Channel 4 submission – Code on the Scheduling of Television Advertising - Call for Evidence (Ofcom)

Public response (with redacted commercial information)

October 2022

Key points

01	The broadcast landscape has fundamentally changed in the 30 years since the minutage rules were last updated
02	Changing dynamics in the TV market are increasing the cost of advertising, and minutage restrictions are accentuating these inflationary pressures
03	Harmonising advertising minutage will improve the health of broadcast advertising through increasing supply – this will help tackle inflation in TV advertising pricing
04	Increasing minutage will have minimal impact on viewers, but must be carefully communicated
05	Harmonising minutage will facilitate operational efficiencies for PSBs
06	Changes to the minutage rules will require careful implementation

Summary of proposals (context)

Ofcom – Call for Evidence - Regulating the quantity and scheduling of television advertising on public service channels

<table>
<tr><th>Advertising rule</th><th>PSB channels</th><th>Non-PSB channels</th><th>Proposed change</th></tr>
<tr><td>Amount of advertising per hour</td><td>On PSB channels, time for television advertising and teleshopping spots must not exceed: 1) an average of 7 minutes per hour for every hour of transmission time across the broadcasting day; and 2) an average of 8 minutes per hour between 18:00 and 23:00 and no more than 12 mins of television advertising in any hour.

Peak = 40 mins

Total = 168</td><td>Non-PSB channels must show no more 12 minutes of television advertising and teleshopping spots for every hour of transmission across the broadcasting day, of which no more than 9 minutes may be television advertising.

Peak = 60 min

Total = 216 mins</td><td>All PSB and non-PSB channels would be subject to the same limit of showing no more than 12 minutes of television advertising and teleshopping spots for every hour of transmission across the broadcasting day, of which no more than 9 minutes may be television advertising.</td></tr>
<tr><td>Advertising break duration</td><td>Advertising breaks during programmes on PSB channels may not exceed 3 minutes 50 seconds, of which advertising and teleshopping spots may not exceed 3 minutes and 30 seconds.</td><td>No restrictions</td><td>Harmonise rules to remove PSB break duration restrictions</td></tr>
<tr><td>Number of permitted advertising breaks per programme based on schedule duration</td><td><table><tr><td>Scheduled duration (mins)</td><td>Number of breaks</td></tr><tr><td>21 – 44</td><td>One</td></tr><tr><td>45 – 54</td><td>Two</td></tr><tr><td>55 – 65</td><td>Three</td></tr><tr><td>66 – 85</td><td>Four</td></tr><tr><td>86 – 105</td><td>Five</td></tr><tr><td>106 – 125</td><td>Six</td></tr></table></td><td><table><tr><td>Scheduled duration (mins)</td><td>Number of breaks</td></tr><tr><td>< 26</td><td>One</td></tr><tr><td>26 – 45</td><td>Two</td></tr><tr><td>46 – 65</td><td>Three</td></tr><tr><td>66 – 85</td><td>Four</td></tr><tr><td>86 – 105</td><td>Five</td></tr><tr><td>106 – 125</td><td>Six</td></tr></table></td><td>Harmonise rules and apply non-PSB break restrictions to PSBs.</td></tr>
<tr><td>Teleshopping windows</td><td>On public service channels, teleshopping windows may be scheduled only between 00:00 and 06:00.</td><td>No restrictions when teleshopping windows can be scheduled on non-PSB channels</td><td>Remove restrictions on teleshopping windows for PSBs</td></tr>
</table>

Introduction and why this call for evidence matters to Channel 4

Channel 4 is a public service broadcaster (PSB), freely available to all of the UK, and we operate the UK's biggest free digital streaming service All 4. Channel 4 was created to be a radical, innovative force in UK broadcasting, challenging the status quo and giving a voice to the underrepresented, all at no cost to the taxpayer.

Our unique model – publicly-owned and entirely commercially-funded – means that we are able to offer distinctive British content reflecting communities across the UK. As a publisher-broadcaster, we play a hugely important role in the success of the UK's creative industries, investing in and supporting the growth of the independent production sector and pioneering digital innovation. We work with around 300 creative companies across the UK every year.

Channel 4 has a statutory responsibility (our remit) to reach young, diverse, and underserved audiences. We have the youngest-skewing public service channel in the UK and we reach more 16-34-year-olds than any other commercial broadcaster across streaming and TV. Increasingly, these audiences are accessing content online via on-demand and social platforms, and Channel 4 has a major focus on our digital strategy to deliver public service content to these audiences.

The majority of Channel 4's funding comes from advertising and we play a critical role in drive reach for advertisers across the UK. Advertisers value Channel 4 as we have a unique heritage of communicating with audiences who generically watch very little (light viewers), young adults, and hard to reach audiences.

- Channel 4 has the strongest profile of 16-34 year olds, indexing 27% higher than the total commercial TV market.
- 80% of 16-34 year olds and 16 24 year olds are registered on our on demand service All 4.
- Channel 4 has a monthly reach of 64% against any ethnic minority and an average weekly reach of 55% of Black Caribbean audiences and 47% against Indian audiences.

Channel 4 welcomes Ofcom's timely call for evidence on advertising minutage. A healthy, competitive advertising ecosystem is essential for PSBs and non-PSBs.

The broadcast landscape has fundamentally changed in the 30 years since the advertising minutage rules were last updated with the rise of on-demand services, the growth of commercial channels, and fierce competition in the broadcast advertising market

Channel 4 welcomes Ofcom's call for evidence on advertising minutage rules which set out the scheduling restrictions on television advertising for PSB and non-PSB channels. These rules, which were formalised in 1991, currently allow non-PSB channels to carry more advertising minutage than PSB channels, both across the day and during peak hours. The table below shows the key aspects of the current minutage rules.

	PSB channels	**Non-PSB channels**
Total advertising mins allowed per 24 hours	168 mins (and no more than an average of 12 mins per hour)	216 mins (and no more than an average of 12 mins per hour)
Peak-time ad mins allowed	40 mins	60 mins
Break length	Advertising breaks during programmes on PSB channels may not exceed 3 minutes 50 seconds	No restrictions

The rationale for differentiating advertising minutage in the early 1990s was clear: to support growth and competition in a burgeoning non-PSB commercial market. These rules have played their part over the course of three decades in helping stimulate a thriving UK commercial broadcast market. The market context is now fundamentally different and it is right that Ofcom carefully reviews the rules again, as the regulator did in 2011 and 2015.

Channel 4's view is that the growth and competition that the rules were designed to foster has been successful. There is now an abundance of choice for consumers with over 480+ non-PSB channels.[1] There is strong competition between

[1] Sky EPG TV channels

PSB and non-PSB channels with the latter increasing their share of commercials impacts (SOCI) from 28% in 2002, to 61% in 2022 (Figure 1).[2]

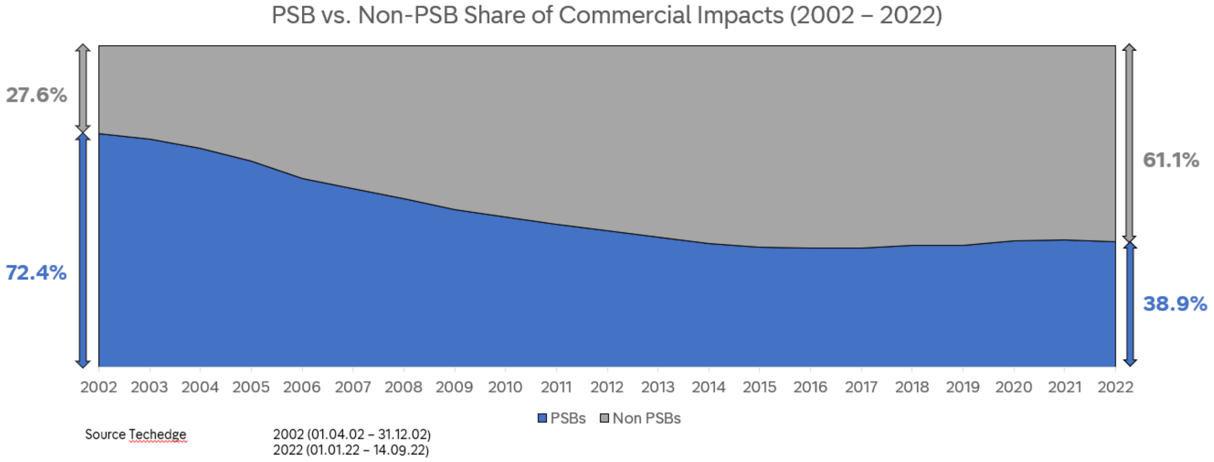


Figure 1.

Additionally, the rise of video-sharing platforms (VSPs), broadcast VoD (BVoD), and subscription VoD (SVoD) services, has intensified competition for viewing. Fast-growing VSP services such as YouTube are key players in the digital advertising market generating record global revenues[3], all the while they are subject to no minutage restriction. While we are not advocating for further minutage restrictions in the digital advertising market, it is important context for PSBs who are competing with these services for viewer attention.

Additionally, new entrants into the SVoD market, which three quarters of households now use,[4] and also have no minutage restrictions will further increase competitive pressures for PSBs. Global players, such as Netflix and Disney+, are likely to start carrying advertising tiers on their SVoD services as early as Q4 2022.[5]

As highlighted by Ofcom in its Call for Evidence, it was identified at the introduction of these rules that there is a risk "over time, the difference between the rules applying to the PSBs and non-PSBs could be held to constitute an unfair competitive advantage."[6] Channel 4 believes this is now the case and that the rules should be modernised. We think the evidence demonstrates that the market context has changed significantly and the rationale for the current restrictions, principally to promote growth in the commercial market, is no longer a compelling factor.

The broadcast advertising landscape is thriving with strong competition between PSBs and non-PSBs. However, PSBs are competing on an uneven playing field which is no longer justified. At a time when competition in the market is set to further increase, it is right that Ofcom carefully considers whether market conditions now justify these rules, whether they are unduly penalising PSBs, and the potential impact on the linear market and viewers.

Changing dynamics in the TV market are increasing the cost of advertising, and minutage restrictions are accentuating these inflationary pressures

UK broadcast TV remains a powerful medium for reaching mass audiences and generated record revenues in 2021 of £5.46bn[7]. However, against this backdrop the broadcast market is undergoing well documented structural changes in viewing. In 2010, there were 868 billion adult impacts, whereas in 2021 there were 756 billion adult impacts.[8] This gradual decline in linear viewing is fuelling inflationary pressures in the cost of advertising. According to the ECI Media Management Inflation Report, the price of TV slots increased 32% YoY in 2021.[9]

As highlighted by leading industry figures, TV advertising inflation is "the biggest challenge for media buyers right now."[10] The pressure on pricing is reducing the cost-effectiveness for advertisers and media agencies, particularly as other forms of media, such as outdoor and print, aren't facing the same inflationary pressures.

[2] Tech Edge, PSBs include ITV, Channel 4, Channel 5, and S4C. All other channels are included in non-PSB data.
[3] https://www.campaignlive.co.uk/article/youtubes-ad-revenue-growth-decelerates-substantially-q1/1754128
[4] Ofcom Tech Tracker 2021
[5] https://www.theverge.com/2022/8/26/23324142/netflix-is-getting-ads-price-streaming-tv-movies
[6] ITC Rules on Advertising Breaks, January 1991
[7] https://advanced-television.com/2022/03/09/data-record-year-for-uk-tv-advertising/ (this includes VoD advertising revenues)
[8] https://the-media-leader.com/the-price-and-value-of-tv-advertising
[9] https://www.thedrum.com/news/2022/03/07/tv-ad-price-inflation-keeping-media-buyers-up-night
[10] https://www.thedrum.com/news/2022/03/07/tv-ad-price-inflation-keeping-media-buyers-up-night

Against this backdrop of inflationary headwinds, there are tools in Ofcom's arsenal that could help to alleviate the pressure on TV advertising. The current advertising minutage rules are limiting the supply of TV advertising into the linear market, and consequently are accentuating inflationary pressures in the linear market by restricting supply. Therefore, harmonising minutage across PSBs and non-PSBs could have a positive deflationary impact on the market which we will outline in the next section.

On top of the changing dynamics in the TV market is the impact of incoming watershed advertising restrictions which are likely to intensify inflationary pressures. The HFSS watershed ban is expected to take £200m of revenue out of the TV advertising market.[11] These restrictions will add additional inflationary pressure to the price of TV advertising as advertiser demand will be further concentrated post 9pm.

As an organisation we fully recognise the pressures on linear advertising and that is why our Future4 strategy, which focuses on digital and BVoD growth, is designed to offset declines in linear advertising revenue and diversify our revenue streams. Our Future4 strategy is seeing strong success with a record 1.5bn views of All 4 in 2021, representing 21% YoY growth. Channel 4 is excelling at growing its digital revenues with a record £224m in 2021 (40% YoY growth).

Harmonising advertising minutage will improve the competitiveness of TV advertising market through increasing supply - this will help tackle inflation in TV advertising pricing

Increasing PSB advertising minutage to the same levels as non-PSBs would increase supply into the broadcast advertising market. Our modelling indicates that if the rules were adjusted to harmonise minutage across the PSB and non-PSB market we expect overall commercial impacts to increase by 9.7%. This increase in commercial impacts combined with the trend of linear advertising revenues staying flat would lead to an **overall 8.8% deflation in TV advertising pricing.**[12]

This deflationary impact would benefit the whole of the linear advertising market. It ensures TV advertising remains competitive for advertisers compared to other forms of media, such as outdoor and print, and could potentially lead to greater investment in the market overall as CPT pricing reduces.

Increasing minutage will have minimal impact on viewers, but must be carefully communicated

As Ofcom considers these proposals, it is vital that the potential impact on viewers is carefully considered. Engaging viewers in high quality programming is at the heart of Channel 4's purpose. It is certainly not in our interest to lose viewers or weaken the overall broadcast ecosystem. Advertisers strongly value young adults, and 'light touch' viewers (individuals who do not watch a lot of television) that our channel has a regulatory obligation to reach and continues to deliver. Channel 4 has the strongest profile of 16-34 year olds, indexing 27% higher than the total commercial TV market. Our research shows that the increased advertising minutage on non-PSB channels does not have a significant impact on average viewing audience. While PSBs channels enjoy more engaged audiences over the course of a programme, it is only 1% higher than non-PSB channels.[13]

Channel 4 believes the impact on viewers can be well managed and minimised, particularly as the majority of television viewers are already acclimatised to the proposed minutage adjustments (in 2021, 60% of commercial viewing was for non-PSB channels).[14] Indeed, Channel 4's other portfolio channels such as E4 and Flim4, are subject to non-PSB advertising minutage rules and continue to be popular with viewers. Crucially, these audiences are already used to higher levels of minutage with 92% of viewers for non-PSB channels also watching at least one PSB channel.[15]

[11] https://www.thedrum.com/news/2020/07/27/advertising-trade-bodies-united-distaste-junk-food-tv-and-online-ad-ban
[12] Channel 4 data
[13] BARB/Advantedge, May 2022, Avg Aud and Avg mins, Net vs. Gross, PSB = C4+C5, Non PSB = all other commercial channels, ITV 1 excluded)
[14] Tech Edge
[15] BARB/Techedge – June-Aug 222, dynamic target non-PSB. Reach criteria 3 mins or more

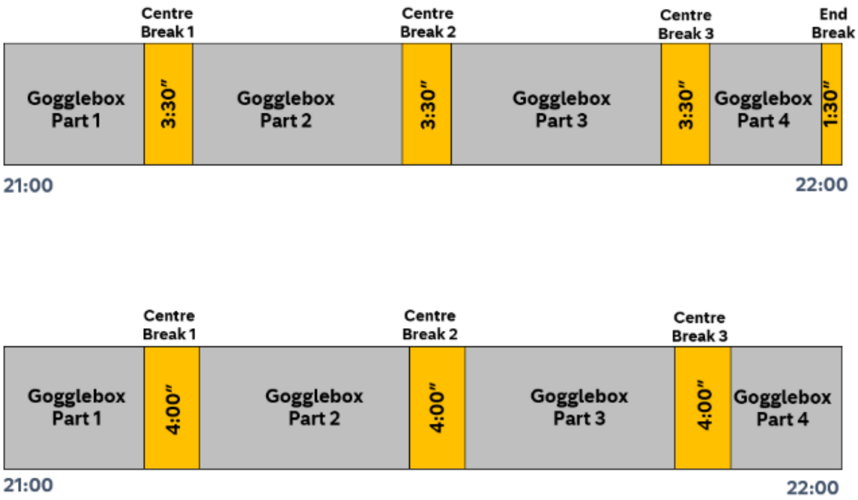
When considering the proposals it is vital to highlight that changes would not impact mass audience, high reach programmes in peak as these often already use the maximum 12 minutes of minutage. As highlighted in Figure 4[16], the majority of viewing for Channel 4 (63%), occurs during peak hours.

Under the current rules, Channel 4 often already uses 12 mins of advertising for mass audience, high reach programmes such as Googlebox and Bake Off.

C4(TOTAL) Daypart	Ads 16+ Avg Aud 000s '000 (AVG)
0600 - 0659	49.8
0700 - 0759	80.8
0800 - 0859	109.6
0900 - 0959	173.3
1000 - 1059	175.7
1100 - 1159	172.8
1200 - 1259	172.4
1300 - 1359	207.8
1400 - 1459	302.0
1500 - 1559	371.9
1600 - 1659	496.4
1700 - 1759	500.8
1800 - 1859	437.8
1900 - 1959	698.4
2000 - 2059	1350.9
2100 - 2159	1633.6
2200 - 2259	730.1
2300 - 2359	368.7
2400 - 2459	177.6
2500 - 2559	101.1
2600 - 2659	59.8
2700 - 2759	46.4
2800 - 2859	47.0
2900 - 2959	46.3

Figure 4

A change in the minutage rules would actually mean *fewer* advertising breaks during these programmes as end breaks would be removed and there would be a slight increase (30 seconds) during other breaks (Figure 5). The proposed rules would simply mean advertising time being optimised, instead of more advertising breaks.



Current minutage rules

Figure 5

This graphic shows how mass audience, peak time programmes could be adapted under new minutage rules.

Proposed minutage rules

Our modelling suggests that that, for our main channel, the majority of extra minutage would be placed in programming outside of peak-hours, further minimising the impact on viewers. This is in line with our advertising scheduling on our portfolio of channels. As highlighted earlier, the extra minutage in early peak and at the 'top and end' of the day will have a deflationary impact on CPT pricing which benefits all advertisers.

If Ofcom decides to proceed with these proposals, there is an important role for both the regulator and PSBs in communicating these changes to viewers. Currently, there is a general understanding by the UK public that some channels play more ads than others. In recent audience research, 60% of respondents recognise that broadcast channels have different amounts of adverts. [17] However, viewers already overestimate the amount of TV advertising on PSB channels. The same research found that 71% of respondents think that there are more than 168 minutes of advertising time on TV channels in the UK per day and 45% of respondents think there is more than 216 minutes of advertising per day on TV.[18] Clearly communicating to viewers that these changes would bring parity with other channels will be essential to ensuring audiences understand the rationale and are well informed about the changes.

[16] Channel 4, Sept 21 – Aug 22, Ads 16+, Avg 000s
[17] OnePulse, UK Adult Sample, n=500, survey live 23/9-25/9 2022
[18] OnePulse, UK Adult Sample, n=500, survey live 23/9-25/9 2022

Harmonising minutage will facilitate operational efficiencies for PSBs

All of the PSBs have non-PSB channels within their portfolios which have to manage two sets of advertising minutage rules in order to make efficient commercial returns. Currently, Channel 4 produces slightly different lengths of programmes in order to account for different minutage rules. Harmonising advertising minutage rules would lead to contractual and operational efficiencies as we would produce a single version to run across our main and portfolio channels.

Changes to the minutage rules will require careful implementation

As Ofcom considers adjustments to the minutage rules, it is important to highlight that any changes will require considerable lead time to allow both PSBs and non-PSBs time to prepare and certainty for market players. It is important for Channel 4, particularly given our publisher-broadcaster model, there is clarity and certainty for our contractual relationship with independent producers. In particular, PSBs will need time to adjust production and commercial contracts to take into account increased advertising minutage.

We understand Ofcom will undertake another formal round of consultation if minutage rules are to be adjusted which we strongly support. We suggest that following this consultation there is a significant lead time or a staged implementation process.