

What if there were no BBC television? Enders Analysis on BBC TV's impact on investment in UK content

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*This summer, UK Culture Minister John Whittingdale launched a **public consultation** on the Government's Green Paper on BBC Charter Renewal. Responding to the question on the BBC's market impact, **Claire Enders** and **Patrick Barwise**, writing for **Enders Analysis**, examine the corporation's contribution to UK content. In this second post, findings suggest that commercial media would be unlikely to invest in the same level of original content to replace BBC TV if it didn't exist. See the first post [here](#).*

In 2014 the Reuters Institute explored in **a detailed study** the overall revenue-based negative market impact of BBC TV. The study compared (i) actual Ofcom figures for 2012 for the revenue, total content investment and first-run UK content investment of BBC TV, the commercial PSBs (ITV, C4, Five and S4C) and the non-PSBs (all other commercial channels and pay/online TV operators) with (ii) a counterfactual representing what the market would have been like if there had been no BBC TV and with a corresponding reduction in the licence fee (LF).

The 'base case' (mid-point) projection conservatively assumed that BBC TV's market impact did lead to some crowding out of commercial revenue and content investment. It was assumed that the commercial broadcasters' revenue would have been higher if there had been no BBC TV and that their total and first-run UK content investment would have been higher by the same proportion. Despite these optimistic assumptions in the counterfactual, the research results for 2012 were that, if there had been no BBC TV:

- Total TV content investment by UK broadcasters would have been 5-25% lower
- Investment in first-run UK content would have been 25-50% lower

A 25-50% reduction in first-run UK television content would, of course, have been a disaster for the UK independent production sector, as well as for the thousands of related small businesses and sole traders in the creative economy.

Why would UK content investment be so much lower without BBC TV?

Perhaps more important than these detailed results are the two underlying reasons for them. Without BBC TV:

1. Total TV industry revenue would almost certainly be lower; *and*
2. The proportion of this (lower) revenue invested in content, especially first-run UK content, would also be significantly lower

On the first point, industry revenue is largely derived from advertising, subscriptions and the licence fee. The loss of licence fee revenue would almost certainly not be made up by any increase in advertising and subscriptions.

For advertising, this is due to the 'price elasticity' of TV advertising (the ratio of small changes in the number of commercial impacts and associated changes in the commercial airtime cost per viewer or 'CPM'). For instance, if the total number of commercial impacts increased by 10%, total advertising revenue would not increase by anything like 10% – or possibly at all – because the average CPM would fall.



This price elasticity of commercial TV airtime is hard to determine as the underlying, and unobservable, level of demand is largely driven by fluctuating external factors such as the state of the economy and a number of complex processes within companies and markets which affect total marketing budgets and, within these, the share allocated to TV advertising. Also, as noted in our report on [US and UK TV ad markets](#), UK airtime buying is by and large concentrated among six media agencies negotiating with three (somewhat differentiated) sales houses, accounting for more than 95% of TV ad revenues.

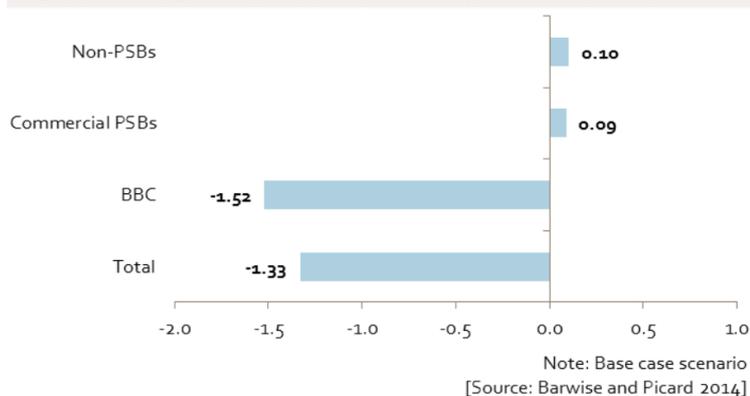
Even allowing for some uncertainty about the exact price elasticity of TV advertising, the expert and industry consensus is that, if there were no BBC TV: (i) the commercial PSBs' revenue would not greatly change because it is mostly advertising-based and the price of airtime would fall roughly in proportion to the increase in advertising exposures (the price elasticity effect) and (ii) the non-PSBs' revenue – mainly subscriptions – would almost certainly be higher, but by much less than the lost LF revenue.

In the Reuters Institute base case (the mid-point of the optimistic and pessimistic scenarios) it was optimistically assumed that, without BBC TV, the commercial PSBs' revenue would have been 7% higher and the non-PSBs' revenue 22% higher. Despite these increases, total TV industry revenue would still have been 9% lower due to the elimination of BBC TV's LF revenue.

Content investment

In 2012, BBC TV invested 56 pence of every £1 revenue in first-run UK content found the Reuters report. The equivalent figures were 44p for the commercial PSBs (based on total PSB revenues) and 7p for the non-PSBs. There is nothing surprising about these differences, given the complementary business models of the BBC, the commercial PSBs and the non-PSBs. For instance, the non-PSB sector primarily brings a wealth of US content to British audiences, while Sky and BT also vie for premium sports rights.

Figure 4: Net impact on investment in first-run UK content (2012, £bn)



The Reuters Institute base case assumed that in 2012, if there had been no BBC TV, both types of commercial broadcaster would have invested the same proportion of their (higher) revenue in first-run UK content as they actually invested in 2012. But because most or all of the commercial revenue increase would have been for the non-PSBs, with their much lower UK content investment, the net effect is that neither they nor the commercial PSBs would have replaced more than a tiny proportion of the BBC's first-run UK content investment, even under the optimistic base case assumptions (see Figure 4).

One way to summarise these results is that, for every £1 cut in BBC TV funding, total content investment goes down by at least 35p and first-run UK content investment by at least 49p, [a PwC report suggests](#). Of course these are not precise estimates but, as the above chart shows, the revenue-based negative market impact of BBC TV on the supply of original content (the key issue for viewers) is minimal relative to the BBC's investment, even under the study's optimistic assumptions.

Further, the reduction in content investment (and therefore consumer choice and value) without BBC TV would not be associated with a proportionate reduction in the cost of television to most viewers. The impact would vary, but most would suffer a reduction in both choice and value for money.

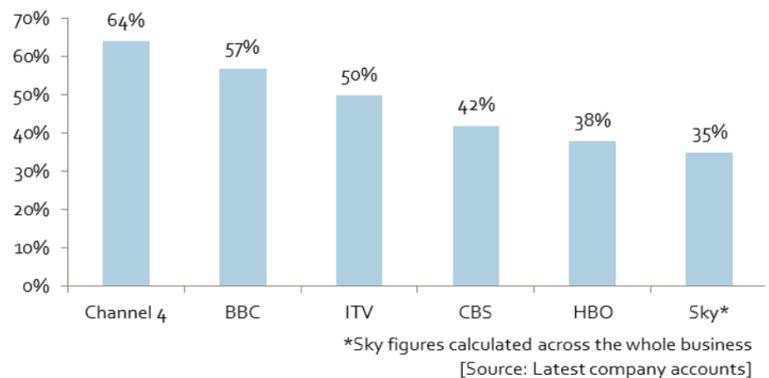


Using the same method, Patrick Barwise has analysed the consequences of the July 2015 settlement, similarly concluding that, by further reducing BBC TV's real funding and, therefore, its ability to invest in programmes, the effects will be strongly negative for UK viewers and producers as well as for radio listeners and many other aspects of the national interest.

International comparisons

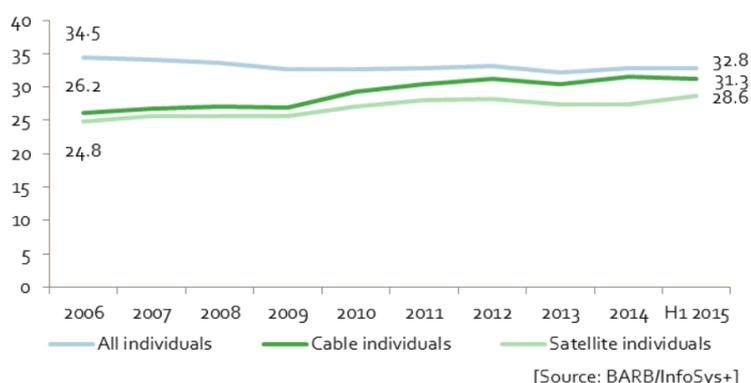
The 2014 Reuters Institute study also looked at a number of international markets to see if any comparisons could be drawn. It found that there appears to be little, if any, relationship between the per capita revenue of public and private broadcasters in a country. What is evident, however, is that the UK PSBs' total content investment as a proportion of revenue is significantly higher than the equivalent for the US networks (see Figure 5).

Figure 5: Total content spend as share of total revenue (%)



For the non-PSBs, largely funded by subscriptions, the BBC's negative impact on revenue is more material than for the commercial PSBs (which are still largely funded by advertising) but a wider view is important. As already discussed, the Reuters Institute base case optimistically projected that the non-PSBs' 2012 revenue would have been 22% higher if there had been no BBC TV. However, the equivalent figure today would already be much lower because of the combination of cuts in BBC funding and continuing growth in the non-PSBs' revenue. But even if correct, and even assuming (again optimistically) that the non-PSBs' total and first-run UK content investment would also have been 22% higher, in absolute terms this incremental investment would still have been dwarfed by the loss of BBC investment, because the non-PSBs invest so much less in content, especially original UK content, than BBC TV (8-9% versus 56% of 2012 revenue).

Figure 6: BBC viewing share by platform (%)



Despite 25 years of build-up and with a dominant revenue share, even today the non-PSB group does not produce original UK mass audience crowd-pleasers the way the BBC does (and ITV and, quite often, C4 do). BBC TV still accounts for 33% of all TV consumption (see Figure 6), and is always the most significant crowd-puller on Sky, in Virgin Media homes, and across the constellation of new TV platforms. Since none of the subscription platforms currently pay for

this valuable content, replacing it with US and other imports, plus their own material, would naturally lead to much lower profits.

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