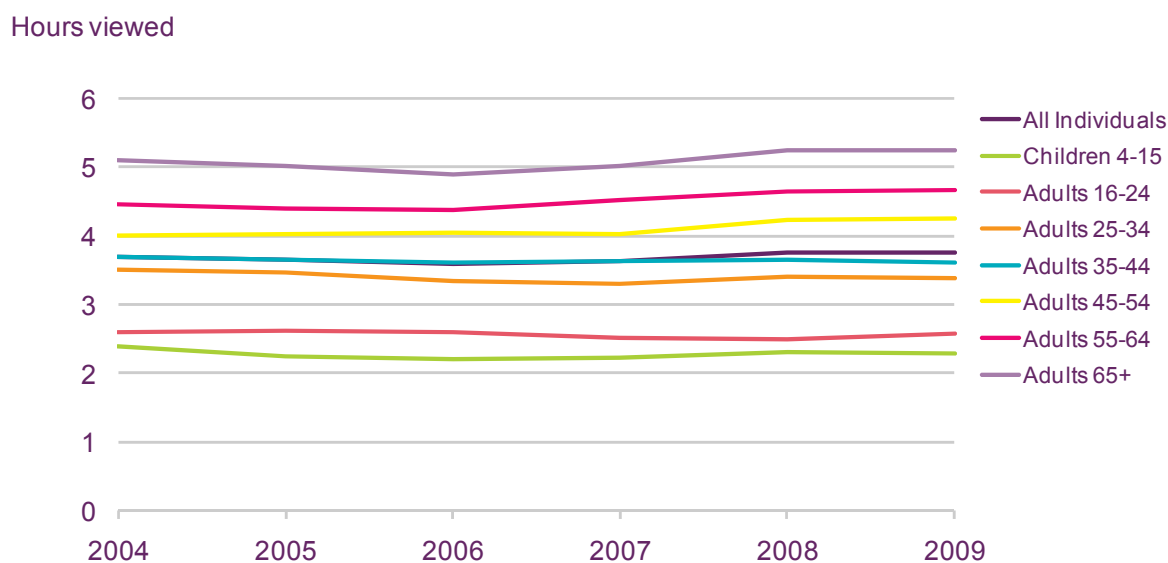
Source: Pay platform additions based on Virgin Media reported results and Ofcom estimates based on BSkyB results. Free satellite additions based on BBC/ITV Freesat sales figures. DTT additions based on Q1 2010 and Q4 2009 consumer survey results. Note: Chart uses multiple sources and is therefore intended to be considered only as a general indication of performance.

2.4.4 Consumption of television

Hours of TV consumption increased among older viewers but fell among younger viewers in 2009

The average number of hours of television watched by individuals in the UK has risen modestly over the past five years, from 3.7 hours a day in 2004 to 3.8 hours a day in 2009, an increase of 3% (Figure 2.67). The increase is more pronounced if measured from the recent low of 2006, when hours of viewing averaged 3.6 hours per person per day. Since 2006, the increase in TV viewing has been largely driven by rising viewing by the over-55s, whose consumption has risen by 0.3 hours per person per day. By contrast, viewing among adults aged 16-24 fell over the same period.

Figure 2.67 Average hours of television viewing per day, by age, all homes



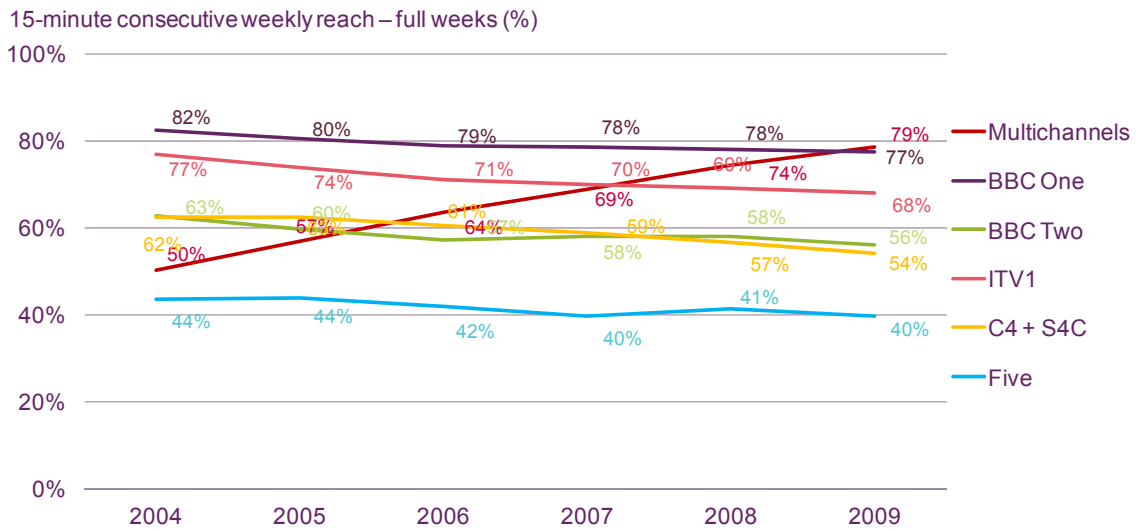
Source: BARB

2.4.5 Channel reach

Reach of multichannels exceeds individual main PSB channels for the first time

Figure 2.68 illustrates the collective average weekly reach of multichannel services, which rose by 29 percentage points to 79% between 2004 and 2009. This growth, together with the falling reach of the main PSB networks, means that for the first time in 2009 the combined reach of the multichannels exceeded that of any of the individual PSB channels. ITV1's reach fell furthest, by nine percentage points, to 68% in 2009. Channel 4's fell by eight percentage points and BBC Two by seven points. The reductions were lower on Five and BBC One, where reach fell by four and five percentage points respectively.

Figure 2.68 Average weekly TV reach in all homes, by channel



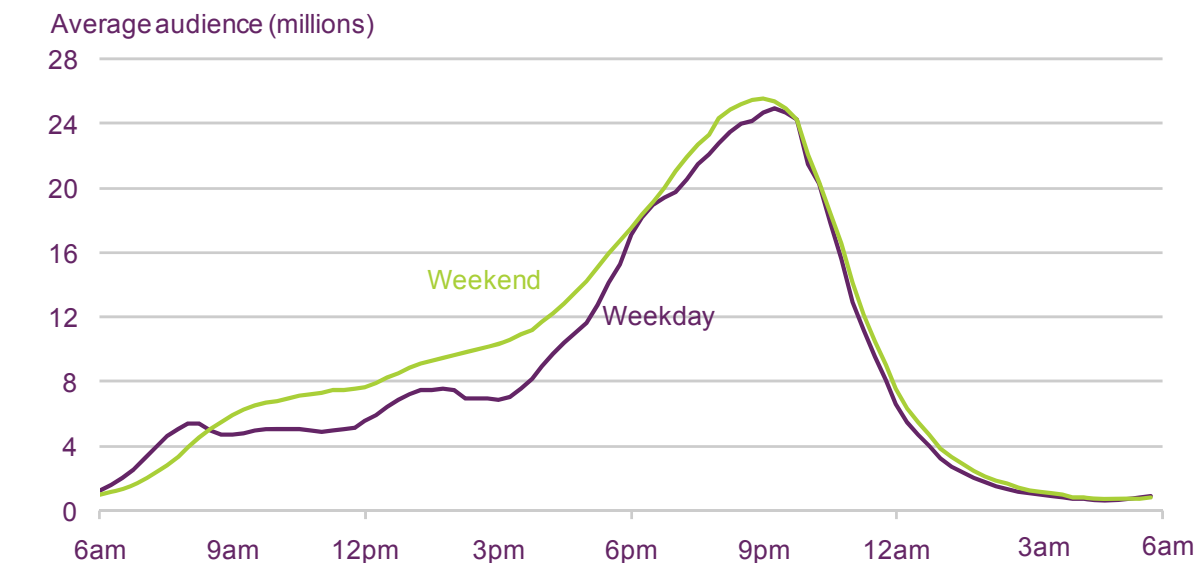
Source: BARB

The TV audience is generally higher at weekends

The average audience for all television on weekdays peaked at just under 25 million viewers in 2009 (between 21:15 and 21:30). At weekends, the peak in average viewing levels was both higher and earlier in the day, topping out at 25.5 million just before the 21:00 watershed (Figure 2.69). Viewing levels at the weekend were higher throughout most of the day, apart from the early morning (between 05:00 and 08:30).

While weekend audiences tend to increase continually from the morning until peak at 20:45, the weekday audience has two smaller, but distinct, peaks earlier in the day: one at 08:00, and another at 13:30. Viewing levels across the day on both weekdays and weekends in 2009 were in line with viewing patterns in 2008.

Figure 2.69 Average 2009 audiences, weekdays/weekends: by day part, all homes



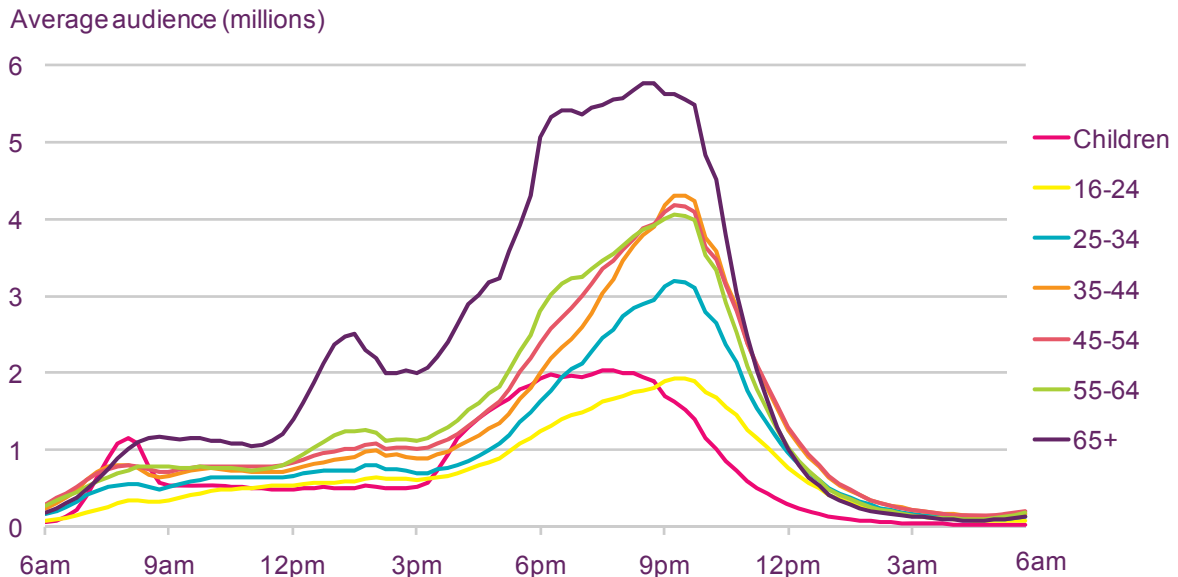
Source: BARB

Patterns of viewing, by time of day and age

The average weekday audience by day part and age is illustrated in Figure 2.70. Key points include:

- Audiences in the over-65 age group were by far the most prolific television viewers throughout most of the day. This age group had a long, flat peak in viewing from across the evening schedule, and a pronounced spike in viewing at lunchtime between 13:15 and 13:45.
- Children's viewing patterns were different from all other age groups. Their viewing peaked at 19:30 on weekdays, much earlier than the overall viewing peak. There was also a sharp spike in viewing at 08:00, which made a major contribution to the overall spike in viewing at this time.
- The size of the 16-24 audience is significantly lower at all times of the day when compared to other adult age groups. Peak viewing for this audience, like most other groups, took place between 21:15 and 21:30, but the peak was low and flat when compared to audiences aged 25-44.
- Levels and patterns of viewing across the day for adults aged between 35 and 64 showed little variation.
- Weekday viewing levels in 2009 did not differ significantly to levels in 2008 for any of the age demographics.

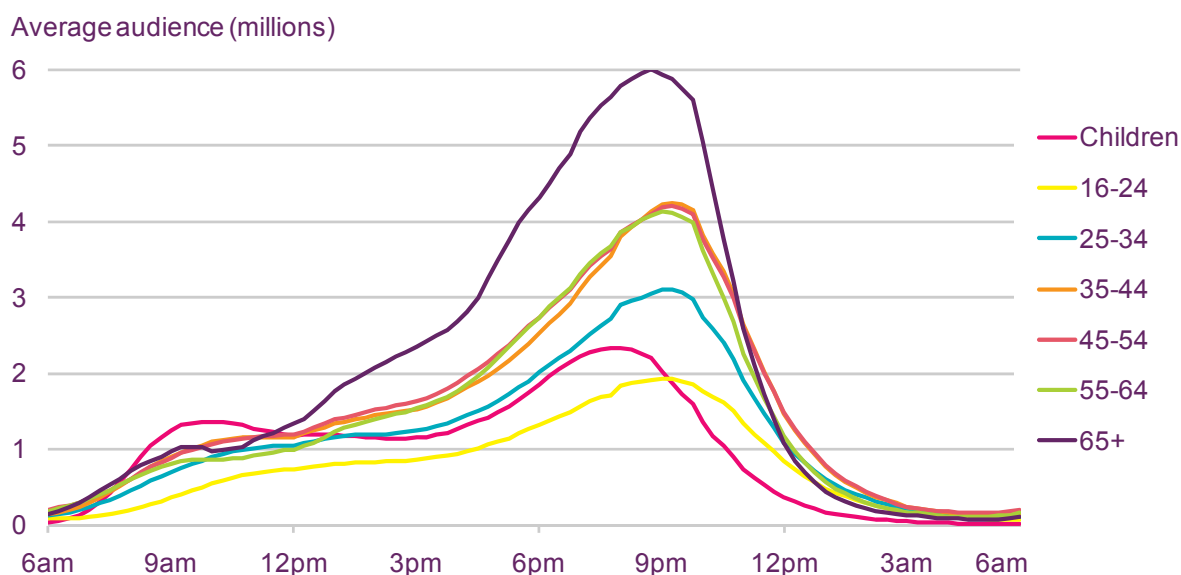
Figure 2.70 Average 2009 weekday audiences, by day part and age, all homes



Source: BARB

Viewing patterns for weekdays also hold true at the weekends (Figure 2.71). Audiences were higher among adults aged 65+; children watched more in the morning, and the evening peak in their viewing was earlier than for older groups. Those aged 16-24 watched less than other adults; there was little difference in viewing among age bands between 35 and 64. Viewing patterns at the weekends in 2009 were in line with those in 2008.

Figure 2.71 Average 2009 weekend audiences, by day part and age, all homes

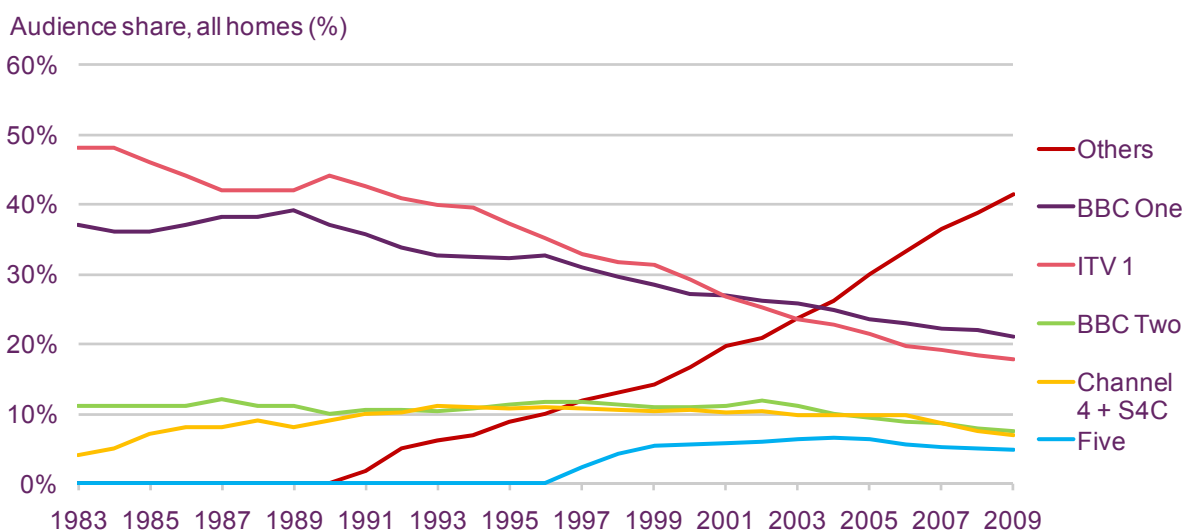


Source: BARB

2.4.6 Viewing shares of the five main PSB channels

Multichannel broadcasters continued to experience increases in viewing share. In 2009, they collectively accounted for a 41% share of all viewing (nearly double that of BBC One, at 21%, which attracted the biggest individual channel share). Year on year, multichannel share increased by two percentage points and since 2004, it has risen by 15 percentage points from 26%. Consequently, each of the five main PSB channels (BBC One, BBC Two, ITV1, Channel 4/S4C and Five) experienced varying degrees of reduction in viewing share over the same period.

Figure 2.72 Channel shares in all homes, 1982 to 2009



Source: BARB, TAM JICTAR and Ofcom estimates

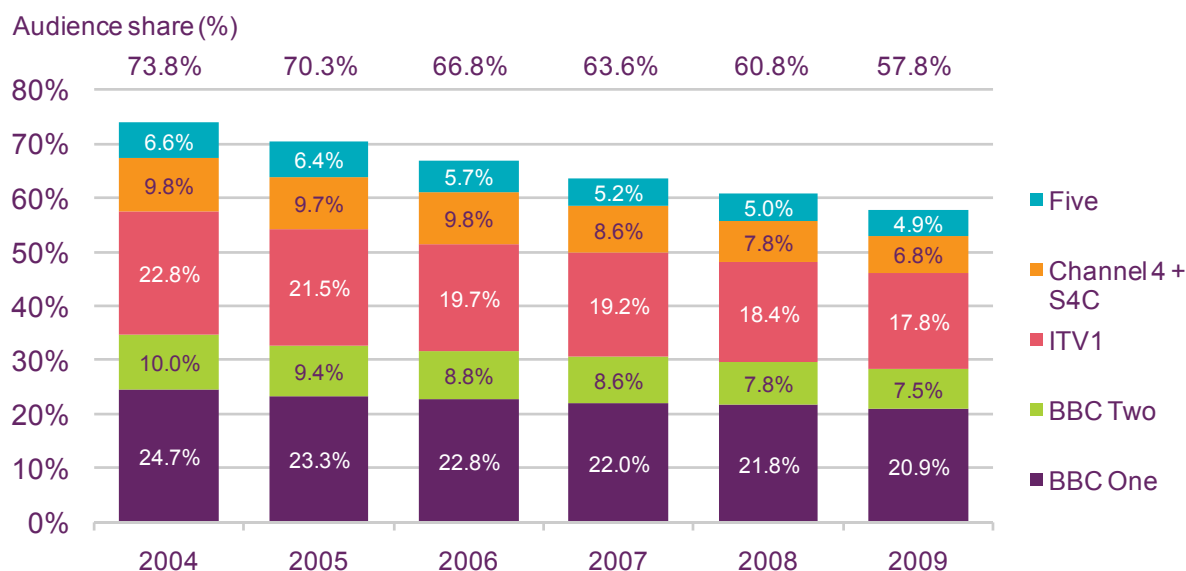
PSB channels' share decline continued in 2009

The combined share of viewing of the five main PSB channels in all homes declined by three percentage points to 57.8% in 2009. Share has fallen by 18.7 percentage points since 2004 as a result of competitive pressures from multichannel services (Figure 2.73).

ITV1's falling share has been the most pronounced among PSBs since 2004 – down by five percentage points to 17.8% by 2009. Although BBC One's share decreased by 3.8 percentage points over the same period, it retained the highest share of any channel, at 20.9%, in 2009. Channel 4/S4C lost three percentage points over the period, falling to 6.8% in 2009, while BBC Two and Five lost 2.5 and 1.7 percentage points respectively, falling to 7.5% and 4.9% in 2009.

Year on year, Channel 4/S4C lost the most share; 13% (or one percentage point) between 2008 and 2009. BBC Two and Channel 4/S4C shares were on a par with 2008 figures, but BBC Two edged ahead in 2009, experiencing a smaller loss of 0.3 percentage points. BBC One share fell by 0.9 percentage points and ITV1 by 0.6 percentage points year on year. Five, with the smallest share of the main PSB channels, lost just 0.1 percentage points.

Figure 2.73 Five main PSB channels' audience share, all homes



Source: BARB

While the combined share of the five main PSB channels stood at just less than 58% of viewer hours in all television homes during 2009, there were significant variations by platform (Figure 2.74). The PSB channels enjoy a collective monopoly over viewing in homes that receive only analogue TV services, but face competition for audiences in digital terrestrial (DTT) and cable and satellite homes, where there is greater channel choice.

By December 2009, the share of the main PSB channels in DTT homes was 60%, compared with the 58% share they attracted across all homes. While viewing share in DTT homes has fallen consistently since December 2005 (when it stood at 74%) there are signs that the rate of decline has slowed. In December 2006, share was down five percentage points from 2005, but by December 2009 the fall was just two percentage points on the previous year.

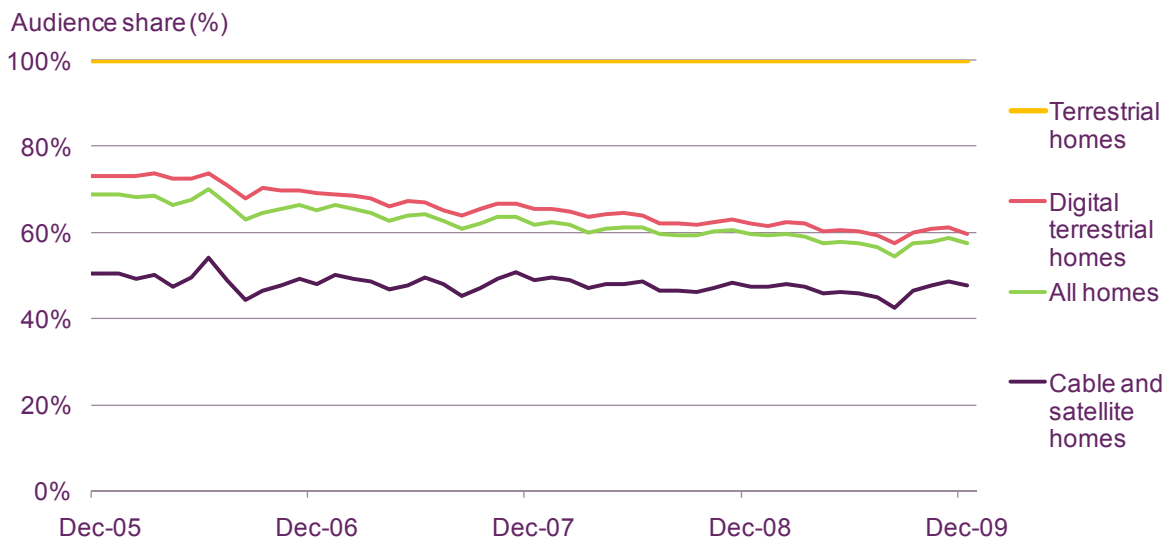
In cable and satellite homes the position was different. The five main PSB channels attracted a significantly lower share than in DTT homes – 48% in December 2009 compared with 60%

for DTT. However, their share remained relatively stable over the previous five years, at around 48% or 49% at each year-end.

The most likely explanation the share of the main PSB channels in DTT homes have declined at a relatively greater rate than in cable and satellite homes is because in recent years there has been a proportionately greater increase in the number of channels available on DTT. This has resulted in increased competition for the main PSB channels on the DTT platform, which in earlier years was less intense.

The combined share of the main PSB channels has remained constant in both analogue terrestrial, and cable and satellite homes since 2005. As a result, the decrease in share across all homes (from 69% in December 2005 to 58% in December 2009) can be explained by loss of share in DTT homes alone.

Figure 2.74 Five main PSB channels' audience shares, by platform



Source: BARB

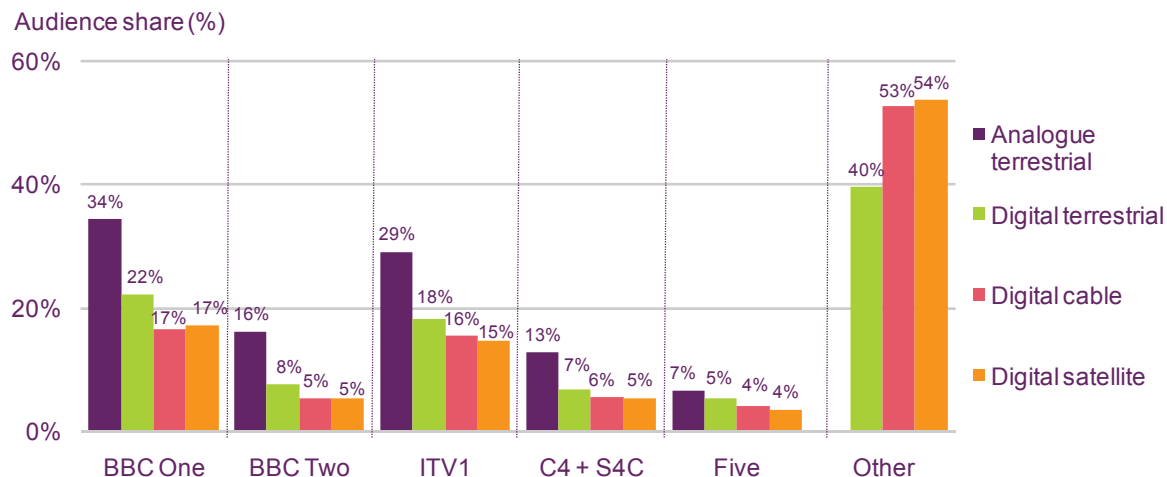
Audience shares for individual PSB channels varied by platform (Figure 2.75). During 2009 BBC One and ITV1 were the two most popular channels on all platforms. In analogue terrestrial homes, they attracted a combined viewing share of 63%, greater than the shares they attracted on any other platform. This might be explained by the demography of the analogue viewing universe, which has an over-representation of older people; historically, BBC One and ITV1 attract a higher proportion of viewing share among older age groups.

The margin between BBC One and ITV1 was most significant in analogue terrestrial homes at 34% and 29% respectively. In DTT homes, BBC One attracted a 22% share, some four percentage points higher than ITV1's share of 18%. In digital cable homes the difference between BBC One and ITV1 shares was even less pronounced (17% and 16% respectively) while in digital satellite homes BBC One attracted a 17% share of viewing and ITV1 15%.

BBC Two was the third most-viewed channel in analogue terrestrial homes in 2009, attracting a 16% share, compared with Channel 4/S4C and Five's 13% and 7% respectively. In DTT homes, BBC Two's share was 8%, compared with Channel 4/S4C at 7% and Five with 5%. In digital cable homes, Channel 4/S4C achieved a higher share than BBC Two – 6% and 5% respectively with Five at 4%. In digital satellite homes, BBC Two and Channel 4/S4C both attracted a 5% viewing share, while Five's stood at 4%.

Relative to Channel 4/S4C and Five, BBC Two historically attracts a proportionately higher share of viewing among older people. This may help explain why the margins between these channels' shares were least pronounced on the digital platforms, where there is an over-representation of older viewers.

Figure 2.75 Channel share, by platform, 2009



Source: BARB

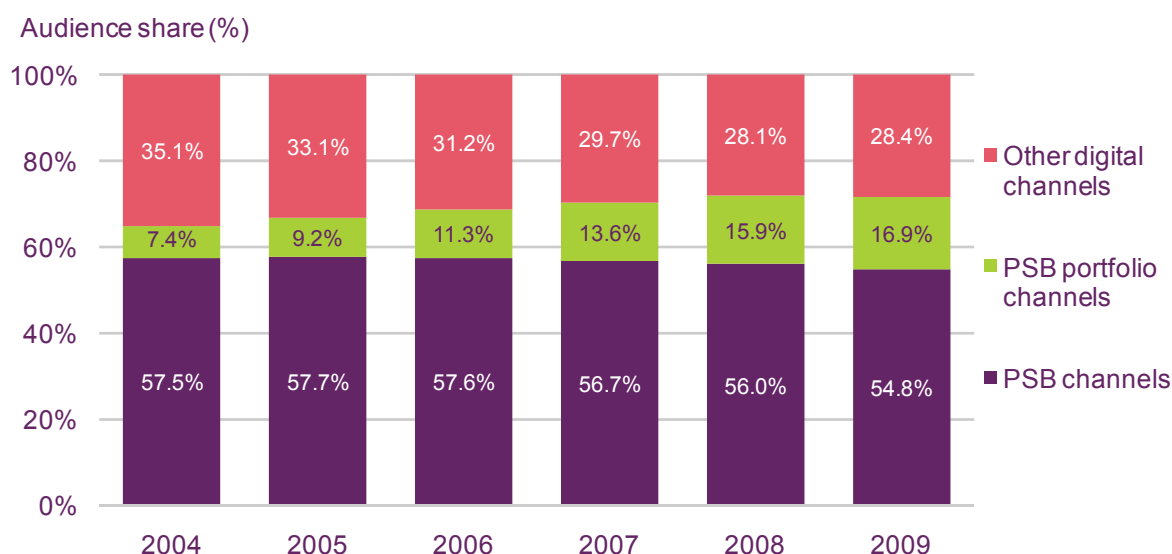
2.4.7 Multichannel broadcaster shares

The rise in PSB portfolio channel share fails to offset the decline in the main PSB share

Between 2005 and 2008, the five main PSBs saw their viewing share in multichannel homes decline steadily, but these reductions were offset each year by increasing share among their portfolio channels (BBC Three, BBC Four, CBeebies, CBBC, BBC News, BBC Parliament, BBC HD, ITV2, ITV3, ITV4, CITV, Men & Motors, GMTV2, E4, More4, Film4, 4Music, Fiver and Five USA) (Figure 2.76).

In 2005, the combined share of the main PSBs and their portfolio services was 66.9% and by 2008 this had risen to 71.9%. In 2009 the combined share of the PSB portfolio channels did rise, by one percentage point, but this was not enough to offset a 1.2 percentage point decline in share for the five main PSBs.

Figure 2.76 PSB and portfolio channel shares in multichannel homes

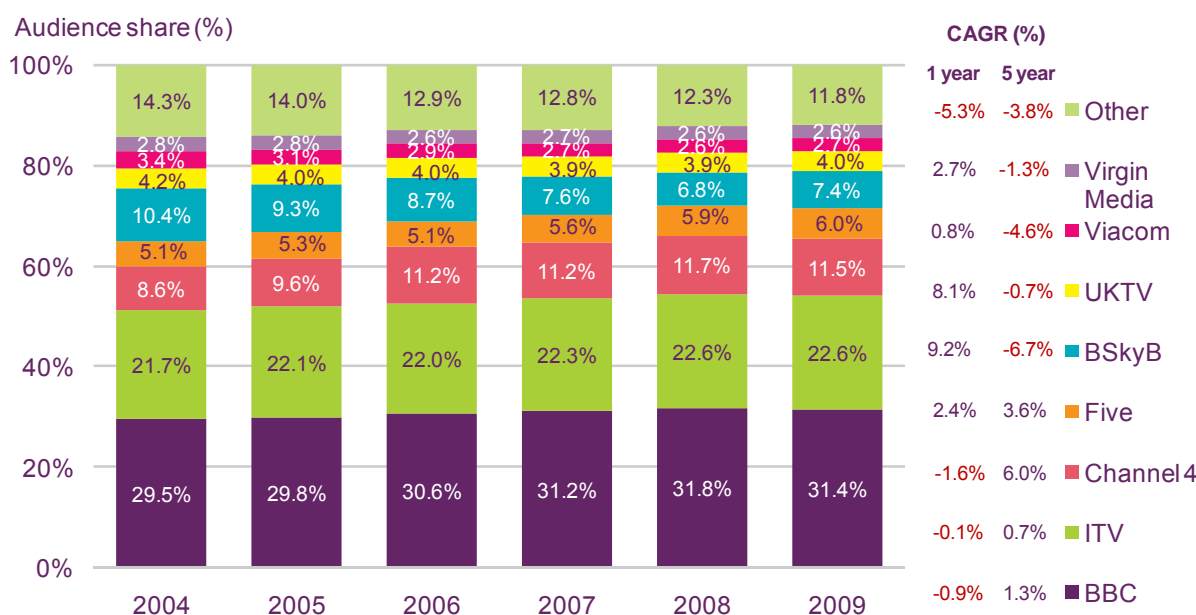


Source: BARB

The combined share in multichannel homes of all BBC channels dropped for the first time in five years, falling from 31.8% to 31.4% between 2008 and 2009 (Figure 2.78). The combined share of Channel 4's portfolio also slipped from its 2008 level, by 0.2 percentage points (to 11.5%), while ITV's portfolio held steady at 22.6%. Of the terrestrial channels, only Five's portfolio share grew year on year, rising from 5.9% to 6.0% (Figure 2.77).

The PSBs' falling portfolio share contrasts with a resurgence in Sky's collective channel share. Between 2004 and 2008, it fell steadily each year; from 10.4% to 6.8% in 2008. But in 2009, the share rose by 0.6 percentage points to 7.4%. Both Viacom and UKTV's share of viewing picked up modestly on the year, while Virgin Media Television's (now owned by Sky and called Living TV) remained flat.

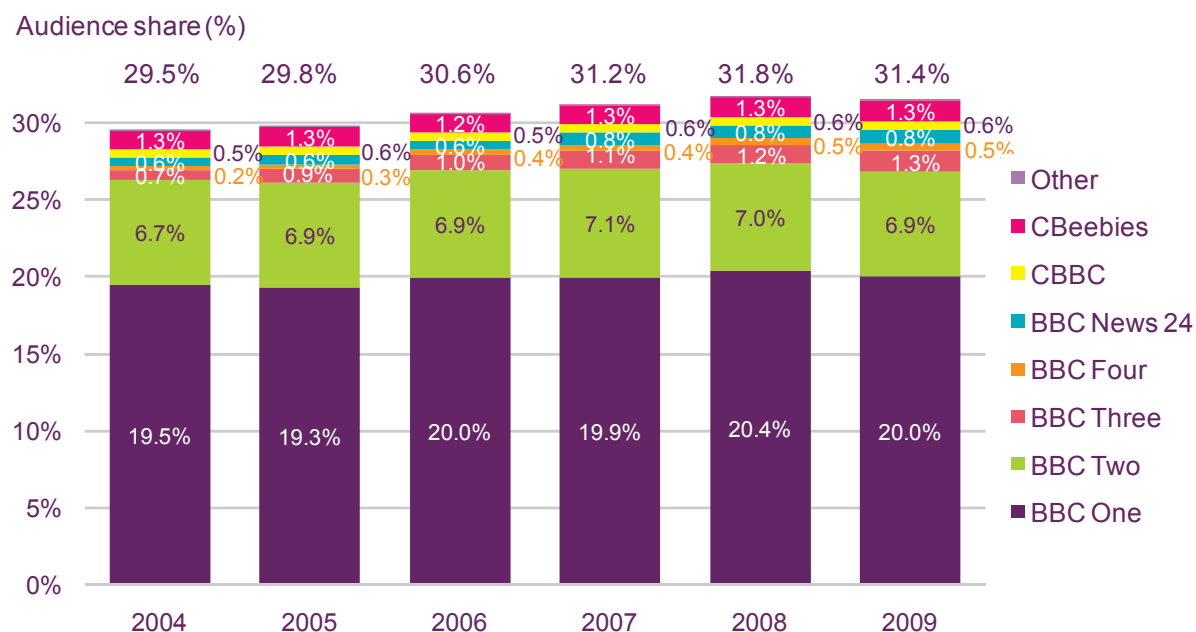
Figure 2.77 Broadcaster portfolio shares in multichannel homes



Source: BARB

In 2008, BBC One's share in multichannel homes grew by 0.5 percentage points, but then fell back by 0.4 percentage points in 2009. BBC Two's share dropped by 0.1 percentage points in 2009, as it had in 2008. The combined share of the BBC's digital channels grew by 0.3 percentage points (to 4.7%).

Figure 2.78 BBC portfolio share in multichannel homes

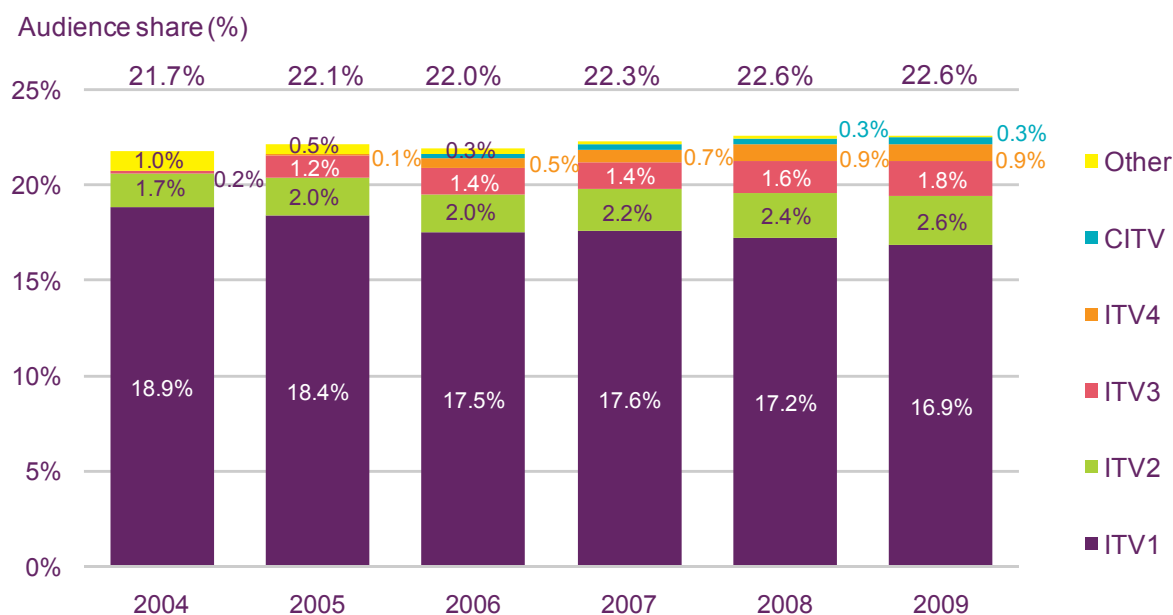


Source: BARB

ITV1's share in multichannel homes fell for the second year in succession to 16.9%, its lowest ever figure (Figure 2.79). Since 2004, the UK's largest commercial channel has seen its share in multichannel homes drop by two percentage points, while BBC One's share has risen by 0.5% over the same period.

However, ITV1's year-on-year decrease in share was counterbalanced by continued growth for ITV2 and ITV3, each recording increases in viewing share of 0.2 percentage points. Both channels achieved their highest-ever shares of multichannel viewing in 2009, while ITV4's share remained static, following three years of growth.

Figure 2.79 ITV portfolio shares in multichannel homes

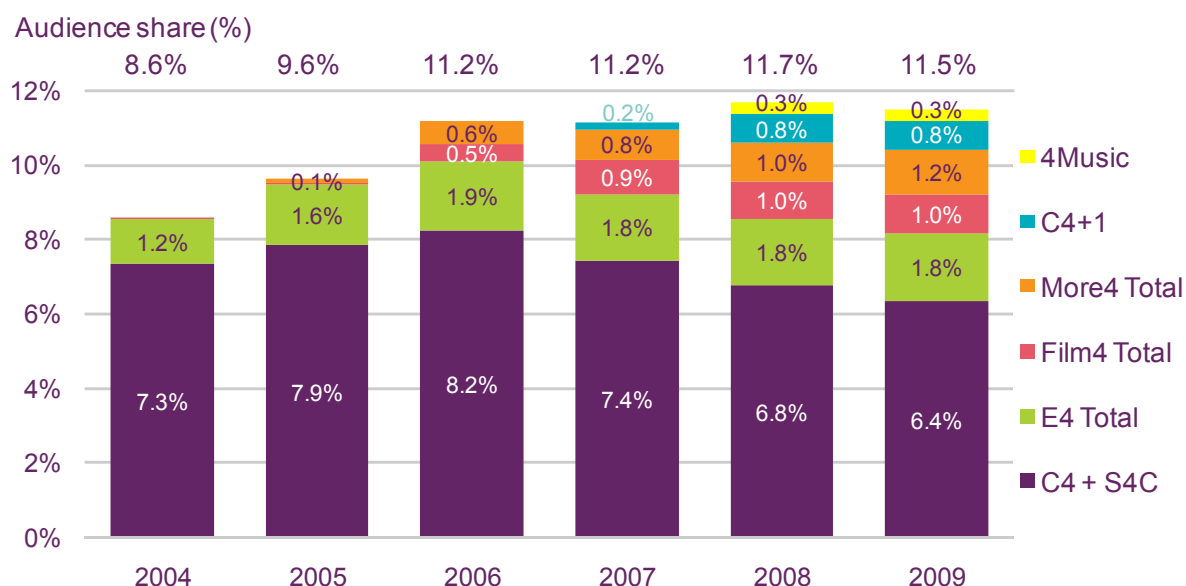


Source: BARB

Channel 4's portfolio also saw its combined share in multichannel homes recede year on year (Figure 2.80), and – as with the BBC – this was caused by a decline in share for the main PSB channel, whose share fell by 0.4 of a percentage point to 6.4% during 2009. However, the rate at which the main channel lost share in 2009 was slower than it had been in the two preceding years (0.7 points and 0.8 points respectively).

In earlier years, Channel 4's digital channels had gained share at a far greater rate than they did in 2009. In 2008 for example, Channel 4+1 alone supplied an increase of 0.6 percentage points to the portfolio's overall share, while the launch of 4Music was responsible for a further uplift of 0.3 points. In 2007 and 2008, the launches of Channel 4+1 and More4, and the movement of Film4 to Freeview, supplied similar increases. There were no comparable increases in viewing in 2009, as the shares for E4, Film4, and 4Music all remained flat and More4's share rose by just 0.2 percentage points.

Figure 2.80 Channel 4 portfolio shares in multichannel homes

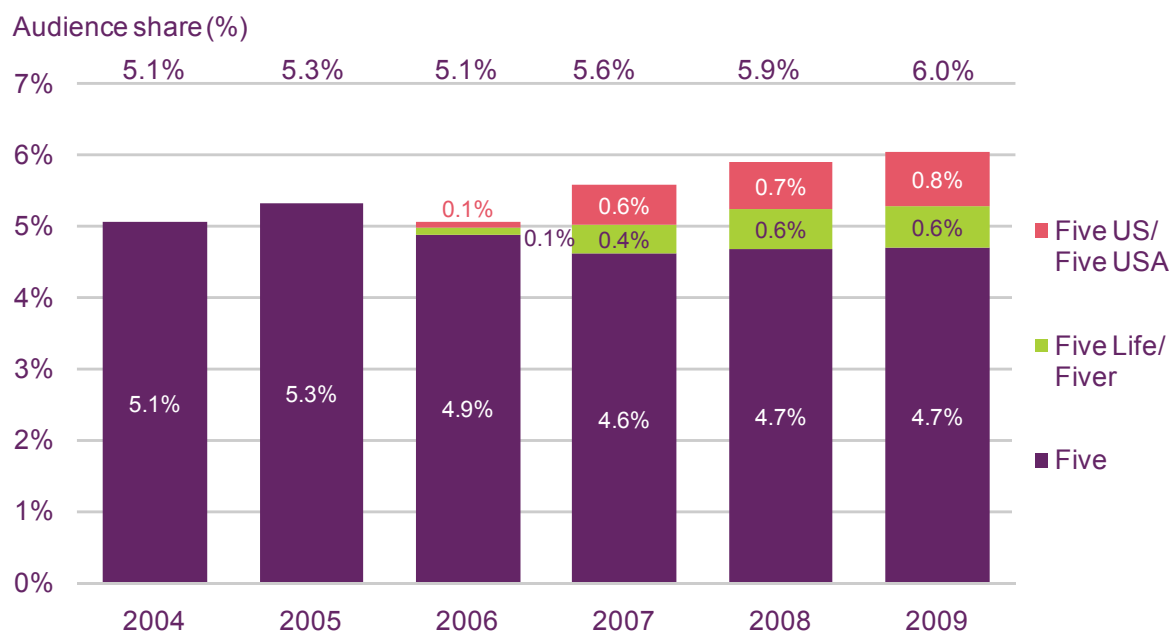


Source: BARB

Bucking the trend of the other PSBs, only Five saw its portfolio share in multichannel homes rise in 2009 (Figure 2.81). The main channel held its share at 4.7% in 2009; this was just 0.6 percentage points lower than its 2005 peak share of 5.3%. The digital channel Fiver's share also held its share in 2009, at 0.6%, after a rise of 0.2 percentage points in 2008, when it was re-branded from Five Life.

The slight growth in Five's portfolio share during 2009 was driven by Five USA, which was re-branded from Five US in February. Its share of viewing in multichannel homes subsequently rose by 0.1 percentage points.

Figure 2.81 Five portfolio shares in multichannel homes



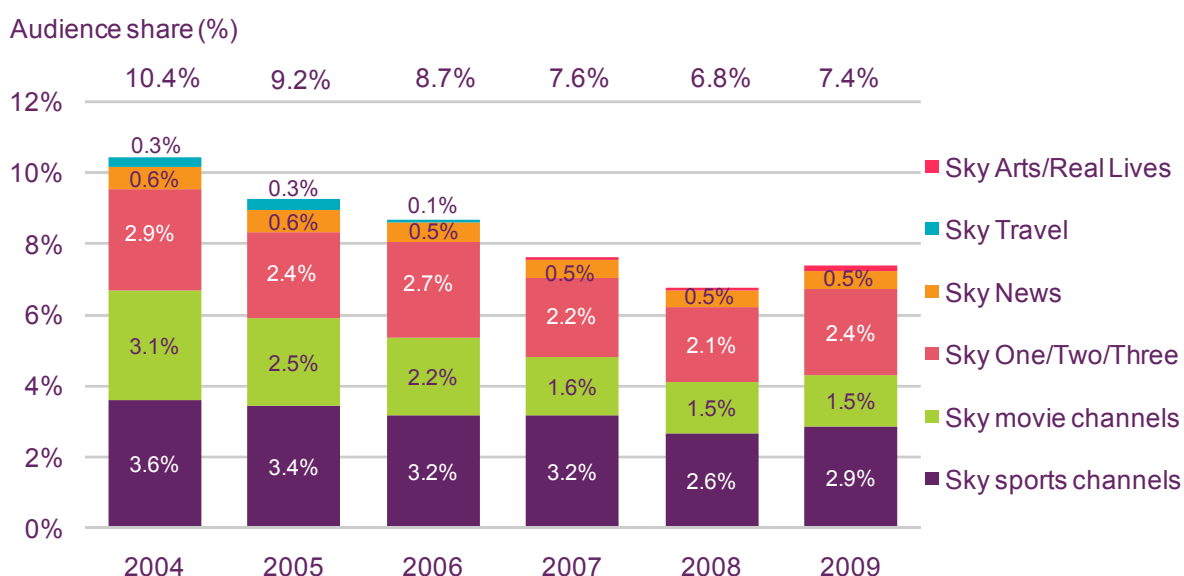
Source: BARB

For four years in succession, Sky's portfolio share of viewing in multichannel homes declined, falling from 10.4% in 2004 to 6.8% in 2008 (Figure 2.82). This decline was driven by reductions in share for its sports channels (down one percentage point) and film channels (down 1.6 percentage points).

The trend reversed in 2009, with growing audience share for Sky's sports and general entertainment channels, while the film channels' share remained flat year on year, at 1.5%. The combined share of BSkyB's three entertainment channels (Sky 1, Sky 2, and Sky 3) rose by 0.3 percentage points to 2.4%, their highest combined share since 2006. Sports channels increased by 0.3 percentage points year on year; a third of this came from Sky Sports News.

The growth can be attributed in part to the reappearance of Sky 1, 2 and 3, Sky News and Sky Sports News on the Virgin Media platform (from which they had been missing between March 2007 and November 2008). It can also be explained by the increased take-up of Freeview, where Sky 3 and Sky Sports News were both available during 2009 (In June 2010, Sky said that Sky Sports News would be replaced on Freeview with a '+1' version of Sky 3⁴⁹).

Figure 2.82 BSkyB portfolio shares in multichannel homes



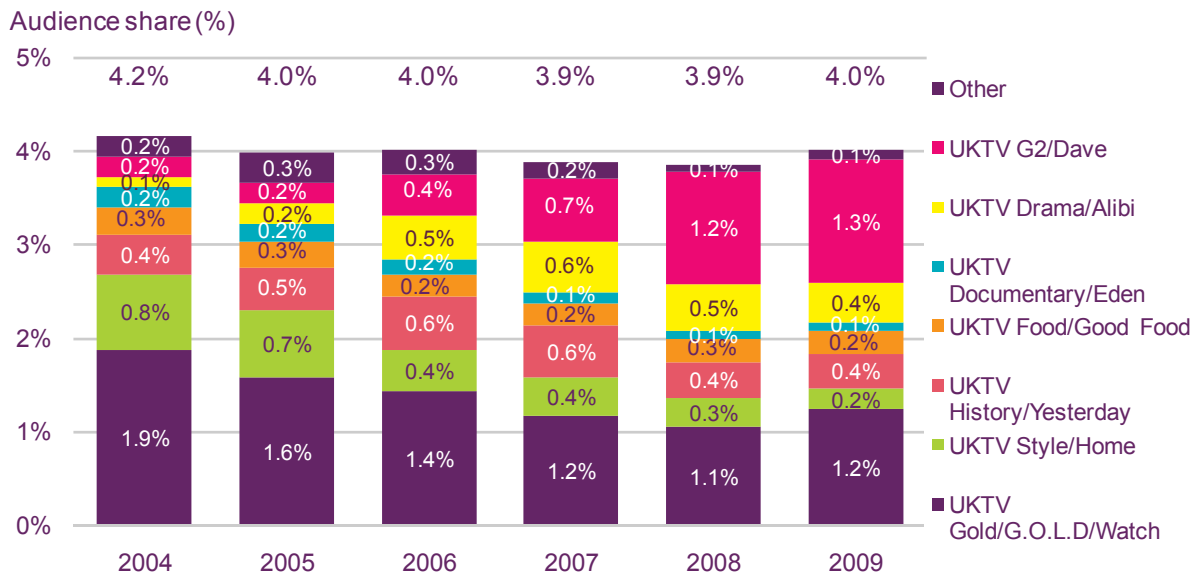
Source: BARB

Between 2007 and 2009, UKTV rebranded all its channels, removing the UKTV prefix from channel names. Not all of the new channels in the current portfolio have direct equivalents in the old portfolio. But among those that do, Dave, formerly UKTV G2, experienced the greatest growth in share, having gone free-to-air at the point of the rebrand (Figure 2.83). In 2006, the last full year in which UKTV G2 aired, the channel had a 0.4% share in multichannel homes, but by 2009, Dave's share had increased to 1.3%. Despite this, the combined share in multichannel homes of the UKTV portfolio channels varied only marginally over the past five years, maintaining share consistently between 3.9% and 4.0%. UKTV Gold's share of 1.4% in 2006 has not been matched by its replacement channels, G.O.L.D and the new channel Watch, which together commanded a combined share of 1.2% in 2009.

⁴⁹ <http://corporate.sky.com/page.aspx?pointerid=31fb93be272445fc96f0d9a59fb39145>

Yesterday, which replaced UKTV History in March 2009, did not boost its predecessor's share, while Alibi, replacing UKTV Drama in October 2008, saw its share slip by 0.1 percentage points in 2009. Eden and Good Food maintained the shares held by their forerunners UKTV Documentary and UKTV Food.

Figure 2.83 UKTV portfolio shares in multichannel homes



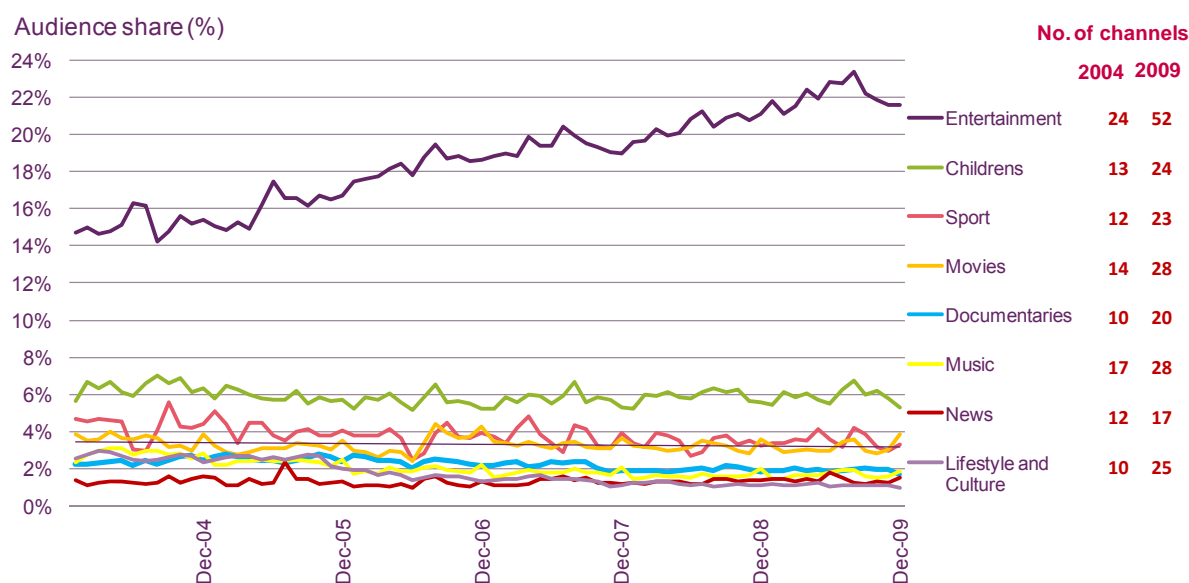
Source: BARB

Figure 2.84 illustrates the aggregate share of channels by genre (as defined by Sky's electronic programme guide, excluding the five main PSB channels). The Entertainment channel genre category dominated, with an average audience share of 22% during 2009, up from 15% in 2004. No other channel genre has attracted such a high share or experienced similar growth in total share over this five-year period.

The rise is partly due to the increase in the number of channels monitored by BARB in the Entertainment category, which more than doubled from 24 in December 2004 to 52 in December 2009. Despite the expansion in the number of channels available, this did not lead to significant fragmentation of channel shares in this genre. The top ten Entertainment channels accounted for 63% of the genre share, down from 79% in December 2004.

The number of channels in all of the other genre categories has also risen, but their combined shares of total viewing have remained fairly constant since 2004, suggesting that viewing in these categories has fragmented relatively more between the incumbent and new entrant channels.

Figure 2.84 Aggregate shares of channel genres in multichannel homes



Source: BARB. Note: Number of channels does not include '+1' services

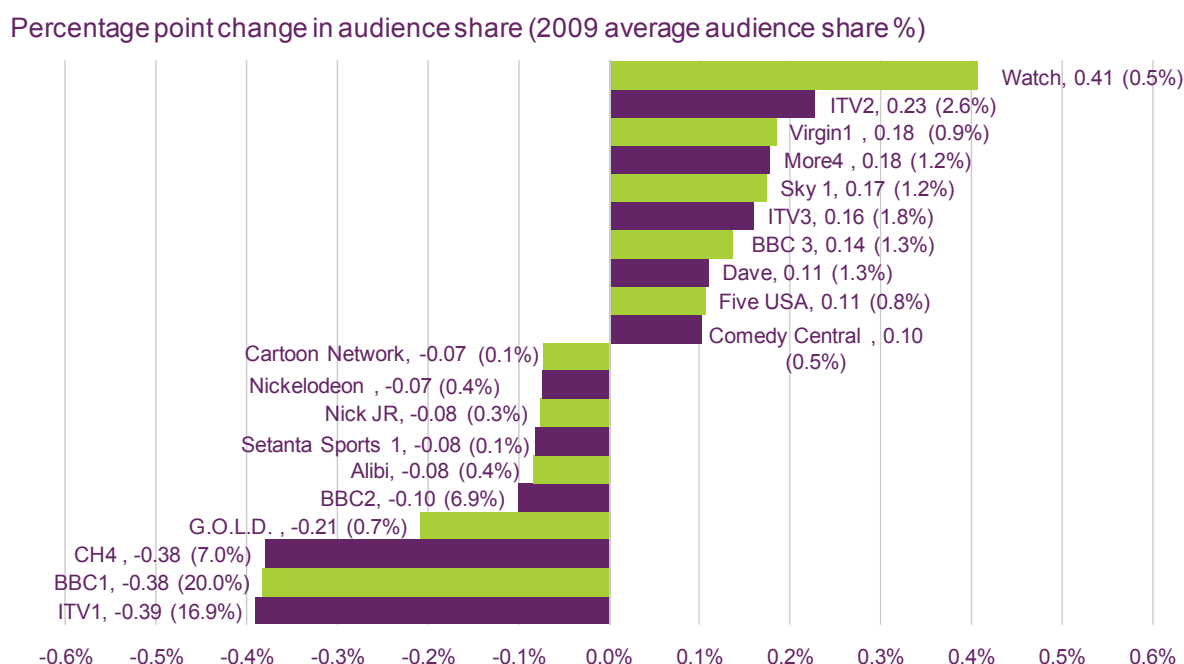
Multichannel audience winners and losers, 2008 to 2009

The ten channels in multichannel homes that gained the most audience share in percentage point terms during 2009 are illustrated in Figure 2.85, together with the ten whose share fell furthest.

Watch's share increased the most in 2009, a rise of 0.41 percentage points, although, as the channel did not launch until October 2008, the yearly comparison is not like-for-like. ITV2 was the second biggest gainer overall, increasing its audience share by 0.23 percentage points to maintain its position as the most-viewed multichannel in 2009. Sky 1 gained an increase of 0.17 percentage points, a marked increase in share after its return to the Virgin Media cable platform in November 2008 following a 20-month absence. Virgin1, Comedy Central and Five USA all experienced increases in audience share after rebranding of the channels in February, April and June 2009 respectively. Five of the top ten gainers (ITV2, More4, ITV3, BBC Three and Five USA) were part of PSB portfolio groups.

Four of the five channels that lost the most share in 2009 were main PSBs. ITV1's fell the most between 2008 and 2009, shedding 0.39 percentage share points in multichannel homes. Close behind were BBC One and Channel 4/S4C - both losing 0.38 percentage points. BBC Two followed, with share falling 0.1 of a percentage point. Of the multichannel services, G.O.L.D and then Alibi lost the most audience share, dropping by 0.21 and 0.08 percentage points respectively. In October 2008 both of these channels, as part of a wider change by parent company UKTV, experienced some form of re-branding, following which their audience shares marginally decreased in the earlier parts of 2009. Setanta Sports 1 ceased broadcasting in June 2009, helping to explain its presence in the list. Three of the ten channels to lose most share were dedicated children's services (Nick Jr, Nickelodeon and Cartoon Network).

Figure 2.85 Multichannel audience winners and losers, 2008 to 2009



Source: BARB. Note: Includes channels' +1 services

The most-viewed channels in multichannel homes remain the same year on year

Despite losing the most audience share in absolute terms, the main PSB channels still attracted more share than any other TV channels in 2009. The top 13 most-watched channels have remained completely unchanged year on year (Figure 2.86). In addition to the five main PSB channels, the other top ten slots were occupied by ITV2, E4, ITV3, Sky Sports 1 and CBeebies. Sky Sports 1 was the only non-PSB portfolio channel in the top ten.

Across the top-20 channels, there was also little change year on year. Virgin1 was the only new entry, moving up four places (the biggest shift in the top twenty) from 22 in 2008 to 18 in 2009. Sky 1, ITV4 and Living were the other top-20 channels to move up, all rising one place from their 2008 positions. Film4 was the one channel still in the top twenty channels to fall, moving down one place from fourteenth to fifteenth (swapping places with Sky 1) while Sky 3 dropped out (twenty-first in 2009 with a share of 0.71%).

Figure 2.86 The top channels by share in multichannel homes, 2008 to 2009

Channel	Share	Rank		Channel	Share	Rank	
	2009	2009	2008		2009	2009	2008
BBC One	20.0%	1	1	Dave	1.3%	11	11
ITV1	16.9%	2	2	BBC Three	1.3%	12	12
Channel 4	7.0%	3	3	More 4	1.2%	13	13
BBC Two	6.9%	4	4	Sky One	1.2%	14	15
Five	4.7%	5	5	Film4	1.0%	15	14
ITV2	2.6%	6	6	ITV4	0.9%	16	17
E4	1.8%	7	7	Living	0.9%	17	18
ITV3	1.8%	8	8	Virgin1	0.9%	18	22
Sky Sports 1	1.4%	9	9	BBC News	0.8%	19	19
CBeebies	1.3%	10	10	Disney Channel	0.8%	20	20

Source: BARB. Note: Includes channels' +1 services

The 20 most-viewed programmes in 2009 were all on either BBC One or ITV1

Figure 2.87 lists the top 20 most-viewed television programmes, based on average audience, in multichannel homes during 2009. The most-viewed programme in 2009 was the final of *Britain's Got Talent* on ITV1 – attracting an average audience of 16.5 million people (aged 4+). All of the top-20 programmes were broadcast on BBC One or ITV1, with the top four all ITV1 weekend broadcasts falling into the family entertainment category (as defined by BARB). Of the top 20 programmes, 18 were broadcast during late peak hours (20:00-22:30) and 15 were on Friday, Saturday or Sunday. Four of the broadcasts were on 25 December (Christmas Day) – making this day the date with the most top-20 entries.

Figure 2.87 Top 20 TV programmes in 2009, based on average audience

No.	Title	Channel	Date	Day	Start time	End time	Aud' (m)
1	BRITAIN'S GOT TALENT FINAL RESULT	ITV1	30/05/2009	Saturday	21:31	22:00	16.5
2	THE X FACTOR RESULTS	ITV1	13/12/2009	Sunday	19:29	21:26	15.6
3	BRITAIN'S GOT TALENT	ITV1	30/05/2009	Saturday	18:45	20:23	14.8
4	THE X FACTOR	ITV1	21/11/2009	Saturday	20:03	21:17	13.5
5	THE ROYLE FAMILY	BBC1	25/12/2009	Friday	21:01	21:59	11.4
6	EASTENDERS	BBC1	25/12/2009	Friday	20:00	20:59	11.3
7	DOCTOR WHO	BBC1	25/12/2009	Friday	17:59	18:58	11.1
8	STRICTLY COME DANCING	BBC1	19/12/2009	Saturday	20:41	21:45	10.7
9	I'M A CELEBRITY - GET ME OUT OF HERE!	ITV1	21/11/2009	Saturday	21:21	22:21	10.4
10	CORONATION STREET	ITV1	16/11/2009	Monday	20:29	20:55	10.3
11	DANCING ON ICE	ITV1	22/03/2009	Sunday	18:55	20:58	10.2
12	I DREAMED A DREAM - THE SUSAN BOYLE STORY	ITV1	13/12/2009	Sunday	21:34	22:33	10.0
13	COMIC RELIEF	BBC1	13/03/2009	Friday	19:00	21:59	10.0
14	DOC MARTIN	ITV1	08/11/2009	Sunday	21:02	22:00	9.7
15	GAVIN AND STACEY	BBC1	25/12/2009	Friday	22:00	22:29	9.6
16	CHILDREN IN NEED	BBC1	20/11/2009	Friday	19:00	21:59	9.5
17	THE GRUFFALO	BBC1	25/12/2009	Friday	17:31	17:57	9.5
18	THE ROYAL VARIETY PERFORMANCE	ITV1	16/12/2009	Wednesday	19:29	21:58	9.1
19	THE APPRENTICE	BBC1	03/06/2009	Wednesday	21:00	21:59	9.1
20	JONATHAN CREEK	BBC1	01/01/2009	Thursday	20:59	22:58	9.0

Source: BARB. All individuals (aged 4+). Highest occurrence of programme only.

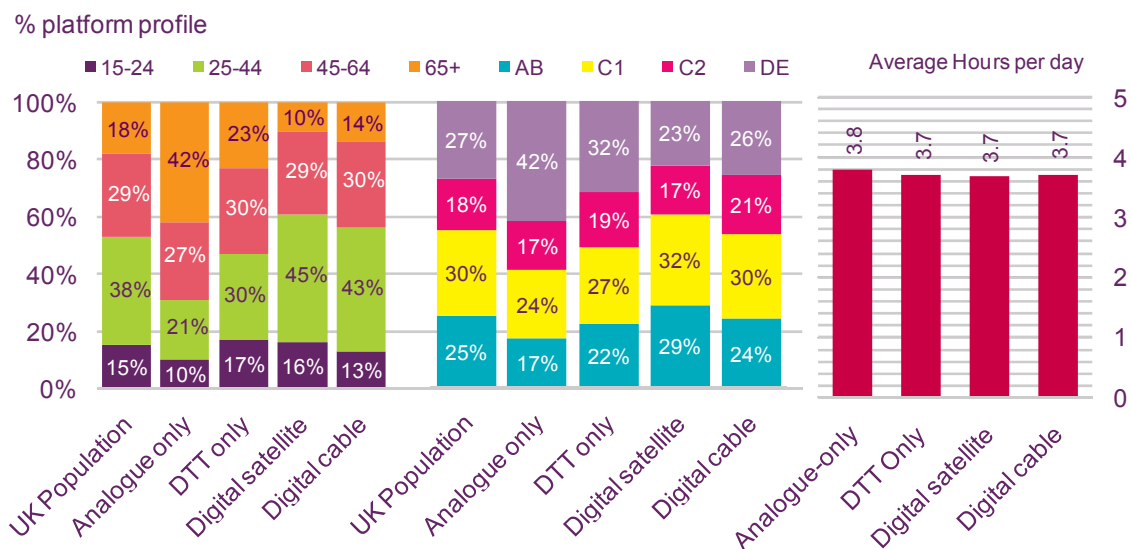
Platform and channel demographics

The proportion of adult viewers aged 44 or under with access to analogue-only television continues to fall, as illustrated in Figure 2.88. Fifty-three per cent of the UK population are in this age group, compared with just 31% of analogue-only adult viewers. The analogue television viewing universe is older, possibly because younger viewers have migrated to digital television platforms more rapidly than older groups. Freeview is the more popular digital television platform among older viewers, with over-65s accounting for 23% of the Freeview audience in 2009, but 18% of the population as a whole.

The demographic profiles of satellite and cable viewers remain largely stable, with a slightly younger and more ABC1-biased demographic than the UK population averages. The profile of the analogue-only viewing audience is skewed towards the DE demographic, which accounted for 42% of the platform's total audience (up from 41% in 2008) but made up only 27% of the population. Freeview's demographic profile shows that DTT is popular among viewers in the DE category who have migrated to digital; they accounted for 32% of the platform's viewers in 2009, an increase of two percentage points year on year, but made up just 27% of the general population.

The higher average hours of viewing by analogue terrestrial viewers (3.8 hours/day in 2009), compared to viewers on other platforms might be explained by the progressively ageing population of analogue terrestrial viewers as, on average, older people watch more TV.

Figure 2.88 Platform demographics by age, socio-economic group and viewing hours, 2009



Source: Ofcom and BARB

Figure 2.89 shows the age and gender profiles of the 30 most-viewed channels, relative to the overall television audience in multichannel homes, which is found at the intersection of the two axes.

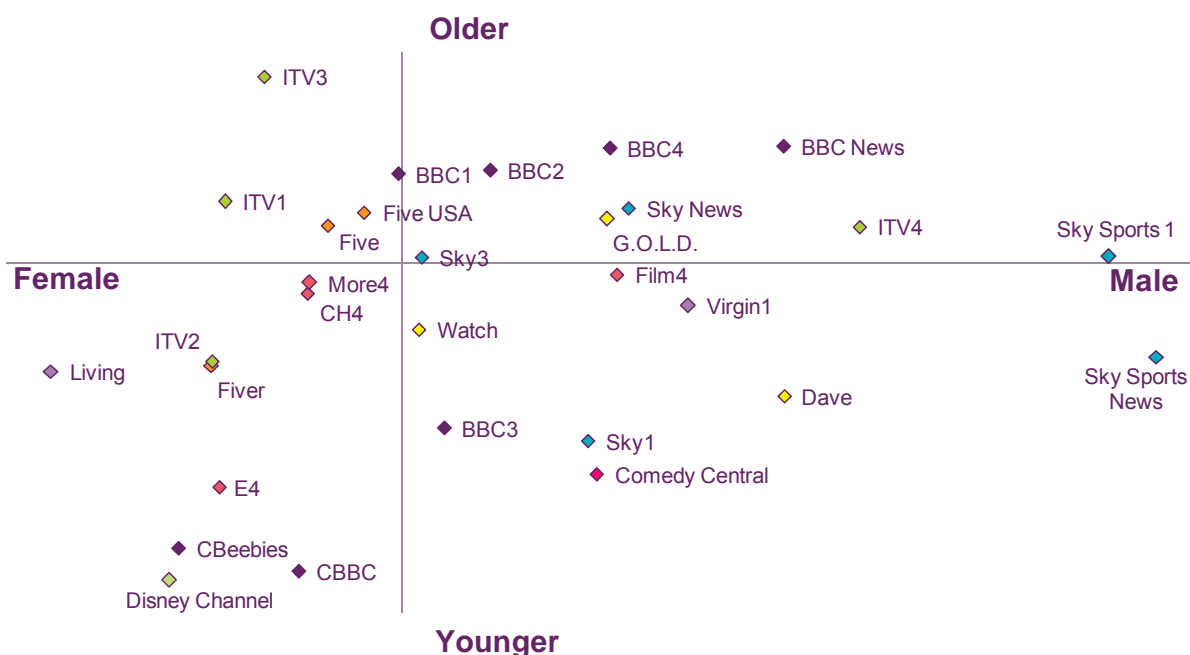
The five main PSB channels all congregate near the multichannel average; all but Channel 4 skew a little older. The top-left quadrant of the graph – channels whose audiences are older and predominantly more female than average – contains three of the five terrestrial PSB channels, but only two digital channels, in stark contrast to the other three quadrants.

Four of the BBC's channels – BBC One, BBC Two, BBC Four, and BBC News – attract a significantly older audience than average, while their other major non-children's channel, BBC Three, draws a younger audience. In a similar vein, audiences to ITV's three largest channels – ITV1, ITV2, and ITV3 – are all more female than average, while its fourth largest channel, ITV4, is skewed heavily male. Channel 4 and Five, by contrast, have channels with a demographic profile comparable to the 'main' PSB service: More4 and Five USA. Of all the PSB portfolios, Five's channel profiles exhibited the least amount of variation.

BSkyB had five channels in the top 30, and four of them – Sky News, Sky 1, Sky Sports 1 and Sky Sports News – profiled significantly more male than the average, but Sky 3 – their only entertainment service available on Freeview – attracted an audience profile close to the multichannel average.

Most of the channels in the top 30 which were not either part of a PSB portfolio, or owned by BSkyB, were skewed to younger and more male audiences, the exceptions being Living and Disney Channel – both more female – and G.O.L.D. – slightly older than the average.

Figure 2.89 Age and gender profile of the 30 most-viewed channels in multichannel homes



Source: BARB. Channels plotted according to the percentage of all viewing coming from male and 45+ viewers compared to total TV in multichannel homes.

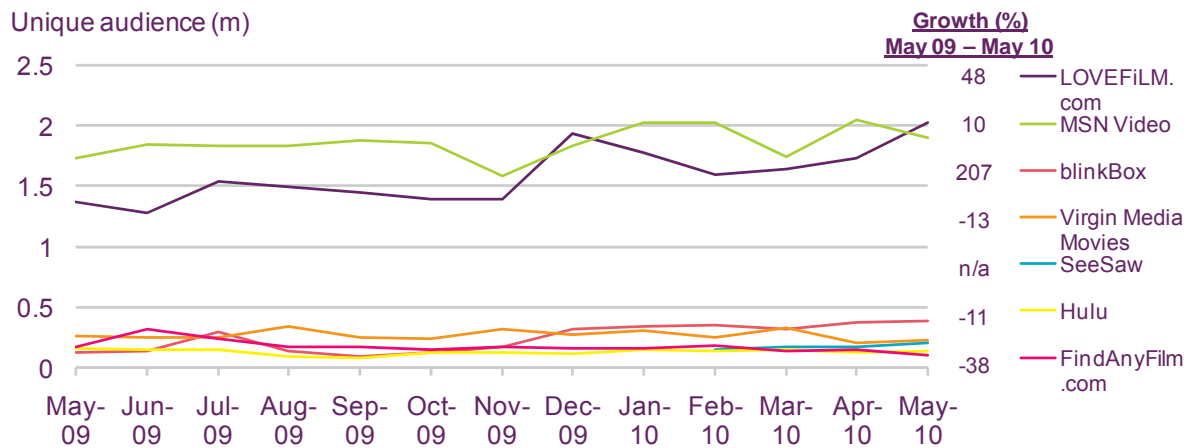
2.4.8 Online TV reach and audience

Online TV and film sites continue to jostle for position

Two of the most popular sites offering consumers access to online film and TV were LOVEFiLM and MSN Video, with unique audiences of around two million each in May 2010. LOVEFiLM is an online DVD rental service, which also offers some films available to stream for paying subscribers. MSN Video added a catch-up and on-demand service (with content from BBC Worldwide, All3Media, Endemol and others) to its existing video clips and user-generated content in March 2010. Other video-on-demand services typically have much lower audiences. Four months after launch, SeeSaw had a unique audience of 200,000, while Virgin Media Movies attracted 231,000 unique users. Blinkbox was the fastest-growing

service, tripling its unique audience to 384,000 users in the year to May 2010. Despite not being officially available in the UK, Hulu managed to sustain a unique audience of over 100,000 people in the UK across the past year.

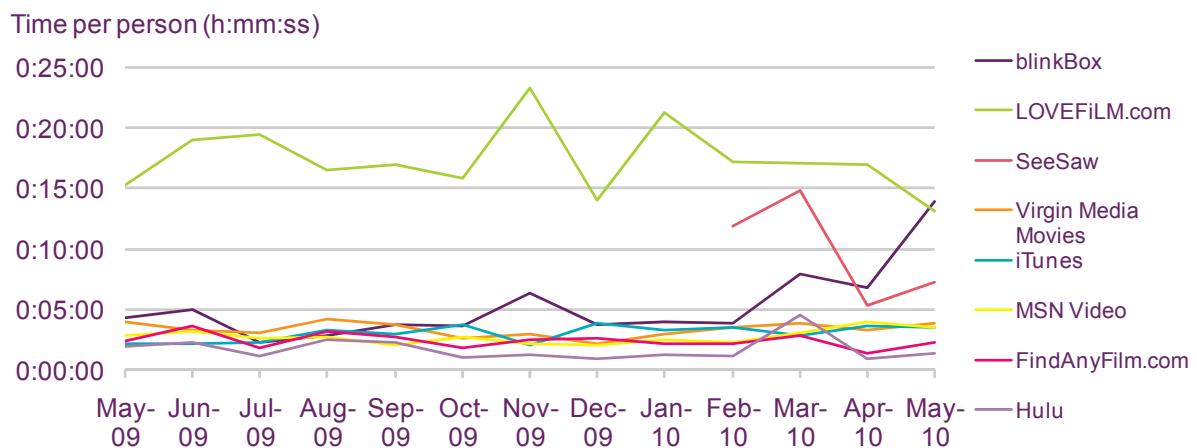
Figure 2.90 Unique audiences to selected online film and TV sites



Source: UKOM/Nielsen, home and work panel.

Blinkbox's monthly growth in unique audience is mirrored in growth in time per person spent on the site. Monthly time per person tripled to just under 15 minutes in the year to May 2010, and is now the highest among the sites listed in the chart. LOVEFiLM users spent a similar amount of time online, although this may relate to users managing their accounts.

Figure 2.91 Monthly time spent per person on selected online film and TV sites



Source: UKOM/Nielsen, home and work panel.

2.4.9 VoD use in Virgin Media homes

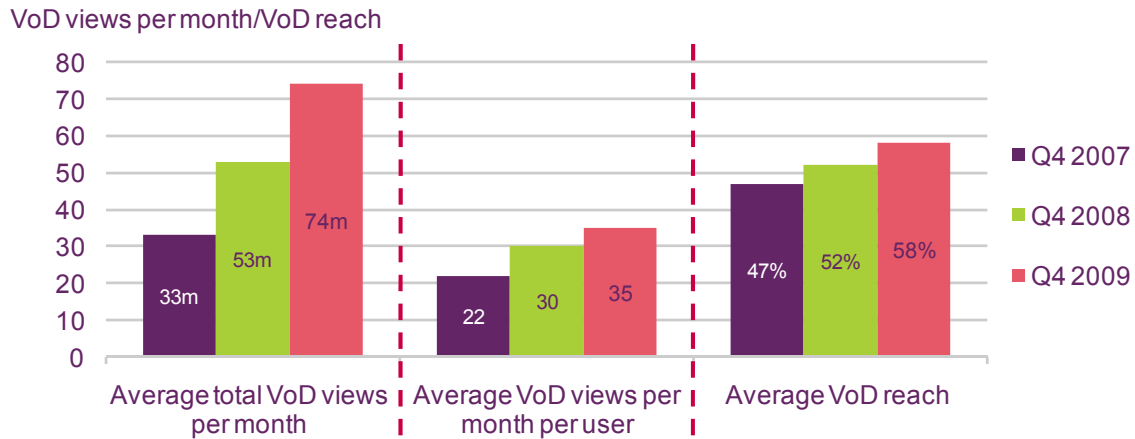
Virgin Media VoD continues to grow in both reach and frequency of use

TV and film content on demand is also available through Virgin Media's cable-TV service, and this service is currently available in the 13% of UK households where cable is connected to the main television set. The content available is a mixture of free, pay-per-view and subscription, with some prices depending on the TV package taken from the cable operator.

Virgin Media company data show that average monthly VoD views reached 74 million in Q4 2009, an increase of 40% on the previous year (Figure 2.92). VoD now reaches 58% of

Virgin Media TV subscribers, an increase of six percentage points on Q4 2008. And it seems that these VoD users are using the service more intensively. The average user watched 35 instances of VoD content per month in Q4 2009, compared to 30 in Q4 2008. This may reflect their increasing familiarity with VoD content and the Virgin VoD service.

Figure 2.92 Video on-demand use in Virgin Media homes



Source: Virgin Media.

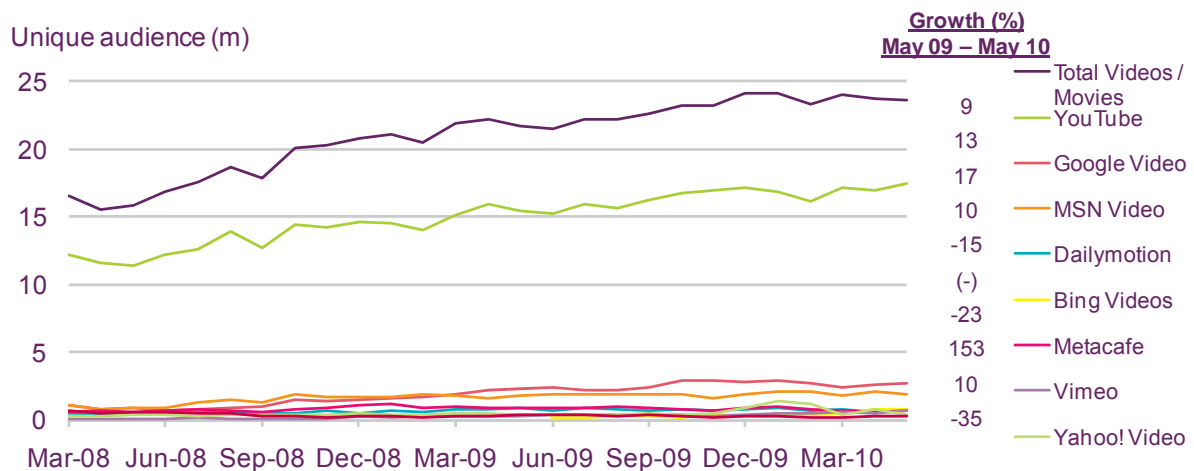
2.4.10 Video-sharing sites

Video-sharing sites' audience growth begins to slow

Data from UKOM/Nielsen show that the total unique audience of sites in its 'videos and movies' category reached 23.6 million in May 2010, a 9% increase since May 2009. Figure 2.93 below shows that growth in the total audience to these sites has slowed over the past two years.

YouTube was the most popular video-sharing website, with a unique audience of 17.4 million. None of the other major video-sharing sites that we looked at had a unique audience above three million.

Figure 2.93 Unique audiences to selected video-sharing sites

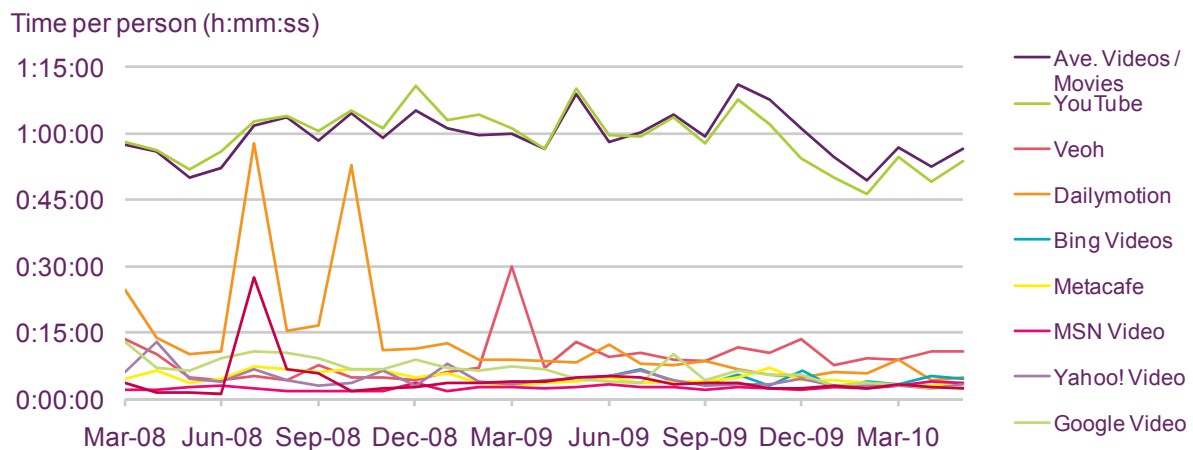


Source: UKOM/Nielsen, home and work panel.

The amount of time spent on video-sharing sites has remained relatively constant over the past two years (Figure 2.94). Average monthly time per person spent on UKOM's 'videos and movies' category remains at around an hour, a similar level to the trend of the past two years.

Changes in time spent per person on 'videos and movies' sites largely reflect the impact of the large number of YouTube users. Other sites, such as Dailymotion and Vimeo, have shown significant fluctuations in the past, but over the past year most of the video-sharing sites in our analysis fluctuated between five and 15 minutes monthly average time spent per person.

Figure 2.94 Monthly time spent per person on selected video-sharing sites

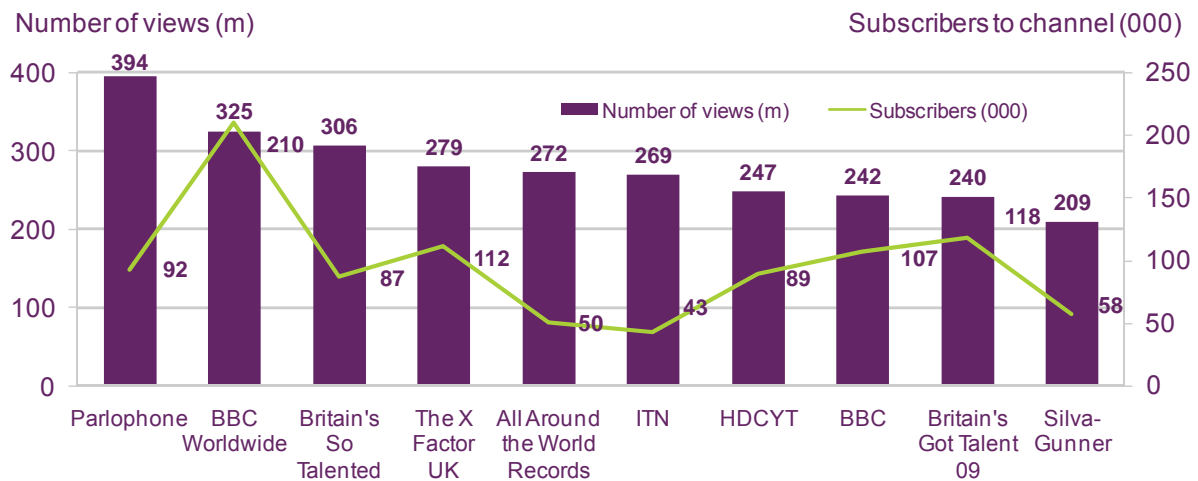


Source: Source: UKOM/Nielsen, home and work panel.

Video-sharing sites have in the past been seen mainly as user-generated content sites. But for some this is an unduly narrow description. They often include professionally-produced content such as music videos, trailers, clips for TV programmes, and increasingly, full-length films and TV programmes (see Section 2.1.4, including details on deals between YouTube and Channel 4 and Five). This content is often uploaded by rights holders themselves, either for promotional purposes or to generate revenue through advertising.

YouTube statistics show that the majority of the all-time most popular channels are run by well-established content providers. Most consist either of music videos or video clips. YouTube users can elect to subscribe to channels on the site (i.e. to receive notifications of new videos). Figure 2.95 shows that having the highest number of views does not necessarily correspond to having the highest number of subscribers. For example, the Britain's Got Talent 09 channel has 29,000 fewer total views than ITN, but over twice as many subscribers (118,000 compared to 43,000).

Figure 2.95 Popularity of top 10 UK YouTube channels



Source: YouTube statistics June 2010.

Tablets, e-readers and iPads

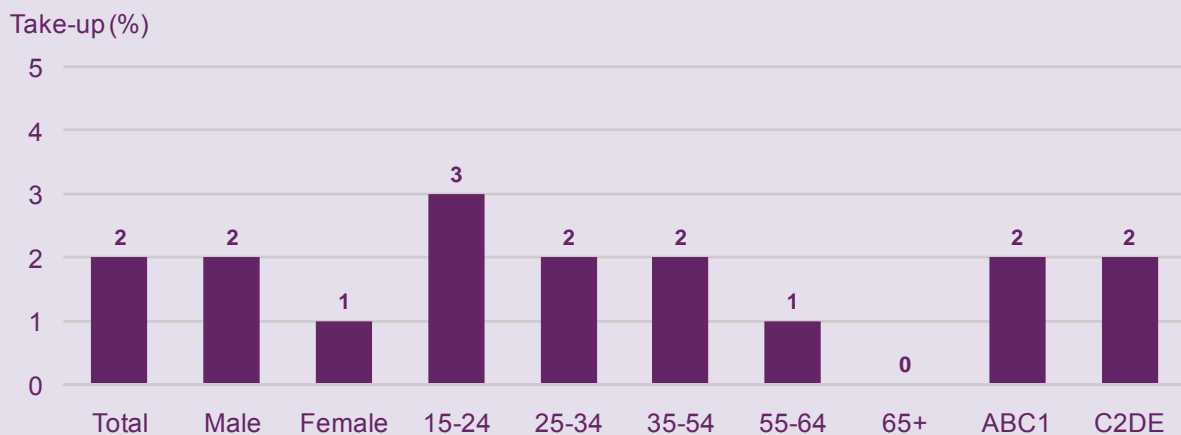
The market for portable media devices such as e-readers and tablets continued to develop during 2009 and into 2010. In July 2010 Amazon announced that it would launch its new third-generation Kindle device to UK customers of Amazon.co.uk alongside a UK Kindle Store (selling digital version of books – ‘e-books’) in August 2010. Since October 2009, UK consumers had previously only been able to buy an international version of the Kindle through the US Amazon.com store.

The Kindle is a large-screened portable device that can store and ‘play’ e-books. Users can download books over the Kindle’s WiFi or cellular connections. Amazon announced that the UK version of the Kindle will use Vodafone’s 3G wireless network for data transfer. The international version of the Kindle that has hitherto been available to UK consumers uses a different approach. Rather than strike agreements with UK network operators, Amazon launched its international download service in partnership with American operator AT&T, meaning that UK users are effectively roaming when they download books using Kindle’s cellular connection (although data charges are covered by the price of the e-book).

But even before the launch of the Kindle to UK consumers a number of existing e-reader devices were available to the UK market. These included devices such as the Sony Reader, the iRiver reader and the Elonex e-book reader.

Despite the growing availability of these devices, Ofcom consumer research shows that only a minority of households have access to an e-reader device. In Q1 2010, 2% of adults reported that they, or someone in their household, had access to such a device. Younger people were more likely than older people to have access to an e-reader, and take-up was also slightly higher among men than women.

Take-up of e-reader devices



Source: Ofcom research.

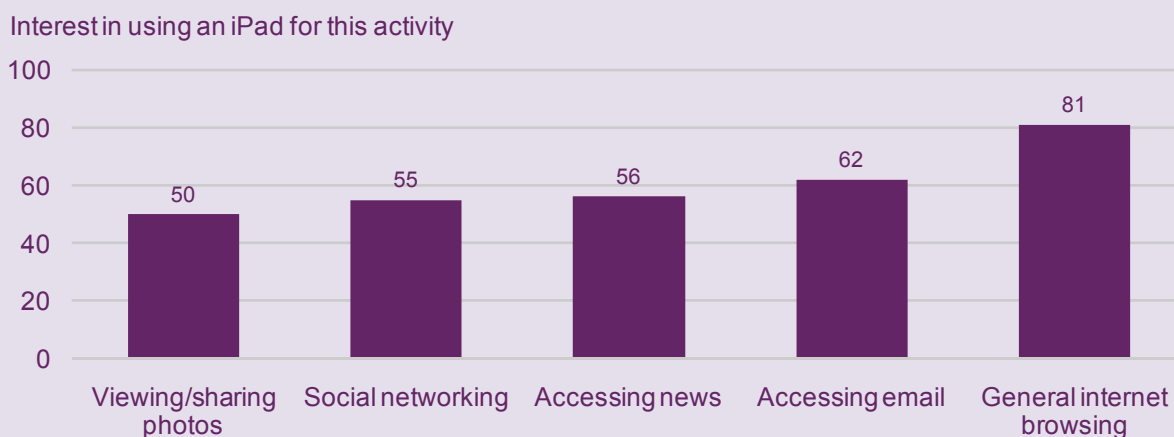
Base: All adults (6682); males (3204); females (3478); 15-24 (996); 25-34 (1183); 35-54 (2313); 55-64 (991); 65+ (1200); ABC1 (3633); C2DE (3008). QB1: Which of the following do you, or does anyone in your household, have in your home at the moment?

Other devices are emerging to challenge the stand-alone e-reader. E-book applications are available on most smartphones, including a Kindle application from Amazon. Multi-function devices, sometimes known as 'tablets', are also emerging which may compete directly with e-readers. The Apple iPad launched in January 2010 and within 28 days had sold one million units worldwide. By way of comparison, the original iPhone took 74 days to sell the same number of units.

The iPad was followed in April by a dedicated iBookstore, along the lines of iTunes, to sell e-books in direct competition with Amazon's Kindle store. In June, Apple announced that it had sold five million books through the iBookstore, and claimed that it had 22% of the e-book market. Other manufacturers including Dell and Asus have also launched tablet devices.

Early evidence may suggest that consumers see tablet devices, and iPads in particular, as having a variety of functions beyond e-books. Data from IPSOS MediaCT show that consumers who are considering buying an iPad do not cite e-books as one of the top five activities they would be interested in using one of these devices for, although this may reflect some consumers' lack of familiarity with e-books.

Anticipated interest in selected iPad activities (top five)



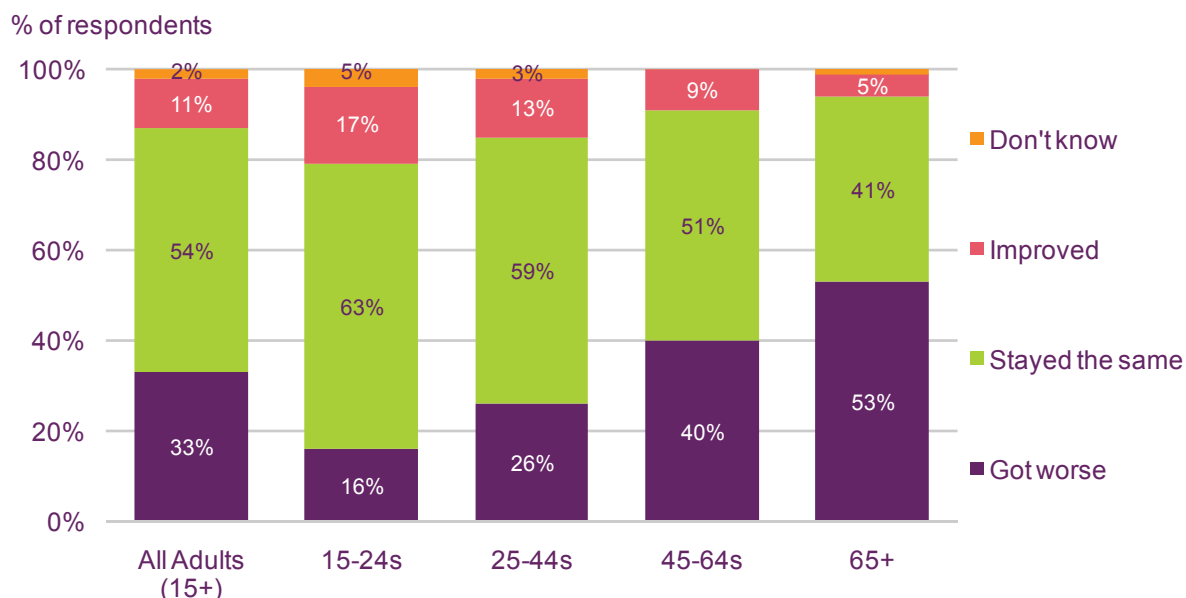
Source: IPSOS MediaCT

Base: all GB adults 15+ interested in owning an iPad (n=521)

2.4.11 Consumer attitudes towards television

Ofcom research, carried out in April and October 2009, found that the majority (54%) of adults felt that TV programmes had neither improved nor worsened in quality in the past year. A third of respondents (33%) felt that standards had 'got worse', and 11% said that standards had 'improved' during the course of the year (Figure 2.96). The proportion who felt that content had worsened rose with age, with the majority of viewers (53%) in the 65+ group more than three times more likely than those aged 15-24 to state that programming had deteriorated (53% versus 16%). The reverse was true for those believing that programming standards had improved, with 17% of 15-24 year olds expressing this view, against just 5% of over-65s.

Figure 2.96 Consumer attitudes towards television programme standards, by age, 2009

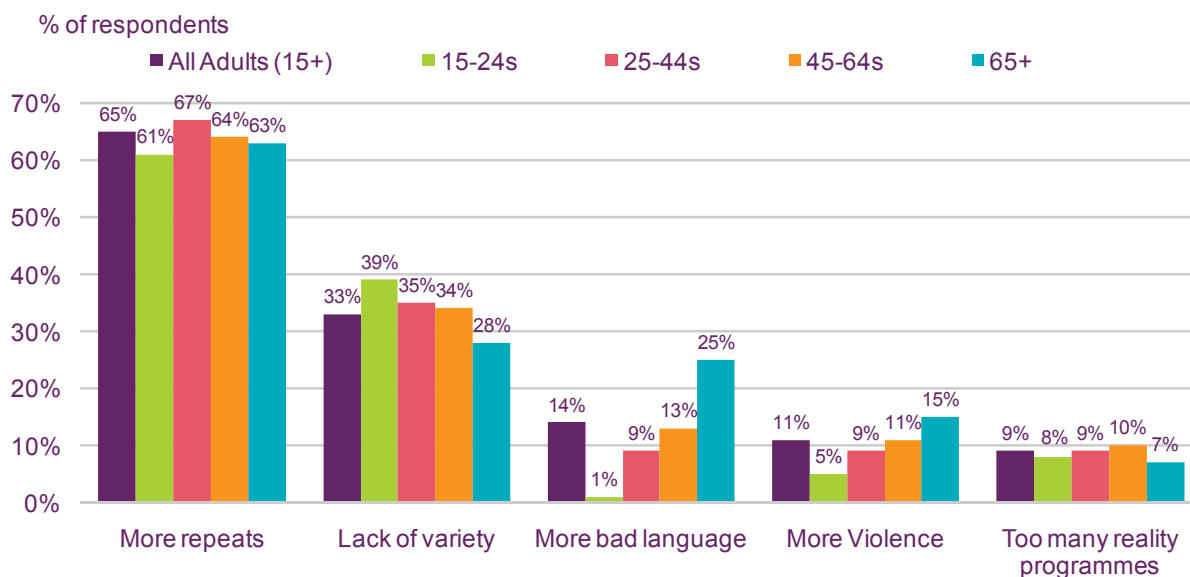


Source: Ofcom 2009 Media Tracker survey. Fieldwork carried out by Continental Research, April and October 2009. T50 – Do you feel that over the past year, television programmes have improved, got worse or stayed about the same? Base: All adults aged 15+ (2044) (344 aged 15-24, 749 aged 25-44, 626 aged 45-64, 325 aged 65+)

Of those surveyed who felt that programme standards had worsened, 65% cited an increase in the number of repeats as their reason, with only minor variations across the age groups. 'Lack of variety' ranked second, a view held by a third (33%) of respondents.

The third most-cited reason was 'more bad language' (14%), although this response was much more common among respondents aged 65+ (mentioned by 25% of this group). Similarly, the consumers in the oldest group were more likely to mention 'more violence', at 15% compared to 11% overall.

Figure 2.97 Reasons why viewers thought TV programme quality deteriorated, 2009

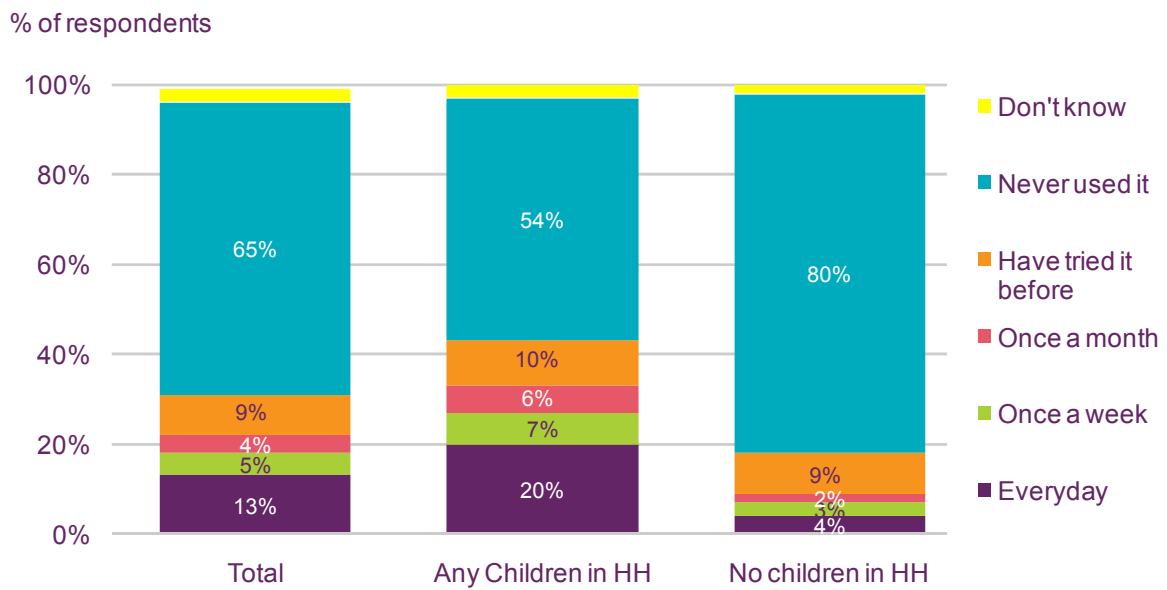


Source: Ofcom 2009 Media Tracker survey. Fieldwork carried out by Continental Research, April and October 2009. T52 – In what ways do you think the television programmes have got worse over the past year? Base: All adults 15+ saying programmes got worse over past year (676) (56 aged 15-24, 197 aged 25-44, 249 aged 45-64, 174 aged 65+).

*NOTE: Sample size for 15-24s extremely small – results to be used only for indicative purposes.

Figure 2.98 shows that of those TV viewers who are able to block access to certain television channels, 65% claimed they had never done so. Those without children in their households were more likely to say that they had never used this functionality than parents/guardians with children in the household (80% against 54%). One-fifth (20%) of those with children in the household claimed to use the device every day, compared to just 4% of those without.

Figure 2.98 PIN/password-protected TV, 2009



Source: Ofcom 2009 Media Tracker survey. Fieldwork carried out by Continental Research, April and October 2009. T71 – How often, if at all, do you use this system?