

14 September 2021

Advertising Association's Response to the Consultation on a potential change of ownership of Channel 4 Television Corporation

1. The Advertising Association (AA) represents the industry "tripartite", the common viewpoint of the advertisers, agencies and all the advertising-funded media. Our role is to advocate the importance of advertising and its value to people, society, businesses and the economy.
2. In this submission, we do not comment on the different options for privatisation as there are different perspectives within our membership. Ultimately, the decision on that is for Government and Parliament. Our key concern is to advocate for the optimum conditions to ensure a thriving and competitive advertising marketplace. Advertising is a driver of economic growth, competition and innovation¹. It remains the most important source of revenue for commercial broadcasters and underpins a diverse and pluralistic media with a rich variety of content to suit everybody's tastes and interests.
3. There are many questions that need to be answered by the Government about why it believes Channel 4 should be privatised now. Our industry is concerned about the implications and there have been no calls from members for privatisation prior to the announcement of this consultation. We urge DCMS to listen to all views from the industry before it makes a decision that could change the shape of the UK advertising market. There is considerable concern amongst advertisers and agencies, as expressed through their associations ISBA and the IPA, about changing the status quo.
4. We note there is no evidence, analysis or impact assessment in the consultation document of the effect that privatising Channel 4 may have on the TV advertising market, the wider advertising market or the UK's production sector on which UK advertisers rely. Competition in the TV advertising market has been delivered by the existence of three sales houses, including the one owned by Channel 4. Advertisers and agencies are concerned that privatising Channel 4 will weaken competition in the TV advertising marketplace, and could lead to a reduction in the number of TV sales houses. They worry about the consequences for airtime trading on Channel 4 as well as the implications for trading on other channels.
5. The PSB system is rooted in competition for audiences and funding. Although the ITV companies originally won the right to sell all Channel 4's advertising and to fund the channel, this lack of competition was redressed when Channel 4 was granted the right to sell its own advertising.
6. At a time when the advertising market is itself facing the huge disruption of the on-line platforms, with a potentially significant consumer detriment through the anti-competitive concentration they enjoy, now is not the time to reduce further the competition available to advertisers in the UK market.

¹ We have estimated that every pound spent on advertising returns £6 to GDP through direct, indirect, induced and catalytic economic effects. Advertising spend will be over £23.5 billion in 2020, which we estimate, results in £141bn to GDP, supporting 1 million jobs across the UK.

7. PSB channels and services remain hugely important to advertisers wanting to reach large audiences, and maintaining competition in the advertising market should be a key plank of emerging media policy across the board.
8. We are concerned that there is no regulatory impact assessment published with this consultation, We would expect there to be one that compares various options, including “do nothing”, as is standard in decisions which have such wide reaching impacts. Respondents to the consultation should be free to comment on this Impact Assessment and provide their own evidence and analysis to feed into the consultation process before the Government makes a decision on a change of ownership and progresses to the next stage. This process would allow proper consideration as to the conditions that might be added to any sale.
9. The consultation document seems at present to rely on assumptions to underpin the Government’s clear intention to privatise Channel 4, including the case it makes that a channel 90% funded by advertising may not be sustainable in an increasingly competitive marketplace.
10. As we set out in this submission, there is a revolution going on in TV with the rise of global content providers, content distributors and massive new competitors in video advertising online. In the short term, the advertising market is bouncing back after the pandemic. Advertising forecasts show strong growth in the next two years, including in the TV market. We understand that Channel 4’s financial position and audience share is also recovering strongly. Investment in advertising is recovering well from economic shock of the pandemic, and all media, including advertising-funded TV companies, are set to grow their revenues this year. There are grounds for optimism.
11. For any successful public policy initiative, it needs rigorous analysis of the evidence. The desired outcome and the rationale for doing it needs to be clearly defined and evidence based. We need to take into consideration the cost-benefit, trade-offs, the durability of the proposed solution, comparison to other counter-factuals and whether it will lead to future media concentration. To our mind, a convincing case for the privatisation of Channel 4 still needs to be made.
12. For advertisers, Channel 4 provides a unique, distinctive and younger audience than other broadcasters, so it is an important part of the advertising mix. It has invested well in developing an advertising-funded digital proposition, with All 4 offering some protection against a decline in linear revenue. Like the other PSBs, but Channel 4’s relationship with the sector is unique. Ofcom describe the introduction of Channel 4’s publisher broadcaster model as “*the most significant*” policy intervention in developing the UK’s independent production sector.² This intervention - coupled with requirements placed on the BBC, ITV and Channel 5 to commission from the independent sector under regulated terms of trade - has enabled independent producers to flourish throughout the UK.
13. However, it is Channel 4’s capacity to appeal to diverse and niche audiences which sets it apart. Advertisers and agencies find the current model very successful for their purposes and are sceptical that there is any good rationale for this to change. They are concerned that changes could be disruptive and could lead to a dilution of Channel 4’s output. Thus, if Channel 4 is to be privatised, the advertising market would want to see a continuation of the innovation and risk-taking that make the channel “edgy” and appealing to niche, diverse, young and often upmarket audiences across the UK. They would want to be

² https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0023/221954/statement-future-of-public-service-media.pdf

assured that Channel 4 will maintain the characteristics that differentiate it from other broadcasters, so that the TV advertising proposition remains diverse. They would also want to see conditions that allow Channel 4 to continue to invest in the creative industries across the UK, so that the independent production community can still flourish.

14. For further information, please contact Sue Eustace, Director of Public Affairs (sue.eustace@adassoc.org.uk).

Response to consultation questions

Question 1: Do you agree that there are challenges in the current TV broadcasting market that present barriers to a sustainable Channel 4 in public ownership? Please provide supporting evidence.

15. We recognise there are significant challenges in the current TV broadcasting market. Global companies such as Amazon and Netflix have deep pockets to provide new and ad-free content to attract viewers away from the advertising-funded TV channels and Netflix is investing in British-produced content in direct competition with Channel 4 and other UK TV channels, although this investment is small compared to the number of hours of home-grown content shown by the PSBs and by UK multi-channel broadcasters³.
16. The shift towards online advertising continues inexorably and with speed. Online advertising now represents more than 65% of total ad spend. Partly in response to these trends, the broadcasters have united behind a single TV advertising measurement tool, CFlight⁴, whilst ISBA has been developing a single measurement system for video advertising across online and TV, Project Origin⁵, to reflect the increasing interchangeability of that advertising and the need to plan campaigns across all video media.
17. At the same time, TV advertising still commands a lot of trust for brands. These challenges are not exclusive to Channel 4 but the consultation's questioning of the sustainability of the channel needs to take into account its considerable success in building its digital proposition. It has the most advanced AVOD (VOD funded by advertising) of all the public service broadcasters and its digital advertising revenues have doubled since 2016. Its Future4 Strategy aims to supercharge Channel 4's digital transition by doubling All 4 viewing by 2025. 17% of Channel 4's total revenues are now attributed to digital advertising, significantly ahead of its competitors and the target is to increase this to 30% by 2025. All 4 is now the largest free streaming service in the UK when measured on available content and it saw record growth in 2020 with 1.25bn views, an increase of 26% year-on-year. All 4 also has 25m registered viewers and this is expected to rise with Q1 2021 being the biggest quarter ever for new registrations. Channel 4 has been successful so far in shifting from linear to digital advertising.

3 Ofcom, (December 2020). Small Screen: Big Debate Consultation: The Future of Public Service Media.

https://www.smallscreenbigdebate.co.uk/_data/assets/pdf_file/0032/208769/consultation-future-of-public-service-media.pdf. The five main public service broadcaster channels (BBC One, BBC Two, ITV/STV, Channel 4 and Channel 5), S4C and the BBC's other public service channels show around 32,000 hours of first-run original UK content per year and UK multi-channel broadcasters around 22,900 hours, while in 2018 streaming services such as Netflix and Amazon Prime provided 182 hours of UK-produced content (equivalent to 0.6% of the contribution of the public service broadcasters).

4 <https://www.thedrum.com/news/2021/06/09/broadcasters-unite-behind-cflight-tv-ad-campaign-measurement-tool>

5 <https://www.isba.org.uk/article/project-origin-validating-wfa-cross-media-measurement-framework>

18. The public service broadcasting ecology, which has served British viewers so well for decades, has remained remarkably successful and the advertising industry's quick, short-term economic recovery following the COVID-19 pandemic suggests some resilience and sustainability for an ad-funded model, at least in the short and possibly the medium term.
19. The latest figures from the Advertising Association/WARC Expenditure Report shows UK adspend is forecast to rise 18.2% in 2021, reaching an annual total of £27.7bn⁶. This growth is expected to recover the entirety of 2020's £1.8bn decline and rise a further 7.7% in 2022, by when the market will be worth a record £30bn. The sustainability of TV and VOD advertising is also reflected in Figure 1 below, which shows that TV ad spend is expected to increase 15.1% in 2021, which is a significantly improved projection from the +8.8% previously forecast).

Figure 1. UK advertising expenditure, £m current prices, 2020 – 2022 (forecast).

| | 2020 | Q1 2021 | | 2021 (F) | | | 2022 (F) | |
|---------------------|---------|---------|--------------|----------|--------------|----------------|----------|--------------|
| | Adspend | Adspend | % YoY change | Adspend | % YoY change | Latest vs last | Adspend | % YoY change |
| TV | 4,350 | 1,195.2 | 0.3% | 5,006 | 15.1% | +6.3pp | 5,176.1 | 3.4% |
| Of which VOD | 522.7 | 172.9 | 12.9% | 627.7 | 20.1% | +8.8pp | 703.4 | 12.1% |

Note: % change is year-on-year, latest vs. last is change in forecast from last projection. Broadcaster VOD, digital revenues for news brands, magazine brands, and radio station websites are also included in the online display and online classified totals, so care should be taken to avoid double counting.

Source: Advertising Association/WARC Expenditure Report, July 2021

20. A report by Enders Analysis⁷ shows that TV usage remains high across all audiences (90%) which suggests some resilience in at least the short to medium term even as audience habits change. Channel 4's increased audience share supports this, increasing by 2% across its TV portfolio to 10.1% this year, a first year-on-year increase since 2011. Channel 4's main channel also saw a +3% growth year-on-year (5.9% share). This included an increase of +7% growth among 16-34 year olds (8.6% share) and an increase in BAME audiences of +2% (5.2% share) - the highest since 2011 and 2013 respectively. Channel 4's flagship News programme increased +14% in viewing share, reaching more 14-34s (+52%) and ethnically diverse (+8%) viewers. These are important audiences for advertisers to reach and Channel 4's success in building these audiences explains why advertisers are concerned about changes to the status quo.
21. Given the bounce back of the UK advertising market it is hard to say that advertising-funded business models are in imminent danger. And given Channel 4's strength within the TV advertising market and its rapid transition to digital advertising there would appear to be some grounds for optimism about the future.

⁶ <https://adassoc.org.uk/our-work/uk-adspend-to-grow-18-2-this-year-as-recovery-gathers-pace-losses-forecast-for-uk-ad-market-but-full-recovery-will-stretch-into-2022-2/>

⁷ Media Consumption: The 'surprising' endurance of broadcast media, Enders Analysis, 2020.

Question 2: Would Channel 4, with a continued public service broadcasting licence and remit, be better placed to deliver sustainably against the government's aims for public service broadcasting if it was outside public ownership? Please provide supporting evidence.

22. The Government should be able to support any policy to privatise with evidence that Channel 4 would be better placed to deliver the Government's aims for PSB outside public ownership. It is true that privately-owned advertising-funded broadcasters in the UK have substantial PSB obligations (to production out of London, independent production, terms of trade, news original content production etc) which they consistently deliver and to which they are held, and some non-PSBs provide public service content in their schedules. On the other hand, Channel 4, with its current public ownership and publisher broadcaster model, kickstarted the independent production sector which in turn boosted the wider creative industries throughout the UK, and provided more competition to broadcaster-owned studios.
23. If this model is changed, it is not clear whether UK independent production houses would be able to develop content in the same way as now, unless that was guaranteed in a new remit for Channel 4 through an independent production quota and continuation of terms of trade. Would a privatised Channel 4 be incentivised to seek to develop its own production capabilities to retain the IP? What effect would this have on the diversity of content on Channel 4? This is an important question for advertisers and their agencies buying airtime against the audiences that Channel 4's current content strategy delivers.

Question 3: Should Channel 4 continue its contribution to levelling up the regions and nations of the UK through retaining a presence outside London and a strengthened regional production remit? Please provide supporting evidence.

24. Yes. The advertising industry values the contribution Channel 4 makes to local economies through its regional presence and its regional production remit as this all delivers more value both on- and off-screen. Channel 4 has its new national headquarters in Leeds, creative hubs in Bristol and Glasgow, and a sales hub in Manchester. We are told that it is on track to spend over £200m in the Nations and Regions in 2021, building on over £1.5bn worth of investment. This should make Channel 4's output more relevant to people in the regions and Nations, which is attractive to advertisers seeking to reach diverse audiences outside London. It also provides an economic boost to those areas, stimulating investment and generating more jobs.
25. EY's economic analysis, published by the broadcaster, shows the significance of Channel 4's economic impact. In 2019, Channel 4 generated £274m of gross value added (GVA) in the nations and regions through its supply chains, supporting nearly 3000 jobs⁸. In total, this amounted to £992m of GVA across the UK, whilst supporting over 10,600 jobs.
26. Channel 4's regional presence in Leeds, Glasgow and Bristol has enabled it to commission more from local independent production companies and support the creative economy of these local hubs. We understand that, in Glasgow, Channel 4 spent £97k with local producers in 2019, adding to a total of £148m on Scottish productions from 2011. Ofcom's recent Public Service Media review found that:

⁸ [Channel 4's contribution to the UK](#), EY, 2021.

“Channel 4’s move of around 250 of its workforce to Leeds has been a catalyst for a cluster of TV, film and creative organisations in the surrounding area and is estimated to boost the local economy by £1bn.”⁹

27. As well as being committed to supporting the UK’s diverse communities through its programming on-screen, we understand that Channel 4 provides a wide range of training initiatives to support diverse talent off-screen through mentoring skills development and training, such as the Production Training Scheme. The Scheme offers paid places in external production companies with a particular focus on offering opportunities to people with disabilities, people from black, Asian and minority ethnic backgrounds to improve diversity in the industry. In 2021, the Production Training Scheme will be entirely comprised of trainees in the nations and regions.

Question 4: Should the government revise Channel 4’s remit and obligations to ensure it remains relevant in an evolving broadcast market? If yes, what changes should be made (which could include new freedoms or changes to its obligations)? Please provide supporting evidence.

28. We understand that the Government is minded to leave most of Channel 4’s PSB obligations in place which the advertising community will welcome because it helps safeguard Channel 4’s uniqueness. However, the Government would need to think very carefully about the safeguards it can put in place to protect the risk-taking and inventiveness for which Channel 4 is currently known.
29. We would also note that alongside its licence obligations Channel 4 also has a detailed statutory remit which calls on it to do things like take risks, challenge established views, innovate and experiment. Given the qualitative nature of many of these requirements it is hard to see how it might be maintained through licence obligations alone.
30. For example, its risk-taking enables Channel 4 to champion issues which support the development of UK culture and society, like its 24-hour Black to Front initiative. This innovativeness carries through to advertising creativity, for example, through the £1m it invests in the annual Diversity in Advertising Award. These are not activities that can be written into a licence obligation, they are the result of an organisation which is focussed on delivering its remit and public value.

Question 5: Should the government remove the publisher-broadcaster restriction to increase Channel 4’s ability to diversify its commercial revenue streams? Please provide supporting evidence.

31. The publisher-broadcaster model has been unique to Channel 4. This has led to a burgeoning of independent production companies throughout the UK and this, combined with broadcaster-owned studios, is important to the local economy. Advertisers see this model as having provided an important stimulus to independent producers and the creative industries, encouraging a competition of ideas in terms of what appears on screen.
32. The advertising industry benefits from the stimulus Channel 4 gives to the creative economy which has knock-on effects for skills and talent in advertising businesses. It therefore has concerns about the dampening effect for independent producers who may not retain rights to their productions under a new model for Channel 4 if there is a

⁹, p.27, para 4.3

weakening of the current terms of trade arrangement on any privatisation. Unless relevant protections are put in place, the advertising industry also has concerns about the capacity of smaller independent producers to grow their businesses if Channel 4, one of their key routes to market, is no longer required to commission all of their programmes from external producers.

Question 6e: With reference to supporting evidence, what would the economic, social and cultural costs and benefits of Channel 4 moving out of public ownership be on the TV advertising market?

33. Depending on who buys Channel 4, there could be consolidation in the TV advertising market for example through a consolidation of the existing 3 TV sales houses currently owned by Channel 4, ITV and Sky. As stated in the introduction to this response, this would be a significant concern for advertisers and agencies because reducing the number of sales houses to one or two might result in reduced flexibility in the airtime packages and volume discounts that agencies can negotiate with broadcasters. Advertisers would need to be assured that, in a world where Channel 4 is privatised, there would be no anti-competitive concentration with implications for price increases which do not flow from an improved product or service.

Conclusion

34. Our focus and concern at the Advertising Association is to ensure the continued growth and success of the UK's advertising marketplace without Channel 4's role within that being undermined, whether that be under public or private ownership.
35. Channel 4's current advertising-funded model appears successful, particularly given its increasing focus towards digital. This should be taken into account by the Government when considering whether Channel 4 needs to diversify its revenue streams further than what is already set out in its 'Future4' five-year strategy.
36. Channel 4 attracts younger and more diverse audiences across the UK. This is its USP and such audiences are very valuable to advertisers and agencies who want to see this continue. We are concerned about what safeguards the Government will build in to safeguard its output in a privatised model. How would it remain so different from other broadcasters? We note that the Lords Communications Committee raised similar concerns in its 2016 report.
37. We are concerned by the lack of analysis on what impact privatisation may have on the TV advertising market, including any merger of sales houses, and strongly propose that the Government publish a comprehensive impact assessment, in line with Better Regulation principles, before going ahead with privatisation of such a unique and successful TV channel.