



The Satellite and Cable Broadcasters' Group
Response to Stage 2 of the OFCOM RADA Consultation
11th December 2008

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The SCBG is the trade association for digital programme providers who are independent of one of the main terrestrial broadcasters. Its members are responsible for over 100 channels in the UK. Many member companies are pan-European broadcasters, producing and commissioning content for different national markets.

According to recent Deloitte research, SCBG members made a total economic contribution to the UK economy in 2007 of over £2.2 billion and invested a total of £1.2 billion in programming, employing nearly 25 000 people in skilled jobs.

SCBG member channels provide citizens and consumers with programmes and services for a diverse range of audiences across a wide range of genres and audiences, including entertainment, factual, educational, history, music, nature, art and science. Our member companies make and show programmes for children and young people, and for ethnic minorities in their own languages. SCBG members' channels can be found on all of the UK's major digital pay and free-to-air platforms, which are now available in nearly 90% of UK homes.

For a full list of members and more details about the SCBG please go to

www.scbg.org.uk

Summary of SCBG Position

- The evidence from all the research put forward shows that any increase in supply of advertising minutes will serve to depress the price of advertising and move market share for that advertising away from non-PSB broadcasters;
- There is no evidence of new money coming to the market in the short term. The only effect of change will be to move spend from one part of the market to another.
- None of the models put forward have considered the recent global financial crisis and the effect this will have on the television advertising market. If RADA rules on overall minutage and peak time minutage are relaxed, the market could be left with a number of additional advertising minutes which no one wants.
- The significant loss of revenue and market share predicted as a result of any changes on advertising minutage for non-PSB channels, coupled with the general economic downturn, could result in the loss of some non-PSB channels and reduce the competition which ensures high-quality programming.

- The weekly allowance scenario put forward by ITV would have the same effect as increasing peak time allowances and is not considered an acceptable approach by SCBG members.
- The effect of CRR, any proposed changes to the CRR regime and ITV's dominance in the broadcast advertising market should be fully considered when decisions about possible changes are being taken.
- It should be remembered that while spin-off channels may lose some NAR share because of changes to the rules, their parent PSB channels will gain NAR share which will offset that loss.
- A levelling down of the advertising minutes allowed to non-PSBs will cause significant damage to non-PSB NAR with little or no benefit to the NAR of PSBs. The expected price increase for advertising would not offset the loss of impacts.
- Non-PSBs should not be subject to a limit on the number of breaks in a programme, as the 12 minute rule will always protect the consumer from excessive advertising;
- It should be possible to exploit naturally occurring breaks in programmes to insert advertising;
- The limits on the length of internal advertising breaks on PSB channels should remain in place, as it is likely that any relaxation of this rule would result in an increase of market share for the PSBs at a cost to the non-PSBs.
- SCBG favours the de-regulation of teleshopping rules for non-PSB channels

SCBG Response to Ofcom Questions

Which option (or variation of an option) for regulating the overall amount of advertising permitted on television channels do you prefer, and why? Do you agree that any rule changes that might result in a significant change to the number of commercial impacts should not come into force before 1 January 2010?

There should be no change to the status quo on the overall amount of advertising permitted. Any additional advertising in the market will simply serve to depress the price, which given current market conditions and predictions for 2009, would not be of benefit to any of the broadcasters. Furthermore, qualitative evidence collected on behalf of SCBG shows that advertisers would be unlikely to increase overall spend if more impacts were available.¹

Aligning non-PSB minutage with PSB minutage would not create a more level playing field, as argued by some of the respondents to the previous consultation. Firstly it should be remembered that the PSBs have a large share of the broadcast advertising market. Indeed ITV has such a large share of the market that special measures had to be put in place to avoid unfair competition. The PSBs have consolidated this market share in recent years by launching spin-off non PSB channels which are dominant on the Freeview platform and account for approximately half of the advertising revenue of non-PSB broadcasters.

SCBG research shows that reducing the number of advertising minutes allowed to non-PSBs would perhaps increase the price of advertising but not enough to offset the loss of impacts for non-PSBs. The overall loss for non-PSBs would be in the region of £80m

¹ 'The Likely Impact Of Potential Changes In The Rules Governing The Amount Of UK TV Advertising On Independent Thematic Cable And Satellite Channels In The UK'. Oliver and Ohlbaum 2007

with a gain of £34m for the PSBs.² Further research conducted by an SCBG member shows that this damage could be even greater if the effect CRR has on the current PWC model is taken into consideration.

Which option (or variation of an option) for regulating peak-time minutage on public service channels do you favour, and why? Do you agree that any rule changes that might result in a significant change to the number of commercial impacts should not come into force before 1 January 2010?

The system for regulation of peak time minutage on PSBs should remain the same. SCBG therefore supports the status quo relating to peak time allowances for PSBs.

All of the possible changes put forward in the consultation for the regulation of peak time minutage on PSB channels would have a similar effect on non-PSB channels. In each scenario there is a loss of on average 9% of NAR for non-PSB channels. This would represent a re-distribution of the overall advertising revenue available in the market.³

The new proposal put forward by ITV of an allowance across the week is likely to produce the same results. PSB and non-PSB viewing patterns differ significantly.⁴ Non-PSB viewing figures show a fairly constant level of viewers across the day. The same is not true for PSBs who tend to see viewing spikes at certain times of the day and at certain times of the week. If PSBs were allowed the flexibility to decide when to show more advertising within the limits of a weekly allowance, they would be likely to focus on peak times, when they could charge more. The net effect would be NAR gain for the PSBs at the expense of non-PSBs which would reflect the models put forward by the SCBG research⁵.

Do you agree that the 7am to 9am period should cease to be treated as a peak viewing period on public service channels? If so, do you agree that this change should come into effect shortly after Ofcom publishes its conclusions?

The SCBG does not agree with this scenario as it is likely to result in a shift of advertising spend away from non-PSB channels.

Which option (or variation of an option) for regulating the number of advertising breaks do you favour, and why? Do you agree that any changes should come into effect shortly after Ofcom publishes its conclusions?

SCBG does not agree with Ofcom's analysis that there should be a limit to the number of advertising breaks within a programme. Due to the 12 minute per hour limit, there can never be an excess of advertising within a programme, meaning the viewer will always be protected.

Ad skipping and live pausing of programmes can have a serious impact on how effective television advertising will be in the future and shorter more frequent breaks may be the only way to avoid diminishing its value.

² Ofcom's Proposals on Changes to RADA –An Update. Oliver and Ohlbaum for SCBG May 2008

³ Ibid

⁴ See Footnote 1

⁵ See Footnote 2

If the limited changes suggested in this consultation are the only options available, SCBG favours the proposal allowing more breaks in longer programmes and maintaining the different regimes in place for PSBs and non-PSBs.

SCBG agrees that any changes decided upon could come into force shortly after the publication of OFCOM's conclusions.

Do you support or oppose the idea of allowing more frequent breaks in programmes of autonomous parts? Please explain your reasons. Do you agree that any changes should come into effect shortly after Ofcom publishes its conclusions?

SCBG supports the proposal allowing more frequent breaks in programmes of autonomous parts, as this helps support a more natural viewing pattern. Moreover, short-form content that already exists mainly on music channels and on channels with a large amount of user-generated content may increase in the future. This type of content particularly lends itself to shorter, more frequent breaks.

SCBG agrees that any changes decided upon could come into force shortly after the publication of OFCOM's conclusions.

Do you think that the existing limit on the length of internal advertising breaks on PSB channels should be kept or scrapped? Please explain your reasons. Do you agree that any changes should come into effect shortly after Ofcom publishes its conclusions?

SCBG believes that the limits on the length of internal advertising breaks on PSB channels should remain in place, as it is likely that any relaxation of this rule would result in an increase of market share for the PSBs dominant in the broadcast advertising market at a cost to the non-PSBs.

SCBG agrees that any changes decided upon could come into force shortly after the publication of OFCOM's conclusions.

Which option or options for regulating teleshopping do you favour, and why? Do you agree that any changes should come into effect shortly after Ofcom publishes its conclusions?

SCBG favours option 3, de-regulation for non-PSB channels. With the decline in traditional revenue streams, this option will allow non-PSB channels the necessary flexibility to use teleshopping as required to supplement their income needed to support editorial output. Furthermore, it will allow niche channels to develop as it will help them to generate extra revenue that could make their business model economically viable.

SCBG members do not believe there should be a relaxation of the teleshopping rules applying to PSB channels. Firstly, given the likely changes to the rules on what is considered to be teleshopping, they could use publicly supported resources (such as EPG prominence) to support services such as gambling which must surely sit outside of their public service remit. Furthermore their prominence and gifted multiplex capacity

could give them an uncompetitive economic advantage over non-PSB channels offering teleshopping services.

IA Q4: In the event that there were to be a reduction in the amount of airtime allowed for non-PSB channels, what would be the effect on the price of advertising on these channels? Would there be any effect on the relative prices of advertising between PSB and non-PSB channels? If so, please explain.

In the research SCBG commissioned it did not model the effect any reduction in minutage for non-PSB channels might have on the overall price of advertising. However, it is likely that the cost of advertising may increase slightly but this cost increase is unlikely to offset the damage which will be done to non-PSB share of NAR.

In the Oliver and Ohlbaum model for this scenario non-PSBs would see a 12% drop in impacts, a loss in NAR of 8% and overall revenue losses of £46m.

Conclusion

While the idea of liberalising a market is always an attractive one, care must be taken to ensure that liberalisation does not drive prices down so far as to make it unviable. Predictions for the markets in general for 2009 are unoptimistic. For the broadcast advertising market this is particularly the case. Even without a global financial crisis in full swing it is likely that ad spend will continue to move away from traditional spot advertising into below the line promotions or search. For this reason it makes no sense to drive prices down further by allowing extra advertising minutage on television.

For SCBG members, many of whom rely solely on advertising revenue as a source of income, any decision by Ofcom which would move NAR away from them and towards the PSBs would be unacceptable and of limited benefit to the broadcast advertising market as a whole.

In areas where there is less likely to be a significant impact on the wider market SCBG supports the idea of flexibility for non-PSBs in the number of ad breaks which could be taken, where those breaks may be placed and the number of teleshopping hours which should be available to them. However we do not support similar relaxations for PSB channels where this would clash with their public service remit, or damage non-PSB share of the advertising market.