



# A new BBC Three channel: Public Interest Test

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Annex 1: Modelling the expected viewing for BBC Three  
and its market impact

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## Contents

<b>Contents</b> .....	<b>1</b>
<b>Modelling the expected viewing for BBC Three and its market impact</b> .....	<b>2</b>
Summary of the model .....	2
Approach to the counterfactual.....	3
Approach to the factual.....	4
Approach to diversion .....	11
Approach to the revenue impact .....	12

## Modelling the expected viewing for BBC Three and its market impact

The BBC developed a model which set out the projected hours of viewing and reach that the proposed BBC Three channel might attract. Thereafter, the model projected changes in the viewing of other BBC and commercial services as a result of the incremental viewing gained by BBC Three. This analysis was conducted separately for individuals aged 4+, and individuals aged 16-34, given the channel’s intended target audience. We adopted a relevant forecast period of three years given the rapid pace of change in television, including new entrants, new forms of content delivery, industry consolidation, new technologies and shifts in viewing habits.

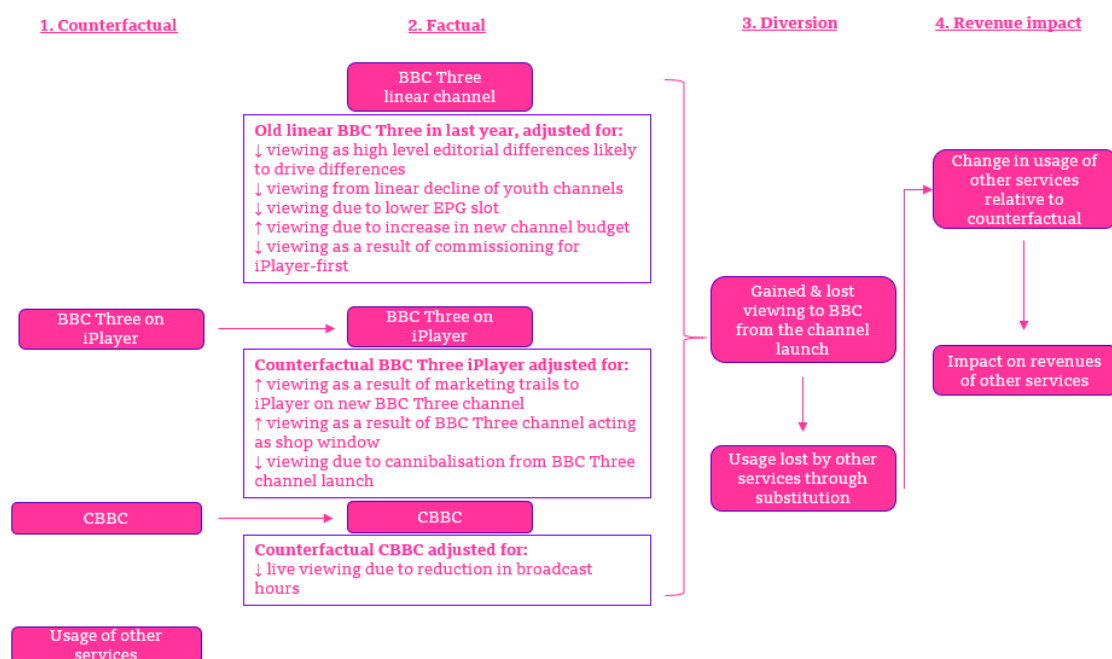
As with any modelling exercise, the model required simplifications and assumptions. Where ever possible, a “conservative” approach to addressing uncertainties was adopted – overestimating the BBC’s impact as opposed to underestimating. Therefore, outputs should be interpreted as “worst case scenarios” for the possible impact of the proposal.

This annex provides a summary of the model structure, inputs and assumptions used to inform our assessment of the BBC Three channel’s impact.

### Summary of the model

The model is structured in four stages, set out below.

**Figure 1: BBC economic model structure**



First, we estimated viewing in the “counterfactual” scenario of no channel launch (i.e. how would viewing likely evolve absent the channel launch). In addition to

viewing of a number of specific BBC services affected by the proposal, we projected the evolution of viewing to the largest TV broadcaster portfolios (BBC, ITV, Channel 4, Channel 5, Sky), broadcast TV as a whole and SVOD viewing as a whole. Second, we estimated BBC viewing in the “factual” scenario of proceeding with the channel launch (i.e. how would BBC viewing likely evolve post-channel launch) for the affected services – the BBC Three linear channel, BBC Three on BBC iPlayer and the CBBC linear channel.<sup>1</sup> Third, we identified the services from which the BBC’s gained viewing would likely be captured (or “diverted”) and translated this into lost viewing for each of the commercial broadcaster portfolios and SVOD. Fourth, this lost viewing was compared to the projected evolution of these services in the counterfactual, and the change was used to proxy for their lost advertising revenues.

More detail is provided on each of these stages of the model below.

### **Approach to the counterfactual**

To develop the counterfactual forecast for the TV broadcaster portfolios and total broadcast TV as a whole, we have considered combined linear TV and BVOD viewing for each broadcaster.<sup>2</sup> One challenge we encountered was the absence of a single third party source that comprehensively measures all BVOD consumption on a comparable basis to BARB’s linear consumption data. We therefore have had to combine data from a number of different sources.

The primary source used for the counterfactual total broadcast TV forecast was Enders Analysis.<sup>3</sup> They provided a view of broadcast live and non-live viewing to 2027, for individuals aged 4+ and individuals aged 16-34. To obtain a split by individual broadcaster, we used BARB Dovetail viewing minutes data in 2020 for each broadcaster portfolio (discussed further below). While Enders’ and BARB’s figures for 2020 were similar, they had slightly different scopes. We made minor adjustments to account for this.

The BBC’s viewing in the counterfactual was forecast through two steps. BBC live viewing in 2020 was obtained from BARB Dovetail, which we assumed declined pro-rata to (adjusted) Ender’s Analysis live broadcast TV forecasts.<sup>4 5</sup> iPlayer viewing

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<sup>1</sup> All BBC Three figures in the counterfactual and factual do not include viewing of BBC Three content shown on other BBC channels.

<sup>2</sup> Estimating the impact on linear and BVOD services separately would require many more assumptions. First, because some broadcasters (e.g. ITV) only report advertising revenues from broadcast and BVOD combined. Second, because it would require speculating on the value and impact of the loss of linear relative to BVOD audiences.

<sup>3</sup> [Video viewing forecasts](#), Enders Analysis, 18 February 2021.

<sup>4</sup> We start from BARB live viewing because BARB consolidated viewing includes some iPlayer viewing, which we treat separately.

<sup>5</sup> For completeness, we uplifted BARB’s live viewing figures to account for PVR viewing based on internal BBC for PVR use by channel.

was forecast on the basis of historical iPlayer viewing, using internal iPlayer data and assuming a linear trend in iPlayer viewing to 2024. This same approach was used to forecast viewing of BBC Three on iPlayer in the counterfactual, with the addition of a pro-rata increase in viewing to account for the real-terms increase in BBC Three's planned budget (independent of the channel launch).<sup>6</sup> We assumed that the shift in budget to BBC Three was at the expense of other channel budgets, thereby producing no net change to total iPlayer viewing.<sup>7</sup>

Viewing of the other individual broadcaster portfolios was forecast by multiplying their respective 2020 shares of total broadcast (linear and BVOD) TV excluding the BBC by the total broadcast (linear and BVOD) TV forecast excluding the BBC in each year.<sup>8</sup>

The source used for forecasts of total SVOD viewing in the counterfactual was also Enders Analysis.<sup>9</sup> They provided a view of SVOD viewing to 2027, for individuals aged 4+ and individuals aged 16-34. No adjustments to these forecasts were made.

### **Approach to the factual**

The proposed channel launch is likely to drive changes to the BBC's viewing relative to the counterfactual through three avenues: the new BBC Three linear channel, BBC Three on iPlayer and the CBBC linear channel. We separately estimated how each of these services are likely to be affected by the channel launch, and then combined the individual impacts to produce a net change to the BBC's portfolio viewing post-channel launch.

An important assumption underpinning the factual forecasts was that the maximum impact of the channel would be reached immediately in the first year of launch.<sup>10</sup> In other words, the market impact of the new BBC Three linear channel would be greatest in 2022, and would then decline from 2023 onwards in line with the live

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<sup>6</sup> Note that a budget increase in a given year would initially only uplift viewing to current commissions in that year, which would be a subset of all iPlayer viewing (i.e. excluding viewing to iPlayer's archive). Over time, the budget increase would serve to improve iPlayer's archive, so in the steady state the budget increase can be applied to all iPlayer viewing. We have conservatively applied the 2022 budget increase to all BBC Three iPlayer viewing in 2022.

<sup>7</sup> This is supported by the BBC's [Three Public Interest Test consultation document](#) and [2020 Annual Plan](#), which details a shift of spend across the BBC's video content to provide more value for younger audiences and to support the growth of iPlayer. Part of the increased spend on BBC Three will be obtained by increasing BBC Four's focus on rich archive content, and reducing commissioning in some high-cost genres on BBC Two.

<sup>8</sup> We felt comfortable with applying 2020 shares to all future years given that broadcaster shares have been broadly stable across age groups and viewing type, according to BARB Live and BARB Consolidated data from 2017 to 2020.

<sup>9</sup> [Video viewing forecasts](#), Enders Analysis, 18 February 2021.

<sup>10</sup> This assumption is supported by the fact that BBC Three already existed as a channel 6 years prior to the re-launch, and continues to exist as a brand on iPlayer, such that some audiences will already have awareness of and affinity for the brand.

broadcast TV decline. This assumption is conservative, since if the channel were slow to gain traction, its market impact would be lessened.

### Forecasting BBC Three linear channel viewing

The starting point for estimating the viewing of the BBC Three linear channel was the performance of the old BBC Three linear channel in its last year of broadcast (FY2015/16) according to BARB live data.<sup>11 12</sup> This performance was then adjusted to take into account a number of factors likely to drive differences between the new channel's 2022 viewing and the old channel's 2015 viewing:

- High-level editorial differences between the new channel and the old channel;
- The linear TV decline experienced by young-skewing channels since the old channel's closure in 2016;
- The new channel's position on the EPG relative to that of the old channel;
- The budget of the new channel relative to that of the old channel;
- The fact that BBC Three has moved to an iPlayer-first commissioning strategy since the old channel's closure, and will continue to do so post-launch.

**Editorial differences.** The old BBC Three channel aired “Family Guy” and “American Dad!”, which were extremely popular and relatively cheap. However, the new BBC Three channel (with a focus on UK originations) is not expected to air acquisitions with similar levels of performance. To account for this we effectively adjusted BBC Three viewing in the relevant slots down to the average for that slot excluding these programmes.

**Linear TV decline.** We proxied for the expected decline of the linear channel between 2015 and 2022 using the actual decline of other young-skewing channels – E4, Sky One and ITV2 – according to BARB live data.<sup>13</sup> We calculated a weighted average index for their combined decline to 2020, and applied a linear trend to obtain a 2022 forecast.<sup>14</sup> However, we adjusted ITV2's viewing to strip out the exceptional performance (from 2016 onwards) of *Love Island* in its two months of

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<sup>11</sup> The old BBC Three channel closed mid-February 2016. We therefore used the old channel's viewing from April 2015 to January 2016 (inclusive) and annualised this.

<sup>12</sup> For completeness, we uplifted the old channel's live viewing figures to account for PVR viewing. Internal BBC data provided a view of PVR use by channel. From this, we calculated a PVR uplift relative to BBC Three live viewing by using the rates for BBC Four as a best estimate, since both likely act as secondary channels in BBC's linear portfolio (thus experiencing higher PVR rates).

<sup>13</sup> We also tested the option of using the total linear market decline for 16-34s instead of the decline of comparable young-skewing linear channels. Theoretically this approach is less ideal, given that 16-34 decline rates could be different for generalist channels as compared to channels specifically targeted at young adults. Nevertheless, this approach had only a minor impact on the results.

<sup>14</sup> We applied the total linear market decline between 2015 and 2016, to avoid any influence of BBC Three's closure on these channels' trend. We also applied the total linear market decline pro-rata from 2023 onwards.

broadcast every year, the likes of which the new BBC Three channel is not expecting to achieve. This adjustment was made by replacing ITV2's "peak" performance in these two months by the average viewing in the month before and after the peak each year.<sup>15</sup>

**EPG slot.** The performance of the old channel was further adjusted downwards to account for the new channel's lower EPG position on each platform.<sup>16</sup> Given that EPG slot positioning for the new channel was unconfirmed at the time of modelling, we modelled the highest slot which the new channel could plausibly obtain in 2022 on each platform.<sup>17 18</sup> This was conservative, since any resulting lower slot would reduce the channel's market impact. For each slot movement of BBC Three down the EPG we applied a 1.5% viewing reduction, as was applied in Ofcom's *Review of prominence for public service broadcasting*.<sup>19</sup> Finally, the slot changes were weighted by each platform's share of broadcast TV viewing, to produce a platform-weighted EPG-induced viewing change between the old and the new channel of -13%.

The change in EPG rank for the new BBC Three channel relative to the old BBC Three channel used for our modelling is presented in the figure below. A new EPG rank of 24 reflects the assumption that the new BBC Three channel will be listed in slot 24 in accordance with Ofcom's prominence provisions for PSB channels.<sup>20</sup> A new EPG rank higher than 24 reflects the potential for BBC Three to take the place of one of the prominent SD variants of its other channels. Given that these EPG ranks are unlikely to be achieved at the date of channel launch due to platforms' implementation period, the EPG adjustment overstates the likely viewing of the new BBC Three channel in its year of launch.

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<sup>15</sup> Adjustment of the full months of viewing also eliminates the influence of any "hammocking", whereby *Love Island* audiences did not switch from ITV2 after the timeslot.

<sup>16</sup> Note that some EPGs may have slot numbers not in use, and thus the difference between the channel numbers of two EPG slots is not necessarily the same as the rank difference between them. We therefore used the rank difference in our model.

<sup>17</sup> The EPG slot analysis only covered the channel variant highest in the EPG (SD or HD depending on the platform). This was driven by the assumption that the highest variant captures the vast majority of the channel's viewing.

<sup>18</sup> Where the highest plausible slot differed by nation on a given platform, we adopted the conservative assumption that the highest slot between the nations applied UK-wide.

<sup>19</sup> [Review of prominence for public service broadcasting: Statement on changes to the EPG Code, Annex 3](#), Ofcom, 4 July 2019, page 13. We note that the 1.5% figure originates from a report by O&O for COBA.

<sup>20</sup> "EPG providers must ensure that the nations' PSB channels ... are listed in a slot that is no lower than the twenty fourth slot of the EPG" – see [The EPG Code: appropriate prominence provisions](#), Ofcom, 4 July 2019.

**Figure 2: Change in BBC Three’s EPG rank, by platform**

Platform	Old EPG rank	New EPG rank	Slots down
Freeview/Youview	7	24	17
Sky	15	15	0
Freesat	6	10	4
Virgin	6	8	2

**Budget change.** The new channel will have a materially larger content budget in 2022 than that of the old channel in 2015. We accounted for this by assuming viewing would increase in the same proportion as the planned budget increase, after adjusting for inflation.<sup>21</sup> This resulted in a budget-driven viewing uplift of 42%.

**iPlayer-first commissioning.** BBC Three’s commissioning strategy has been to optimise viewing on iPlayer since the BBC Three linear channel closure in 2016 and this will continue after the new linear channel launch. This means BBC Three’s budget is primarily spent on high impact content with longevity on iPlayer (i.e. to build the iPlayer archive). As a result, the spend is expected to drive less viewing for the linear channel than if the commissioning approach reverted to linear-first as it was pre-2016.<sup>22</sup> To adjust for this, we applied a 25% down-weight to the old BBC Three channel’s viewing. While we had no available data to support this figure, this was consistent with the 25% uplift factor used by Ofcom in the BBC Three closure Market Impact Assessment to assume increased viewing of BBC Three online due to optimisation of its content for online viewing.<sup>23</sup>

### Forecasting incremental BBC Three on iPlayer viewing

We adjusted the viewing of BBC Three on iPlayer to take into account the following factors expected to drive changes to BBC Three iPlayer viewing from 2022 onwards (all stimulated by the BBC Three linear channel launch):

- marketing trails to iPlayer on the BBC Three linear channel;

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<sup>21</sup> The old BBC Three channel had a relatively stable cost per viewer hour (i.e. when the budget declined, viewing declined proportionately). We were reassured by the fact that cost per viewer hour in 2015/16 was in line with previous years (2014/15 was anomalous), and therefore felt it was a fair year against which to apply a budget-based viewing adjustment.

<sup>22</sup> The change in commissioning strategy can be thought of in broad terms as a move toward higher tariff, and thus lower volume, commissions for iPlayer relative to linear-first commissioning. These are not necessarily as repeatable within a linear scheduling environment (due to the nature of the content or the ease with which casual viewers could tune in part way). The lower volume relative to linear-first commissioning also may lower the performance of linear repeats on the channel due to greater repeat wear-out. Note that ITV have recently announced a move toward on-demand first commissioning for younger audiences, explaining similar changes to their commissioning approach as a result. [ITV announces 'on-demand first' strategy for our young audiences commissioning](#), ITV, 22 April 2021.

<sup>23</sup> [Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC: Market Impact Assessment](#), Ofcom, 30 June 2015, page 49.



- the BBC Three linear channel serving as the “shop window” for iPlayer;
- cannibalisation of iPlayer viewing by the BBC Three linear channel.

**Marketing trails.** The new BBC Three channel will include marketing trails to push viewers toward BBC Three content on iPlayer at gaps in the channel’s schedule. To predict the incremental BBC Three iPlayer viewing minutes expected to be driven by marketing trails on the BBC Three linear channel, we used an in-house econometric marketing model (pre-dating the BBC Three PIT) which quantifies the impact of BBC marketing on iPlayer time spent. From this, we computed a marketing trail-specific uplift to BBC Three iPlayer viewing of 2% for all audiences, and 4% for 16-34s.

**Shop window effect.** The new BBC Three channel will act as a “shop window” for BBC Three content available on iPlayer. This encompasses a complex range of effects, including: individuals seeking out the previous, same or next episode(s) in a boxset on iPlayer after an episode is broadcast; word of mouth, marketing and media coverage around the time of broadcast on the new channel; and heightened brand awareness for BBC Three more generally. While many of these components are unquantifiable, we analysed the promotional effect of a linear broadcast on viewing of the *latest* series boxset on iPlayer as well as *earlier* series boxsets on iPlayer, using a range of different linear broadcasts as case studies, comprised of titles both big and small.<sup>24</sup> The results showed: (i) a relatively minor uplift to iPlayer viewing of the same series after a linear broadcast, and (ii) instances of a more material uplift to iPlayer viewing of previous series after a linear broadcast.<sup>25</sup> However, this latter effect was difficult to distinguish from the uplift driven by the latest series boxset launching on iPlayer around the same time as the latest series’ first linear broadcast.<sup>26</sup> This means that while it is intuitive that the linear channel is a valuable asset with which to grow iPlayer, the extent of its value is not easily quantified.<sup>27</sup> We therefore applied a subjective 5% shop window-specific uplift to BBC Three iPlayer viewing.

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<sup>24</sup> The hypothesis was that some viewers who watch a linear broadcast may go to iPlayer to watch the rest of the episodes in the boxset instead of waiting for the next episode’s linear broadcast, or may go to iPlayer to catch up on previous episodes/boxsets they had missed.

<sup>25</sup> An important caveat is that case studies all comprised linear broadcasts on BBC One and BBC Two. The larger audiences of these channels relative to BBC Three would overstate the impact of the linear broadcast on iPlayer viewing. On the other hand, since BBC Three will have a higher volume of repeats, the impact on iPlayer viewing would need to be determined by aggregating the impact of multiple linear broadcasts.

<sup>26</sup> Importantly, this uplift driven by the latest series boxset launching on iPlayer would apply in the counterfactual of no channel launch and therefore must be stripped out to accurately measure the uplift to iPlayer specifically driven by the linear broadcast.

<sup>27</sup> This intuition is supported by MTM’s survey results. 30% of survey respondents claimed they would be likely to watch the BBC Three channel and use iPlayer to find new TV programmes that are similar to what they’ve watched on BBC Three and 30% claimed they would be likely to use iPlayer to catch up/watch future episodes of a show they’ve watched on the BBC Three channel. Our uplift differs from this 30% figure, which is a measure of likelihood of usage rather than of volume of usage.

For both the marketing trail-specific uplift and the shop window-specific uplift, these would likely diminish as the viewing of the BBC Three linear channel diminishes over time. However, we recognised that the channel could stimulate some long-term transition to iPlayer, given that some viewers could plausibly discover BBC Three on iPlayer via the channel and transition to long-term iPlayer usage as a result. We therefore allowed for the BBC Three iPlayer uplifts to decline 33% more slowly than the linear channel decline, noting this “attenuation for permanent shifts in behaviour” figure of 33% was not possible to measure so is subjective.

**Cannibalisation.** For completeness, we note that the BBC Three channel launch offers an alternative route to watch BBC Three content where previously this could only be accessed through iPlayer. As a result, some viewers may divert their viewing from iPlayer to the BBC Three channel. No adjustment was made for this at the factual modelling stage, given that cannibalisation of other BBC services (including iPlayer) is accounted for at the diversion stage.

### Forecasting the reduction to CBBC linear channel viewing

We adjusted the viewing of the CBBC linear channel to take into account the fact that channel will stop broadcasting at 7pm instead of 9pm, to accommodate for the new BBC Three linear channel. We calculated the historical volume of live viewing on the CBBC channel between 7pm and 9pm, according to BARB live data.<sup>28</sup> Applying a best fit curve, we projected this viewing forward to 2022 and beyond, which was then used as an estimate of lost CBBC viewing after BBC Three’s channel launch.

### Sensitivities

As mentioned, a number of the modelling assumptions were uncertain and/or subjective due to lack of definitive data, such that it was important to test whether the outcomes of the model changed materially in response to changes in the input assumptions. We ran a sensitivity analysis adjusting a number of assumptions up and down to determine the impact on key output variables. The assumptions tested, each discussed below, could not be quantified or verified and were therefore the most subjective.

**Decrease in viewing per EPG slot [adjustment to BBC Three linear channel].** For slot movement down the EPG we applied a 1.5% reduction to BBC Three linear channel viewing, as was the estimate applied in Ofcom’s Review of prominence for

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<sup>28</sup> Given the trend of young audiences using BVOD for catchup, we assumed children’s PVR rates are minor and ignored PVR in this analysis. This was conservative, since it understated the potential lost viewing to the BBC in these hours.

public service broadcasting.<sup>29</sup> However, Ofcom treats this estimate with caution, and it is referred to as an “upper bound”.<sup>30</sup> We therefore tested a lower bound reduction to viewing of 1% per EPG slot move. We also tested a reduction to viewing of 2% per EPG slot, should the new channel’s audience be less willing to navigate down the EPG.

**iPlayer-first commissioning [adjustment to BBC Three linear channel].** We applied a 25% down-weight to the old BBC Three channel’s viewing to account for BBC Three’s strategy of commissioning to optimise viewing for iPlayer. Since we had no available data to support this figure, we tested removing this adjustment entirely as a lower bound, as well as an upper bound down-weight of 50% of the channel’s viewing.

**Shop window effect [adjustment to BBC Three on iPlayer].** We applied a subjective 5% shop window-specific uplift to BBC Three iPlayer viewing to account for the value of the linear channel acting as a shop window for BBC Three content on iPlayer. Given the complex range of effects this comprised, the difficulty of quantifying these effects, and the caveats around our case study exercise, we applied a lower bound and upper bound shop window-specific iPlayer uplift of 2% and 8%, respectively.

**Attenuation for permanent shifts in behaviour [adjustment to BBC Three on iPlayer].** We assumed that the uplifts to BBC Three iPlayer declined 33% more slowly than the linear channel declined. Acknowledging this is not backed by any data, we tested the results using a lower bound 15% decline and upper bound 50% decline. Note that since this is an assumption that affects viewing over time, this sensitivity tests outcomes in 2024 rather than in 2022.

The figure below shows the alternative inputs we applied, and how adjusting these inputs changes our predictions of the BBC’s portfolio viewing share in 2022. None of the adjustments from the base values result in a change to the BBC’s share of more than 0.1 percentage points

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<sup>29</sup> [Review of prominence for public service broadcasting: Statement on changes to the EPG Code, Annex 3](#), Ofcom, 4 July 2019, page 13. We note that the 1.5% figure originates from a report by O&O for COBA.

<sup>30</sup> [Review of prominence for public service broadcasting: Statement on changes to the EPG Code, Annex 3](#), Ofcom, 4 July 2019, pages 10 and 11.

**Figure 3: Sensitivity analysis, BBC portfolio viewing share change, 2022**

Assumption	Base	Low	High
<i>Viewing share impact 2022 (base: 0.4%)</i>			
Decrease in viewing per EPG slot	-1.5%	-1.0%	-2.0%
iPlayer first commissioning	-25%	0%	-50%
Shop window effect	5%	2%	8%

Source: BBC analysis

Notes: “Attenuation for permanent shifts in behaviour” sensitivity is not presented given it has no impact on 2022 outcomes.

### Approach to diversion

Having quantified the change to BBC viewing of the above services separately, we combined these to calculate the net viewing gain to the BBC’s portfolio post-channel launch.<sup>31</sup> We then turned to evaluating the sources of the BBC’s gained viewing. We sought to determine which services would lose viewing as a result of the proposition and by how much their viewing would be diverted to the BBC.

As has been the approach adopted in previous channel launch market impact assessments, we took the conservative assumption that viewing would be gained by the BBC from other linear and on-demand video services only (including cannibalisation from iPlayer itself). This overstated the hypothetical impact on these commercial services, since in reality some of the viewing gained by the BBC could come from sources outside of TV – social media, gaming, video sharing platforms like YouTube and TikTok, or other activities entirely.

We used the consumer research conducted as part of the BBC Three Public Interest Test as our source for diversion. We took the survey results at face value given that it offered the most comprehensive, current and relevant view of the likely viewing response to the proposition. Nevertheless, we acknowledge that consumer survey responses on propensity to act should be interpreted with caution given that respondents are being asked about a service that does not yet exist, such that claimed behaviour and actual behaviour can differ.

In the quantitative survey run by MTM for the BBC in 2021, after respondents stated the number of hours they were likely to watch the BBC Three linear channel for in a given week, they were asked how much time they would take away from each of the

<sup>31</sup> We added together the gained viewing for the BBC Three linear channel and the incremental viewing for BBC Three on iPlayer, and subtracted the lost viewing for the CBBC linear channel.

channels/services they used in a typical week as a result.<sup>32 33</sup> Respondents were able to choose from the full range of linear channels, BVOD and SVOD services, other video sharing services like YouTube and TikTok, and other non-video activity.<sup>34</sup> From this, a share of the diverted hours was calculated for each broadcaster portfolio and SVOD, which was then translated into lost viewing for these players when apportioned among the predicted net gain in BBC viewing.

As a consistency check, we compared the survey results to the diversion figures used for the BBC Three closure Market Impact Assessment.<sup>35</sup> Those figures were derived from BARB 2013/14 data of the other channels watched by the heaviest BBC Three viewers.<sup>36</sup> Comparing the two sets of results shows that diversion ratios generated by our survey results look plausible for the individual broadcaster portfolios and are not different from those of BARB. The “other” category is an exception to this, where our survey results understate diversion from other linear and BVOD services relative to the BARB data.<sup>37</sup> Clearly, both the survey approach and BARB approach have their own pros and cons.<sup>38</sup> We adopt the survey approach because we believe its underestimate of “other channels” is conservative for our purposes. These “other” channels are typically owned by international broadcasters for whom a modest loss of UK viewing is very unlikely to affect their program budget or activity in the UK.<sup>39</sup>

### **Approach to the revenue impact**

Finally, having calculated the change in viewing for other commercial broadcasters driven by the channel launch, we translated this into an estimate for the change to

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<sup>32</sup> “You previously mentioned you would spend [X] hours watching the new BBC Three TV channel a week if it were to launch as a TV channel. How much time would you take away from each of the following channels/services you currently use in a typical week to make room for BBC Three? Please type in the box next to each service how much time you would take away (a value of 0.5 is equal to half an hour). The total time taken away from services can not be more than [X]. ”

<sup>33</sup> While MTM’s survey asked specifically about time taken away from other services in order to watch the new BBC Three linear channel, for simplicity we applied the results to the BBC net viewing gain which included the BBC Three linear and iPlayer gain and the much smaller CBBC loss.

<sup>34</sup> Hours diverted from other video sharing services like YouTube and TikTok and from other non-video activities were ignored to obtain a conservative estimate of the impact on commercial linear and on-demand video services. In reality, 15% of diverted hours for all individuals and 18% of diverted hours for 16-34s were from these out of market sources.

<sup>35</sup> [Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC: Market Impact Assessment](#), Ofcom, 30 June 2015.

<sup>36</sup> Heavy viewers were defined as those who, in aggregate, represent roughly 90% of the viewing of the channel.

<sup>37</sup> It is plausible that survey respondents struggled to estimate switching from “other” channels and services as a whole.

<sup>38</sup> The survey approach is based on stated behaviour which may differ from observed behaviour. The BARB data is likely outdated as competitor propositions and the market landscape has moved on materially since 2013/14, does not capture the full extent of BVOD viewing or any SVOD viewing, and identifies those channels which BBC Three viewers might substitute to instead of the channels which BBC Three viewers might substitute from.

<sup>39</sup> See broadcaster share of viewing on the [BARB website](#). The only UK-based ‘other’ broadcaster with material viewing share (~5%) is UKTV, which is owned by BBC Studios.

their revenues.<sup>40</sup> The revenue impact is the result of lower volumes of viewing which in turn reduce the advertising impacts available for sale, and hence advertising revenues. The revenue impacts were derived from the actual advertising revenues of the commercial broadcasters.<sup>41</sup> These were forecast pro-rata to year-on-year changes in Group M forecasts of UK total TV advertising revenue.<sup>42</sup>

However, as has been the approach adopted in all market impact assessments to date, we assumed that the reduction in the supply of impacts would be likely to lead to an increase in the unit price of those impacts (given that the supply of advertising impacts is constrained in the short to medium term). This elasticity effect was addressed through incorporating “offsets” of 67%, 50% and 33% – reflecting the assumption that increases in the price of advertising would offset a given percentage of the reduction in advertising impacts sold.<sup>43</sup>

We also accounted for the fact that BBC Three is targeted at 16-34s. Such viewers are worth more to advertisers and so have higher cost per thousand (CPT) impacts. Thus the CPT of the viewing lost to BBC Three would be higher than that of average viewing. We calculated this ratio and scaled up the revenue impacts by this CPT factor.

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<sup>40</sup> We did not explicitly calculate the revenue impact on SVODs and Pay TV. A separate analysis of the channel’s impact on these services – relying on viewing impacts derived from our model, survey results, closeness of competition and other factors – is conducted in Section 5.4 of our Public Interest Test.

<sup>41</sup> ITV “advertising revenue” from its annual reports, 2017 to 2020. Channel 4 “digital revenue” and “TV advertising & sponsorship” revenue from its annual reports 2014 to 2019.

<sup>42</sup> [United Kingdom advertising market update](#), Group M, 2021.

<sup>43</sup> [Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC: Market Impact Assessment](#), Ofcom, 30 June 2015, page 37.