Channel 4’s response to the BBC’s public interest test consultation on a new BBC Three Channel

Key Points

We believe that it is vital that PSBs continue to innovate and work together to meet the challenges posed by changing viewing habits as well as increasing competition from the global tech giants. As the largest PSB, the BBC can and should play an active and leading role in that.

The move of BBC Three online was a positive step in testing and shaping viewing behaviour alongside a broader shift away from linear to on demand viewing. As the broadcast market continues to rapidly shift to digital, the BBC should be focused on growing digital for the benefit of viewers, and as a potentially positive contribution to wider market impact, not reversing course.

It is not clear how the relaunch of BBC Three as a linear channel will help the BBC address the market dynamic of *"the acceleration of the changes in viewing trends"* it uses as a justification for the launch – it used the same justification for closing BBC Three in 2015.

The BBC's description of the proposed BBC Three linear channel as delivering *"a purpose that no other channel in the market currently delivers"* clearly does not take into account the wider market and PSB ecosystem it operates in.

C4 and our portfolio of channels specifically target young audiences with high quality, public service content and the linear launch of BBC Three is likely to have a disproportionately detrimental impact on Channel 4 and E4 given the similarity of our target audiences causing loss in share and price inflation for advertisers.

Key points continued

The stated objective for BBC Three is to "not drive ratings", so if the BBC intends for BBC Three to remain at slot 24 on all platforms it should offer a guarantee that this will always be the case.

Additionally, this objective is not matched by the content strategy which includes up to 30% acquisitions. Channel 4 does not see a justification for BBC Three to have any acquisitions at all.

Considering the considerable size of BBC Three's budget Channel 4 believes first-run originations should make up a significantly larger share of its peak time schedule than the 24% proposed.

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Introduction

Channel 4 believes it is vitally important that the UK maintains a strong and vibrant public service broadcasting (PSB) ecology; a strong BBC is central to the success of that ecology. The UK's broadcasting ecology consists of a variety of different organisations with different remits, models and purposes. At the centre of this sits the UK's Public Service Broadcasters (PSBs) - the publicly owned and publicly funded BBC, the publicly owned and commercially funded Channel 4 and ITV and Channel 5 (which are commercial organisations and hold PSB licences). The UK benefits significantly from this plurality of public service broadcasting.

As well as delivering a rich and diverse range of content, which reflects the lives and experiences of UK audiences, the PSBs invest c. £2.8bn p.a in content from UK independent production companies, supporting tens of thousands of jobs. The PSBs play a vital role in British public life, supporting British democratic values– helping to inform UK citizens' understanding of the world and each other, through investment in a wide range of genres from news and current affairs to film and drama. The role of the PSB's continues to be highly valued by audiences – particularly in a climate of 'fake news' and disinformation, the PSBs are hugely valued sources of trusted, impartial information.

As the biggest PSB, the BBC inevitably has an impact on the PSB ecology and the wider market. The privileged position the BBC holds as the recipient of c. £3.5bn/year of public funding means that the BBC's actions should seek to nurture and develop that PSB ecology rather than risk damaging it. It is therefore right that the BBC and Ofcom carefully consider the impact of material changes the BBC makes to its services.

Channel 4's role

Within the PSB ecology, Channel 4 plays a unique role for the British public and British creative industries. Channel 4 was created to be a disruptive, innovative force in UK broadcasting.

We have a unique public service remit to serve younger audiences and champion diversity. As a publisher-broadcaster, we play a hugely important role in the success of the UK's creative industries, acting as a world-leading accelerator, investing in, and stimulating the production sector and pioneering innovation in digital.

Channel 4 is the only public service broadcaster, in the world, that attracts a larger share of viewing among 16-34s than the general population. Our strong relationship with this audience carries on throughout our programming, with Channel 4 News the youngest profiling PSB national news programme across 2020 and has only strengthened during the pandemic. Channel 4 was the only commercial public service broadcaster to have grown young audiences across both daytime and peak in 2020. Over the first lockdown, our peak-time share grew by +20% and +36% in peak time amongst young audiences – more than any other PSB.

In 2020, Channel 4 had 23 of the top 30 highest-profiling titles for 16-34-year-olds in peak on British television – and 18 of the top 30 profiling titles for 16-24-year-olds in peak.

Our digital service, All 4 has 22.2 million registered users, including 80% of all 16-34 year olds in the UK and is the youngest-profiling public service broadcaster streaming service in the UK, with a 16-34 profile akin to Amazon Prime and Netflix.

To further build on our strong foundation, Channel 4 announced its Future 4 strategy late last year, which sets out a newly defined vision for Channel 4 as a digital-first broadcaster with a vision to represent unheard voices, challenge with purpose and reinvent entertainment. This new strategy and vision are designed to ensure we can continue to resonate with young audiences from across the UK and reflect their lives and experiences in our programming.

Given the focus of the BBC Three channel on the 16-34 audience, Channel 4 has a direct interest in the BBC's proposals. It is right that the BBC, through its public interest test, and Ofcom, through a subsequent competition assessment, fully considers the impact of these proposals on the wider market and in particular, on the UK's Public Service Broadcasting ecology. Channel 4 will be responding both to the BBC's consultation and, if the BBC Board proceeds with approval for the BBC's proposals, with the subsequent Ofcom process.

Summary of the BBC's proposals

Our consultation response is predicated on our understanding of the BBC's proposals as follows:

- The BBC plans to relaunch BBC Three in January 2022 as a linear broadcast channel aimed at 16-34 year olds. It claims that the BBC Three linear channel's *"unique proposition can fulfil an important public service that no other channel in the market currently delivers."*

- The BBC's stated objective in relaunching BBC as a linear channel is to reach 16-34s *"who watch broadcast TV on a weekly basis but are very light or non-users of BBC TV"*. The BBC estimates this audience at *"c3.5m"*.

- Within this, the BBC identifies those from Northern Ireland, Scotland and the North and Midlands of England, those from lower socio-economic groups and *"with less access to digital on demand services"* as the viewers they are targeting – the size of this audience is not identified.

- The BBC identifies the market context of changing viewing habits, especially amongst this younger age group and increased competition online as a key justification for reopening BBC Three as a linear channel.

- The new Channel will have a content budget of £73.5m with a proposed content mix including 70% of broadcast hours dedicated to original BBC productions (including first-run and repeats) with the remaining 30% available to be filled by acquisitions.

- In peak time 24% of hours will be first-run, with repeats accounting for 76% - less than was the case for BBC Three when it was last a linear channel which in 2014/15 had 26% first-run and 73% repeats.

- 2/3rds of the content the BBC commissions will come from companies based outside of London – a decision driven by the target audience identified by the BBC and the need to reach them with content, which reflects their lives and experiences.

- The BBC states an intent for the Channel to enter the EPG at number 24 but has not offered assurances that the BBC will not seek to swap this channel with BBC Four to improve its EPG position, at a later date.

The BBC's role as a first mover

The BBC's privileged position as a publicly owned organisation and guaranteed public funding of c. £3.5bn every year – with no requirement to return profits to shareholders - means it can sometimes take risks where others, with commercial considerations, cannot.

Channel 4 has been a first mover in areas including the launch of a VOD service, an HD service, a +1 channel and many others. However, because we do not receive guaranteed public funding and need to generate revenues from advertising, we have to focus much more on the commercial aspects of our decisions.

The BBC has often helped pave the way for the wider commercial market by using this privilege to be a first mover, to help prepare viewers for market change and provide valuable information for other market participants looking to follow in the BBC's footsteps and learn from their experiences.

The move of BBC Three online was a similarly positive step in testing and shaping viewing behaviour ahead of a broader shift away from linear to on demand viewing. As the broadcast market increasingly shifts to digital, and as broadcasters (including Channel 4) increasingly prioritise digital growth (as outlined in our Future4 strategy), the BBC should be focused on growing digital for the benefit of viewers, and as a potential positive contribution to wider market impact – rather than seeking to reverse that shift and chase ratings in an increasingly fragmented and competitive linear viewing landscape.

Market context

To explain the market context, which has led the BBC to its decision to relaunch BBC Three as a linear TV channel, the BBC points to *"the acceleration of the changes in viewing trends coupled with rising content budgets of competitors"*. In 2015, when the BBC took the decision to close BBC Three it used a startlingly similar justification, noting that the closure *"was motivated by financial pressures and a structural shift in consumption of television services among young adults."*

It is unclear to Channel 4 how the BBC can use the same justification to both close and then reopen a service. This is especially the case given that in the 6 years since that original decision, the reasons for the closure of BBC Three have only strengthened due to the increase in the structural shift in consumption referred to by the BBC in its initial justification.

The BBC's strategy to compete with this increased competition online and changing viewing habits of younger viewers seems to be to focus its investment on a much smaller subset of this group who do not have broadband and therefore cannot access these alternative services (or iPlayer). Channel 4 believes it is possible that those in the group the BBC has identified, who watch TV but not the BBC, are more likely to have made that choice due to a lack of awareness or appeal, not because it is not available on a linear channel.

If the BBC is committed to better reaching the 16-34 audience it identifies, Channel 4 believes there is merit in a continuation and possible expansion of their current strategy of showcasing BBC Three content on BBC One. BBC One is the biggest channel in the BBC portfolio and offers the biggest opportunity to reach the 16-34 audience at scale with this content.

Impact on Channel 4 and the wider market

In light of the above, we do not consider that the BBC's proposals are consistent with its privileged position.

Channel 4 is supportive of the BBC's objective of reaching younger viewers in the Nations and Regions. As stated above, as the youngest profiling PSB in the world, Channel 4 has a particularly strong relationship with this audience. Our establishment of a new National HQ in Leeds, alongside offices in Glasgow, Bristol, and Manchester hand in hand with our commitment to commission 50% of our programming from outside of London by 2023 has further bolstered that close relationship.

Given the requirement for the BBC to consider the wider market when making proposals of this nature, Channel 4 is disappointed to see the kind of language the BBC uses to describe the channel.

"The channel would enable us to tell a breadth of unique, young, British, aspirational stories from right across the UK – a purpose that no other channel in the market currently delivers."

Considering the role Channel 4 plays, as outlined above, we deeply question the veracity of this statement. Channel 4 believes that it disregards the wider ecosystem in which the BBC operates and its impact on the commercial market.

Channel 4 agrees with the BBC that the UK broadcasters are facing increased competition from both the SVOD services and social media platforms and that new services are driving changes in audience viewing patterns and expectations, particularly amongst young people. These challenges are not limited to the BBC; indeed, commercial broadcasters have the dual challenge of retaining audience viewing and relevance, coupled with fighting to maintain TV advertising revenue in the face of increased spend on digital advertising. We believe that it is vital that PSBs continue to innovate and work together to meet the challenges posed by changing viewing habits as well as increasing competition from the global tech giants.

However, it is not clear to Channel 4 how the reopening of a linear channel will help the BBC address the increase in competition and loss of younger viewers to these services except to enable the BBC to better reach the small number of 16-34s who do not have a broadband subscription. This is especially the case when according to the BBC it already does better with the 16-34 audience "than any other brand in media".

The vast majority of the 16-34 audience the BBC has identified can and do have access to the internet and can therefore already access BBC Three's content via iPlayer. The question the BBC Board and Ofcom must consider is whether the subset of this group identified by the BBC who do not have access to BBC Three via iPlayer (and who are from lower socioeconomic groups and live in Northern Ireland, Scotland, the North and Midlands of England) represent a significant enough additional benefit when weighed against the market impact. Indeed the BBC must also weigh whether the counterfactual – investing the budget identified entirely in first-run originated content designed specifically to reach this audience through BBC Three on iPlayer - would deliver the same, or possibly greater benefits with less impact on the wider linear TV market.

The opening of a linear channel will inevitably have a detrimental impact on commercially funded broadcasters. While the BBC may believe that the launch of a linear channel, that does not take advertising, will have no impact on commercial audience share (Share Of Commercial Impacts - SOCI); Channel 4 is concerned that given the similarity of the target audience of BBC Three to that of Channel 4 and E4, these channels are likely to be more affected in terms of audience share than others. This will inevitably have a damaging knock on effect on our SOCI which will potentially lead to revenue loss and also price inflation for advertisers as audiences shift from the commercial sector to the BBC.

Channel 4 would also welcome further clarity on how the BBC's proposal ties in with the BBC's wider strategic objective of shifting their commissioning strategy to be "iPlayer first". We would welcome sight of any modelling or analysis the BBC has done on how a new linear channel might help aid their digital growth by acting as a marketing tool and consequentially what impact that might have on the wider market.

The impact of BBC Three on the wider linear market will be dictated in large part by its EPG positioning. While the BBC has stated that it plans to launch at slot 24 on all platforms, it has not given any assurances that it plans to stay in this slot. It appears likely that the BBC would seek to swap EPG positions with BBC Four at the earliest opportunity. Doing so will fundamentally alter the market impact of BBC Three and the BBC should make Ofcom aware of its analysis of the market impact if it did indeed choose to swap places with BBC Four. If this proposal goes ahead, then the BBC should guarantee that BBC Three will remain at slot 24 on all platforms.

Content mix

Channel 4 would also question whether the proposed content make-up truly delivers on the BBC's intention to reach this group with original programming which reflects their lives and experiences.

Given the BBC's intention to specifically target the out of London audience, and the role the BBC can and should play in investing in production outside of London Channel 4 would argue that the BBC should seek to increase its proposal of 2/3rds of investment outside of London to 100%. Doing so will ensure the BBC can truly focus its efforts on content that is not just made for the audiences they are targeting but is also made by people embedded in those communities.

The BBC also states that the measure of success for BBC Three is not ratings but growing reach with the audiences it has identified:

"The objective of the BBC Three broadcast TV channel will be to drive reach and help deliver universality, not drive ratings and average time spent. Its success will be judged on its ability to grow unique reach and iPlayer usage with infrequent, at-risk audiences."

Channel 4 agrees that as a publicly funded organisation the BBC's objective should not be to drive ratings, especially at the expense of other channels, but the content make-up the BBC has proposed does not reflect this stated objective.

A strategy that includes up to 30% acquisitions will significantly drive the share of BBC Three at the expense of other channels like Channel 4 and E4. These acquisitions will do little to further the BBC's objective to reach its identified target audience with content about their lives and experiences.

The role played by acquisitions on BBC Three is well demonstrated by the last time BBC Three was on air. In 2015, 54% of BBC Three's 16-34 share came from late night thanks primarily to two American acquisitions - *Family Guy* and *American Dad*. There is a danger that the BBC's good intentions are undermined if acquisitions form the bulk of BBC Three viewing as they did before.

It is also important to note that the BBC's very presence in the acquisitions market serves to increase prices for other organisations. Indeed, in Channel 4's experience, BBC pricing sets the market expectations rather than follows it.

Channel 4 believes that given the BBC's proposed budget of £73.5m is significantly more than Channel 4 spends on E4 and the BBC does not need to fill a full schedule it is hard to justify why BBC Three should not be able to fill its limited time on air entirely with BBC originated content. Channel 4 does not see a justification for BBC Three to have any acquisitions at all especially considering its stated objective is not about driving ratings.

If the BBC does include acquisitions as part of its content mix, then Channel 4 believes there should be a high bar set for the BBC to justify the inclusion of such content. In particular, the BBC must demonstrate that they have not unnecessarily inflated market pricing for content that could have found a home elsewhere. The BBC's acquisition strategy for BBC Three must not be overtly commercial and should instead seek out programming which is high in public service value and would likely prove loss-making for commercially funded channels.

Given the limited amount of time BBC Three will have to broadcast, Channel 4 also questions why just 24% of its peak time schedule will be committed to first-run originations, with 76% repeats. Considering the inflated size of BBC Three's budget Channel 4 believes first-run originations should make up a significantly larger share of its peak time schedule.

The target audience

In order to properly assess the benefits versus the market impact, the BBC must be clear on precisely who and what the new service is for. The BBC identifies the target audience as 16 -34s who watch TV but do not currently engage with the BBC – this group is identified as amounting to c3.5m. However, given that much of this audience can already access BBC Three content through iPlayer, the BBC suggests that the audience it is targeting are those in this group “with less access to digital on demand services”.

The BBC also further refines the target audience as those within that c.3.5m group who are from lower socio-economic groups, and who live in Northern Ireland, Scotland, the Midlands and North of England.

Channel 4 commends the BBC for seeking to do more to reach these groups but it is not clear how large the BBC’s target audience is once these filters are applied to the 3.5m figure originally quoted by the BBC and it is, therefore, difficult to assess the benefit.

Conclusion

Channel 4 does not believe the BBC has made a compelling case to justify the relaunch of BBC Three as a linear channel. The BBC has yet to publish its research, analysis and modelling which will assess the impact the proposals will have on the market so we have based our analysis on our own modelling and assessment of the case put forward by the BBC.

In particular, Channel 4 is concerned that the BBC seems to be unaware of the role Channel 4 and others play in reaching this audience and do not acknowledge that the launch of BBC Three is likely to have a detrimental impact on channels with a similar target audience. Given its role in the PSB ecology, the BBC should be particularly conscious of the impact its proposals will have on other PSBs who already have a particular role in reaching this audience.

If the BBC Board decide to push ahead with the proposal Channel 4 believes there should be significant changes made to the proposed content mix, with no acquisitions and a much greater percentage of content commissioned and produced outside of London. The BBC should also guarantee it will not seek to swap its EPG position with BBC Four.

If the BBC's objective is to reach the audiences it identifies with content about their lives and experiences, Channel 4 would argue it would be a better use of public money to focus the £79m the BBC has identified for the relaunch of BBC Three entirely on new originated content for this audience for BBC Three on BBC iPlayer. Taking this approach will free the BBC from the constraints of having to fill a schedule with repeats and acquisitions and enable it to focus all its efforts on tailoring content to appeal to this audience. This is especially the case given the creative success the BBC highlights it has had with BBC Three content. Channel 4 sees no reason why the BBC would not continue along this already successful route, especially considering that the benefits it identifies for the production sector from the relaunch of BBC Three would be retained and may even increase given the focus the BBC would be place on original productions.