

**DISCOVERY NETWORKS UK RESPONSE TO OFCOM'S SECOND PUBLIC SERVICE
BROADCASTING REVIEW:
PHASE TWO: PREPARING FOR THE DIGITAL FUTURE**

Introduction

Discovery Networks UK (DNUK) is pleased to engage in the ongoing debate regarding the future shape of UK public service broadcasting and indeed in the wider debate of the sustainability and competitiveness of the UK broadcasting industry. In this regard, we applaud the new Broadcasting Minister Lord Carter for seeking to create the right environment for Digital Britain “as the leading major economy for innovation, investment and quality in the digital and communications industries” and for looking at the current global economic crisis as an opportunity to refresh the approach to PSB and make it more consistent with market realities.

Our submission to Phase 2 builds on our previous response to the First Phase of this review. Essentially, DNUK had expressed support for the funding scheme suggested in Model 4 of the first consultation (refined as Model 3 in the current consultation) as an optimum competitive means to raise the bar for excellence and to create a level playing field for the development of quality UK programming. We continue to support our previous assertion that OFCOM would be doing a disservice to consumers in simply incentivizing existing PSBs to create innovative and quality programming. Why not encourage all voices, rather than a subset, to create such programming.

For this submission, DNUK has refined its thinking on an effective contestable fund and offers its vision for the main principles behind such a scheme as well as an outline of how it could work in practice. Further, we have commissioned various pieces of research to underpin and better inform our proposals for the competitive fund and for other incentives in particular regulatory assets and EPG prominence.

Discovery – a PSB-like broadcaster

Discovery's heartland is factual programming, with eleven UK channels focusing on quality factual programming across a range of genres including science, history, lifestyle, education, natural history and engineering. Discovery's mission statement is "to satisfy curiosity and make a difference in people's lives by providing the highest quality content, services & products that entertain, engage and enlighten". Indeed, our mission encapsulates the essence of Ofcom's PSB purposes and characteristics.

Ofcom recognizes the broad range and diversity of services that purely commercial channels now offer and the role the commercial pay market will play in the successful transition to a digital environment. We agree with Ofcom that we are now in a truly mixed economy for digital content and that there is a considerable body of material produced by the market that meets public purposes while not everything that the "public service broadcasters" put out does so. ¹

Discovery's contribution has been recognised by Ofcom which has often referred to Discovery as a "PSB-like broadcaster". Ofcom's audience research, annexed in the first phase of this consultation, associates Discovery spontaneously with high quality "public service" content. In that research, respondents were asked to rate channels on 16 key PSB characteristics, 13 of which applied to Discovery. Of these, Discovery scored top in 8 of the categories, including: "Well made high quality programmes", "Programmes with new ideas and different approaches", "Programmes make me stop and think", "As a result of watching become more interested in subjects" and "Entertainment and factual programmes show people from different parts of the UK". Further, Discovery was the second highest rated channel in 2 of the categories and third in the remaining 3. ²

¹ Lord Currie, "Some inconvenient truths". Speech given at London Business School, July 2008

² Ofcom's Second Public Service Broadcasting Review; Phase One: The Digital Opportunity. Annex 6, pp 126-127

Further, Discovery has conducted a survey covering a sample of over 1000 nationally representative adults to canvass spontaneous opinions on a number of issues of relevance to the PSB debate.

Some of the relevant findings are as follows:

- Trust is a factor in viewing a programme for 57% of all respondents to the survey
- Discovery is the most trusted commercial digital network, ranking higher than any other Pay TV network and Five
- Discovery Channel has the highest rating for quality amongst the commercial digital channels measured
- Men rate Discovery Channel a higher quality channel than all terrestrials bar the BBC
- TV viewers believe that the quality of Discovery Channel is on par with terrestrial broadcasters, BBC2 and Channel 4 and higher than Five

A significant portion of DNUK programming is UK originated. Salient examples of shows displaying UK PSB values include: *The Big Experiment*, *UKs Toughest Jobs*, *World's Lost Tribes*, *How Do They Do It*, *Nasa's Greatest Missions*, *Best of British Engineering*, *Accident Emergency*, *Unsolved History*, *Barn Free*, *Portland Babies*, *Home Birth Diaries*, *Tommy Walsh's Green Homes* and the forthcoming landmark series to commemorate the 70th anniversary of World War II, *Britain at War*. Such quality, factual programming was once the sole purview of UK's PSB channels but commercial channels like Discovery are now making a very significant contribution and have been rated highly by audiences on delivery of a range of PSB characteristics, especially quality, trust and engaging programmes. Significantly, PSBs like the BBC, Channel 4, and Five acquire series from Discovery, including: *Mythbusters*, *Deadliest Catch* and *Bear Grylls: Born Survivor* to run on their own channels because of the perceived PSB quality of the programmes.

In this regard DNUK commissioned a piece of research from Attentional (see in Annex 1) to identify types of programming with PSB value shown on the Discovery channels in the UK

and compare that Discovery's output and viewing in various genres to that of the four PSB broadcasters. The research looked at the period between January and September 2008.

It subdivided the factual programming on Discovery channels into ten subjects; Science/Earth Science, Technology/Invention, Archaeology/Palaeontology, History, Natural History, Architecture/Buildings, Human Science/Medical, Parenting/Childcare, Geography/Environment/Ecology and Diet/Fitness/Health. These prevalent Discovery microgenres embody Ofcom's PSB purpose of stimulating interest in and knowledge of arts, science, history etc. through informal learning while remaining high quality, challenging and engaging. Crucially, these microgenres fall in the category of specialist factual programming that Ofcom's research states is likely to come under pressure in the short to medium term.³

In the Science/Earth Science genre, for instance, the research found:

- Discovery showed 1,407 hours of programming with a Science/Earth Science theme in the first nine months of 2008, more than ten times the amount shown on existing PSB channels.
- The average viewer in CabSat homes watched 57 minutes of Science/Earth Science programming on Discovery channels in this period – 17 minutes more than they watched on PSB channels
- In total, 8.6 million viewers in CabSat homes watched some Science/Earth Science programming on Discovery channels in this period. This included 4 million viewers who did not watch any Science/Earth Science programming on the PSB channels during this period (13% of all CabSat viewers).

Ofcom acknowledges that one of the core principles underlying the concept of PSBs -- universal access to public service content -- may no longer be a concept that is suitable for a world of multiple platforms and fragmenting audiences. Indeed "the use of paid-for platforms

³ Ofcom's Second Broadcasting Review; Phase Two: Preparing for the Digital Future; par. 6.7, Page 87.

and services to deliver some public service content is appropriate if those platforms can deliver greater reach and impact among a particular target audience than free-to-view platforms do”.⁴ While Discovery will shortly be launching a channel on Freeview, we do think there is some merit to having a broader discussion as to the benefits of applying contestable funding to all commercial multichannel broadcasters.

A contestable model

The concept of contestable funding in the content market is nothing new. There are a number of examples across the world where contestability has proved successful in increasing local production investments. These funding models are not only good governance, they are non-bureaucratic, efficient structures that have given broadcasters the confidence and incentives to continue investing in those markets. It is not a major departure from models closer to home either. UK major broadcasters operate on a contestable basis when commissioning programming and indeed Channel 4 was set up on this model in 1982 with an available fund of £80 million allocated for content creation with a specific set of purposes.

Case studies

Discovery, as the global broadcaster with the widest distribution worldwide, would like to share some of its experience with various funding schemes as it may be helpful to inform the UK debate. Contestable funding for media is conducted in many ways in global markets – but for most countries the goals are the same: ensure the growth of a robust local media industry, promote local culture and talent and export cultural content whenever possible.

In Australia, for instance, the Travel and Tourism boards seek out media companies that will export their cultural messages to other world markets. Influenced largely by the Ministry of Culture, the Tourism Boards work closely with media companies to identify stories on the life, people, and geography of a region that make for compelling content that will be interesting to television viewers in other markets.

⁴ Ofcom's Second Broadcasting Review; Phase Two: Preparing for the Digital Future. "Principles of availability for public service content", Figure 13, page 48.

In Singapore, the government actually has given a budget to the local broadcasting regulator, the Media Development Authority (MDA), to fund a scheme that will incentivise media companies to produce made-in-Singapore content that will then be exported globally. The MDA manages a model incentive programme that has helped position Singapore as the central media hub in Southeast Asia. The MDA funding schemes are tied closely to the goals of the country's Economic Development Board. Its Screen contestable fund is essentially a co-production scheme where the MDA will match the investment put forward by the media company as part of a co-investment deal. The funding is allocated for a period of time and milestones and reporting deadlines are agreed to as part of the accountability process. Some of the key criteria for agreeing to fund a particular project is the possession of a large enough distribution network and the ability to provide returns on the investment for the local economy in a variety of ways i.e. cash, IP value, creation of jobs, infrastructure etc. Its main advantages are its flexibility and efficiency i.e. contracts are based on a negotiation within the general parameters set by the MDA and the system relies on a lean and swift administrative application process. In fact the MDA is constantly adapting and seeking to bridge market gaps. Indeed new funding schemes have recently been launched to incentivise local interactive digital media start-ups and companies in order to better position Singapore to tap into the growth of digital media across Southeast Asia.

Discovery has participated in a number of these media funds, and they all have benefits that are reflected in the robust media growth in those markets and are a testament to how effective contestable funding can be in achieving media policy and cultural goals. It is sometimes perceived that they such schemes can be bureaucratic and unwieldy and that is not our experience. It seems that the procedures necessary to gain approval for any funding mechanism are no more onerous than any commercial company may need to go through to persuade its shareholders to make additional investments.

The case for contestability in the UK

For some time the reach of the PSB channels has been declining, as has the volume of viewing that is achieved by PSB channels. Between 2003 and 2007 the share of the main

five channels has fallen by 17% and the decline is much greater amongst 16-24 year olds and amongst ethnic minority groups. These important audiences turn to digital channels and the internet as their first choice for public service content.⁵ As audiences fragment, this phenomenon is likely to increase and extend to other audiences over time. It is unlikely that PSB broadcasters will be able to address these lost audiences either by reclaiming share on the PSB channels or by setting up more specialized channels. Further, if the PSBs continue to create more and more niche outlets there is a great risk of neglecting their core PSB outlets and of crowding out the market in these specialist areas.

However, a contestable funding scheme, which places PSB programming on channels and outlets outside the main PSB networks, could allow PSB content to increase its reach. A funding mechanism that broadens the range of PSB-like channels and programming choices, ensures that more viewers will be served by public service content than under the existing funding scheme of specifically allocated PSB funds for certain PSB designated channels. Further, as stated in our first submission, DNUK believes that contestability would incentivise broadcasters to produce high quality programming and would raise the quality bar through a plurality of providers having equal access to the funding.

DNUK believes that any system of contestable funding must meet a number of characteristics to be effective and gain broad acceptance:

- support should go to broadcasters/aggregators who can maximise reach and impact and demonstrate specific salience with key audience groups or target genres;
- support should be afforded to broadcasters/aggregators whose mission is consistent with PSB objectives;
- the funding system should be flexible and able to accommodate innovation in PSB and adapt to trends in viewers' behaviour;
- the support should be deliberately designed to address perceived gaps;

⁵ Ofcom's Second Public Service Broadcasting Review; Phase One: The Digital Opportunity. Par. 1.11, page 4

- the new funding system should build on the successful ways in which the UK broadcasting system commissions high quality content.

Accountability, transparency, proportionality should be the key features of any funding body. To this end, DNUK commissioned the consulting firm Perspective to examine the issue of contestable funding and create a model that merits consideration and wider debate. Perspective has indeed come back with a proposal that is creative, intriguing and should be considered as a serious proposal in the overall discussion of contestable funding. The proposal is attached as Annex 3 to this submission.

In summary, Perspective would introduce contestable funding into the UK PSB system using the concept of BBC co-production partnerships. Under this model, the BBC would use its funds and mandated remit to public service content to support the creation of new content for first-screening on non BBC outlets. The BBC would manage dispersal of the funds and have responsibility to ensure specific public service goals are established and met. Co-production is suited to the production of PSB content as it is an established and well-understood mechanism for defining shared interests e.g. *Planet Earth* was a co-production of the BBC and Discovery.

A major advantage to this proposition is that the BBC, the cornerstone of UK PSB, would be central to this scheme and would rely on existing licence-fee monies rather than on additional public money or direct taxation. The BBC seal would certainly give the scheme legitimacy and public acceptability. This model would also draw on the BBC's practical partnerships pledge that can make an economic difference to the sustainability of the UK PSB ecology. Further it would create an incentive for broadcasters to create compelling, quality, PSB content.

For further discussion of the scheme and how it would operate, please see Annex 3.

EPG prominence and other incentives

DNUK also believes that there are other relatively cost free incentives from the public purse which may be offered to broadcasters committed to UK PSB programming and which may complement the contestable fund above with a view to maximising reach, impact and discoverability as well as meeting audience expectations. These would include primarily the use of regulatory assets such as EPG prominence.

Discovery has commissioned, also from Attentional, some bespoke research, and (see full results in Annex 2) to demonstrate how public service content discoverability and reach could be enhanced on the existing DTH and cable platforms through simple and economical solutions like greater prominence on the EPG listings.

The BARB measured channels in the Entertainment sections of the DTH and Cable EPGs account for 70.3% of viewing. The 5 terrestrial channels at the top of the Entertainment section (and the EPG as a whole), accounted for 47% of viewing. All channels in the Documentaries sections accounted for 2.8% and Lifestyle & Culture accounting for 1.9%.

Our analysis shows that, within all the main SKY EPG genre sections, there is a statistically significant negative correlation between a channel's performance and its position on the EPG whereby channels further down a given genre section generally do worse than those near the top. In addition, the research also analysed major moves into and out of prominent positions within the Entertainment, Documentaries and Lifestyle & Culture sections of the Sky EPG and was able to establish statistically significant impacts on channel performance.

Accordingly the transfer of all Lifestyle channels from relatively prominent positions in the Entertainment section to the newly created Lifestyle & Culture section in February 2006 also had a very significant negative impact on their performance. The research notes that these channels were heavily reliant on their ability to capture EPG browsing viewers; an ability severely curtailed when moved from their prominent positions in the Entertainment section to the new Lifestyle & Culture section. Since then, the Lifestyle & Culture section has consistently proved to be the least popular of the major genre channel options, severely

curtailing the ability of the Discovery Lifestyle channels to achieve significant reach and impact for its PSB-like programming.

Other regulatory incentives could also include a reallocation of spectrum capacity from some PSBs, who may choose to pursue purely commercial activities in the future, while providing a relatively low cost mechanism to enhance the reach and impact of DNUK programming.

With regards to the other funding models set out by Ofcom, DNUK does not favour any option over others. DNUK would nevertheless like to share the relevant results of our online survey quoted above regarding attitudes towards funding and licence fee:

- Almost 72% of all respondents thought the license fee should be available for companies other than the BBC to bid for
- This rises to 80% amongst 18-34 year olds
- Of those respondents who agreed that a percentage of the licensee fee should be put aside for this use, the average amount of all responses was 35%
- This increased to 40% for viewers in the North West
- 67% of respondents believe they should not have to pay the licence fee if they subscribe to a pay TV service
- 50% of respondents who receive only a terrestrial service still think that consumers should not have to pay the licence fee if they pay for a TV service

DNUK strongly advises Ofcom, the Government and Parliament to take a holistic approach in reaching decisions in this area and consider related ongoing policy initiatives like new rules on advertising (RADA review), possible product placement allowances, the activities of the commercial arm of the BBC as well as PSB's ventures into new media markets.

Conclusion

Finally, DNUK supports Secretary of State Andy Burnham's plea for the industry to come together and work in the best interest of viewers. DNUK is certainly doing its share in this regard. It is our view that the interests of viewers are best served by having access to a wide

range of public service content from a set of providers (traditional and new entrants) through a competitive system. A contestable funding scheme is the most efficient and flexible mechanism to provide value for money to the tax payer and adapt to consumer expectations in this very challenging financial environment. Such a scheme will ensure sustaining the current production volume of UK public service content as well as delivering viewers who are searching for that content across a wide range of channels and platforms. Further, we endorse the resolve supported by the Minister of Communications, Technology & Broadcasting, Lord Carter, to make “swift” decisions in the New Year. This will provide all players with the necessary certainty to invest in high quality original programming for the benefit of UK consumers and citizens in order to secure the long term future of the UK creative industries and its crucial place in the UK economy.