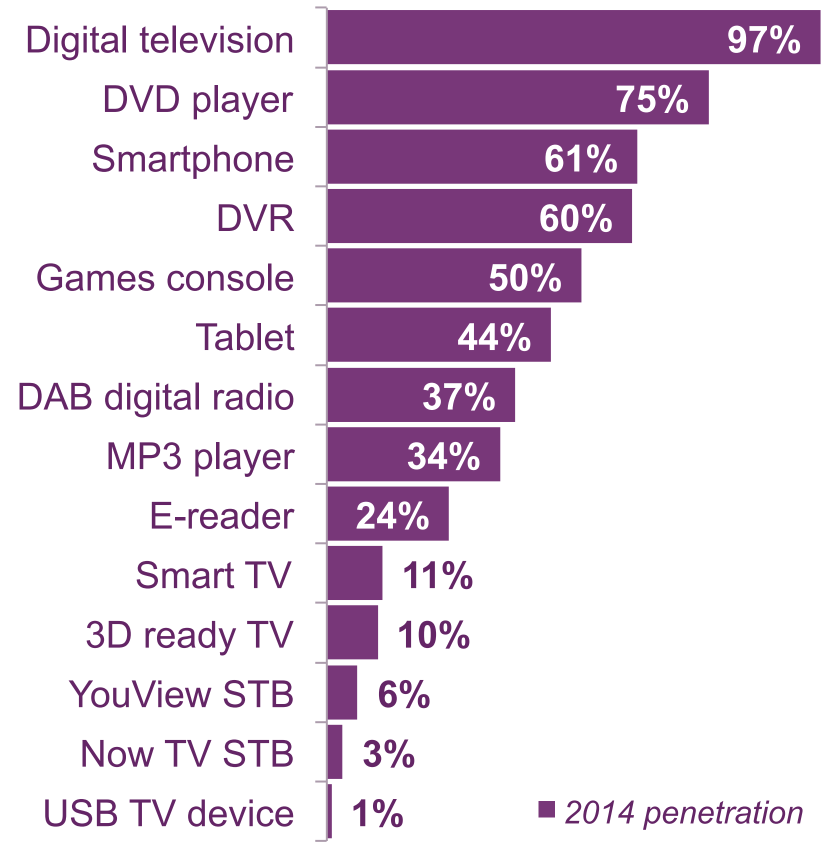
Market context and performance

Ofcom's third review of public service broadcasting (PSB) in the UK

- Statutory requirement to undertake these reviews periodically with a view to
  - establishing the extent to which the PSB television channels have **fulfilled the purposes** of public service broadcasting
  - **maintaining and strengthening** public service broadcasting in the future

There has been rapid evolution of our media markets, shaped by the growth of the internet

Technology

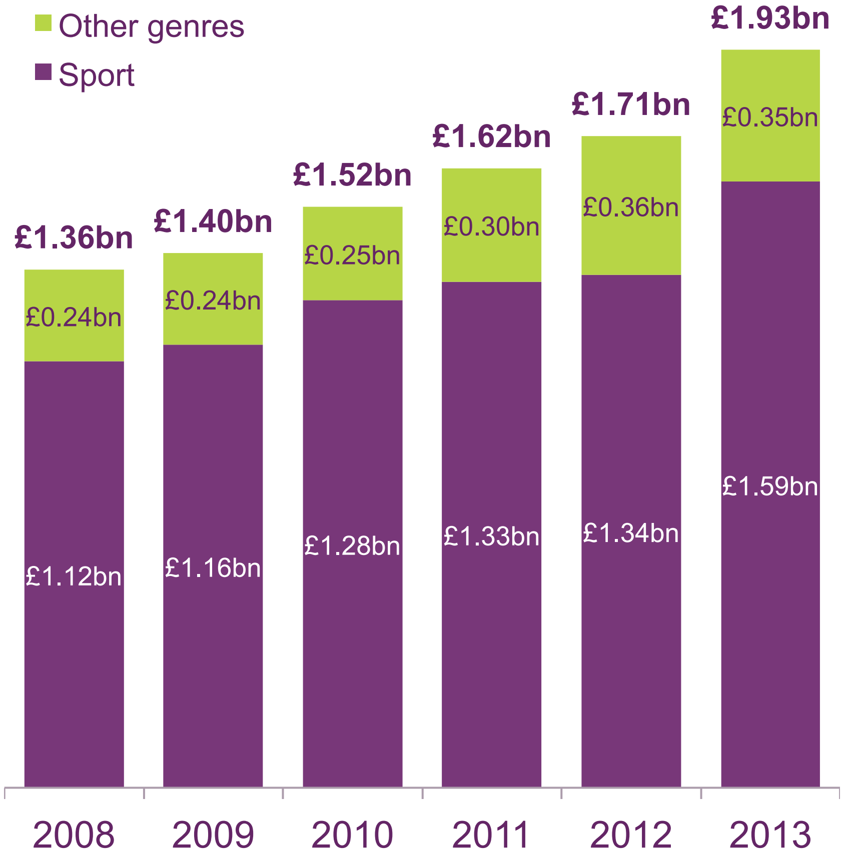


Platforms and services

2007	4oD, Virgin media, Sky On Demand, blinkbox
2008	BBC iPlayer, Demand 5, itv PLAYER
2009	slingbox
2010	Samsung SMART TV, tv, TiVo
2011	amazon LOVEFiLM.com, sky go
2012	youview, Roku, NETFLIX
2013	Sainsbury's Entertainment, chromecast

Non-PSB sources are increasingly providing PSC

Non PSB channel spend on first-run UK originations (real terms, 2013 prices)



Multichannel TV

PSB portfolios

Online media services

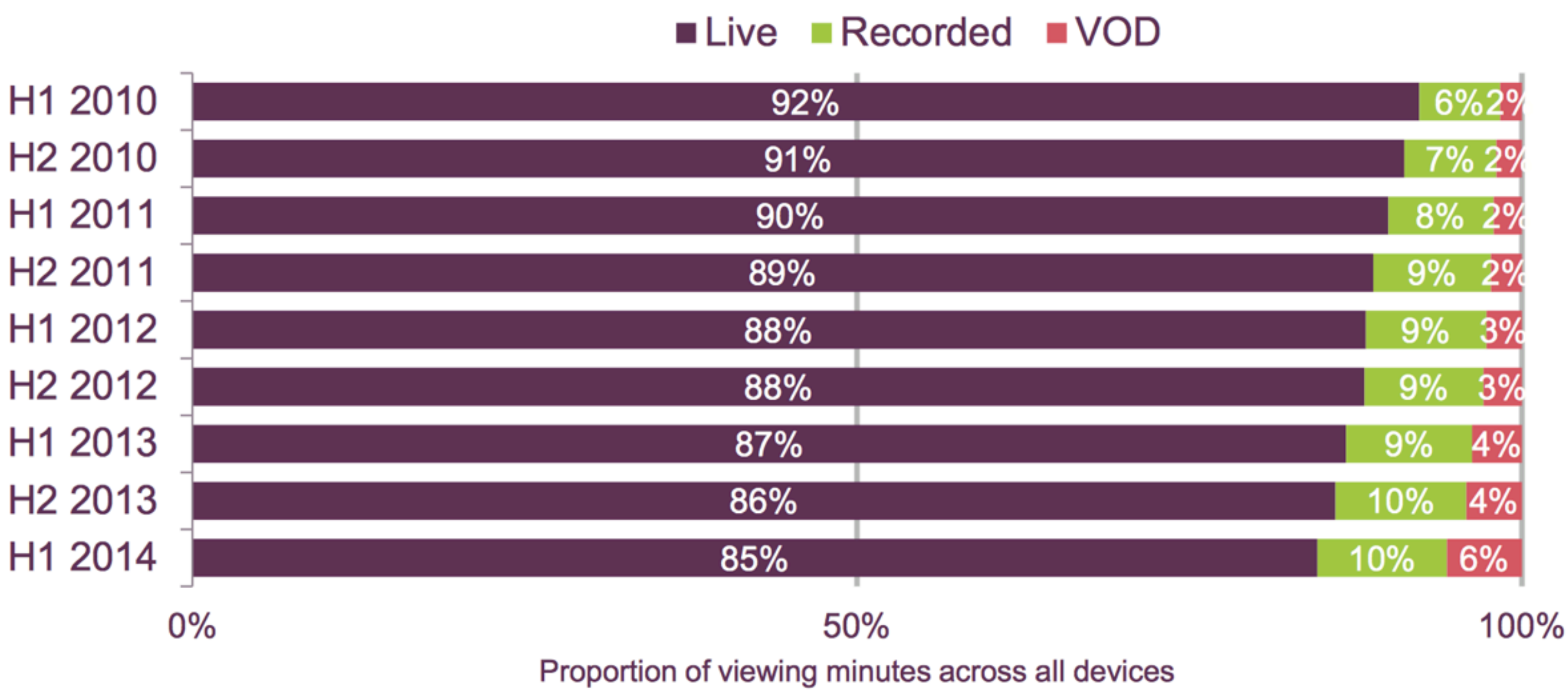
Radio

Audience needs and behaviours are changing…

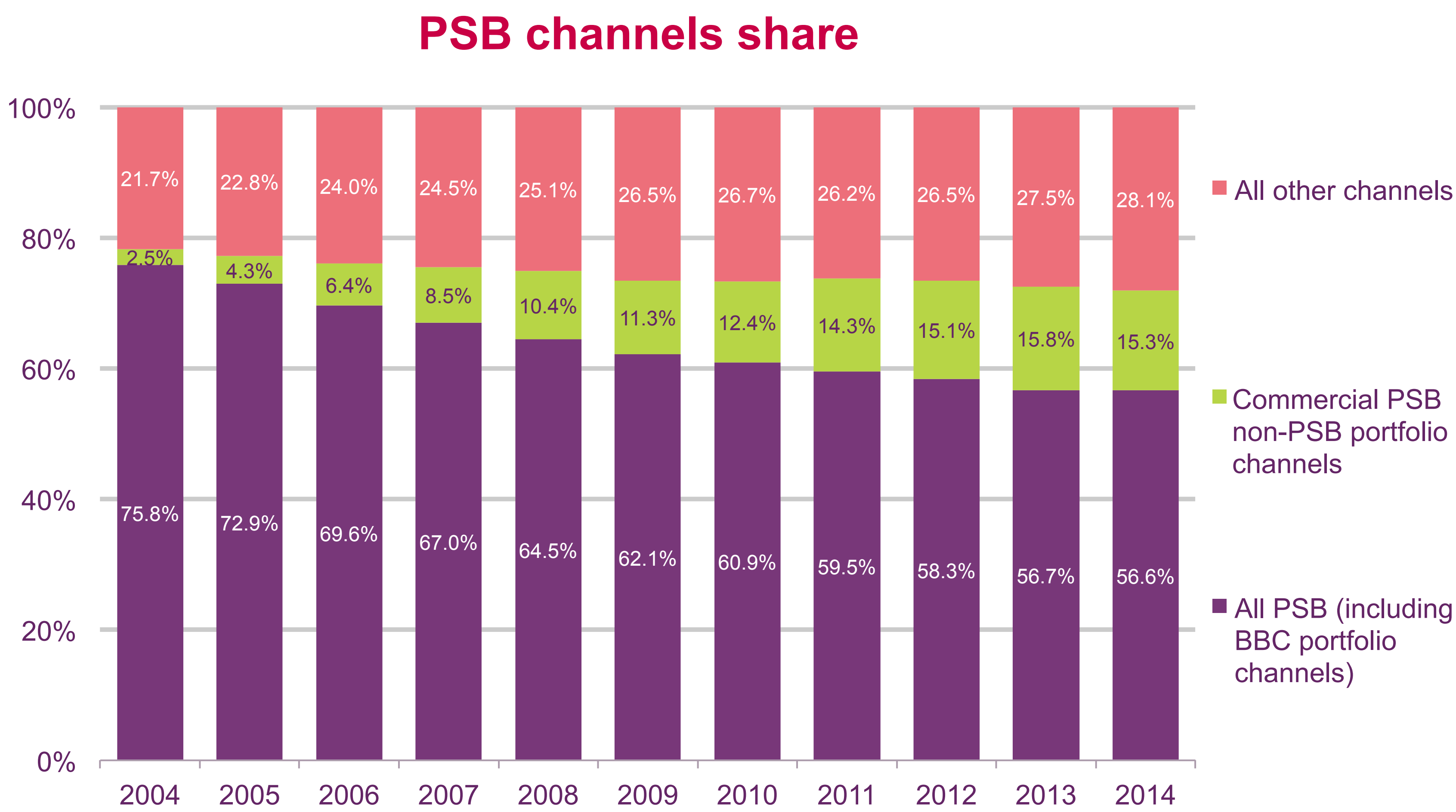
Increasingly diverse	• UK is becoming more diverse in terms of geographic identity, ethnicity, religion and behaviour by age
PSB distinctiveness	• In a world of increasing choice, consumers prefer to distinguish between 'good' and 'bad' content
Portfolio viewing	• The PSB portfolio channels are viewed as equally important as the main channels
Generation gap	• These trends are particularly true for the young – they may also be taking these habits with them as they age
Innovation	• An increasing desire for original and innovative content versus more tried and tested programmes and formats
Technologically savvy	• The ability to access content whenever, wherever and on any device is increasingly an expectation

Although there have been only gradual changes in viewing trends

Time-shifted viewing, all TV



And while PSB share has declined it is still significant



The PSB system remains strong, but there have been declines in programme spend, output and viewing

Some metrics have performed well…

- **Sector revenues** have recovered in general – advertising and online are growing
- **Output** still at a high level despite 4% overall decline – new hours in peak time are stable
- **Audience satisfaction** remains high and people believe that the system broadly delivers
- **Viewing** has fallen but from a high base – most loss has gone to PSB portfolio channels

Some face potential challenges…

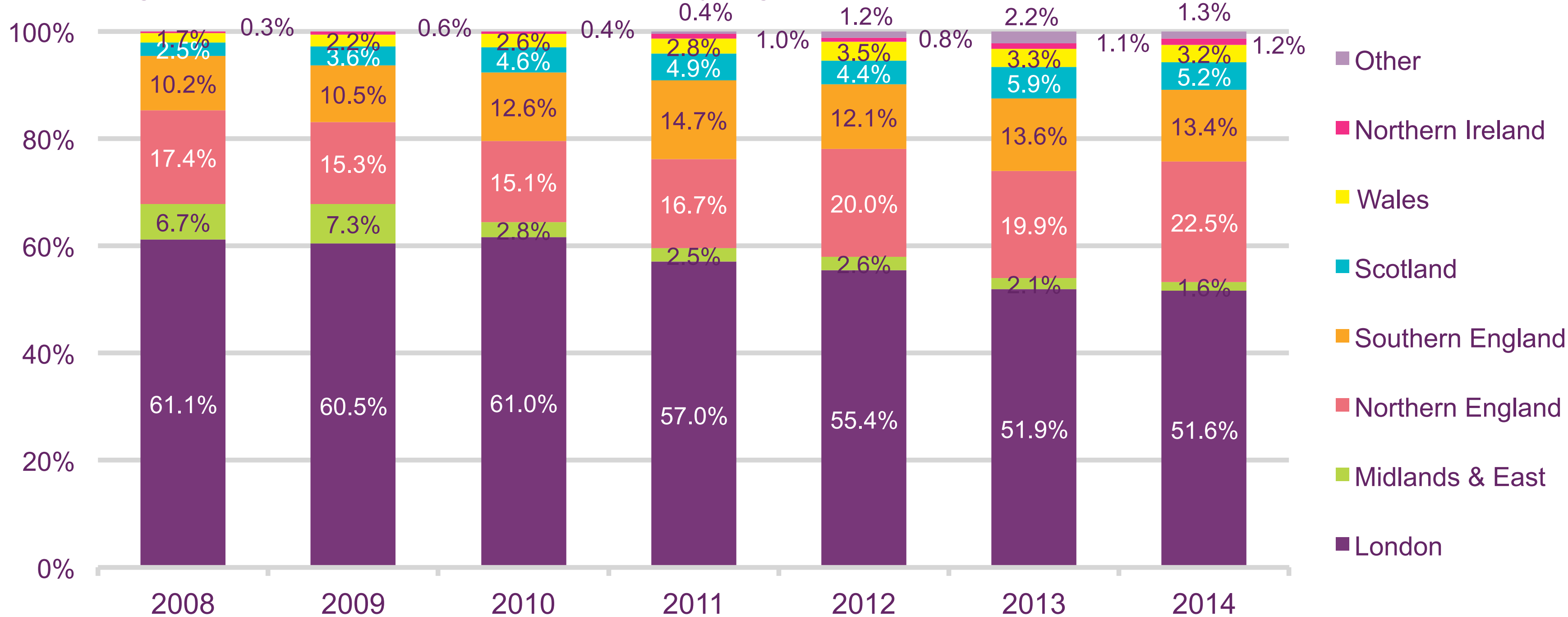
- **Spend** has fallen substantially – by 14.8% for PSBs – and the volume of UK originated first-run content is also down
- **News** has seen an 9% decline in spend and there is an increasing reliance on the BBC

Real terms investment is down across all genres

	All hours			First-run originations		
	2014 spend	Change 2008-14		2014 spend	Change 2008-14	
News & current affairs	£304m	-£49m	-14%	£304m	-£49m	-14%
Arts & classical music	£43m	-£14m	-24%	£41m	-£14m	-25%
Religion & ethics	£13m	-£5m	-27%	£13m	-£4m	-26%
Education	£7m	-£23m	-77%	£7m	-£23m	-77%
Factual	£498m	-£71m	-12%	£482m	-£71m	-13%
Drama & soaps	£590m	-£381m	-39%	£516m	-£233m	-31%
Entertainment & comedy	£601m	£2m	0%	£504m	-£29m	-5%
Feature films	£150m	-£85m	-36%	£20m	£7m	54%
Sports	£547m	-£54m	-9%	£545m	-£8m	-2%
Children's	£99m	-£24m	-20%	£88m	-£15m	-15%
Total	**£2,851m**	**-£703m**	**-20%**	**£2,521m**	**-£439m**	**-15%**

There are some differences in the nations and regions of the UK

Percentage of PSB network production value by region



Source: Ofcom/broadcasters
Note: A new category 'Multi Nation/Region production' has been created for Regional Productions from London Producers which do not meet both 70% of spend and 50% of talent in any one particular Macro Region' See http://stakeholders.ofcom.org.uk/broadcasting/guidance/programme-guidance/reg_prod/ on Ofcom website for further details.

Declining spend has not affected overall audience satisfaction…

	Importance		Delivery	
Purposes				
• Informing our understanding of the world	**80%**	-1%	**66%**	-1%
• Stimulating knowledge and learning	**67%**	-1%	**53%**	+5%
• Reflecting UK cultural identity	**66%**	+8%	**46%**	+12%
• Representing diversity and alternative viewpoints	**66%**	+2%	**51%**	+4%
Characteristics				
• High quality	**82%**	+1%	**67%**	+9%
• Original	**74%**	+6%	**53%**	+12%
• Innovative	**73%**	+2%	**52%**	+7%
• Challenging	**70%**	-4%	**49%***	+0%
• Engaging	**78%***	+0%	**56%***	+6%

* 2013 figures.

…although our analysis suggests some areas of concern

Investment in content

- The overall fall in spend and specifically in investment in new first-run UK originations, would be a significant concern if it led to a noticeable reduction in the volume, range or quality of output

Reflecting different cultures

- Do the PSBs fully meet the needs of a range of audiences? Only 51% of people across the UK are satisfied that programmes adequately portray different kinds of cultures within the UK

Genre delivery

- There has been a significant decline in the delivery of certain key genres. Real-terms spend on first run programming by the PSBs on the following genres has fallen significantly; drama, current affairs, children’s, nations and regions

Future challenges to the PSB system

Projecting forward the current market trends suggest the current system can continue to deliver

- Only gradual change in **platform mix** to main TV set
- Ongoing high levels of **live viewing**
- **TV advertising** structurally robust
- PSBs maintain **high share and reach**
- New **global entrants** do not take traditional viewing share

Some developments could lead to more transformational changes and challenges

- A faster shift to **on-demand viewing**
- **Changing user interfaces** drving changes in consumption habits
- New **disruptive entrants** may well emerge
- **Faster fragmentation** of audiences
- Structural changes to the key **sources of funding**

Future challenges

Maintaining revenues

-total investment down £400m since 2008

-the future of the BBC?

The challenged genres

-news for young people: down 30% since 2008

-the challenges of drama investment

-childrens

Maintaining the benefits side of the PSB compact

-spectrum value/AIP

-EPG prominence in a connected environment

Future distribution questions

-"internet first" BBC

-cost of multiple distribution routes

-the IP switch question

What we recommended

PSB Review key recommendations	
Deciding the role of the BBC is fundamental	Consider updating the C4C framework
PSBs will need freedom to continue to innovate	The prominence regime will need reforming
Retransmission reform is challenging	Changes in the indie sector need to be carefully monitored
…and there are **scenarios** where changes in consumption habits, consolidation and negative impacts on funding models will require more radical reform.	

Questions

In summary: key points

- **Rapid evolution of our media markets**, shaped by the growth of the internet
- The audience has **changing needs and behaviours**
- **The PSB system remains strong**, but there have been declines in programme spend, output and viewing
- **Overall audience satisfaction remains high** – not affected by decling spend although our analysis suggests some areas of concern
- Projecting forward current market trends suggests an **evolutionary path for PSB**
- There are a number of market developments which, either individually or in combination, could lead to more **transformational changes and challenges**
- There are options **for maintaining and strengthening** the system