
Public service broadcasting in the digital age

Supporting PSB for the next decade and beyond

About this document

Three years on from Ofcom's third review of public service broadcasting (PSB), this document sets out the challenges facing the PSB system in the context of greater online media consumption and competition from new global players.

It considers the importance of public service broadcasting, the challenges it will face in future, and what Ofcom as a regulator can do to support the system in the coming years. It also points to where broadcasters can contribute to ensure that the PSB system continues to deliver high quality, distinctive programmes for UK audiences. This document focuses on television, but we also recognise the important contribution of radio to public service broadcasting.

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1. Executive summary

- 1.1 **Three years on from Ofcom's last review of Public Service Broadcasting, the time is right to take stock.** The BBC, the cornerstone of Public Service Broadcasting, now has a new eleven-year Charter that runs to the end of 2027 (three years later than the licences for the commercial PSBs).
- 1.2 **Public service broadcasting has a long and proud tradition in the UK, delivering impartial and trusted news, UK-originated programmes and distinctive content.** It gives us viewing moments that bring the nation together and provoke national conversations, such as the BBC's *Blue Planet II* and *Undercover*, Channel 4's *The Last Leg* and ITV's *Victoria*. Our research shows that audiences value public service broadcasting highly, and believe it is broadly delivering its purposes. Audience satisfaction with important areas such as news and drama has risen, although there are concerns that programmes do not fully reflect the nations and regions or the wider diversity of the UK.
- 1.3 **However, the landscape within which public service broadcasters operate is changing rapidly.** Audiences are benefiting from an explosion of choice in terms of platforms and devices over which they can watch television. Amazon Prime Video and Netflix are now established players. They are in more than a third of UK homes¹; investing billions of pounds in programmes, dwarfing domestic UK budgets, but focused on a global audience.
- 1.4 **Established broadcasters also face competition from the likes of Apple, Facebook and Google, which are developing original content.** This is creating a 'rush to scale', principally through mergers and acquisitions. The proposed takeover of Sky by 21st Century Fox and of 21st Century Fox by Disney are recent examples, with Comcast now making a counter-offer for Sky. Meanwhile in the US, AT&T is aiming to purchase Time Warner. Just as traditional broadcasters faced the challenge of digital pay-TV platforms two decades ago, so they are now seeking greater global scale to compete with the digital giants.
- 1.5 **Public service broadcasting has so far held up well to greater global competition.** Reach, though falling, remains high. The most popular programmes, dramas like *The Night Manager* and *Broadchurch*, and entertainment shows like *The Great British Bake Off* and *Gogglebox*, compare well to the best in the world. The main PSB TV channels still account for half of all viewing; though investment in original UK programmes – steady in cash terms – has fallen appreciably taking account of inflation. TV advertising has proved remarkably resilient though it is now softening, probably a mix of cyclical and structural factors. The BBC licence fee is protected in real terms until at least 2022.

¹ BARB Establishment Survey, Q4 2017

- 1.6 **Young people are watching less scheduled TV and this does seem to be a permanent, structural trend.** Teenagers are more likely than adults to watch programmes and films on YouTube and they spend more time using a TV set for activities like gaming or watching Netflix or Amazon². Brand awareness of the BBC amongst youngsters is now lower than Netflix and YouTube³.
- 1.7 **Ofcom has an important role, established by Parliament, to help PSBs adapt successfully.** In the shorter term that means supporting linear programming, while that still remains important to audiences. We will ensure that viewers can easily find PSB programmes by strengthening our Electronic Programme Guide code in a consultation later this year. We will also continue to support digital terrestrial television (DTT); and our work shows that public service broadcasters will have uncontested access to DTT for at least the next ten years as the value to other users of the underlying spectrum has diminished.
- 1.8 **The public service broadcasters can take important steps to ensure that they continue to thrive, first and foremost by making high quality and more distinctive programmes that appeal to audiences across the whole of the UK, including young people.** In addition, PSBs will need to exploit different distribution channels so that programmes are easy to find wherever the audience is. In future, PSBs may be able to negotiate retransmission fees with platforms to boost revenues and exploit further the commercial opportunities of increased personalisation and data-driven advertising.
- 1.9 **Longer term, as viewing shifts further from scheduled TV to on-demand, PSBs may need to work more collectively to strengthen their negotiating hand with smart TV manufacturers and platforms.** In assessing the competition effects of such partnerships, the benefits to the health of PSBs need to be properly accounted for. As the national broadcaster, we would expect the BBC to take a leading role in forming partnerships.
- 1.10 **The PSB system has adapted well to past technological and market developments – the launch of Channels 4 and 5, commercial radio, multichannel and pay TV, and digital switchover.** It can adapt again to the challenges of the digital age if it takes the right action, with the support of Parliament and the regulator.

² Ofcom CMR Research, 2017

³ [Ofcom's Children and parents: media use and attitudes report, 2017](#)

2. Why public service broadcasting matters

2.1 **The broadcasting sector is integral to a thriving creative economy in the UK.** It is built on a mixed ecology of public service broadcasters, pay-TV providers (Sky, Virgin Media, BT and TalkTalk) and global, online video services such as Amazon Prime Video and Netflix. Supported by the production sector, this ecology has delivered an increasingly wide choice of high quality programmes for UK audiences. The broadcasting sector has been a commercial and cultural success story for the UK, generating £13.8 billion in revenues in 2016⁴ or 0.72 per cent of GDP⁵.

The importance of PSB to audiences and to society

2.2 **Public service broadcasting is the foundation stone of UK television.** It started with the BBC Television Service in 1936. ITV was then created in 1955, Channel 4 in 1982 and Channel 5 in 1997. PSB was established and developed by Parliament over several decades, with the clear purpose of ensuring that the public had access to high quality television that was able to reflect the UK back to itself, bring the nation together at key moments, and inform and educate society. Part of the intention was to promote social cohesion. The scale of PSB in the UK is unusual by international standards. In most countries where TV is important, the commercial sector is substantially bigger.

2.3 **At the heart of PSB is trusted and impartial news, UK-originated content that speaks to the different communities and nations of the UK, and distinctive programmes.** PSB helps to ensure that certain types of programmes get made – arts, religion, classical music, and original children’s TV – that would be less well provided for if left to the market alone. Another key principle is universality, namely that PSB programmes should be available to everyone, free at the point of use.

2.4 Elaborating on the purposes set by Parliament, Ofcom set out five key characteristics of public service television⁶:

- high quality (well-funded and well-produced);
- original (new UK content rather than repeats or bought-in content);
- innovative (breaking new ideas or re-inventing existing approaches, rather than copying old ones);
- challenging (making viewers think); and
- widely available (most people are able to watch it).

⁴ Ofcom, broadcasters, Ampere Analysis, Advertising Association, WARC, BARB

⁵ UK GDP was £1.93 trillion in 2016 (ONS)

⁶ Ofcom’s first PSB review, April 2004: https://www.ofcom.org.uk/_data/assets/pdf_file/0023/25655/psb.pdf

- 2.5 **The BBC is the cornerstone of PSB.** It is paid for by the public through the licence fee. In contrast, commercial PSBs are advertiser-funded. They receive ‘public benefits’ such as free access to spectrum and high ranking (or ‘prominence’) on television programme guides in exchange for delivering a public remit, most notably news – national, regional or both. Only the main commercial channel is designated for public service broadcasting (e.g. ITV1). Other channels in the portfolio (e.g. ITV2) are fully commercial and have no public remit. Channel 4, also a commercial PSB, is a special case. Whilst advertiser funded, it is a publicly-owned organisation and profits are reinvested into programmes. In return, Channel 4 delivers a stronger public service remit, more akin to the BBC, based on innovative shows that appeal to younger audiences. S4C and BBC Alba have a specific remit to support indigenous languages in Wales and Scotland respectively⁷.
- 2.6 **Estimates suggest that the benefits to ITV and Channel 5 of being a PSB are broadly in balance with the costs of delivering the public service remit⁸.** If the benefits were at any stage to be outweighed by the costs, commercial PSBs could choose to stop being PSBs. The obvious next point to do so would be when their licences come up for renewal in 2024.
- 2.7 **Audiences value PSB, and overall, they believe that the system is delivering its goals.** Programmes remain popular. In 2017 half of all television viewing of broadcaster content on television sets was to a PSB channel, broadly unchanged since 2013⁹ (see Figure 1). Satisfaction ratings are also generally high. Audiences particularly like the fact that public service broadcasters seek to ‘inform their understanding of the world’¹⁰. A large majority of audiences continue to believe that PSB news is trustworthy¹¹; (Sky News is held in similar high regard). This feels particularly important at a time when there is a proliferation of online news of varying degrees of accuracy, including outright ‘fake news’.

⁷ S4C, established in 1982, broadcasts predominantly in the Welsh language to audiences in Wales. BBC Alba, established in 2008, is jointly owned by the BBC and MG Alba and broadcasts predominantly in the Scottish Gaelic language. The Channel 3 licensees broadcast local news and non-news programmes to the nations and regions of the UK. STV plc holds the Channel 3 licence in Scotland while ITV plc holds all other UK regional Channel 3 licences including in Wales and Northern Ireland.

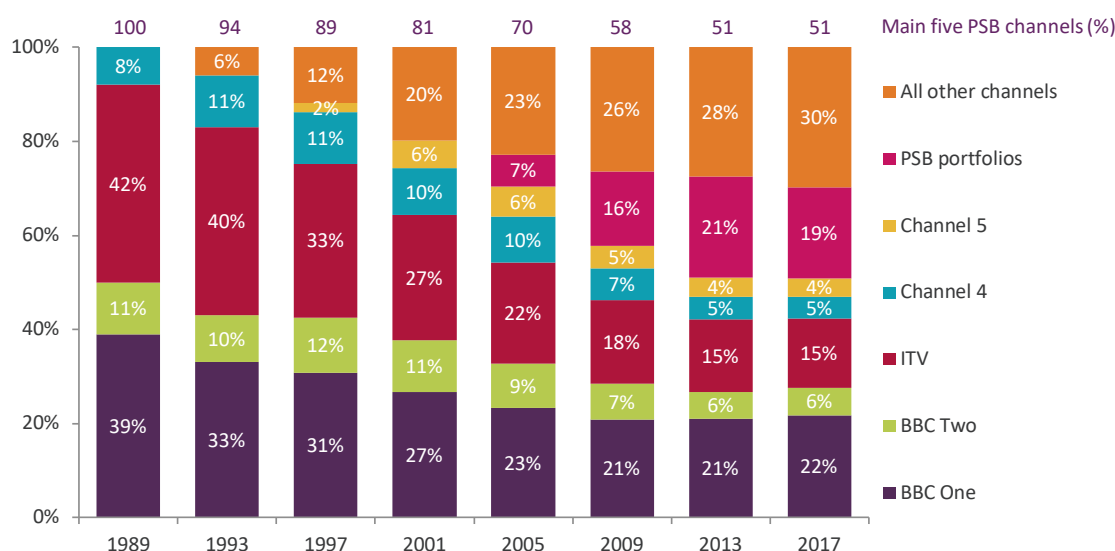
⁸ https://www.ofcom.org.uk/data/assets/pdf_file/0021/24078/c3_c5_licensing.pdf

⁹ BARB, all individuals

¹⁰ Ofcom PSB Tracker, 2016, UK adults aged 16+

¹¹ Ibid

Figure 1: Channels' shares of all broadcaster viewing: 1989-2017¹²



Source: BARB (Broadcasters' Audience Research Board), TAM (Television Audience Measurement) by JICTAR (Joint Industry Committee for Television Advertising Research) and Ofcom estimates, individuals (4+).

2.8 **However, there is concern among audiences that public service broadcasters do not fully**

portray and represent the nations, regions and diverse communities of the UK. Older women, young people, people living outside London and people from ethnic minority backgrounds feel less satisfied with public service broadcasters than do other audiences. Plus, there are elements of the PSB remit that are less well catered for, such as original UK children's programmes. Through our new operating licence, we are holding the BBC to account for distinctive content. And we have in-depth reviews this year of the BBC's portrayal and representation and of children's programming across the industry.

2.9 **As well as the value to audiences, PSBs provide substantial benefits to the wider broadcasting industry and the economy.**

Public service broadcasters support the capability of the entire broadcasting sector by investing in new talent, training, and research and development. The iPlayer spawned innovation in distribution across in the sector. Public service broadcasters have also helped to create a flourishing independent sector. Channel 4, by design a commissioner-broadcaster, has the specific aim of supporting independent production. PSBs have boosted investment and creativity in programming through co-productions, such as Channel 4's *Humans* and ITV's *The Durrells*. They have also helped to engender greater diversity, through programmes such as *Chewing Gum* and *The Boy With The Topknot*, in the wider sector (though there is substantial progress still to be made) and increased the number of outlets providing national and regional news.

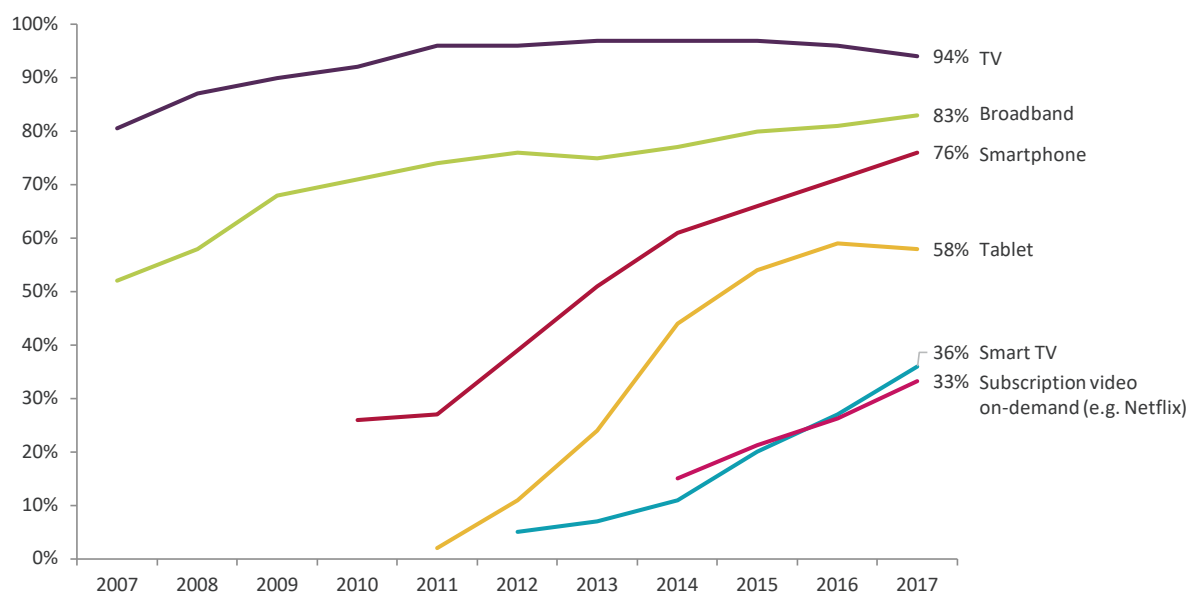
¹² Notes: new BARB panels were introduced in 2002 and 2010, therefore, pre- and post-panel change data must be compared with some caution; the main five PSB channels include viewing to their HD channel variants but exclude viewing to their +1 channels. There was also a change to the analysis system used to run the data from 2010 onwards. The PSB portfolio channels are all family channels operated by the PSBs other than their main PSB channels, e.g. ITV2, BBC 4, etc. All other channels are channels operated by non PSB organisations. S4C is included in the Channel 4 figures until 2009. After that point it is included in all other channels.

3. A new broadcasting landscape: challenges for the public service broadcasters

3.1 **Public service broadcasters now face a number of challenges as the broadcasting landscape undergoes fundamental change.** Major growth in the use of online and connected devices, driven by technological innovation, has enabled the entry of big new global players and shifts in viewing habits away from scheduled television¹³.

3.2 **Over the last few years, Netflix and Amazon Prime Video have increased their audiences from nothing to 8.2 million households and 4.3 million households respectively¹⁴.** YouTube reaches more than 40 million people per month in the UK¹⁵. Apple and Facebook have now also entered the online video content market. Unlike traditional broadcasters, none of these companies are regulated in the UK for either their impact on the wider market or for their broadcasting standards. As Figure 2 shows, online on-demand viewing has been enabled by the penetration of smartphones, up from 39 per cent to 76 per cent over the last five years, and the widespread availability of superfast broadband. Take up of broadband is now 83 per cent and 91 per cent of properties¹⁶ have access to superfast broadband of 30mbps, up from 73 per cent in 2013¹⁷.

Figure 2: Household take-up of communications devices and services: 2007-2017



Source: Ofcom Technology Tracker, BARB Establishment Survey

¹³ Understanding audiences' use of new online television services is challenging as there is no single accurate data source, but the data available suggest more than half of the UK population regularly watch online television.

¹⁴ BARB Establishment Survey, Q4 2017

¹⁵ comScore MMX Multi-Platform, Dec 2017, Desktop age 6+, Mobile age 18+. MMX Multi-Platform includes desktop browsing, desktop video streams, smartphone browsing & apps, tablet browsing & apps

¹⁶ Connected Nations Report, Ofcom, 2017

¹⁷ Infrastructure Report, Ofcom, 2013

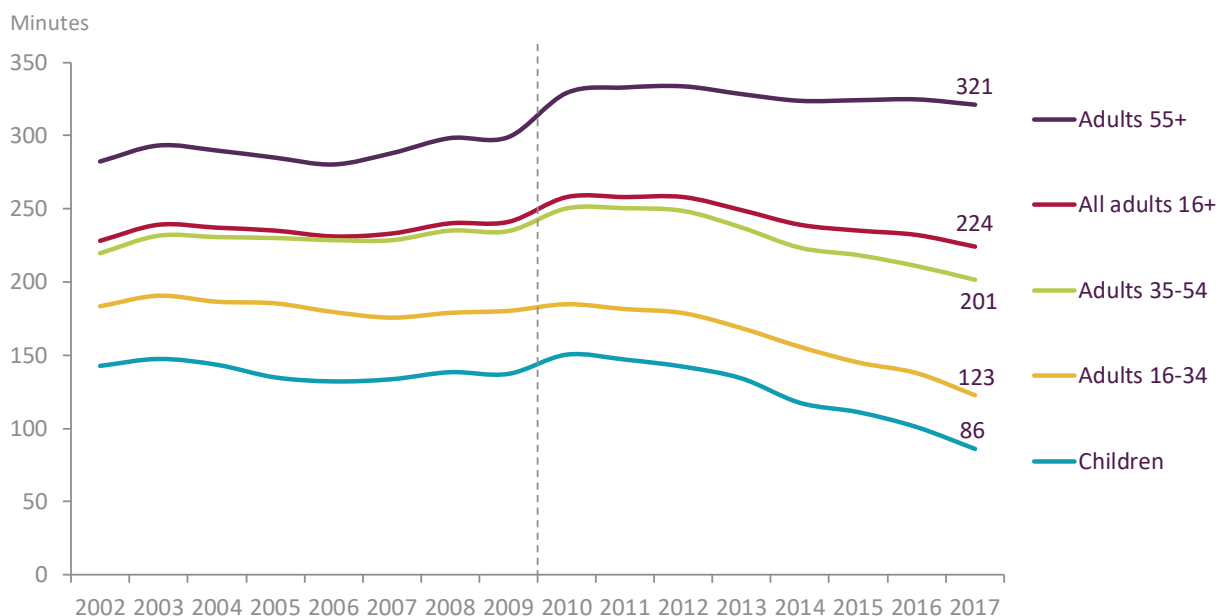
3.3 **These trends have enabled HD streaming and the rapid download of films and TV box sets.** The greater availability of 4G mobile has allowed more people to watch TV on the move without an appreciable loss of picture or sound quality.

3.4 **Outcomes have been very positive for viewers, who now have a wealth of choice over how, when and what they watch.** We have not only seen the emergence of big global players but also the growth in channels and on-demand programmes and services from established broadcasters – the iPlayer from the BBC, Now TV from Sky, All4 from Channel 4, ITV Hub from ITV and My5 from Channel 5. Alongside this, platforms like Sky, Virgin Media and Freeview have invested in new user interfaces that provide more ways for audiences to find the programmes that they want to watch.

Shifting viewing habits

3.5 **The explosion of choice is leading to important shifts in viewing habits.** Audiences, especially young people, are watching less scheduled television, and this appears to be a permanent structural trend. Broadcast television viewing has been falling steadily, as on-demand and online services compete with broadcasters for audience time. Viewing of traditional broadcast television on a television set has fallen by 16 per cent, from 242 minutes per day in 2010 to 203 minutes a day in 2017¹⁸.

Figure 3: Average minutes of daily viewing of broadcaster content, by age: 2002-2017

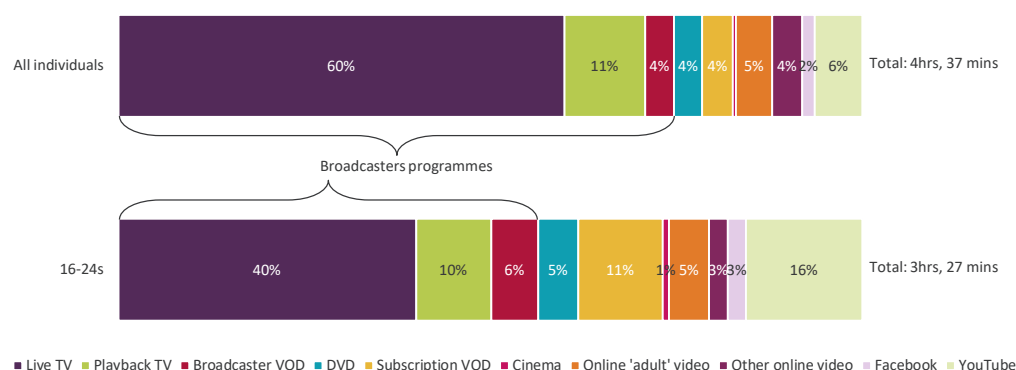


Source: BARB, network. A new BARB panel was introduced 1 Jan 2010 therefore pre and post panel change must be treated with some caution

¹⁸ BARB, all individuals

3.6 **The decline in scheduled TV viewing by young people has been even steeper.** As Figure 3 shows, among 16-34s it fell by 34 per cent between 2010 and 2017. Audiences are also supplementing scheduled television with on-demand and streaming services, recorded television and paid on-demand programmes (e.g. Netflix), as shown in Figure 4. Teenagers are also more likely than adults to watch programmes and films on YouTube (66 per cent versus 38 per cent)¹⁹. They also get more use from their television set for activities like gaming, YouTube, Netflix and catch-up programmes as compared to adults (more than one hour a day versus 41 minutes a day²⁰).

Figure 4: Average video²¹ viewing time per day, all individuals and 16-24s: 2016



Source: Thinkbox 2016, BARB / comScore / Broadcaster stream data / OFCOM Digital Day / IPA Touchpoints 2016 / Rentrak

3.7 **While traditional television still accounts for the bulk of viewing, it is lower amongst young people,** 75 per cent for all audiences as against 56 per cent for youngsters – see Figure 4. Moreover, evidence suggests that while people still tend to watch more television as they get older, this trend is slowing, as shown in Figure 5.

¹⁹ Ofcom CMR Research, 2017

²⁰ BARB, unmatched viewing not attributable to broadcasters

²¹ This includes video across all categories including platforms (television, DVD, fixed and mobile online, cinema, etc), length, window and genre. Playback TV is video content recorded on a digital video recorder. Broadcaster VOD includes services like the BBC iPlayer and ITV Hub. Subscription VOD includes services such as Netflix and Amazon Prime Video. Facebook and YouTube include professionally made television programmes and films as well as short-form user-generated content.

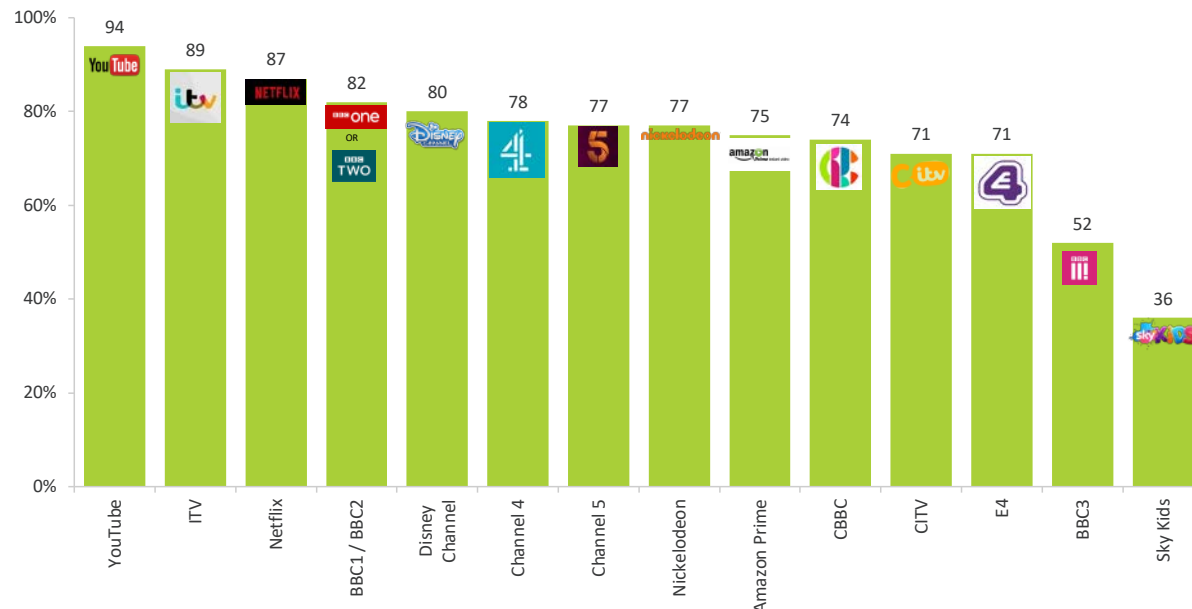
Figure 5: Average minutes of viewing of broadcaster content per day, by age: 2007 and 2017



Source: BARB, Network. New BARB panel introduced 1st Jan 2010. As a result pre and post panel change data must be treated with caution. This analysis is not based on tracking the viewing habits of the same people but gives an indication of shifting viewing behaviours.

3.8 In addition, there is evidence that among the young, brand awareness of traditional broadcasters, including the public service broadcasters, is on the wane. As Figure 6 shows, YouTube and Netflix are now ahead of BBC One and BBC Two amongst 12-15 years old.

Figure 6: Brand awareness of content providers among 12-15s who go online: 2017



Source: Ofcom media literacy online survey with children aged 12-15, 1-7 June 2017 / Children and parents: media use and attitudes report 2017 Q1 – Here are some companies that you may have heard of. Can you please pick those ones that you know? (prompted responses, multi coded)
 Base: Children aged 12-15 who go online (500)

Fragmented viewing and prominence

- 3.9 **This fragmentation of viewing across different platforms creates challenges for ensuring that PSB content can be easily found.** Audiences now have many ways of connecting a television to the internet – a set-top box, a plug-in device like Amazon’s FireTV stick, or directly – all with advanced search and recommendation models. Modern user interfaces, such as the Sky Q set-top box, can promote on-demand content and box sets based on viewers’ past choices, ahead of linear broadcast channels.
- 3.10 **While regulation guarantees public service broadcasters’ prominence on the traditional ‘linear’ channel programming guide, the rules were designed before the advent of digital media and do not apply to them.** Regulation has ensured that the main PSBs rank high in linear TV guides. By contrast, PSB prominence on connected devices, such as smart TV sets or online services, is unregulated. And the sheer complexity of these media – and new technologies like voice search – make regulation challenging. At present, PSB catch-up players are widely available in the places that audiences would expect to find them. This position relies on commercial negotiations between the PSBs and the platforms. While both parties should have a common interest in featuring PSB content prominently – given how much audiences value it – in practice such negotiations can be complex and fraught.

Rising content budgets

- 3.11 **The big global online players have substantial programme budgets, which are delivering high quality programming for audiences.** This is in turn driving up costs – especially for premium drama. The cost per episode of high end drama is now as much as \$10m (£7.8m²²). Netflix had a content budget in 2017 of \$8.9 billion²³ (£6.9 billion²⁴). This compares to £2.6 billion²⁵ for UK-originated content for the PSBs combined in 2016, of which the BBC accounts for half £1.3 billion²⁶. Spending has been broadly flat in cash terms for the last decade, which represents a significant real-terms decline. And the BBC’s own investment in UK originated content has fallen from £1.5 billion²⁷ to £1.3 billion in real terms since 2008.

²² Conversion calculated using HMRC foreign exchanges rate, average for the year to 31 December 2017 (\$1/£0.7796)

²³ Netflix Financial Statements, cash spent on streaming content in 2017

²⁴ Conversion calculated using HMRC foreign exchanges rate, average for the year to 31 December 2017 (\$1/£0.7796)

²⁵ Broadcasters’ returns to Ofcom

²⁶ PSB Annual Research Report, 2017

²⁷ Ibid

- 3.12 **The rise in big global players' budgets comes at a time when commercial public service broadcasters face weakened advertising revenues.** TV advertising revenues, long resilient, were down by 4 per cent in 2017²⁸, and are forecast to be flat in 2018²⁹. Cyclical factors appear to be the key driver – macroeconomic uncertainty and weakened consumer confidence. The extent of any structural decline is unclear, but the risks appear to be growing. While ITV has reduced its reliance on traditional advertising revenue to 44 per cent³⁰ (though 71 per cent of profits³¹), Channel 4 depends on advertising and sponsorship for 94 per cent of its revenue³².

Consolidation and the 'rush for scale'

- 3.13 **The strength of global players like Netflix, and the entry of other global platforms like Facebook into originated content, has kick-started a wave of consolidation.** Predominantly driven by trends in the US, traditional media companies believe that they need increased scale to compete head-on with consolidated cable operators and new global players, or to be able to negotiate effectively with them to sell content.
- 3.14 **This has been most recently demonstrated by 21st Century Fox's proposed takeover of Sky (and a counter-bid by Comcast), Disney's proposed acquisition of 21st Century Fox and the AT&T's planned purchase of Time Warner.** If approved, the market capitalisation of each of Disney-Fox, Comcast-Sky and AT&T-Time Warner would be less than half of the market capitalisation of Facebook (\$532bn), Amazon (\$735bn), Alphabet (\$790bn) or Apple (\$911bn)³³. Within the UK, Channel 5 is already part of a global media group (Viacom); other major independent UK media companies could become takeover targets if this wave of consolidation continues, as appears likely.

²⁸ Ofcom's estimates based on industry interviews

²⁹ Ibid

³⁰ ITV plc full-year results for the year ended 31 December 2017

³¹ ITV's Broadcast & Online business generated 71 per cent of total group EBITA (however we note that this business unit includes some non-advertising revenue and therefore profits), ITV plc full-year results for the year ended 31 December 2017

³² <http://annualreport.channel4.com/downloads/FULL%20AR%202016.pdf>, p.113

³³ Market capitalisation of Facebook, Apple, Amazon and Google Alphabet, from Yahoo Finance, 27 February 2018

4. Ensuring the health of PSB in a digital age

4.1 **While public service broadcasters face new challenges, they have proved highly adept in the past at responding to market developments:**

- creating channel portfolios, offsetting much of the decline in viewing to the main public service channels;
- launching Freeview and Freesat platforms to ensure the universal availability of free-to-air multichannel television;
- developing on-demand catch-up services to allow audiences to watch at a time of their choosing and generate online advertising revenues for the commercial PSBs;
- creating a more personalised TV viewing experience by obtaining personal data from viewers of online services; and
- offering new services direct into overseas markets, such as the BBC and ITV's joint venture 'Britbox' in the US.

4.2 **Moreover, global media markets and strong and well-funded online platforms present opportunities as well as challenges.** The attractiveness of English-language programmes to foreign audiences and buyers of content means that there are significant and growing markets to sell UK shows into, as well as a larger number of potential co-production partners. Capitalising on these opportunities to ensure the continued health of PSB will require broadcasters to take the lead, with the support of the regulator.

How Ofcom can support the PSBs

Prominence

4.3 **Ofcom will seek to ensure the widest availability and prominence of PSB.** For a number of years yet, PSB prominence on the linear TV guide will remain important given high, if declining, audiences for scheduled TV. Following new provisions in the 2017 Digital Economy Act, we are undertaking a review of the EPG. Later this year we will be consulting on proposals that ensure PSBs stay easy to find, maintain the top ranking of the main PSBs and give higher slots to smaller PSBs like the BBC's children's channels, BBC News, BBC Alba, S4C and local TV channels. We also intend to make recommendations on the possible extension of the current regime to on-demand viewing. If Parliament were to take the view that prominence of on-demand services is crucial for the future health of the public service broadcasters and could be achieved only through regulation, primary legislation would be required.

4.4 **Looking ahead, the growing importance of personalisation, recommendation engines and voice search will make it harder for regulation of any kind to guarantee prominence.** As a result, there is a growing international debate about how to address the challenges of prominence in the longer term. For example, the *German Bund-Länder Kommission* (the German federal – state commission) has considered a new legal framework that would

extend PSB prominence rules to new kinds of media platforms in order to ensure choice and plurality³⁴.

Digital Terrestrial Television

- 4.5 **Our analysis shows that the DTT platform will remain uncontested for free-to-air TV for at least the next ten years.** While most broadcasters expect in the long term to migrate fully to the internet, that is not feasible today. Broadband networks are not yet of sufficient quality to support universal HD streaming and more than 40 per cent of TV sets cannot yet connect to broadband. So, for broadcasters and viewers alike, DTT will remain important for some time. Our earlier work had suggested that there would be strong competition from mobile companies for the valuable airwaves, or spectrum, that underpin DTT. But mobile demand has substantially diminished as investments in 5G require spectrum at higher frequencies.

How public service broadcasters can take the lead

High quality, UK programming

- 4.6 **The surest way for PSBs to continue to thrive is to make high quality, distinctive UK content.** UK audiences want programmes that reflect life in the UK, and tell UK stories. While global players have undoubtedly raised the bar in terms of the ambition and quality of their programming, (especially in drama), they are serving a global not UK audience. Series like Netflix's *The Crown* that are about the UK are the exception rather than the rule.
- 4.7 **This presents a crucial opportunity for PSBs to differentiate themselves from the global players and maintain a large UK audience.** It will require investment at high levels from the PSBs in UK content, particularly from the BBC. And that content will need to be both more distinctive and more appealing to audiences at the greatest risk of turning away from PSB - young people, people living outside London and people from an ethnic minority. There is also the 'win-win' of selling the best of UK drama and entertainment formats to overseas markets.

Wide and easy availability

- 4.8 **PSBs will also need to ensure their programmes are easy to find on a wide range of platforms, devices and services.** This means investing in innovative ways of distributing channels and on-demand services to attract increasingly fragmented audiences. The PSBs have been successful at making their content available on a broad range of platforms. This has been done by both developing their own platforms such as Freeview, Freesat, YouView and their own on-demand players, and also through third-party platforms such as Sky and Virgin. They have also distributed their programmes and clips through online services such as Netflix, YouTube and Facebook. The strategies that the PSBs adopt to ensure wide reach

³⁴ https://www.bundesregierung.de/Content/DE/Anlagen/BKM/2016/2016-06-14-medienkonvergenz-bericht-blk.pdf?_blob=publicationFile&v=3

of their programmes will be critical to determining whether the system thrives in the online world.

- 4.9 **Given its central role, we would expect the BBC to be active in ensuring that its services are distributed everywhere that audiences expect them to be.** It is understandable that the BBC will want to protect its brand, negotiate for prominence of its on-demand services, and make sure that audiences know when they are watching a BBC programme. At the same time, the BBC should innovate and distribute in ways that reach all audiences and satisfy the demands for greater personalisation.

Partnerships

- 4.10 **The public service broadcasters will need to work together to give themselves greater scale.** The cost of distribution and content are such that PSBs will need to form partnerships with each other and with Pay TV and commercial competitors. These partnerships could be in areas as diverse as marketing and ad sales, research and development, overseas sales, co-production and distribution deals. ITV and the BBC have successfully launched *'Britbox'*, an on-demand subscriber service in the US, now with 250,000 people signed on³⁵. In addition, the PSBs worked together to develop Freeview Play ensuring that their on-demand services are available to Freeview audiences via a standard user interface.
- 4.11 **In assessing these partnerships, the competition framework needs to be more sensitive to the intensity of global competition.** PSBs have sought to join forces in the past. In 2007, they put forward a proposal 'Kangaroo' to distribute their on-demand programming together. It was rejected by competition authorities at the time out of a concern that it would weaken the position of other players in the market. Since then the market dynamics have changed significantly. The competition framework would need to take account of those developments were a similar proposal to be put forward today. Part of the broader context would be the importance of preserving public service broadcasting alongside a consideration of market impacts.
- 4.12 **The PSBs will also need to work in closer partnership with the global players.** Global companies, like Netflix, already contribute significant funds towards PSB programmes, especially in drama, through co-production deals in return for overseas rights such as *Troy: Fall of a City*, a co-production between the BBC and Netflix. They are also doing deals with UK Pay TV providers. Sky has recently signed an agreement to host a Netflix app on its Sky Q set-top box, while BT, Virgin Media and TalkTalk already offer access to Netflix within their pay TV packages. The PSBs will need to explore new ways of working with the online players, whether to secure more investment in UK original programming, or to ensure that their content is carried prominently.

³⁵ <http://www.bbcwpressroom.com/press/britbox-announces-quarter-million-subscribers-eve-one-year-anniversary-u-s/>

5. Conclusions

- 5.1 The history of the UK PSB system, and the UK's television industry more widely, is one of successful adaptation to disruptive change and market entry. The next decade will be all about adapting to an increasingly global marketplace and to a world in which most media consumption is through digital and online services. With the right strategies and support, the PSB system can meet these challenges and continue to play a vital role in the UK creative economy and in society.