



# Ofcom Call for Evidence: Future of TV Distribution

## Comments from Paramount

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Paramount welcomes the opportunity to feed into Ofcom's review into the future of television distribution. These brief comments should be considered as complementary to the more extensive joint submission made by the UK PSB's Future TV Task Force. We will be sharing quantitative analysis separately.

Paramount is one of the most significant investors in the UK audio-visual content sector including pay TV networks such as MTV, Nickelodeon, Comedy Central, as well as Paramount Pictures and Paramount+. This submission will however focus on Channel 5 which has been owned by Paramount since 2014.

Changed viewing habits along with technological innovation and a dynamic global policy environment necessitate an industry wide discussion at this time. Whilst transition to IPTV is in its early stages, by considering the views of stakeholders now we hope that Government will be better positioned to ensure we have the most appropriate regulatory framework and technology infrastructure needed.

Channel 5 is a commercial public service broadcaster (PSB), it is not a Mux operator. It is our considered view that financial sustainability of the commercial PSB model and a fair marketplace for all stakeholders must be the guiding principles for a policy framework that underpins the future of TV distribution. Only then will the UK's successful and pluralistic mix of PSB be protected, and ultimately UK viewers served in the best way possible.

### **Protecting the commercial PSB model**

It is important to recall why Channel 5 is worth protecting. Under a UK based leadership team the channel has undergone a creative transformation. The schedule has moved away from US acquisitions towards a broad schedule of UK originated programming. Dramas like *The Teacher* starring Sheridan Smith, *The Holiday* featuring Jill Halfpenny, and flagship returning series *All Creatures Great and Small* have proved hugely successful for Channel 5 and My5 which have both seen audiences grow over the past four years. High quality factual content remains the cornerstone of the Channel 5 schedule with returning series as well as new franchises and one-off specials on key social issues. These feature alongside a news and current affairs programming schedule that reaches important audiences outside of the metropolitan centres. Channel 5 remains the only PSB to have a block of children's programming on its main channel every single day of the year.

Channel 5 has much in common with its PSB colleagues, notably requirements to invest in news and current affairs, quotas for regional programming and spend with independent producers. However, as a commercial PSB it almost exclusively relies on the advertising market to generate revenue that it can reinvest in UK programming. For Channel 5 the future of the television landscape in the UK is not just about ensuring that it is able to get its high-quality content with significant value to viewers easily - but also that it can be done in a way that is commercially sustainable.

Indeed, commercial sustainability is a key element of Ofcom's assessment when considering whether Channel 5, and by extension Paramount, are suitable operators of a PSB licence. Cost of distribution should not disrupt revenue to the extent that it impacts investment in UK content. In deciding what the future looks like and how we get there, policymakers need to consider the economics of commercial public service television.

### **Changed viewing habits**

Channel 5 presently has four routes to market: Digital Terrestrial Television which for the consumer means Freeview; satellite which for the consumer primarily means delivery via Sky or Freesat; cable TV, primarily Virgin Media; and IP delivery which includes both our owned and operated services such as My5 and also third party platforms like Sky Glass. Channel 5's principal commercial goal is to maximise its availability and therefore viewing share by serving viewers through whichever delivery means they choose. Each of these has different costs and revenue per viewer associated with them.

Despite ad market fluctuations and the Covid crisis this mixed distribution model has been stable for many years. People value TV and they particularly value PSB which still accounts for the vast majority of linear viewing. But, as Ofcom's own analysis demonstrates, whilst traditional linear broadcast viewing via DTT is declining, viewing via IP only for both linear and on demand content is increasing.

There is a view among some stakeholders that the move to IP is only younger viewers whilst older viewers remain firm viewers of DTT only. However, whilst there are some households that only view TV via DTT the picture is much more complicated. More than 60% of the Channel 5 audience is also viewing television via IP, and when looking at some genres of factual entertainment there is no difference in viewing age between the audience on the main Channel 5 channel, and on My5. Further, Ofcom's own data suggests many viewers of linear TV over 65 also have a subscription to a streaming service. Whilst older viewers may be moving to IP more slowly therefore, many already have the means and knowledge to do so which is a factor that needs to be understood in more detail when determining the ease of migration between established and future IP distribution platforms.

From the viewer perspective, policy makers need to take a principles-based approach to ensure their best interests are served as viewing habits and distribution platforms evolve. Viewers will need a reliable and fast connection to the TV and audio services they want to watch and access to devices and platforms which are reasonably priced on which they can find a wide range of free content and services.

## **Commercial viability of DTT**

As noted above, Channel 5 relies upon advertising income to cover its costs of distribution plus its ability to invest in UK originated content and meet its PSB remit obligations. There may come a point in which distribution by DTT for commercial broadcasters is simply not viable. Distribution via DTT can only be a reality where the cost per viewer represents reasonable economic value to a commercial public service broadcaster. Costs of distribution via DTT should not compromise Channel 5's ability to invest in UK originated content and the digital technologies and future infrastructure it will need to develop to put content where viewers want to watch.

Further, as the mechanics of distribution change, it is unclear what costs or allocation of costs may be supported by each stakeholder in the TV distribution value chain. This may include government itself through public subsidy, advertisers, content delivery networks, ISPs or broadcasters. How costs are allocated could have consequences, both positive and negative, that impact the commercial viability of the Channel 5 licence. This will need to be factored into any policy intervention by government or Ofcom.

## **Industry collaboration**

Some preparedness for change will need to come from broadcasters and the commercial PSB's themselves. The announcement of Freely is an important step. Last month Paramount announced the evolution of My5 with its intention to bring together the best of My5 alongside the technological infrastructure of Pluto TV to deliver a more appealing customer value proposition to watch both live streams Channel 5, VOD content, and FAST channels.

Leadership from government and regulators will also be fundamental to ensuring a smooth transition to an IP future when the time comes. The Media Bill is an extremely important intervention by government that will mean the PSB ecology is better prepared for a more IP viewing led future. A new prominence regime underpinned by Ofcom will ensure that PSBs receive fair value for the carriage of their PSB players on global platforms.

Improving digital literacy in the coming decade will also be fundamentally important to easing the shift towards IP as a primary method of distribution for television services in the UK. It won't just be a question for DCMS but for the DoE, DWP, and HM Treasury. We would urge the relevant government departments to start coordinating on this important matter. As with previous technological evolutions in the UK AV market, it is important to ensure that all viewers are catered for, and groups of marginalised, vulnerable and isolated individuals are not left behind.

ISPs in partnership with government will need to consider not only the reach of broadband across the country but also how to deliver a quality of service that is compatible comparable to DTT in terms of its stability. Broadband networks need to be ready to absorb the millions of households for whom consuming TV via IP is only a small part of their TV viewing at present.

While the adoption of IPTV in the UK is still in its initial phases, it remains premature to pinpoint specific dates for the eventual switch-off of DTT. However, it is crucial for government to comprehend

the challenges linked to the gradual shift of consumers away from traditional broadcast methods toward online distribution. Efforts should be made now to identify the essential conditions required for a successful transition and the consequences for stakeholders such as Channel 5.

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