

Ofcom call for evidence: Regulating the quantity and scheduling of television advertising on public service channels

ITV plc response

Summary

ITV plc welcomes this opportunity to respond to Ofcom's call for evidence on its approach to regulating the quantity and scheduling of television advertising on public service channels.

Ofcom, Government and both houses of Parliament have affirmed in the past 18 months the crucial importance of a PSB system of scale and impact in the UK, making a major contribution to UK culture, democracy and the UK creative economy. It is the PSBs that are rooted in this country offering content that speaks directly to the experience of life in the UK as a whole. All the evidence shows that audiences continue to consume PSB at scale and value it deeply. In parallel, however, those same institutions (Ofcom, Government and Parliament) have also warned about serious threats to the future sustainability of PSB without significant reform of the existing PSB framework.

One area where reform of the framework should take place is in relation to Ofcom's Code on the Scheduling of Television Advertising (or COSTA rules, as they are known). As Ofcom notes, the current rules are more restrictive for commercial PSB channels than for other commercial channels, both in terms of how much advertising they are allowed to carry and how that advertising can be scheduled. These rules were put in place decades ago, devised for a very different world where PSBs dominated the market and where opportunities needed to be created for new entrant competitors. The world today is very different.

As Ofcom has repeatedly documented, the television industry has transformed beyond recognition since the current rules were put in place 30 years ago. Competition for viewing has never been stronger - and the scale of investment in content necessary to compete has never been greater. The multichannel television market is now dominated by huge multinational media companies. Television channel providers - both PSB and non-PSB - are no longer in a zero-sum battle with each other. [X] The scale of spend of the global streamers in content to attract viewers is now very well-known and that spend shows little sign of abating.

In this context, the current COSTA rules are acting as an unnecessary barrier, reducing the efficiency of the commercial PSB model to no audience benefit and hampering commercial TV's efforts to compete with global streamers and other global players. Put simply, reform of the COSTA rules could help both the PSBs and the wider television industry to better compete in this new landscape.

But we recognise that many in the market view such reform as potentially very significant after such a long period with the status quo. Indeed, it is also important that ITV fully understands the implications for its own services - both its PSB channel and its portfolio of non-PSB channels. We therefore commissioned Frontier Economics to work with us to consider the potential impact on ITV and other players and, above all, on audiences who we have to attract and retain above all else.

Ultimately, in a highly competitive market for viewers time and for advertising, commercial broadcasters are best placed to work out how to safeguard their commercial interests whilst keeping faith in their core product. However, in view of the very long time that the current regime has been established and given the impossibility of modelling with any certainty what the precise effect of changes to the current rules would be, we do not propose moving straight away to an entirely level playing field for minutage between PSBs and non-PSBs. Instead, our proposal is that Ofcom initially focuses reform on:

1. the removal of the '40 minute' rule in peak; and
2. the alignment of the rules around the frequency and length of advertising breaks between PSBs and non-PSBs.

We suggest that these changes might be introduced for a trial period, with a review of their impact on PSBs and the wider market after two trading cycles – i.e. two full calendar years of operation. We would urge Ofcom to introduce these changes as soon as possible.

As Frontier observes, the effect of our proposal is not to change the overall amount of advertising minutage run over the course of a day, but simply to enable a reallocation of ITV's existing advertising minutage to optimise the number of commercial impacts seen by viewers.

We did not think it worthwhile to try to create a model of the whole UK television market to try to come up with an econometric answer to the question of what would happen if the minutage rules were changed. We do not think such an exercise is practical, nor do we think it would be in any way reliable if it were attempted because of the complexity and interconnectedness of the market and given the absence of information about the whole market and all the players in it. Rather, what we asked Frontier to examine were a series of issues and hypotheses as to what might happen were these changes to be made to the current regime. Their report is provided as an annex to this submission.

In our view, the evidence presented in Frontier's report is very clear: audiences are unlikely to be negatively impacted by a small increase in peak-time advertising on PSB channels, and indeed will benefit from the increased ability of PSBs to sustain their significant investment in new UK content. The wider commercial market is unlikely to be significantly affected, and commercial television as a whole may benefit by becoming more competitive versus the global streamers.

We note that Ofcom's call for evidence sets out very clearly the policy and legal basis for the original introduction of the restrictions:

“These restrictions were put in place to ensure that viewers are not exposed to excessive amounts of advertising and that the quality of the viewing experience is maintained.”

Any retention of the rules beyond this review should therefore be solely on the basis that the intervention remains necessary to achieve these goals.

Potential impact on audiences

With the BBC representing a huge ad-free competitor to commercial PSBs in the linear and on-demand space, and the significant presence of the likes of Netflix, Disney and Amazon offering ad-free SVOD services at scale, it is clear that audiences have a wide choice of alternative services should advertising on PSB channels be viewed as “excessive.” ITV (and others) therefore have a strong commercial incentive to only show such volumes of advertising as the audience is willing to view scheduled in a way that minimises the friction of the viewing experience. It is unclear why viewers might be seen as incapable of reaching their own judgements on whether advertising is “excessive” to the extent that regulation remains necessary.

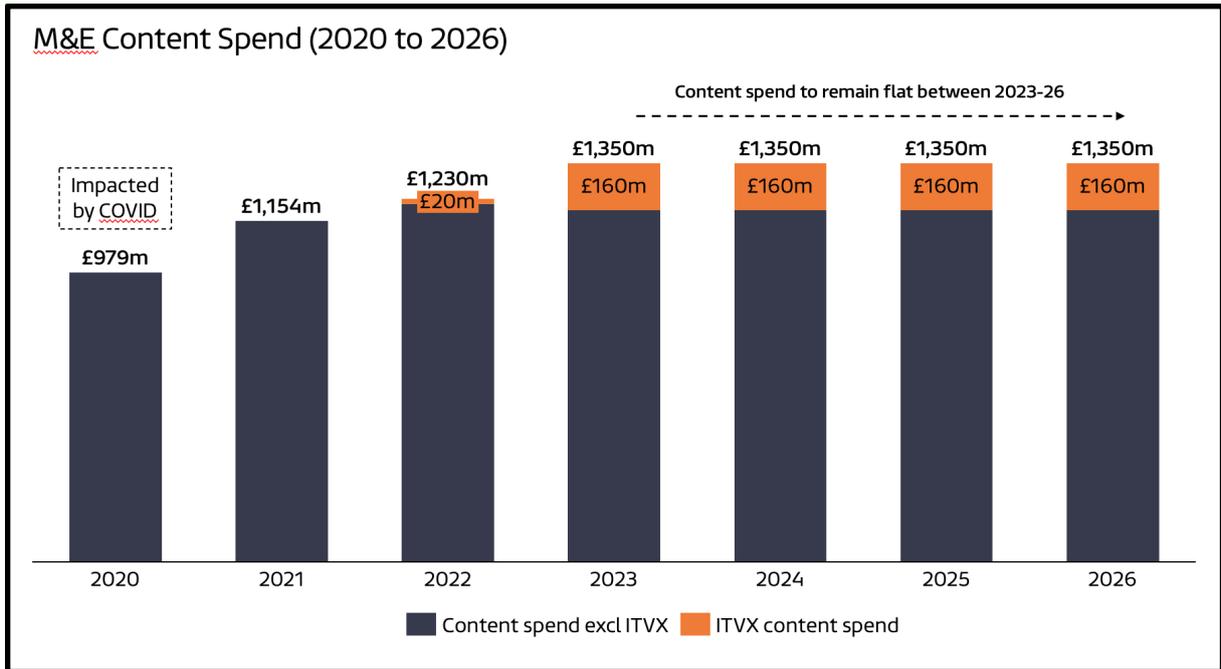
As to whether audiences might be exposed to “excessive amounts of advertising” Frontier’s report highlights that:

- Viewers already experience ad loads of 12 minutes per hour in some peak time slots on ITV main channel - suggesting audiences do not regard such ad load as a reason to avoid watching their favourite programmes
- Viewers frequently experience ad loads of 12 minutes per hour throughout the day on non-PSB services and yet viewers watch significant volumes of television on multichannel television - suggesting that even a full ad load throughout peak on PSB services should not result in viewers turning away
- Even after our proposed changes to the rules, the number of advertising impacts seen by a typical viewer will remain well below historical levels - viewers to commercial TV will almost never have seen fewer ads even with the changes proposed. If their previous exposure to higher ad loads was acceptable historically, it should surely be acceptable in future.

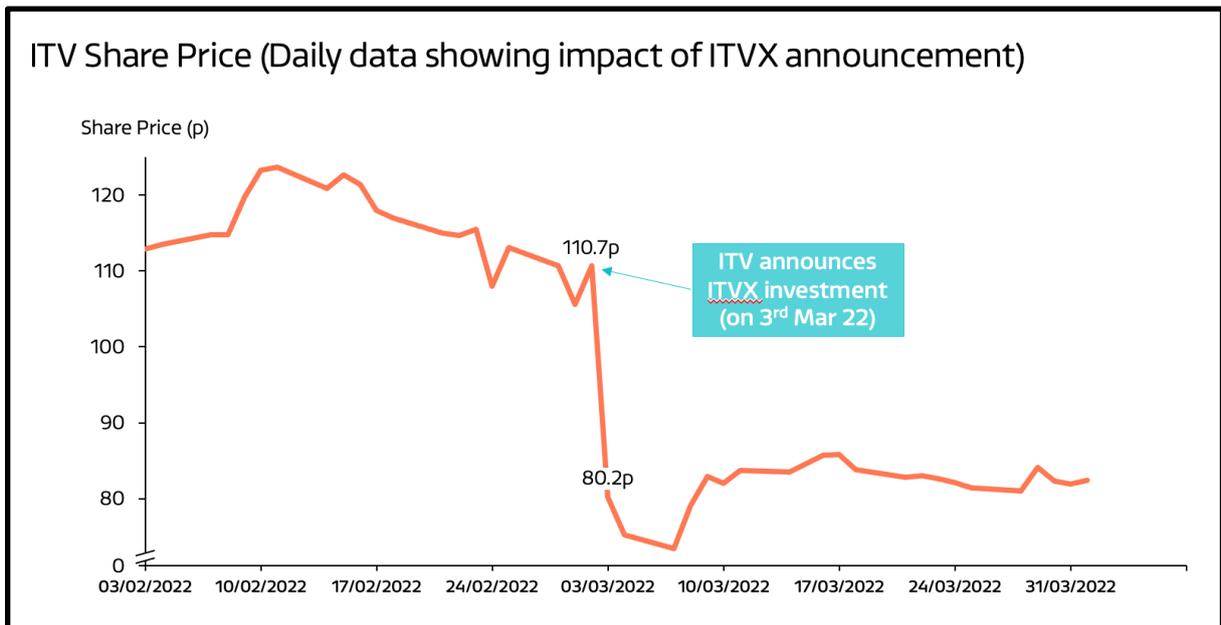
A change in the rules will enhance investment in original PSB content

In relation to protecting the quality of viewing, we would observe that the single biggest driver of the quality of viewing experience is the quality of the programmes themselves. This in turn hinges on the ability of the PSBs to sustain their significant levels of investment in new UK content.

The PSBs, and indeed all TV channels, are in fierce competition with global SVODs and social media for viewer attention. This necessitates increased investment in both content and our streaming services. The following chart, for instance, sets out our planned incremental spend on content to support ITVX from launch:



The difficulty of delivering this investment is powerfully illustrated by the market reaction to ITV's spring announcement to the City:



Despite these challenges from global players with near bottomless resources, for now the PSBs remain the biggest investors in new UK content. As Frontier's report shows (slide 34), PSBs historically invest a greater proportion of their commercial revenues in new UK content than the wider market. PSBs are also uniquely charged with commissioning at scale outside London and from independent producers.

But the current advertising rules exacerbate the impact of global competition by also hampering the ability of PSBs to invest by reducing the ability of the PSBs to effectively and efficiently monetise the content they produce. [X], even where PSBs are able to deliver

mass viewing they are not always allowed to fully monetise that viewing due to legacy regulations. The policy problem today is not lack of competition to PSB (which arguably drove the original differential in permissible advertising minutage between PSBs and non-PSBs) but rather the economic risk to the sustainability of PSB output and original UK TV content that reflects life in all parts of this country in a variety of genres.

A knock-on effect of this is that ITV currently schedules little or no advertising alongside its national, international and regional news programmes (see slide 17 of Frontier's report). This is a manifestation of the current restriction on minutage that has the overall effect of reducing our capacity to invest in original UK content which includes many genres that enable us to afford our extensive news provision.

ITV therefore proposes that the current COSTA rules are changed to remove the '40 minute' rule in peak and align the rules around the frequency and length of advertising breaks. This will:

- Allow PSBs to slow the decline in the volume of peak impacts they deliver
- Improve PSB channels' commercial reach to key demographics particularly compared to a counterfactual of no change in the rules
- Increase inventory in some slots that would be in high demand from advertisers
- Slow the rate of inflation of TV to the benefit of TV as a medium as it increasingly competes for advertising revenue with other digital media

This in turn will strengthen the ability of PSBs to sustain their high levels of investment in new UK content and reduce inefficiencies in content investment and scheduling.

Likely commercial/market effect of the change

In considering how a small increase in impacts on PSB channels might impact other commercial broadcasters, it is important to start with an understanding of the TV advertising proposition – and the role of the various broadcasters within it. The reason TV advertising is a compelling proposition is the combination of commercial reach (delivered primarily by ITV's mass simultaneous reach offer alongside Channel 4 and Channel 5) and frequency (contributed to by all channels but cheap frequency being the unique role of commercial multichannels).

Most advertisers need both reach and frequency to deliver effective campaigns. ITV is very concerned that the affordability of this proposition is being undermined by price inflation as impacts drop. [X]

As the Frontier slides set out, changes in the COSTA rules for PSB channels may well not change programme viewing numbers since (i) many viewers will not notice the change (ii) even if they did, many recognise that advertising funds high quality content that they value and do not have to pay to watch and (iii) viewers are accustomed to seeing 12 minutes of advertising per hour at peak times on PSB and non-PSB channels. Accordingly, the volume of impacts delivered by commercial non-PSB channels should remain unchanged.

Because of the likely increase in the volume of impacts on PSB channels, the broader impact of our proposed reforms will be to increase the supply of commercial impacts in the TV ad market overall. This in turn should help reduce the inflationary pressures [X] and so make the commercial TV ad market overall more competitive with the likes of Google, Amazon and Facebook.

Given that likely deflationary input into the market (and into the price of commercial PSB airtime in particular), one question might be whether some spend might shift from non-PSB to PSB channels as a result. Our conclusion is that this is unlikely for the following reasons:

- The PSB channels trade at a premium to the multichannel players. In the case of ITV main channel that premium is [X] to our own non-PSB portfolio channels. We understand that our non-PSB channels are amongst the most expensive multichannels, so that premium to, say, [X] is likely to be even higher (though that is not a number we are party to). [X]
- Given this premium, a [X] or [X] increase in impacts is most unlikely to reduce the price of PSB airtime such that it become so cheap versus multichannel airtime that it causes money to shift from one sales house to another. Even after our proposed changes to the rules, PSB channels will still be the main drivers of commercial reach (a proposition strengthened by a relaxation of the rules in peak) and multichannel broadcasters will remain the only place for cheaper frequency. PSB channels will not be able to fulfil both roles even after the changes.
- Even in the case of the [X] price premium of ITV's PSB channel to the price of impacts on the ITV digital channel offering it seems unlikely that a [X] increase in impacts will cause enough relative price reduction to make switching likely at scale.
- Any limited switching that might take place between non-PSB channels and PSB channels would also result in a change in the "station average price" of both ITV and [X], which would then reverse the incentives to move money out of PSB channels, as shown on slide 31 of Frontier's document.
- Moreover, those advertisers and agencies that were tempted to switch in those circumstances would also face (a) the loss of discount from their current multichannel provider and (b) the feedback loop risk that if others also chose to switch money to PSB channels the Station Average Price of those PSB channels whose revenue increased would rise reducing the size of the saving in any event.

In summary, we therefore think the impact of the changes will be that purchasing PSB reach will get cheaper (or, perhaps, less increasingly expensive as viewing continues to decline) and that the price and demand for multichannel frequency will stay constant (or inflate slightly if total TV viewing continues to decline). In combination, this should ensure the TV advertising proposition as a whole (reach plus frequency) remains competitive with non-TV alternatives. Overall, therefore, we do not expect substantial switching of revenue between non-PSB and PSB channels as a result of the change we are suggesting.

Even in the event that there was some limited transfer, Frontier's report clearly shows that those impacted would be global media firms, whose incentives to invest would be unlikely to be altered by a marginal decline in advertising revenue. They are also the firms (Sky aside)

investing the least in original UK content and/or in some cases (BBC and Sky) they are far less dependent on advertising revenue as a key revenue source.

Annex: Ofcom Call for Evidence: Regulating the quantity and scheduling of television advertising on public service channels. Analysis of evidence. Frontier Economics. October 2022

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

Analysis of evidence

6 October 2022



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Introduction

Frontier Economics has been asked by ITV to review the evidence surrounding the potential changes in the quantity and scheduling of television advertising on public service channels.

In its published call for evidence, Ofcom identify three reasons that may mean the stricter COSTA rules applied to PSB channels should be aligned.

- They are no longer needed to protect the quality of the viewing experience.
- They are threatening the financial sustainability of the PSBs.
- They act as a distortion of competition.

In this response, we will provide evidence in all of these areas, drawing on both publicly available information, and data we have received from ITV.

Summary

The viewing experience

- It is not clear that the different COSTA rules applied to PSB channels remain necessary to protect the quality of the viewing experience.
- Given (i) the moderate changes proposed by ITV; (ii) the existing ad loads already experienced by viewers across the day on non-PSB channels (and in certain peak hours on PSB channels) and their acceptance by viewers; and (iii) the historically low typical ad loads we would expect to see even after the changes, we do not expect this change to significantly worsen the viewer experience.

The financial viability of PSBs

- Current COSTA rules limit the ability of PSB channels to fully monetise content across peak clock hours (particularly 1800 and 2300).
- An increase in the ability of ITV to efficiently schedule advertising will deliver more impacts and more incremental commercial reach, will help level the playing field with non-PSB channels, and will allow ITV to compete more effectively with growing competition from sVoD services.

The impact on competition

- The increase in the impacts PSB channels can offer to advertisers may lower the effective cost of advertising on TV overall.
- Whilst it is possible that PSB channels gain by more than non-PSB channels, non-PSB channels will remain an important element of the TV advertising mix, and trading mechanisms will mitigate the extent of any revenue switching between non-PSB and PSB channels.
- The proposed change will help facilitate continued investment in UK-focused high quality content by PSB channels.

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The impact on the viewing experience

Key evidence

- ITV's initial proposal is to amend the COSTA rules to enable PSB channels to run up to 12 minutes of advertising per hour in all peak clock hours (compared to the current limit of 8 minutes per hour on average). The effect of the proposal is not however to change the overall amount of advertising minutage run over the course of a day, but simply to enable a re-allocation of ITV's existing advertising minutage to optimise the number of commercial impacts seen by viewers.
- The change is not necessarily significant for viewers – viewers already see 12 minutes of advertising per hour on ITV in some peak hours, and see 12 minutes of advertising consistently throughout the day on non-PSB channels.
- Viewers are continuing to watch non-PSB channels, despite the higher level of advertising minutage consistently shown to viewers – the share of broadcast TV viewing on non-PSB channels has been stable over time.
- Whilst the impact of the proposed change would be to increase the output (i.e. the number of commercial impacts) of ITV's main channel and other PSB channels...
- ...the incremental increase in the number of commercial impacts viewed by a typical viewer as a result of the change is small, and would still mean viewers see fewer adverts than in previous years, where ad skipping was lower and the viewing of sVoD services carrying no adverts was far lower.

As a first step, ITV supports a change to the COSTA rules that reallocates advertising minutes into peak rather than off-peak hours (with no increase in total daily minutage)

	PSB channels	Non-PSB channels	Proposed change for PSB channels
Average amount of advertising per hour	<p>12 minutes per hour maximum across the broadcasting day</p> <p>7 minutes per hour on average across the broadcasting day</p> <p>8 minutes per hour on average between 18:00 and 23:00 (peak time)</p>	<p>12 minutes per hour maximum across the broadcasting day</p> <p>9 minutes per hour on average across the broadcasting day</p> <p>No specific restrictions</p>	<p>No change – no effect on total advertising minute per day for PSB or non-PSB channels</p> <p>Remove rule, allowing PSB channels to schedule up to 12 minutes of advertising in each peak hour</p>
Advertising centre break duration*	<p>3:30 minutes maximum duration of advertising breaks</p>	<p>No specific restrictions</p>	<p>Remove rule</p>
Number of permitted breaks	<p>PSB channels are permitted one fewer advertising break vs. non-PSB channels for programmes with a scheduled duration of between 26 minutes and 54 minutes</p>		<p>No change</p>

Source: Ofcom (2022). Code on the Scheduling of Television Advertising.

* Noting that advertising breaks in films and one-off dramas may be longer.

The effect of the change would be to increase advertising minutage primarily in the 1800 and 2200 hours, by reducing minutage typically in post-peak hours

	Typical Saturday schedule			Typical Sunday schedule			Typical weekday schedule			
	Clock Hour	As-is minutage	To-be minutage	Change	As-is minutage	To-be minutage	Change	As-is minutage	To-be minutage	Change
	0900	3.5	3.5		7.0	7.0	-	7.0	7.0	
	1000	12.0	12.0		10.5	10.5	-	10.5	10.5	
	1100	12.0	12.0		12.0	12.0	-	12.0	12.0	
	1200	12.0	12.0		12.0	12.0	-	12.0	12.0	
	1300	3.0	3.0		3.0	3.0	-	10.5	8.0	-2.5
	1400	5.0	5.0		5.0	5.0	-	10.0	4.5	-5.5
	1500	6.5	6.5		6.5	6.5	-	8.5	6.0	-2.5
	1600	12.0	12.0		12.0	12.0	-	12.0	12.0	
	1700	8.5	8.5		12.0	12.0	-	12.0	12.0	
Peak time minutage increases	1800	5.5	12.0	+6.5	0.0	12.0	+12.0	4.0	12.0	+8.0
	1900	12.0	12.0		12.0	12.0		12.0	12.0	
	2000	10.5	12.0	+1.5	12.0	12.0		12.0	12.0	
	2100	12.0	12.0		10.5	12.0	+1.5	12.0	12.0	
	2200	0.0	12.0	+12	5.5	12.0	+6.5	0.0	12.0	+12.0
	2300	12.0	9.0	-3.0	12.0	4.0	-8.0	9.5	0.0	-9.5
	Post-0000	17.5	0.5	-17.0	12.0	0.0	-12.0	0.0	0.0	
	Total	144	144		144	144		144	144	

Offset by reduced minutage post-peak and pre-9am

Source: ITV planned advertising schedules for Wednesday 14 September, Saturday 24 September and Sunday 25 September, as planned on 1 September 2022 (note that due to unexpected events these schedules actually looked different in practice) and how the ad minutage placed in each clock hour would have changed under the aligned COSTA rules proposed by ITV.

PSB channel viewers are already accustomed to seeing 12 minutes of advertising per hour between 1900 and 2200...

Average Ad Duration (minutes) by clock hour - April 2022



	Mon	Tue	Wed	Thu	Fri	Sat	Sun		Mon	Tue	Wed	Thu	Fri	Sat	Sun		Mon	Tue	Wed	Thu	Fri	Sat	Sun
06:00	0	0	0	0	0	0	0	06:00	0	0	0	0	0	0	0	06:00	0	0	0	0	0	0	0
07:00	0	0	0	0	0	0	0	07:00	0	0	0	0	0	2.0	2.5	07:00	4.0	4.0	4.0	4.0	4.0	4.0	4.0
08:00	0	0	0	0	0	0	0	08:00	6.5	7.0	7.0	7.0	7.0	11.5	11.5	08:00	8.0	8.0	8.0	8.0	8.0	12.0	12.0
09:00	7	7	7	7	7	5	5	09:00	11.5	12.0	11.5	12.0	12.0	12.0	12.0	09:00	9.5	10.5	10.5	10.5	10.5	0	4.0
10:00	11	11	11	11	11	12	11	10:00	11.5	11.5	11.0	11.0	11.0	11.5	10.5	10:00	10.5	10.5	10.5	10.5	10.5	7.0	5.0
11:00	12	12	12	12	12	11	12	11:00	11.5	10.0	12.0	11.5	11.5	11.0	10.5	11:00	10.5	10.5	10.5	10.5	10.5	11.0	12.0
12:00	12	12	12	12	12	12	12	12:00	9.5	10.5	9.5	9.5	9.5	10.5	12.0	12:00	7.0	5.5	4.5	4.5	5.0	12.0	12.0
13:00	10	11	11	11	11	11	11	13:00	11.5	11.5	11.5	11.5	11.5	9.0	10.5	13:00	12.0	12.0	12.0	12.0	12.0	12.0	12.0
14:00	11	10	10	10	10	10	11	14:00	12.0	12.0	12.0	12.0	12.0	6.0	7.0	14:00	9.0	10.0	9.0	9.0	9.0	11.0	10.0
15:00	9	9	9	9	10	11	10	15:00	12.0	12.0	12.0	12.0	12.0	10.5	10.5	15:00	12.0	11.0	12.0	12.0	12.0	12.0	10.5
16:00	12	12	12	11	11	11	8	16:00	12.0	12.0	12.0	12.0	12.0	11.5	11.0	16:00	12.0	12.0	12.0	12.0	12.0	12.0	11.5
17:00	12	12	12	12	12	10	10	17:00	12.0	12.0	12.0	12.0	12.0	11.0	11.5	17:00	11.5	11.5	11.5	11.5	11.5	11.5	12.0
18:00	4	4	4	6	4	2	4	18:00	6.0	6.0	5.0	7.0	5.0	0.5	2.0	18:00	0.5	1.0	1.0	0.5	0.5	4.0	3.0
19:00	12	12	12	12	12	11	10	19:00	1.0	2.5	0.5	1.5	0.5	7.5	11.0	19:00	10.0	11.0	8.5	9.0	11.0	7.0	11.5
20:00	12	12	12	11	12	11	12	20:00	10.0	11.0	12.0	12.0	12.0	11.5	11.5	20:00	11.0	10.5	11.0	11.0	10.5	11.0	12.0
21:00	12	11	12	12	12	12	12	21:00	11.5	10.5	10.5	10.5	10.5	10.5	11.0	21:00	11.5	12.0	11.5	11.5	12.0	10.5	11.5
22:00	1	2	1	1	0	4	3	22:00	11.5	10.0	12.0	9.0	12.0	10.0	4.5	22:00	7.0	5.5	8.0	8.0	6.0	7.5	2.0
23:00	11	10	10	10	9	11	11	23:00	12.0	12.0	12.0	12.0	12.0	11.0	10.0	23:00	12.0	11.0	12.0	12.0	11.5	12.0	11.5
00:00	0	0	0	0	1	3	5	00:00	6.0	5.5	5.5	5.5	5.5	9.0	7.0	00:00	10.0	11.5	11.5	11.5	11.5	11.5	11.5
01:00	0	0	0	0	0	0	0	01:00	0	0	0	0	0	1.5	1.5	01:00	0	0	0	0	0	1.5	1.5
02:00	0	0	0	0	0	0	0	02:00	0	0	0	0	0	0	0	02:00	0	0	0	0	0	0	0
03:00	0	0	0	0	0	0	0	03:00	0	0	0	0	0	0	0	03:00	0	0	0	0	0	0	0
04:00	0	0	0	0	0	0	0	04:00	0	0	0	0	0	0	0	04:00	0	0	0	0	0	0	0
05:00	0	0	0	0	0	0	0	05:00	0	0	0	0	0	0	0	05:00	0	0	0	0	0	0	0

Source: Source: BARB/Techedge

Notes: April 2022 - weeks 14-17 (4th April - 1st May)

For ITV, these minutes do not include the period from 06:00 to 09:24:59, which are part of ITV breakfast minutage.

...and viewers of non-PSB channels are consistently exposed to higher ad loads throughout the day (not just at peak times)

Average Ad Duration (minutes) by clock hour - April 2022



	Mon	Tue	Wed	Thu	Fri	Sat	Sun
06:00	0	0	0	0	0	0	0
07:00	0	0	0	0	0	1	0
08:00	5	4	4	4	6	10	10
09:00	12	12	12	12	12	12	12
10:00	12	12	12	12	12	12	12
11:00	12	12	12	12	11	12	12
12:00	12	12	12	12	12	12	12
13:00	12	12	12	12	12	12	11
14:00	12	12	12	12	12	11	12
15:00	11	12	12	12	12	11	11
16:00	12	12	12	12	12	12	11
17:00	12	12	12	12	12	12	11
18:00	12	12	12	12	11	12	11
19:00	11	12	12	12	12	11	11
20:00	12	12	12	12	11	11	11
21:00	12	12	12	12	12	11	12
22:00	12	12	12	12	11	10	11
23:00	12	12	12	12	12	12	12
00:00	12	12	12	12	12	12	12
01:00	12	12	12	12	12	12	12
02:00	9	8	8	8	10	8	11
03:00	0	0	0	0	0	0	0
04:00	0	0	0	0	0	0	0
05:00	0	0	0	0	0	0	0

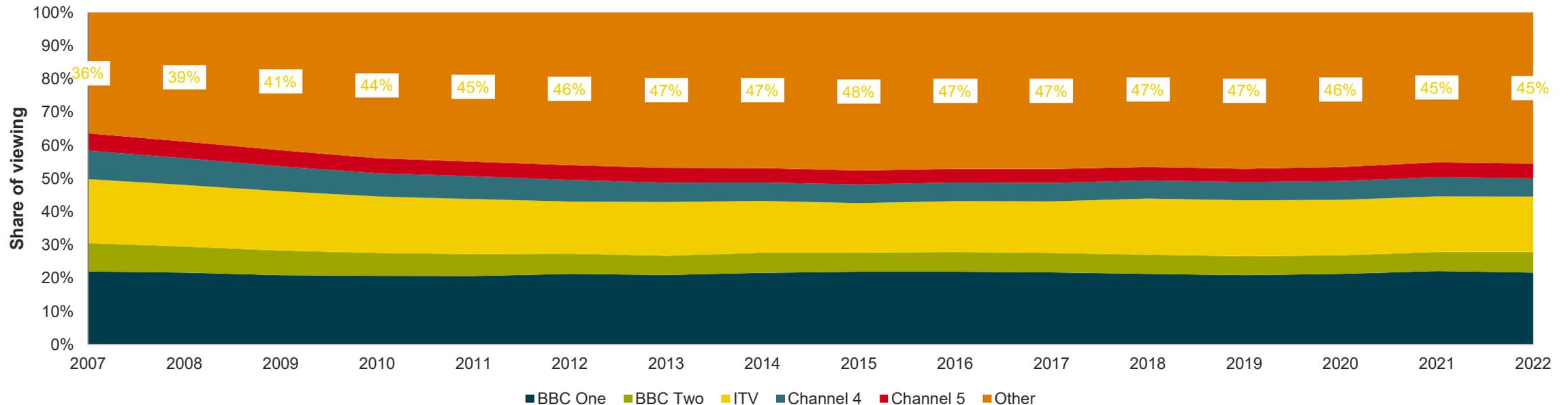
	Mon	Tue	Wed	Thu	Fri	Sat	Sun
06:00	0	0	0	0	0	0	0
07:00	0	0	0	0	0	0	0
08:00	12	12	12	12	12	12	12
09:00	12	12	12	12	12	12	12
10:00	12	12	12	12	12	12	12
11:00	12	12	12	12	12	12	12
12:00	12	12	12	12	12	12	12
13:00	12	12	12	12	12	12	12
14:00	12	12	12	12	12	12	12
15:00	12	12	12	12	12	12	12
16:00	12	12	12	12	12	12	12
17:00	12	12	12	12	12	12	12
18:00	12	12	12	12	12	12	12
19:00	12	12	12	12	12	11	12
20:00	12	12	12	12	12	12	12
21:00	12	12	12	12	11	12	10
22:00	12	12	12	12	11	12	11
23:00	12	12	12	12	12	12	12
00:00	12	12	12	12	12	12	12
01:00	12	12	12	12	11	12	11
02:00	0	0	0	0	4	2	6
03:00	0	0	0	0	0	0	0
04:00	0	0	0	0	0	0	0
05:00	0	0	0	0	0	0	0

	Mon	Tue	Wed	Thu	Fri	Sat	Sun
06:00	0	0	0	0	0	0	0
07:00	0	0	0	0	0	0	0
08:00	12	12	12	12	12	12	12
09:00	12	12	12	12	12	12	12
10:00	12	12	12	12	12	12	12
11:00	12	12	12	12	12	12	12
12:00	12	12	12	12	12	12	12
13:00	12	12	12	12	12	12	12
14:00	12	12	12	12	12	12	12
15:00	12	12	12	12	12	12	12
16:00	12	12	12	12	12	12	12
17:00	12	12	12	12	12	12	12
18:00	12	12	12	12	12	12	12
19:00	12	12	12	12	12	12	12
20:00	12	12	12	12	12	12	12
21:00	12	12	12	12	12	12	12
22:00	12	12	12	12	12	12	12
23:00	12	12	12	12	12	12	12
00:00	12	12	12	12	12	12	12
01:00	12	12	12	12	12	12	12
02:00	0	0	0	0	0	0	0
03:00	0	0	0	0	0	0	0
04:00	0	0	0	0	0	0	0
05:00	0	0	0	0	0	0	0

Source: Source: BARB/Techedge
 Notes: April 2022 - weeks 14-17 (4th April - 1st May)

Despite the higher advertising loads throughout the day, non-PSB channels have maintained a substantial share of linear TV viewing

PSB and non-PSB share of viewing across all individuals, 2007-2022



Source: BARB/Advantage

Notes: Figures show the share of viewing across all individuals (C7)

The proposed alignment of COSTA rules will allow PSBs to better optimise the ‘product’ (i.e. the number of commercial impacts offered to advertisers)

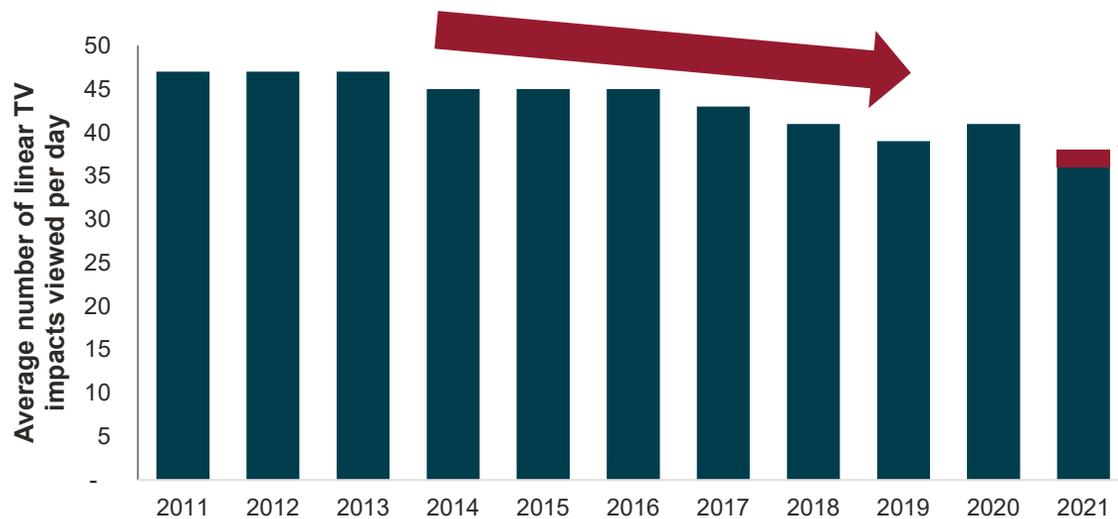
- By increasing the advertising minutage over the peak period from the current allowance of 8 minutes per hour (40 minutes across all peak hours) to the maximum allowance of 12 minutes per hour (60 minutes across all peak hours); and offsetting this by transferring minutage from off-peak hours, ITV modelling for April 2022 suggests that ITV1, Channel 4, and Channel 5 will (all else equal) see an overall increase of [X] in their volume of commercial impacts.

[X]

Even after the proposed change, the number of commercial impacts seen by a typical viewer will remain well below historical levels

- The average number of linear TV impacts viewed per day has been falling consistently since the early 2010s – a result of several factors including the increased potential for ‘ad skipping’; and viewer switching from broadcast TV to sVoD services.
- The proposed rule alignment will be insufficient to reverse this trend, as shown below.

Average number of linear TV impacts viewed per day , per individual



Source: Thinkbox and Frontier Economics analysis

The proposed alignment will increase the modelled number of linear impacts viewed per day, per individual by an estimated 2 impacts

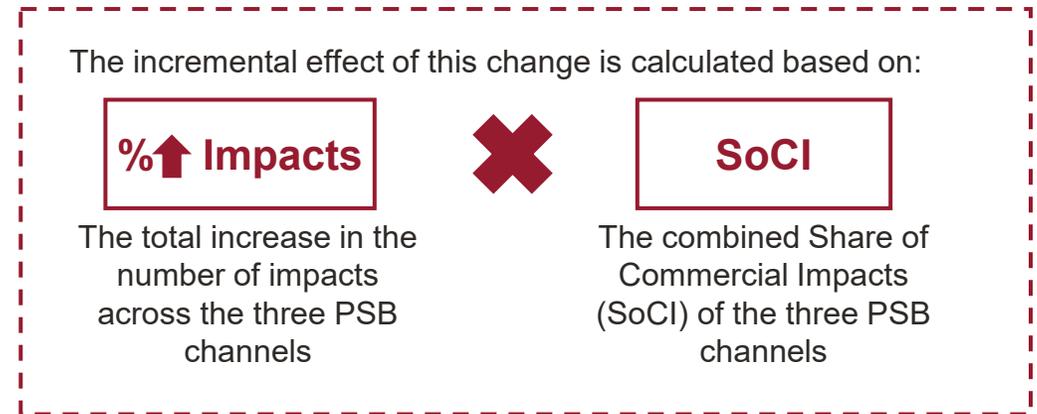


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The impact on the financial viability of PSBs

Key evidence

- Since ITV is unable to fully monetise the shows it broadcasts in peak hours in the same way as a non-PSB channel, ITV is currently less incentivised to schedule new advertiser-funded content in the 1800-1900 and 2200-2300 clock hours – these incentives would change if the COSTA rules were amended.
- sVoD services continue to grow, such that together they now reach more of the UK population, and are viewed for longer, than any individual commercial PSB channel.
- sVoD providers compete fiercely through global content investment that is then made available to UK audiences, and have grown their catalogue of shows significantly in recent years.
- The result of the increased competition from sVoD providers on commercial PSB channels has been that:
 - the ability of commercial PSBs to deliver commercial impacts has fallen significantly over time; and
 - the share of ITV impacts delivered in peak time (vs. daytime) has fallen, as ITV competes with sVoD providers for prime time evening viewing.
- The change to the COSTA rules will have a particular impact on ITVs ability to schedule more advertising in the peak clock hours from 1800-1900 and from 2200-2300. These clock hours are important in creating incremental commercial reach for ITV across certain audience demographics, and in particular for younger adults where viewing declines for ITV have been largest.

Under the existing rules, ITV is unable to fully monetize the 6pm and 10pm peak slots, which incentivises the scheduling of lower cost content in these hours

- Given the constraints of the current COSTA rules, ITV chooses to maximise available peak minutes in its most popular shows (in the 1900, 2000 and 2100 clock hours), leaving little remaining minutage to schedule in 1800 and 2200 clock hours.
- At 1800 and 2200, ITV is not incentivised to premiere new or expensive content that would be difficult to monetise under current rules.
- ITVX's stated investment in new content¹, whilst premiered on VoD, is intended to subsequently be aired as part of the linear schedules of ITV's channels, including the main PSB channel, potentially in the 18.00 or 22.00 peak hours (particularly at weekends). By increasing the ability of ITV to monetise content aired in these clock hours, the return on ITVX content investment can be increased, which in turn incentivises ongoing further content investment.

List of ITV shows that aired in the 1800 clock hour at weekends in 2022 with no advertising minutage

Date	Day	Name	Start time	Duration (hh:mm)
01 January 2022	Sat	Catchphrase celebrity	1800	60:00
02 January 2022	Sun	Celebrity chase repeat	1705	60:00
23 January 2022	Sun	Celebrity chase repeat	1705	60:00
13 March 2022	Sun	Celebrity chase repeat	1730	60:00
27 March 2022	Sun	Tipping point best finals rpt	1800	30:00
16 April 2022	Sat	Celebrity chase repeat	1710	60:00
24 April 2022	Sun	1% club repeat	1730	60:00
30 April 2022	Sat	In for a penny	1830	30:00
01 May 2022	Sun	The chase celebrity special	1740	55:00
07 May 2022	Sat	In for a penny	1830	30:00
08 May 2022	Sun	Celebrity chase repeat	1730	60:00
15 May 2022	Sun	1% club repeat	1730	60:00
21 May 2022	Sat	In for a penny	1830	30:00
29 May 2022	Sun	In for a penny repeat	1800	25:00
02 July 2022	Sat	Money ball rpt	1725	65:00
09 July 2022	Sat	Money ball rpt	1725	60:00
10 July 2022	Sun	Epic gameshow rpt	1725	60:00
16 July 2022	Sat	Money ball rpt	1730	55:00
23 July 2022	Sat	Money ball rpt	1730	60:00
06 August 2022	Sat	You ve been framed kids hfss	1730	60:00
13 August 2022	Sat	You ve been framed kids hfss	1730	60:00
20 August 2022	Sat	You ve been framed kids hfss	1730	60:00
27 August 2022	Sat	You ve been framed kids hfss	1735	55:00
26 February 2022	Sat	6 nations england v wales	1600	170:00
09 April 2022	Sat	Horse racing grand national	1630	105:00
22 May 2022	Sun	The mummy	1625	130:00
11 June 2022	Sat	Midsomer murders.	1635	115:00
17 July 2022	Sun	From russia with love	1615	130:00
24 July 2022	Sun	Goldfinger	1620	130:00
31 July 2022	Sun	Thunderball	1605	150:00
07 August 2022	Sun	You only live twice	1620	130:00
14 August 2022	Sun	On her majestys secret service	1540	165:00
21 August 2022	Sun	Diamonds are forever	1620	135:00
28 August 2022	Sun	The mummy tomb dragon emporer	1630	120:00

ITV typically schedules quiz shows in the weekend 1800 slot where there are no advertising minutes

Longer duration programmes aired between 1800-1900

¹ ITV 2021 Full Year Results presentation, 03 Mar 2022, slide 9.

Source: ITV

As a result of the existing COSTA rules, ITV typically does not schedule advertising in national or regional news

- ITV typically does not schedule advertising in national news broadcasts aired in the 2200 clock hour, given the current COSTA rules, as shown below. Similar effects can be observed in nations and regions news broadcasts in the 1800 clock hour, where again little to no advertising minutage is scheduled.

Number of ITV shows aired in the 2200 clock hour in 2022 with no advertising minutage

	Mon	Tue	Wed	Thu	Fri	Sat	Sun	Total
Total	67	63	65	65	62	64	72	458
- of which ITV news	33	31	32	31	31	28	31	217

Source: ITV

- The news is widely watched, with national news (13.7%) and regional news (3.8%) together accounting for 17.5% of all PSB viewing in 2021¹, and are considered the most important element of PSB broadcasting to society².
- The news is a requirement of ITV's PSB licences and costly to produce (Ofcom has recently concluded that regional news represents the single biggest opportunity cost associated with ITV's PSB status³).
- The effect of the COSTA rules is therefore to place increased pressure on the return on investment and ultimately the economic viability of the 1800 and 2200 clock hours.

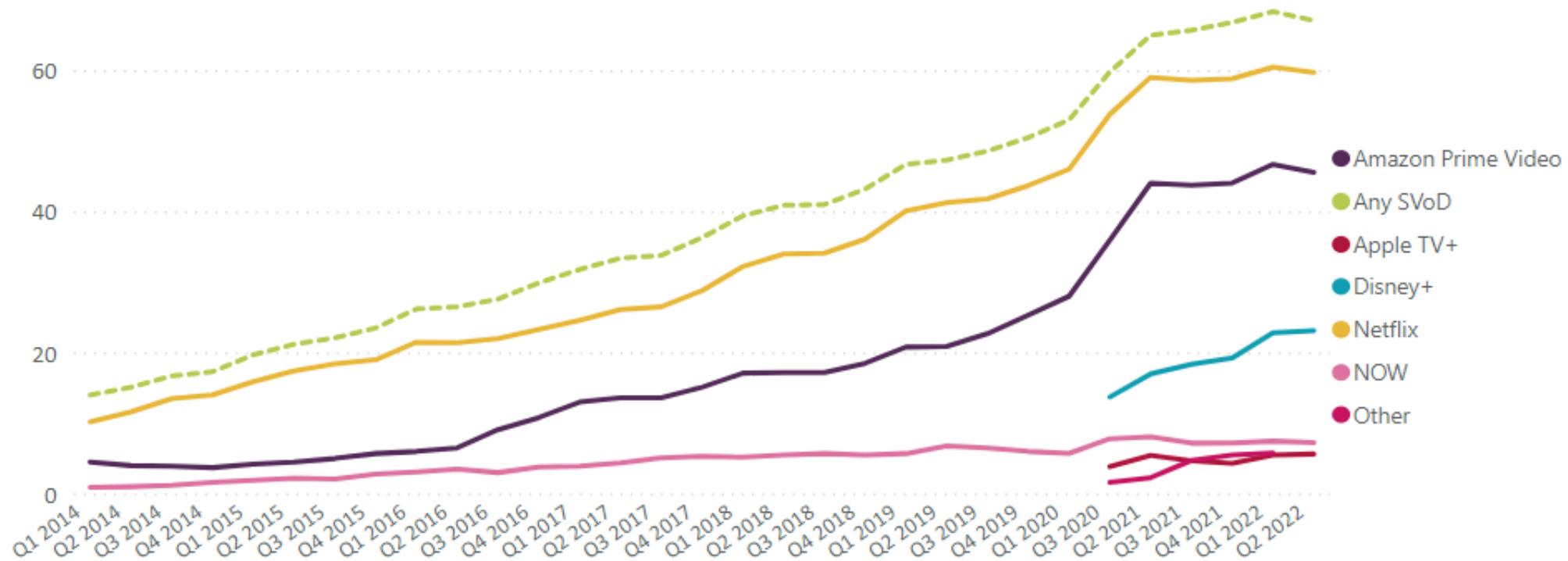
¹ Source: Source: Ofcom Media Nations 2022, Figure 42.

² Source: Source: Ofcom Media Nations 2022, page 59.

³ Source: Source: Licensing of Channel 3 and Channel 5, A report to the Secretary of State under section 229 of the Communications Act 2003.

sVoD services are becoming more widespread - the overall increase in sVoD household penetration in the past decade has been significant (despite a slight dip in Q2 2022)

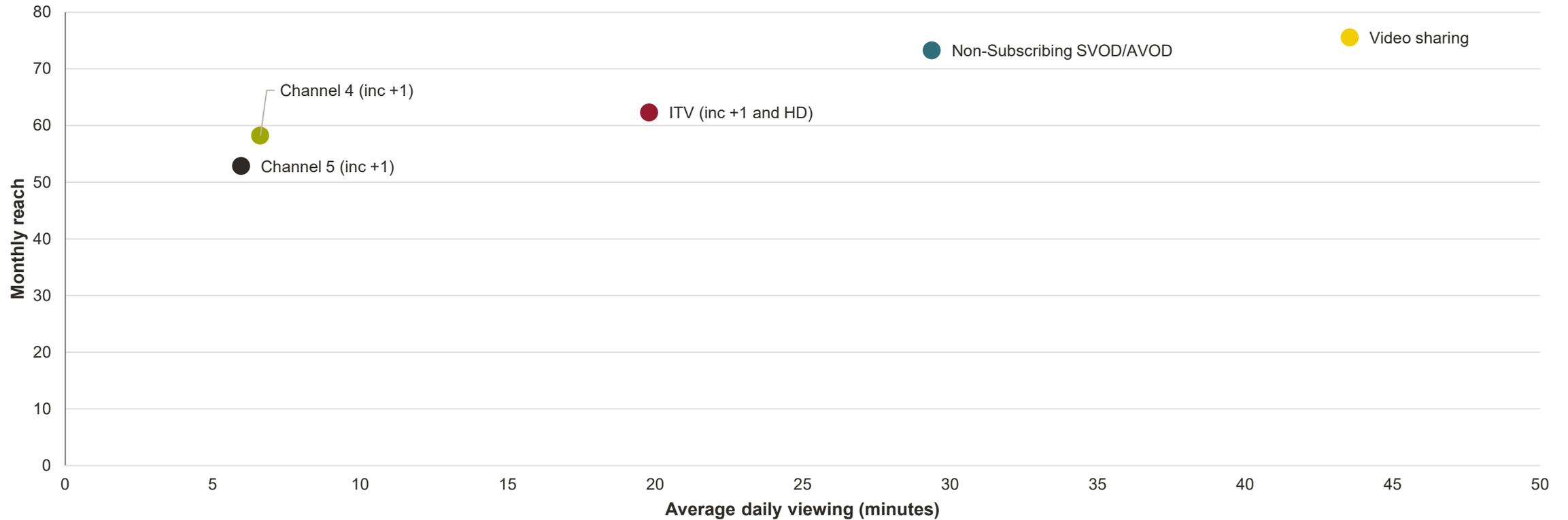
UK household sVoD penetration – Q1 2014 to Q2 2022



Source: Ofcom Media Nations 2022, Figure 10.

sVoD and video sharing services reach more of the UK population than any commercial PSB channel

Commercial reach and daily viewing – Commercial PSB channels vs. video sharing and sVoD services – August 2022

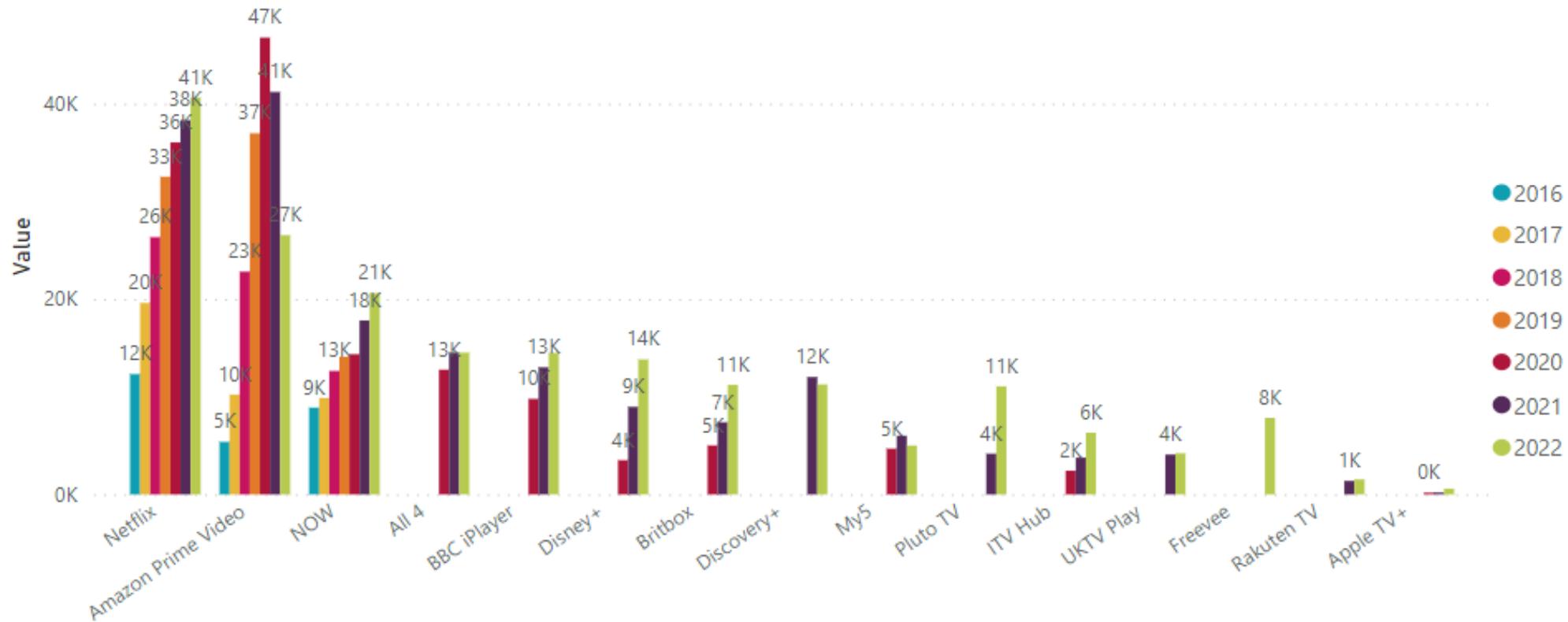


Source: BARB – Total Identified Monthly Viewing – August 2022

Note: “Non-subscribing sVoD/aVoD (TV, PC, Tablet, Smartphone)” is a definition used by BARB in its summary of Total Identified Monthly Viewing, and includes Amazon Prime Video and Netflix.

sVoD services have significantly increased the quantity of (typically internationally produced) content made available to UK viewers over time

VoD catalogue hours of selected aVoD, bVoD and sVoD services in the UK – 2016-2022

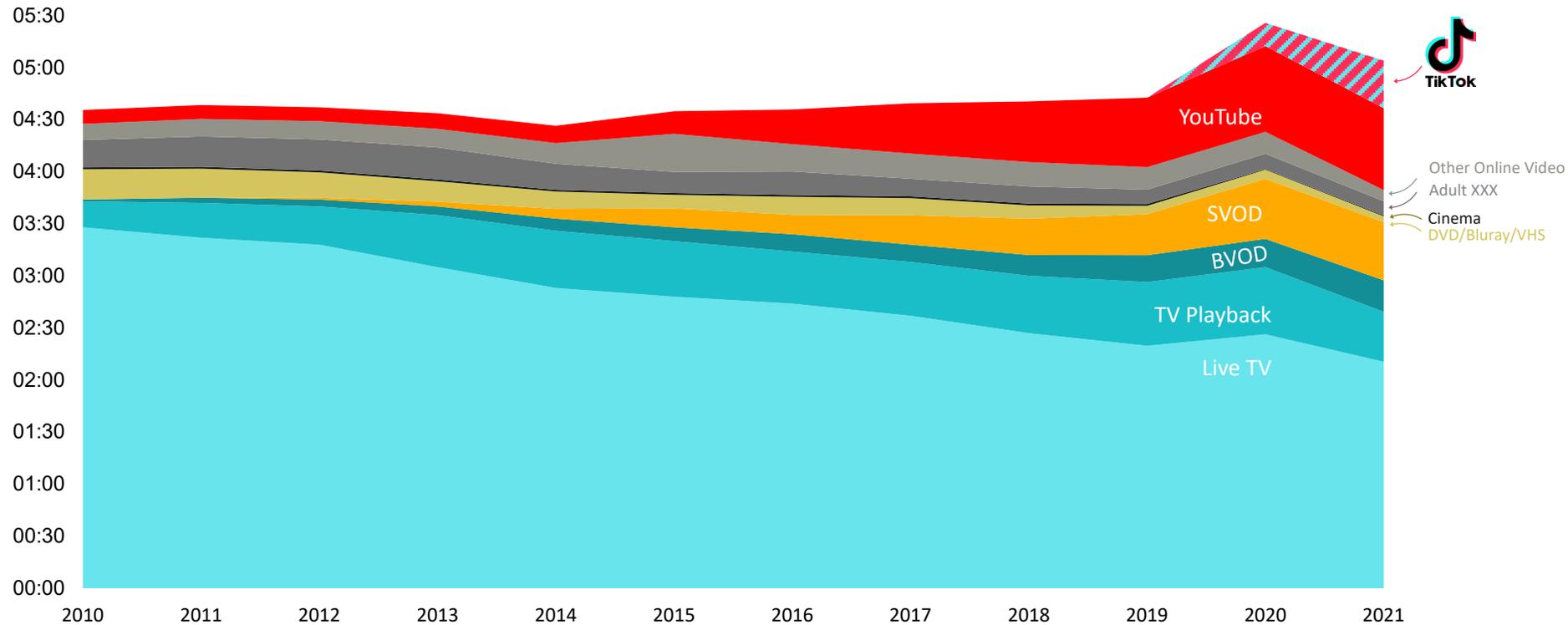


Source: Ofcom Media Nations 2022, based on Ampere Analysis conducted in April each year.

Notes: Pluto TV and Rakuten TV data is for aVoD content only.

The result of this intense competition for audiences has been a decline in the share of overall video viewing for live TV and playback (where PSB channels are a large part)...

Hours of video viewing per individual per day – 2010-2021



Source: Thinkbox, using BARB / Broadcaster stream data / IPA Touchpoints / Pornhub / Rentrak. All Individuals









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The impact on competition

Key evidence

- Recent increases in the prices of advertising on TV make it a less attractive proposition than previously. Removing existing COSTA rules may create overall downward pressure on the price of broadcast TV advertising, potentially resulting in agencies and advertisers at the margin *switching more spend into TV* overall, and away from other forms of advertising (including forthcoming aVoD services).
- If COSTA rules were removed, the fall in the price of an ITV, Channel 4 or Channel 5 commercial impact may lead to a change in the relative price of PSB and non-PSB channels, however the impact on revenues of non-PSB channels is likely to be smaller since:
 - switching is limited by the ongoing need to purchase cheaper impacts from non-PSBs to deliver frequency to advertisers; and
 - the current contractual relationships between advertisers and broadcasters may limit the extent of any switching within broadcast TV.
- Channels currently benefitting from the unequal COSTA rules applied to non-PSB channels vs. PSB channels are typically owned by large US firms with a global content investment strategy; or by parent companies who are not as heavily reliant on advertising revenue to fund new content as ITV. Even if advertisers did divert some spend away from non-PSB channels into PSB channels, the evidence suggests commercial PSB channels are more likely than non-PSB channels to reinvest these revenues in new content.
- To the extent that these effects increase commercial PSB revenues, gains are likely to be reinvested into UK-focused content in order to compete with global sVoD providers and video streaming platforms.
 - Recent programming investments in ITVX signal a continued willingness to invest heavily in new content.
 - ITV's content investment is weighted more towards first-run UK originals than either non-PSB channels; or global sVoD providers.

The COSTA rule change may help create a more price competitive broadcasting sector overall that benefits advertisers...

The broader impact on advertising expenditure

- With strong demand for television advertising, but a declining number of impacts given viewing shifts from broadcast television (and PSB channels in particular) towards sVoD services, the price of broadcast television has been increasing in recent years.
- [✂]
- [✂]
- A COSTA rule change that increases the volume of impacts on ITV and other PSB channels will lower the cost for advertisers compared to current levels, but will not reverse the overall inflationary effects
[✂]



...and allows PSBs to better compete with sVoD services who are set to launch advertising funded tiers (with no restrictions on minutage) in the near future

The broader impact on advertising expenditure (continued)

- We believe that at the margin, advertisers and their agencies face a decision of whether to allocate discretionary advertising spend between broadcast TV and other forms of marketing (including the large and growing categories of online display advertising, and paid search).
- This set of alternatives for advertiser spend looks set to change further in future, as advertisers will also have the option to switch their spend to recently launched or forthcoming aVoD advertising-funded tiers (see opposite).

Advertiser funded tiers launched by sVoD providers (current and forthcoming)

Selected ad-supported streaming services/tiers				
Warner Bros. Discovery	Amazon	ITV	Netflix	Disney
				
Cheaper 'Ad-Lite' subscription tier (£3.99/month) added in March 2022	Free ad-supported service launched (originally as IMDb TV) in September 2021	Hybrid ad-supported and subscription streaming service consolidating ITV Hub, ITV Hub+, and BritBox – due late 2022	Lower-priced, ad-supported subscription tier planned following subscriber losses in Q1 – due early 2023	Ad-supported subscription tier due for launch in the US in late 2022; set for international rollout in 2023

Source: Ofcom, Media Nations 2022, Figure 27.

Changes to the COSTA rules will not necessarily affect viewing on non-PSB channels...

The impact on non-PSB channels and on advertising spend within TV

- Changes in the COSTA rules for PSB channels may not change programme viewing numbers, since (i) many viewers will not notice the change; (ii) even if they did many accept that advertising funds the high quality content they value, and (iii) viewers are accustomed to seeing 12 minutes of advertisements per hour at peak times on PSB and non-PSB channels.
- However, whilst the volume of advertising impacts generated by non-PSBs will *not necessarily fall*, as outlined in this pack we believe that the volume of advertising impacts of PSB channels will *likely increase*.
- The increased volume of commercial impacts generated by PSB channels will have the effect of lowering the price paid by advertisers for advertising on PSB channels, since the same amount of spend by advertisers will generate more commercial impacts.
- The relevant question is therefore whether the change in relative prices will have the effect of redirecting advertiser spend away from non-PSB channels and into PSB channels, and if so the extent to which this takes place.

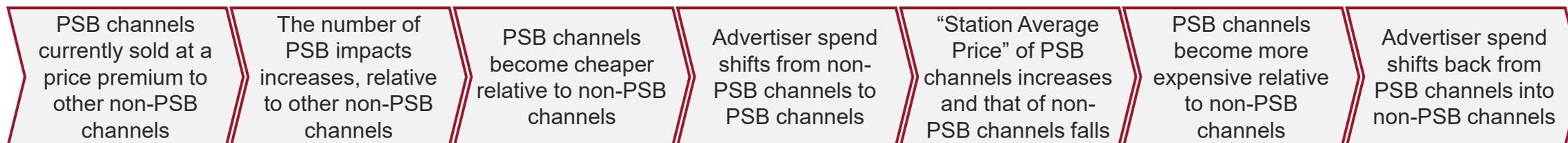
...and potential revenue downsides from the COSTA rule change for non-PSB channels are likely to be limited as a result of how broadcasting contracts are structured

The impact on non-PSB channels and on advertising spend within TV (cont.)

- Although relative prices may adjust, there will remain an absolute difference in the prices of ITV's main channel inventory (important for delivering commercial reach), ITV's digital channel inventory (see example below) and Sky's cheaper inventory (important for delivering cost effective frequency at scale) – Sky will continue to play an important role in lowering the overall cost of advertiser spending.



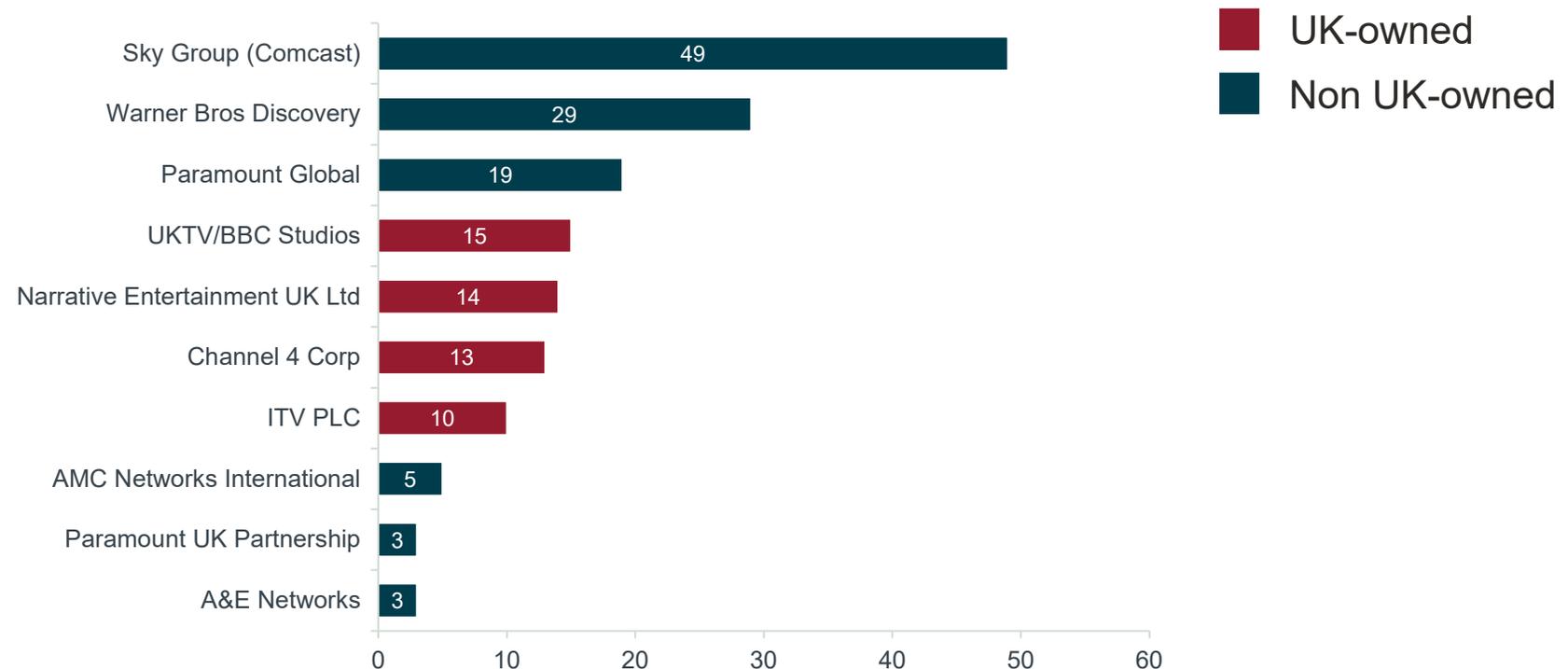
- Second, any switching that did take place between non-PSB channels (typically sold by Sky) and PSB channels (e.g. sold by ITV) would result in a change in the “station average price” of both ITV and Sky, which would then reverse the incentives to move money out of PSB channels, as shown below.



- Furthermore, the nature of “share of broadcast” contracts means that an agency or advertiser who wishes to move a share of their spend from (for example) Sky sold channels to ITV sold channels would risk losing agreed contractual discounts on linear TV prices.

Many of the channels currently benefitting from the more favourable COSTA rules applied to non-PSB channels are owned by global media firms

Number of non-PSB channels in the portfolios of the top 10* parent companies
(* by total volume of commercial impacts)

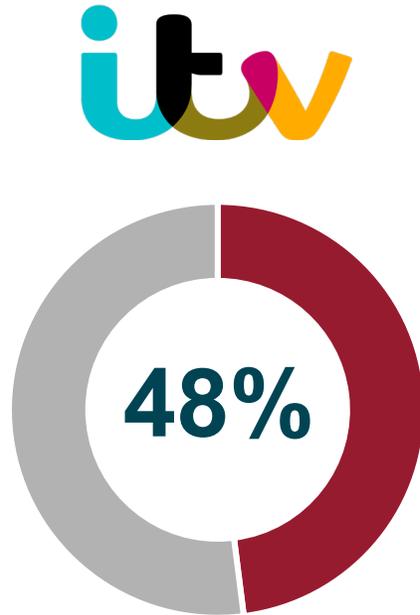


Source: ITV

Notes: Non-PSB channels include commercial multi-channels and commercial PSB portfolio channels.

The commercial PSB portfolio channels include ITV2, ITV3, ITV4, ITVBe, E4, Film4, More4, 5 *, 5USA (and their +1 channels), CITV, CITV Breakfast, 4Music, 4Seven, E4 Extra, Kerrang, Kiss TV, Magic TV, 5Action, and 5Select

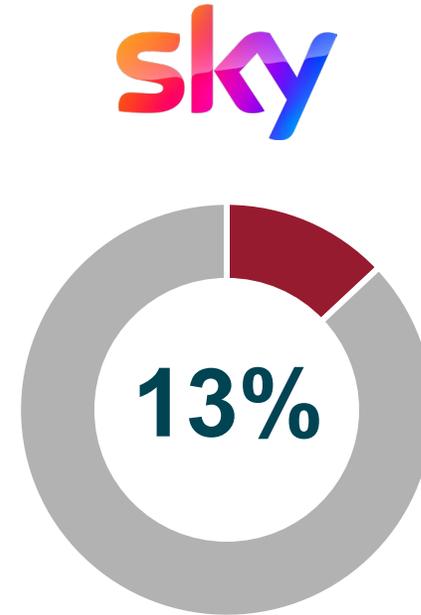
Those currently benefitting from the more relaxed rules on advertising applied to non-PSB channels are less reliant on advertising revenue in their commercial models



Share of ITV revenue in the year ended 31 December 2021 coming from advertising

Source: ITV Annual Report 2021, page 136.

Note: Other revenue sources for ITV include a very small amount of "Direct-to-consumer" and other revenues and significant revenues from "ITV Studios" for content



Share of Sky UK & Ireland revenue in the year ended 31 December 2021 coming from advertising

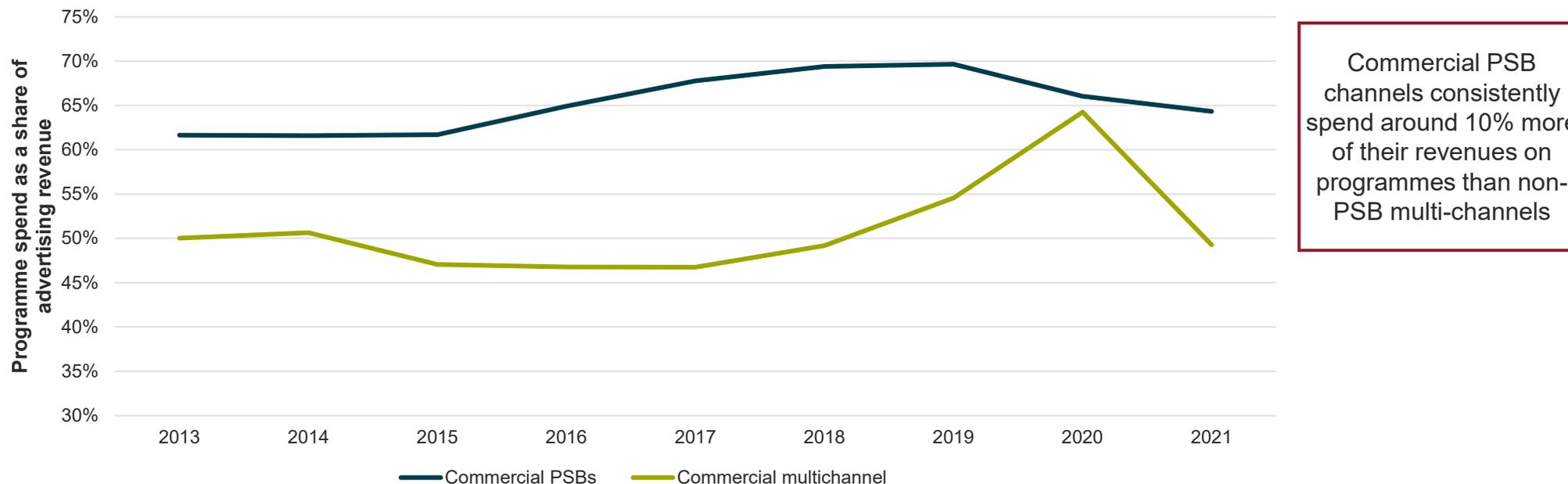
Source: Sky UK Limited Annual report and financial statements

For the year ended 31 December 2021, page 3.

Note: Other revenue sources for Sky include "Direct-to-consumer" revenues (typically subscription revenues) and "Content" revenues

Even if some advertising revenues do switch from non-PSB to PSB channels, PSBs have historically been more likely to re-invest commercial revenues in content

Selected channel group programme spend as a share of commercial revenues – 2013-2021

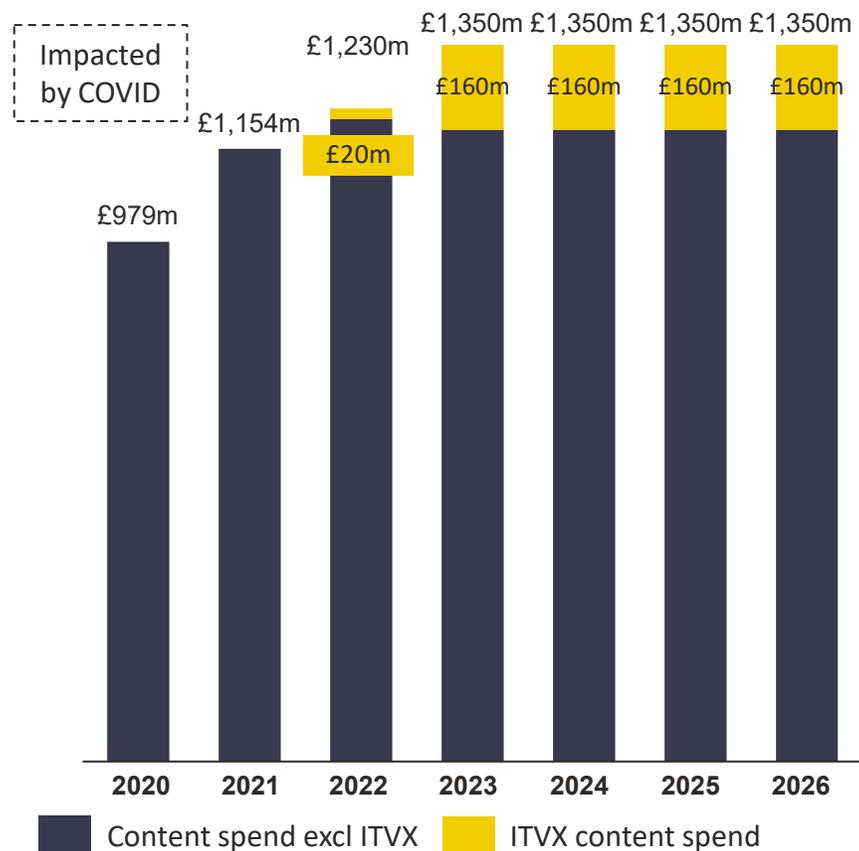


Source: Adapted from Ofcom, Media Nations 2022

Notes: Commercial PSB spend taken from Ofcom Media Nations 2022: Interactive report, Broadcast TV, PSB output and spend by channel (excluding the BBC), across all dayparts, and covering all programme spend. Revenue for commercial PSB channels taken from Ofcom Media Nations 2022: Interactive report, Broadcast TV, Revenue spend and output, Total by sector, Revenues. Commercial multichannel spend taken from Ofcom Media Nations 2022: Interactive report, Broadcast TV, Revenue spend and output, Spend, Total by channel type for 'other multichannel'. Commercial multichannel revenue taken from Ofcom Media Nations 2022: Interactive report, Broadcast TV, Revenue spend and output, Spend, Total by channel type for 'commercial multichannel'. All figures are nominal.

ITV has demonstrated a commitment to increased content investment in its upcoming launch of ITVX...

ITV actual and forecast content spend – 2020-2026



ITV share price – September 2021 to September 2022

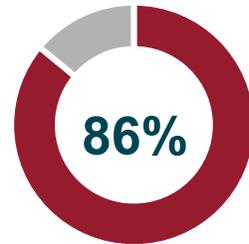


...but faced a strong investor reaction amid concerns that ITV would not generate a return on this investment

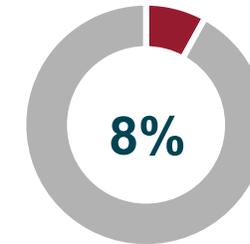
Source: ITV

PSB channels are also more likely to invest their content spend in first-run UK originations than non-PSB channels or global sVoD services

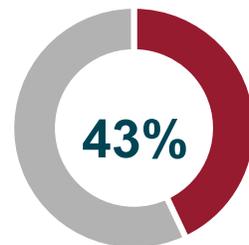
Proportion of commercial PSB content spend on first-run UK originations, 2021¹



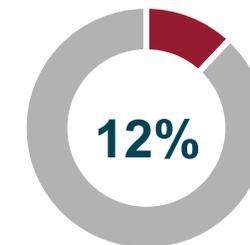
Share of Netflix content produced in the UK, 2022²



Proportion of multi-channel content spend on first-run UK originations, 2017³



Share of Amazon Prime Video content produced in the UK, 2022²



Sources: "Ofcom, Media Nations 2022" "COBA Content Report 2019"

¹Share of content spend for commercial PSBs calculated using Ofcom Media Nations 2022 Interactive Report, PSB Output and Spend by Channel.

²Share of content produced in the UK for Netflix and Amazon Prime Video from Ofcom, Media Nations 2022, Figure 57.

³Multi-channel includes all COBA members. Total content spend includes all spend, UK and Non-UK, by COBA members (excluding sports rights), totalling £2,267m in 2017 (Figure 7, COBA Content Report 2019). Investment in UK first-run originations by COBA members in 2017 was £965m (Figure 4, COBA Content Report 2019). Note that 2017 is the latest available data from the COBA Content Report 2019.

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Original v. proposed ITV1 schedule – Wednesday the 14th of September 2022 (as at 1 September 2022)

Clock Hour	Programme	As-is minutage	To-be minutage	Change
0900	Lorraine	7.0	7.0	
1000	This Morning	10.5	10.5	
1100	This Morning	12.0	12.0	
1200	This Morning / Loose Women	12.0	12.0	
1300	Loose Women / Lunchtime News	10.5	8.0	- 2.5
1400	Dickinsons Real Deal	10.0	4.5	- 5.5
1500	Tenable	8.5	6.0	- 2.5
1600	Tipping Point	12.0	12.0	
1700	The Chase	12.0	12.0	
1800	Local News / ITV Early evening News	4.0	12.0	+8.0
1900	ITV Early evening News / Emmerdale	12.0	12.0	
2000	Coronation Street	12.0	12.0	
2100	Doc Martin	12.0	12.0	
2200	National News / Peston repeat	0.0	12.0	+12.0
2300	Peston Repeat	9.5	0.0	- 9.5
Post-0000	Teleshopping / Masked Singer repeat / ITV Nightscreen / Tenable repeat	0.0	0.0	

Source: ITV

Original v. proposed ITV1 schedule – Saturday the 24th of September 2022 (as at 1 September 2022)

Clock Hour	Programme	As-is minutage	To-be minutage	Change
0900	Saturday Morning Kitchen	3.5	3.5	
1000	Saturday Morning Kitchen	12.0	12.0	
1100	Saturday Morning Kitchen / John & Lisa	12.0	12.0	
1200	John & Lisa / Snooker World Mixed Pairs Championship (Live)	12.0	12.0	
1300	Snooker World Mixed Pairs Championship (Live)	3.0	3.0	
1400	Snooker World Mixed Pairs Championship (Live)	5.0	5.0	
1500	Snooker World Mixed Pairs Championship (Live)	6.5	6.5	
1600	Snooker World Mixed Pairs Championship (Live)	12.0	12.0	
1700	ITV Weekend News / Local News / Ninja Warriors	8.5	8.5	
1800	Ninja Warriors / The Masked Dancer	5.5	12.0	+6.5
1900	The Masked Dancer	12.0	12.0	
2000	The Voice	10.5	12.0	+1.5
2100	The Voice / Who Wants to be a Millionaire	12.0	12.0	
2200	Who Wants to be a Millionaire / TBA	0.0	12.0	+12
2300	TBA / EFL highlights	12.0	9.0	- 3.0
Post-0000	EFL highlights / Teleshopping / ITV Nightscreen / Love your Garden	17.5	0.5	- 17.0

Source: ITV

Original v. proposed ITV1 schedule – Sunday the 25th of September 2022 (as at 1 September 2022)

Clock Hour	Programme	As-is minutage	To-be minutage	Change
0900	Love your weekend	7.0	7.0	-
1000	Love your weekend	10.5	10.5	-
1100	Love your weekend / EFL Highlights	12.0	12.0	-
1200	EFL highlights / National News / Snooker World Mixed Pairs Championship (Live)	12.0	12.0	-
1300	Snooker World Mixed Pairs Championship (Live)	3.0	3.0	-
1400	Snooker World Mixed Pairs Championship (Live)	5.0	5.0	-
1500	Snooker World Mixed Pairs Championship (Live)	6.5	6.5	-
1600	Snooker World Mixed Pairs Championship (Live)	12.0	12.0	-
1700	Ninja Warriors repeat	12.0	12.0	-
1800	National News / Local News / Celeb Lingo	0.0	12.0	+12.0
1900	Celeb Lingo / Ginos Italy	13.5	12.0	- 1.5
2000	Karen Pirie	10.5	12.0	+1.5
2100	Karen Pirie	10.5	12.0	+1.5
2200	National News/Prem Rugby Highlights	5.5	12.0	+6.5
2300	Prem Rugby Highlights/Extreme E Highlights	12.0	4.0	- 8.0
Post-0000	Teleshopping / Motorsport UK / ITV Nightscreen	12.0	0.0	-12.0

Source: ITV







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