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

Response from Paramount UK

7 October 2022

Paramount welcomes the opportunity to respond to this call for information on possible changes to the Code on the Scheduling of TV Advertising (COSTA).

For three decades Paramount has been the most successful international supplier of pay-TV channels to the UK market, in particular MTV, Nickelodeon, Comedy Central, BET. Paramount is also the owner of the Pluto TV service offering over 100 free-to-air channels, and the recently launched SVOD service Paramount+.

The purchase of Channel 5 in 2014 not only extended the ViacomCBS footprint into free-to-air public service commercial television, it represented a step-change in our ambitions for our UK business: to invest in more local original programming from across the UK, to create synergies between our pay and free channels, and to export more programmes and formats globally. Since 2014 Channel 5 has successfully carved a position in the market as a destination for factual programming, as well as drama, kids, news and current affairs. The channel now offers audiences a high-quality, locally-produced schedule, with a major focus on the domestic UK social agenda.

Paramount are affiliate members of the Commercial Broadcaster and VoD Association (CoBA) and also members of ISBA. Our comments in this response should be regarded as complimentary to their submissions.

SUMMARY

- The TV advertising market is in rude health. Following a steep decline during 2020 due to Covid, 2021 was the highest ever revenue figure since 2016. Linear TV is still remains hugely important to advertiser's campaigns despite a movement of audiences away from linear viewing to VOD.

- Recent research commissioned by CoBA demonstrates that audiences continue to base their viewing habits in part on the volumes of advertising around the content they want to watch.

- We would anticipate that the proposed changes to COSTA will simply move ad-spend away from smaller broadcasters towards the largest commercial PSBs.

- Given this context, we believe that no changes to the COSTA are justified and indeed any changes could in fact be detrimental both to the PSB ecology, commercial broadcasters, and consumers.

ADVERTISING MARKET IMPACT

- TV advertising continues to be of critical importance to advertisers that seek mass audiences within for their campaigns as well as those seeking ongoing brand awareness. Despite a steady decline in TV spot advertising spend, from a recent peak of £4Billion in 2015 to £3.7Billion in 2021[1], it remains the most critical source of revenue for commercial broadcasters.

- The current COSTA regime, which limits the amount of minutage per clock hour for PSBs has been established for more than 30 years and has in previous consultation been found to help sustain advertising revenues across the entire TV market. We have not observed any fundamental shift in market dynamics, or positive policy outcomes that would justify a liberalisation to current differentiated minutage rules within COSTA.

- It is our observation that a levelling up of advertising minutes on PSB channels would increase the amount of inventory in the market. This would lead to price deflation – reducing CPTs[2] for advertisers. But, we do not believe that there is any evidence to suggest that this would bring more spend to the market (i.e. increase the total amount of spend of TV spot advertising within the wider advertising market). It seems more likely that proportionate spend on TV advertising between brands (Share of Voice[3]) would be maintained. Alternatively, brands may in fact opt to reduce ad spend whilst being able to reach the same audience volume – thus withdrawing important revenue to the PSBs that funds content and innovation.

- The proposed change would lead to a 35% increase in commercial impacts across the PSBs, which is a 15% increase across total broadcast. Whilst the potential increase in inventory might be uniform there will be significant changes to the distribution of ad-spend within the market as channels with larger audiences naturally will benefit more than those with smaller audiences.

- A consequence of the proposed changes will be a shift in revenue away from smaller linear broadcasters to the largest of the PSBs. We would anticipate that ITV as the longstanding dominant market player with a very high power-ratio - in 2021 ITV commanded 49% of spot revenues from a 35% impact share - would benefit significantly from the proposed changes at the expense of smaller broadcasters.

- Whilst the constraints within the COSTA regime may at first glance appear anachronistic, in reality the fundamentals of the UK TV advertising market have changed little since Ofcom previous review (2009-2011) where it concluded that current rules were fit for purpose - delivering a pluralised and competitive TV market with high quality programming, while viewers are not exposed to an excessive amount of advertising. If the policy objective is to either support just the PSBs, or boost the linear TV market as a whole then we believe the proposed intervention would fail on both counts.

VIEWER EXPECTATIONS

- There has been a differentiated volume of advertising between the primary commercial PSB channels and the wider linear TV advertising market for more than thirty years. We are not

[1] AA/WARC, Ofcom, company reporting, Oliver & Ohlbaum estimates and analysis
[2] Cost per thousand (CPT) is the cost of using the media vehicle to reach 1,000 people.
[3] Share of voice measures the percentage of media spending by a company compared to the total media expenditure for a category in the market.

convinced that there is a significant enough body of evidence to suggest that changes in volume in linear TV would not adversely affect viewers.

- Indeed within this call for evidence, Ofcom suggests that the COSTA rules restricting advertising may no longer be necessary to preserve 'the quality of the viewing experience.' Yet in its recent (welcome) note to broadcasters following the Queen's funeral, it stated it was minded, under the COSTA rules, to grant as much flexibility as possible in the time broadcasters had to recoup lost advertising minutes. This was on the grounds that: 'Given the significant advertising minutage loss, we are concerned about the potential negative impact on the viewer experience if recoupment were to take place over only a 7 day period.' This would suggest that within Ofcom there is no consensus view of the consequence for viewers of increased ad loads.

- Whilst through some digital content platforms such as YouTube and AVOD services the viewer has become used to the role of advertising, in many instances the ad-load is much lower than on linear TV. Further on many platforms, such as YouTube and SkyGo specifically, the viewer is able to reject or skip ads that they do not feel are relevant to them. This is not a functionality that exists on linear TV.

- The growing trend in viewing habits has been to watch content without advertising, not more of it. The most significant growth in content viewing habits over the past decade has been to SVOD services such as Netflix, Amazon Prime, Paramount+ which carry no advertising. ITV charges a premium for Hub+ its ad-free version of ITV Hub which would suggest there is still value to the viewer from watching less adverts.

- Both Netflix and Amazon Prime are expected to launch a service that includes advertising later this year. But it is our view that this should not necessarily be seen as an indication that audiences are more pre-disposed towards advertising than historically. Netflix and Prime are positioning an alternate product that include adverts at a reduced price.

- Consumer research commissioned by the CoBA observes that, as might be expected, "…viewers have a preference for watching TV content without advertising, and that any potential increases to the volume or frequency of TV advertising would likely result in a decline in viewing to traditional broadcast TV in favour of ad-free digital streaming services"[4]. Whilst it is unlikely that viewers would desert the main PSB channels overnight, it would undermine the differentiated PSB offering and could accelerate the decline in linear TV viewing in the longer term.

COMPETITION

- Part of the original ITC justification for implementing a differentiated amount of advertising between the PSBs and the multi-channel sector was to ensure fair competition. Any review of COSTA must consider whether the market has materially changed enough to justify any intervention that may alter market power as a consequence.
- Since 2010 PSBs and their portfolios continue to account for the majority of total viewing. Commercial PSB main channels retain the largest share of commercial impacts and total market net advertising revenues[5].

[4] Fly Research, Oliver & Ohlbaum analysis
[5] Oliver & Ohlbaum analysis

- ITV specifically continues to have the largest share of net advertising revenue. It has reduced only 1.4% since 2010[6]. Counter-intuitively lifting or reducing the current restrictions applied to PSBs would likely reinforce the position of ITV's main network.

[6] AA/WARC, BARB, company reporting, Oliver & Ohlbaum analysis and estimates