The TV Advertising Sector

Discussion Paper

Published 5 February 2025

Contents

Section

Ofcom discussion paper series in communications regulation

The discussion paper series

Ofcom is committed to encouraging debate on all aspects of media and communications regulation and to creating rigorous evidence to support its decision-making. One of the ways we do this is through publishing a series of discussion papers. The research aims to make substantial contributions to our knowledge and to generate a wider debate on the themes covered.

Disclaimer

Discussion papers contribute to the work of Ofcom by providing rigorous research and encouraging debate in areas of Ofcom's remit. Discussion papers are one source that Ofcom may refer to, and use to inform its views, in discharging its statutory functions. However, they do not necessarily represent the concluded position of Ofcom on particular matters. In this paper we present an overview of TV advertising in the UK. This work was undertaken to support the Public Service Media (PSM) review. This paper does not put forward a policy position or present Ofcom's finalised view on the TV advertising sector.

1. Executive Summary

1.1 The UK advertising landscape has transformed in the last two decades. The rise of online platforms has profoundly impacted TV advertising, leading to shifts in both TV viewing habits and advertising models. These changes are reshaping the industry, making audio-visual (AV) advertising more accessible to a broader range of businesses, including SMEs, and shifting the focus of advertising from outputs (e.g. audience size) to outcomes (e.g. consumer action in response to an advertisement).

1.2 TV advertising remains a key revenue source for the commercial Public Service Broadcasters (PSBs). There has been a decline in linear broadcasting advertising revenues in real terms in recent years, while brands are increasingly investing advertising budgets on online platforms. This is driven by changes in audience behaviour, developments in platform offerings and the performance of the wider economy (which has historically been correlated with advertising revenues). However, TV continues to hold value for advertisers targeting large, concurrent audiences. External industry projections forecast linear TV revenues in the UK to increase marginally in nominal terms in 2024, with medium-term forecasts suggesting a slow ongoing decline.

1.3 As a result of changing viewing habits and changes in the proposition on different platforms, advertisers are no longer thinking about TV advertising in isolation and no stakeholder we spoke to has a dedicated "TV budget." Instead, advertisers currently think about AV campaigns more broadly and view TV as one component of a broader strategy that also comprises video on-demand (VoD) and video sharing platforms (VSPs). The exact composition of advertising spend depends on the particular brand, with some youth brands not using TV at all.

1.4 Broadcasters are navigating the shift towards online platforms and adapting their strategies to maintain relevance in an increasingly fragmented market. PSBs are attempting to diversify their revenue sources – they are all increasing focus on their own broadcaster video on-demand (BVoD) offerings and attempting to increase viewership there. Also, in varying degrees, they are leaning into other digital platforms (e.g. YouTube) as a means of attracting viewers while trying not to cannibalise existing revenues.

1.5 Despite these efforts, it is unlikely that increases in BVoD revenues will be able to fully compensate for declining linear revenues.

1.6 As growth in demand for subscription video on-demand (SVoD) services like Netflix, Amazon Prime, and Disney+ has levelled off in recent years, SVoDs are in the early days of moving into advertising. This has been very popular with advertisers and the future strategy of SVoDs will have important implications for broadcasters and the TV advertising sector.

1.7 YouTube is increasingly becoming a key player in the AV advertising space and all advertisers we spoke to were advertising on YouTube, often in significant amounts. YouTube is increasing its advertising offering to attract advertisers, including offering premium content, content viewed on TV and advanced targeting using a vast array of Google data. However, advertisers we spoke to had selected experiences that raised uncertainty regarding the quality of some content against which advertising appears, measurement data they received, and the transparency of reporting on YouTube.

1.8 Audiences and advertisers are beginning to see linear, BVoD, SVoD and VSPs as increasingly similar. This is likely to be furthered with the move to Internet Protocol television (IPTV, which delivers over the internet), naturally evolving viewing habits, and efforts by SVoDs and VSPs, in particular, to have their content and advertising environment perceived as similarly, or more, desirable than TV to audiences and advertisers.

2. Introduction

Context

2.1 As we set out in Review of Public Service Media (2019 – 23), our work at Ofcom is to put audiences at the heart of all we do and ensure the broadcasting sector is delivering good outcomes for listeners and viewers. We also need to report every five years on how the quality of public service broadcasting in the UK can be maintained and strengthened. Advertising revenues are central to the financial sustainability of the commercial PSBs and an understanding of trends and outlook for the advertising sector is important for understanding the sources of income available to meet the costs of Public Service Media (PSM) provision and the challenges for the sustainable provision of PSM content in the future. This work on advertising informs our understanding of these areas and we are therefore publishing a non-confidential version of this discussion paper to support our current review.

2.2 Our December statement set out the challenges facing PSBs in attracting audiences and advertising revenues, with declining linear viewing not fully offset by increases in broadcaster video on-demand (BVoD) viewing, and audiences, particularly younger audiences, increasingly turning to subscription video on-demand (SVoD) services and video sharing platforms (VSPs). Advertising revenues for the commercial PSBs have also declined by more than £600m in real terms since 2019 to around £3.1 billion in 2023 and financial challenges will persist as PSBs deliver a wide range of content across multiple services.

2.3 Despite these challenges, there is a body of research that demonstrates that television continues to deliver strong returns for advertisers.[1] In part, this is because of the immersive nature of audio-visual (AV) advertisements, particularly when viewed within TV's programming environment (where they are played in full on a large screen with the sound on), which makes them more impactful and memorable. Advertisers also value TV because it enables them to position their ads next to high-quality, brand-safe and trusted broadcaster content. Moreover, TV remains unique in its ability to deliver advertising simultaneously to millions of viewers, making it an important ongoing component of advertising for many brands.

Project scope

2.4 This discussion paper sets out our understanding of the TV advertising sector in the UK, including current and future trends, the operation of the trading model, and the impact of these on the commercial PSBs revenues.

2.5 This discussion paper was first developed as an internal piece of work to support the Review of Public Service Media (2019 – 23). It was informed by desk-based research and supplemented with confidential conversations with several key stakeholders. This included seven large advertisers from different sectors, two media agencies of different sizes, the three largest UK commercial broadcasters, a large VSP and several other industry experts

[1] Thinkbox, Profit Ability 2: The New Business Case for Advertising.

and stakeholders.[2] The findings and evidence presented here reflect this original work, but we have necessarily removed confidential references to individual stakeholders.

2.6 We consider the TV advertising sector in the context of audio-visual advertising which includes:

a) Broadcaster linear and video on-demand (e.g. BBC iPlayer, ITVX, Channel 4)
b) Subscription video on-demand (e.g. Netflix, Amazon Prime, Disney+)
c) Online video sharing platforms (e.g. YouTube, TikTok)
d) Cinema
e) Connected TV (CTV, which can also include the above when delivered on a TV screen via an internet connection).

2.7 A detailed investigation of online advertising is beyond the scope of this work, but we consider the impact of online advertising on TV advertising where relevant.

2.8 The discussion paper is structured as follows:

a) **The trading model** gives a brief overview of how the TV advertising sector functions.
b) **Current performance** looks at trends in advertising revenues and how the broadcasters have responded to changes in the sector.
c) **Outlook for the industry** looks at external forecasts for the sector and the implications of the identified trends for PSBs and other broadcasters.

[2] It should also be noted that we spoke to individuals within these organisations on a confidential basis and their individual views are not necessarily representative of an organisation's view.

3. The trading model

How the TV advertising sector functions

The fundamentals of the linear trading model in the UK have remained relatively unchanged in recent decades.

3.1 Over the last 20 years there has been consolidation on both the buying and selling side of the TV advertising sector. Three major sales houses in the UK (Sky Media, ITV Media and 4 Sales) now sell the vast majority of total TV impacts[3]. Four main holding agencies (WPP, Omnicom, Publicis Groupe, IPG) buy the majority of advertising spots and represent brands and advertisers during negotiations with sales houses. This is generally done through a media buying subsidiary or division (e.g. GroupM is the media investment group of WPP).

3.2 Traditionally, media buyers (or advertisers) agree to give the broadcaster sales house a fixed share of their total annual TV budget (Share of Budget, or SoB), in exchange for a Share of Commercial Impacts (SOCI) from that channel and an agreed discount on the Station Average Price (SAP). However, stakeholders we spoke to suggested that deals are increasingly multi-faceted and many SoB deals now also include volume elements (e.g. there might be a condition that an agency receives more value if it hits an incremental volume). BVoD advertising is sold on a volume basis (like other online advertising).

3.3 In addition, advertisers we spoke to no longer have set TV budgets, and instead look at a total AV budget and allocate shares between the different platforms each year. Generally, this AV budget includes BVoD, SVoD and some of the content on YouTube (that which would be considered 'fit for TV'), but some advertisers have an even wider allocation that includes all of YouTube and TikTok. This will likely evolve over time as propositions on different platforms evolve.

ITV airtime sales are regulated through the Contract Rights Renewal (CRR) remedy.

3.4 In 2004, ITV was established following the merger of two UK-based broadcasters, Carlton Plc and Granada Plc. At the time, these companies collectively attracted more viewers than any other commercial TV channel and accounted for over half of total advertising revenues. This raised concerns that the new entity could wield significant market power over advertisers and media buyers during contract negotiations for advertising space. To address these concerns, the Competition Commission (now the Competition and Markets Authority) introduced the Contract Rights Renewal (CRR) remedy. CRR provided protections to agencies and advertisers by allowing them to revert to the pre-merger terms of trade with Carlton and Granada in any ongoing agreements with ITV if they chose to do so.

3.5 In 2010, the Competition Commission reviewed the CRR undertakings and concluded that they were still necessary to prevent ITV from exploiting its dominant position to the detriment of advertisers and other commercial broadcasters.

[3] Impacts are the number of a target audience viewing an advertisement (e.g. 10 impacts can equal 10 people viewing a single ad, or one person viewing the ad 10 times).

Measurement of audiences is well-established on linear (through Barb[4]) and there have been significant efforts to improve measurement and comparability for online video (e.g. through Project Origin[5]).

3.6 There is a shared view among the advertisers we spoke to that the sector has become more performance-oriented and, as a result, measurement of outcomes (i.e. the action or return that an advertisement drives) has become increasingly important, as opposed to measurement of outputs (which tracks the number of people who view an advertisement).

3.7 Measurement was highlighted by some advertisers and industry experts as the key factor limiting the evolution of the trading model – in their view, until it is possible to reasonably compare viewing (and potentially outcomes) on different platforms, it will not be possible for the trading model to advance beyond what has existed for several decades.

3.8 A common criticism by stakeholders is that it is not currently possible to measure incremental reach by platform/channel, and therefore the cost per incremental reach. Many of the large advertisers we spoke to have in-house econometric models that will assess the return-on-investment across different platforms, both in terms of driving short-term sales and long-term brand awareness, but many other brands do not have the capacity for this type of analysis.

3.9 Improving measurement may promote more competition between linear and online if outcomes could easily be compared across different platforms. However, some stakeholders, particularly broadcasters, argue that direct comparisons of linear with online are invalid (due to the different contexts in which linear and online advertisements are viewed and the definition of a completed view), while some advertisers felt that improved cross-platform measurement could drive investment in linear by highlighting its value.

3.10 Advertisers we spoke to raised uncertainty about the quality of measurement for online advertisements. YouTube was highlighted particularly in this context and advertisers expressed a desire to better understand the quality of the impressions they were buying (i.e. the context in which an advertisement was viewed and how much of it was viewed). According to advertisers we spoke to, measurement on SVoDs is opaque and advertisers were often unclear where an advertisement was appearing.

[4] Barb is an organisation responsible for measuring television audience viewing in the UK. It provides official TV ratings and data on viewing figures across different channels and platforms. It is jointly owned by the large broadcasters (BBC, ITV, Channel 4, Channel 5 and Sky). Data is collected through a panel which comprises representative sample of around 7,000 households equipped with special meters that record what is being watched.

[5] Project Origin is an initiative in the UK which seeks to develop a single cross-media measurement that would report on reach and engagement on a standardised and comparable basis. This is led by ISBA with support from advertisers and the big tech companies (Google, Amazon, Meta and TikTok).

4. Current performance

Trends in advertising revenues

The wider UK advertising market has undergone significant structural changes in the past two decades.

4.1 The rapid rise in online and a decline in traditional print advertising has re-shaped the advertising industry in the last two decades. Much of the increase in online advertising spend has been organic, as reflected by the expanding size of the total market from £23.7 in 2018 to £34.8bn in 2022. However, some of the growth in online advertising is likely due to the cannibalisation of existing advertising spend, particularly from declining traditional media such as print and direct mail. Recent years have followed a similar trend – in 2023, online advertising expenditure increased by 10.1%, while many other sectors, including TV, experienced a decline.

Linear advertising revenue has declined alongside falling viewership, with rising BVoD revenues not fully compensating for the decline.

4.2 Total TV revenue (linear and BVoD) for all commercial broadcasters fell from £5.1bn in 2018 to £4.9bn in 2023 (a 3.9% decline in nominal terms). In part, this will have been driven by relatively weak performance of the wider economy, as advertising has historically been correlated with the economic cycle. Linear advertising spend fell by 20% in nominal terms, with the growth of 150% in BVoD (to £980m) failing to offset this[6].

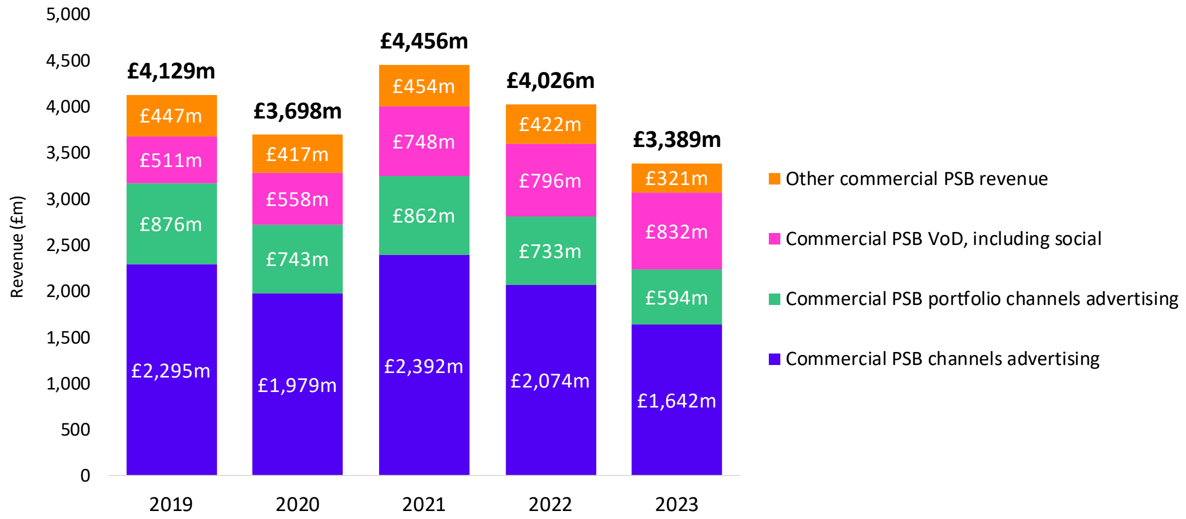
4.3 Alternative revenue streams, such as sponsorship, product placement, and advertiser-funded programming, are a small, but important, source of revenue for the broadcasters. Notable examples include high-profile sponsorships like eBay's sponsorship of Love Island.[7]

[6] AA/WARC (2024), AA/WARC Expenditure Report (Q1 2024).

[7] MarketingWeek, 'How eBay's Love Island sponsorship changed the face of pre-loved fashion'.

Advertising revenues for commercial PSBs have followed the same pattern as total TV

Figure 1: Commercial PSB TV and VoD revenue by source: 2019-2023[8]



Source: Ofcom/broadcasters. Figures are presented in real terms (CPI-adjusted to account for inflation).

4.4 Looking at the commercial PSBs in particular (Figure 1), advertising revenues have fallen in real terms by around 17% since 2019, a decline of over £600m. The PSBs' BVoD revenues grew over the period from just over £500m to more than £800m, but this was not sufficient to prevent an overall decline in revenues.[9]

How the industry is responding to trends in viewing and advertising

Broadcasters are increasingly leaning into advanced TV advertising solutions, which enable advertisers to target very specific audiences.

4.5 Advanced TV advertising is an umbrella term for the range of technological and data-driven business solutions offered by TV broadcasters. This includes linear addressable TV, over-the-top (OTT) addressable TV and connected addressable TV.[10] Advanced TV advertising uses first-party data from broadcasters (either registered accounts on BVoD platforms or subscriber contracts for Sky/Virgin, as well as viewing data) which can then be combined with third-party data sources (e.g. from Experian or Mastercard, or the advertisers themselves) to allow advertisers to target very specific audiences.

4.6 Unlike with linear spot advertising, where airtime is fixed, broadcasters can also increase their advertising loads on BVoD where necessary, which means there is less need for a lead

[8] Commercial PSB VoD is predominantly advertising revenue but also includes some other elements, such as subscription revenue. Other revenue includes sponsorship, product placement, subscriber income, TV shopping, interactive services, programme sales, pay-per-view and other sources. 'Commercial PSB channels' comprises the following: ITV, STV, ITV Breakfast, Channel 4, Channel 5 and S4C.
[9] Ofcom/broadcasters. Figures are presented in real terms (CPI-adjusted to account for inflation).
[10] Linear addressable is delivered via cable, satellite or DTT. Examples include Sky and Virgin Media (via AdSmart). OTT addressable is delivered via Smart TVs or other connected/portable devices. Examples include ITVX, YouTube. CTV is delivered in the same way as OTT, but refers to the devices used to access OTT content (Roku, Xbox etc).

time between ad booking and placement.[11] However, advertisers have other "quality" requirements (e.g. around advertising placement) and so a degree of planning is still required. Therefore, most broadcasters have an advanced booking deadline of 2-3 weeks on BVoD (though this is less than the 4 weeks for linear).

4.7 One difference between buying and selling advanced TV advertising compared to spot advertising on linear is that Sky and the PSBs collaborate more in the BVoD space, as they work together with AdSmart[12] and CFlight[13].

PSBs are focusing on building digital revenues and other diversification strategies to counter declining linear ad revenues.

4.8 PSBs have publicly announced their targets to diversify from traditional revenue sources and engage in other strategic initiatives to sustain their operations in the future.

4.9 One of the clearest objectives of the PSBs is to expand their audiences and revenue on digital BVoD services. However, advertisers we spoke to remain unconvinced about the competitive proposition of advanced advertising on BVoD. Several advertisers expressed concern about costs and the transparency of pricing and felt that the return on investment was not sufficient on BVoD. According to a Digiday article, advertising on a broadcaster's addressable inventory could be several times more expensive than linear TV.[14] We are aware that the technological cost for delivering broadcast for BVoD is higher than on linear, which may be a factor contributing to higher prices, in addition to the enhanced targeting capabilities.

4.10 There are challenges with measuring incremental reach and frequency on BVoD and advertisers suggested that BVoD does not have the same benefits in terms of data quality as linear. In addition, BVoD does not enable the same degree of targeting and tracking that YouTube and other online advertising does. Some advertisers we spoke to value the ability of first party data to drive sales, though this was referenced more in connection with use online than in advanced TV advertising. On the other hand, advertisers who were focused on building broad brand awareness were less convinced of the value of targeted advertising (particularly very granular and expensive targeting).

ITV has developed an in-house, self-service ad tech stack (Planet V) which enables highly targeted advertising and has attracted new advertisers to ITV.

4.11 Planet V is now the second largest video ad-tech platform in the UK (second only to Google) and enables advertisers to target viewers based on many characteristics (e.g. demographic, household income, purchasing history, geography, weather.). Planet V allows buyers to purchase digital inventory programmatically, without the need to go through a sales team. All of ITV's online inventory is booked through Planet V. ITV suggests that this has expanded its overall serviceable addressable market from £0.4 billion in 2018 to as much as £6.8 billion in 2023.[15] ITV reports it has achieved "double-digit growth" in cost per thousand impressions

[11] Thinkbox, TV Masters: Module 9.
[12] AdSmart is a targeted TV advertising solution to deliver ads into Sky and Virgin Media households.
[13] The sales houses of ITV, Channel 4 and Sky collaborated to bring CFlight to the UK, which should give de-duplicared reach and frequency for linear and BVoD. CFlight is a unified TV advertising metric that captures the vast majority of live, on-demand and time-shifted commercial impacts across all viewing platforms.
[14] Digiday, Direct Line Group is Shifting Digital Ad Spending to Targeted TV Ads.
[15] ITV Plc (2024), 2023 Full Year Results (Analyst Presentation)..

over the last two years and since Planet V's launch, over 1,000 new advertisers have been attracted to ITV.[16]

4.12 Sky is also currently trialling the use of Planet V and advertisers and agencies can plan and buy campaigns across some of Sky's on-demand content.

4.13 In addition, ITV AdLabs' Matchmaker product allows the Fast-Moving Consumer Goods (FMCG) industry to target ITVX viewers that have loyalty cards for shops like Boots and Tesco.

Interactions with online pose both opportunity and competitive challenges for broadcasters.

4.14 ITV, Channel 4 and Sky have all partnered with one or more social media platforms to distribute content, which might include clips of broadcast programmes, full episodes, or exclusive content. Channel 4 is focusing on engagement with younger audiences through YouTube, aiming to double social views on 4Studio, its digital content arm.[17] ITV recently announced a new partnership with YouTube, where full episodes of some ITV programmes will be made available on YouTube.[18] Evidence from broadcasters suggests that YouTube can drive audiences and there is little overlap between YouTube and linear/BVoD audiences, though we have not yet seen evidence to support that YouTube viewing will drive significant revenues for PSBs.

4.15 As discussed in Review of Public Service Media (2019 – 23), VSPs and social media platforms do not give the PSBs a direct relationship with their viewers, and it is the platform that hosts the content, has control over the interface with the viewer, and monetises the content. The PSBs are then reliant on the platform to pay them for their content, provide data and insight into their viewers and to ensure their content is seen and given adequate brand attribution. Broadcasters therefore face both opportunity and risk in generating revenues through YouTube and other VSPs.

Some broadcasters are starting to make innovations in the trading model.

4.16 One Campaign from Sky allows advertisers to buy linear and on-demand campaigns at the same time. Advertisers pay one price using a consistent currency for one audience across all platforms, as One Campaign uses unified metrics which allows prices to be simplified and blended. This standardises the TV advertisement booking process to make it easier to book, manage and measure campaigns.

4.17 In future, this type of service could be used by all broadcasters to combine their spot and on-demand advertising campaigns.

4.18 Channel 4 has introduced an online auction for advertising on its digital platform, which ties BVoD pricing to advertiser demand in a similar way to linear advertising.

Broadcasters have introduced ad-free subscription services.

4.19 ITV and Channel 4 have introduced premium ad-free streaming options available for a monthly fee (£5.99 for ITVX Premium, which includes additional content, and £3.99 for Channel 4 Premium). Channel 5 does not have a standalone ad-free subscription, but Channel 5 Content is available ad-free through Paramount+ (for £6.99 per month). Although

[16] S&P Global (2024), TV Earnings Call Transcript (2024-03-07).
[17] Channel 4, *Fast Forward Strategy*. Fast Forward: Transforming Channel 4 into a digital-first public service streamer | Channel 4
[18] The Media Leader (2024), ITV signs partnership to take content to YouTube - The Media Leader.

ITVX generally has more viewers than Channel 4 streaming, claimed reach to their respective premium services is about the same size.[19]

4.20 Analysts do not predict these services will drive significant revenues. For example, Morgan Stanley forecasts that additional subscription revenues will contribute very little to ITV revenue growth.[20]

As SVoD penetration gets closer to saturation, services are in the early days of moving into advertising.

4.21 Netflix and Disney+ both launched ad-supported tiers in late 2022, and Amazon Prime followed in early 2024. Netflix's ad-supported plan is £2 a month less than Netflix's cheapest ad-free package and viewers have four to five minutes of advertisements an hour, significantly less than UK broadcasters who can air up to twelve minutes an hour. Amazon Prime requires new and existing users to pay an additional £2.99 to remain ad free.

4.22 Netflix's new ad-supported tier appears to have reasonably strong early appeal in the UK. According to Ofcom's VoD Survey of online adults and teens, 13% of subscribers surveyed in February 2023 said that they were taking the new advertisement plan, with the proportion rising to 20% among 35-44-year-olds.[21]

4.23 In the UK, Netflix, Amazon Prime, and Disney+ have all joined Barb and they, in addition to Vevo and Warner Bros Discovery, are also members of Thinkbox. Advertisers we spoke to were positive about advertising on SVoD services as they considered the content and viewing environment to be high quality, though they noted that inventory was limited, as was the measurement and reporting data they received.

YouTube is positioning itself as a platform for traditional advertisers.

4.24 YouTube has expanded its advertising formats and now offers short, non-skippable and shoppable advertisements. It also provides enhanced audience targeting, leveraging Goggle's vast data resources (e.g. demographics, interests, behaviours). YouTube is also experimenting with Augmented Reality (e.g. trying on products in a virtual environment) and Virtual Reality (e.g. offering immerse environments to showcase travel, real estate etc.) advertisements.

4.25 YouTube Select enables advertisers to place their advertisements on high-performing content. It is focused on the top 5% of popular and engaging content intended to place advertisements alongside high-quality videos that are brand-safe and highly viewable. It also allows the selection of content streamed directly to TV.

4.26 Advertisers we spoke to had selected experiences that raised uncertainty regarding the quality of some content against which advertising appears, measurement data they received, and the transparency of reporting on YouTube. However, every advertiser we spoke to was advertising on YouTube Select. In addition, brands targeting younger demographics were more likely to be advertising on YouTube more generally (and TikTok) and have fewer brand safety concerns with this.

[19] Ofcom (2024), Ofcom VoD Survey 2024, combined online and CATI surveys. 4% of those aged 13+ claimed to have watched ITVX Premium within the last three months of being asked. 5% of those aged 13+ claimed to have watched Channel 4+ (paid for service) (this cannot be described as larger than ITVX Premium because it's not significantly differentQ1a. Can you tell us which of the following services you have personally used to watch programmes, films or other video content in the past 3 months? Base: all respondents (2203).

[20] Morgan Stanley (2024), ITV Plc Challenging, but growing.

[21] Ofcom (2023), VoD Survey.

5. Outlook for the industry

Industry Projections

5.1 All advertisers we spoke to intended to continue to invest in linear, though all were also using alternative platforms for their AV campaigns and expected to do so even more going forwards as audiences continue to decline. Some industry experts and advertisers we spoke to suggested that a shift to BVoD could enable broadcasters to target the “long tail” of SMEs that have traditionally chosen online advertising over linear TV. If BVoD expands broadcasters’ potential client base or addressable market, it may allow PSBs to attract a portion of advertisers’ budgets away from online platforms.

5.2 As part of this work, we looked at existing industry forecasts related to advertising revenue for the PSBs. We did not undertake any original forecasting work of our own.

5.3 TV advertising expenditure is expected to stagnate globally over the medium term.[22] In the UK, linear advertising expenditure is predicted to rise modestly in 2024 after a significant drop in 2023, while VoD advertising expenditure is anticipated to continue rising.[23] However, there is a general consensus that any recovery in linear revenues in 2024 will be cyclical (as mentioned above, advertising spend has historically been correlated with economic cycles). Forecasts also predict a slow decline in linear revenues over the medium to long-term. For example, Morgan Stanley’s headline revenue forecasts for ITV assume that linear TV advertising revenues will decline at a compound annual growth rate of -3%.[24]

5.4 Public statements by broadcasters about their corporate strategies also provide insights into how market revenues are expected to evolve. Both ITV[25] and Channel 4[26] aim to at least double the usage and revenue of their BVoD services by 2030. Market analysts[27] are generally confident that ITV can meet its BVoD targets, further supporting the idea that online broadcast content will be a significant growth area. In contrast, broadcasters seem more cautious about targeting revenue growth from traditional linear advertising. For example, ITV’s targets for linear focus on maintaining their market share rather than expanding revenues,[28] suggesting that linear will likely be of reducing importance to PSBs moving forward.

5.5 Despite these trends, spot advertising will remain a key revenue source for commercial broadcasters in the medium term. This is especially likely because, as mass reach becomes increasingly scarce, the price of advertising is rising. Consequently, linear revenues are expected to decline more slowly than viewership, maintaining it as an important revenue stream for PSBs.

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[22] PwC (2023), Perspectives from the Global Entertainment & Media Outlook 2023–2027.
[23] AA/WARC Expenditure Report Q2 2024. +0.9% growth expected in 2024 and -0.2% YoY decline expected in 2025, following a -8.9% YoY decrease in 2023. However, within the broader TV sector, BVoD ad spend is projected to grow at +12.8% YoY in 2024 and at +10.3% YoY in 2025, following a +15.9% growth in 2023.
[24] Morgan Stanley Research. (2024). ITV Investment Report, Challenging, but growing.
[25] ITV Plc. (2024), Annual Report & Accounts 2023.
[26] Channel 4 (2024), Channel 4 shares plans to become digital-first public service streamer by 2030..
[27] See: Barclays (2024), ITV Plc Short-term momentum, long-term questions, Morgan Stanley (2024), ITV Plc Challenging, but growing and Deutsche Bank (2024), Talking TV: Changing landscapes in 2023.
[28] ITV Plc. (2024), Annual Report & Accounts 2023.

Implications of trends for broadcasters

Despite declining viewing figures, advertisers still perceive linear to be a high-quality proposition.

5.6 Audiences and advertisers continue to value linear TV, particularly large-scale events, and value the content produced by broadcasters. Advertisers we spoke to all felt the quality of content produced by broadcasters (and particularly the PSBs) was unrivalled in the sector and they would continue to want to advertise on linear while it was effective for them to do so. While event advertising will continue to be attractive due to the large audiences it can attract, this could lead to increased financial volatility for broadcasters who rely on linear for a large share of their revenues. In addition, as SVoDs begin to move into large live events, particularly sports, this will further increase competition for viewing and advertising.

5.7 According to Thinkbox, the vast majority of AV advertising is still viewed on broadcaster content (83.6% of video advertising viewing in 2022).[29] While current viewing trends are projected to continue (with a decline in linear and increase in online), TV is likely to continue to have a large share of AV advertising viewing and thus be important for advertisers, particularly for those looking to build brand awareness.

Linear remains cost-effective for advertisers for key target audiences.

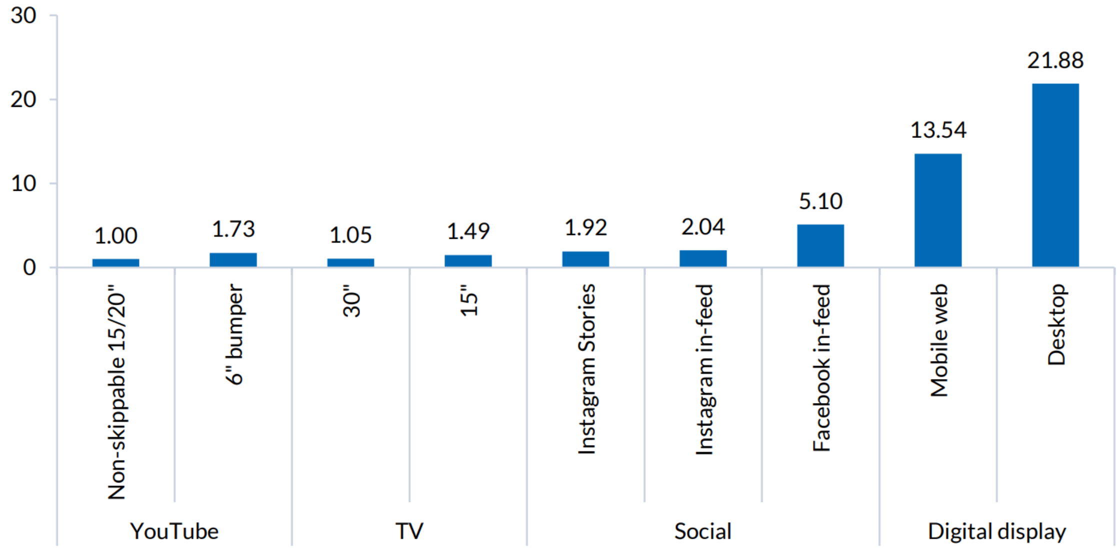
5.8 A recent study by Lumen priced different display media according to their cost of attention and found that in terms of cost-effective attention, only YouTube competes with television.[30] Facebook in-feed advertisements—which make up over 80% of the service's UK impressions (excluding Instagram)—while cheaper on a cost per thousand impression basis, are far more expensive than TV advertisements when attention is taken into consideration.

5.9 This is an individual study; however, it was corroborated by advertisers we spoke to who found linear to be among the top platforms in terms of cost-effectiveness.

[29] Thinkbox (2023), TV Masters. SVoD data is not captured – however as discussed below inventory is currently limited and there is likely an upper limit to the level of advertising these platforms could show due to their business models/ audience behaviour.

[30] After factoring in an ad's on-screen viewability according to Media Rating Council standards, with the actual levels of viewing and average dwell time as informed by Lumen's eye-tracking technology, the study showed the amount of attention each impression received. CPM data was then applied to show the cost of that attention.

Figure 5: Cost per 1,000 seconds of attention (£)



Source: TVision, Lumen, Ebiquity. Combines average CPM with Lumen's attentive seconds per 1,000 impressions.

5.10 Although the evidence suggests linear remains cost-effective, there has been inflation in linear TV prices caused by the decrease in viewing, meaning advertisers need to spend more money to achieve the same TV audience reach. Some audiences, such as younger viewers, have seen even more inflation than general adult viewers.

Most advertisers we spoke to were not using linear as the primary means of targeting younger audiences.

5.11 Advertisers are becoming more selective about which brands they advertise on TV and youth brands were more likely to be online-only or online-first.

5.12 There has long been a discussion of the "tipping point" in the sector – i.e. the point at which audiences on linear would decline to the point where it would no longer be cost-effective for advertisers to reach them through TV. Whilst evidence suggests key target audiences are still currently affordable to advertisers, further price inflation in these demographics would result in diminishing return on investment for advertisers. This may be likely as younger audiences transition to become audiences with higher disposable income as they get older and become more desirable to advertisers (as evidence suggests viewing habits are retained with age).

The challenges with BVoD (around value-for-money and measurement) highlighted by advertisers suggests there is further work for broadcasters to do.

5.13 While we only spoke to a selection of advertisers and this should not be viewed as a representative sample of the industry, BVoD was a key area where advertisers were vocal and critical of the cost of advertising and accuracy of measurement. These challenges may limit the ability of BVoD to compensate for falling linear viewing and revenues and to compete with SVoDs/ YouTube.

YouTube can be a source of revenue generation for the broadcasters, but is also a key competitor for viewing and, potentially, advertising expenditure.

5.14 As there is considerably greater competition for viewers on online video platforms (millions of creators compared to hundreds of TV channels), it seems unlikely that broadcasters can rely on online video alone to support them as spot advertising revenue declines.

5.15 In spite of some advertiser concerns with quality of content against which advertising appears, measurement data and transparency of reporting on YouTube, it is likely that the platform, and other VSPs, will be increasingly important in terms of audience viewing and advertiser spend going forwards.

Advertisers are viewing SVoD advertising as a direct substitute for linear advertising.

5.16 Advertisers and agencies we spoke to view advertising on SVoD services as similarly desirable from a quality perspective to broadcaster content. However, currently the advertising inventory on SVoD services is relatively low and they have a low share of top programmes in terms of viewer numbers. SVoDs operate on a subscription model with no or little advertising compared to other broadcasters and, according to some industry experts we spoke to, SVoDs are likely to have an upper limit on how much they can increase advertising inventory before it starts to impact on service viewing. In addition, there are likely to be other SVoD services entering the UK market which will further increase competition for subscribers and viewing time[31].

Stakeholders felt the AV landscape has changed significantly since the introduction of CRR.

5.17 Although ITV still delivers the largest concurrent linear audiences of all the commercial broadcasters, linear TV now accounts for 19% of display advertising spend,[32] down from an estimated 33% in 2003.[33] In video advertising specifically, linear TV once dominated the entire sector, but with the rise of online video platforms, it now represents less than half of all video advertising spend. Over this period ITV has seen a decline in both its viewing share (as a proportion of total audio-visual viewing) and revenue share.

5.18 As discussed above, our conversations with stakeholders suggest online video advertising is, particularly on some key platforms, beginning to be viewed as substitutable with TV advertising. This will vary by the type of advertiser – for example, a small number of advertisers we spoke to were targeting younger demographics and they saw wider AV advertising as more similar to TV.

5.19 In addition, the way advertisers think about the market has changed – no advertiser we spoke to has a dedicated TV budget and they are viewing TV advertising as one component of a larger AV campaign, with large sums of AV advertising spend flowing online. Several advertisers we spoke to considered YouTube to be their biggest "channel" in terms of spend, when historically that would have been ITV1.

5.20 Despite these developments, TV still delivers mass reach more quickly than other mediums and ITV remains the largest commercial broadcaster in the UK. According to their most recent annual report, ITV held a 32.6% viewing share among commercial broadcasters and captured 91% of the top 1,000 largest audience shows on commercial broadcasters in 2023[34]. While there was a consensus among the advertisers and agencies we spoke to that CRR was outdated, a small minority of stakeholders we spoke to still benefit from (and

[31] FT (2024), Warner Bros Discovery in talks with UK streamers over HBO programmes.
[32] AA/WARC Advertising Expenditure report.
[33] Advertising Statistics Yearbook. Microsoft Word - Ofcom report for CRR review final 020609 NON CONFIDENTIAL (see page 13).
[34] ITV (2023), ITV Plc 2023 Full Year Results Release. This includes TV viewing from transmission and seven days post-transmission on catch up, as well as six weeks prior to the transmission window. This figure is for broadcaster TV content and excludes SVoD.

therefore value) the protections it offers and assert that the CRR remedy, even if not called upon, provides them with a "backstop" that supports them in negotiations with ITV.

5.21 A recent report by Enders Analysis commissioned by ISBA found that CRR was restricting ITV's ability to innovate[35]. In addition, ISBA recently undertook a consultation of its members on CRR and found a "general view among members that the mechanism no longer benefits advertisers or industry in the round and should be reviewed."[36]

CRR is one factor that supports the continuation of the current trading model.

5.22 As viewing naturally transitions online, volume deals are accounting for a greater proportion of total TV revenues, and over time will account for the majority. Having separate deals for linear and BVoD is not the optimal dynamic for the future as linear and on-demand viewing converge and campaigns run across all platforms. However, under the terms of CRR, ITV must separate out ITV Main revenue, so separate deals will be inevitable for those agencies/advertisers with their own deal that want to retain the CRR undertaking within their deal.

5.23 Removal of CRR may therefore incentivise agencies and advertisers to seek new arrangements that would drive the trading model to evolve. A 2021 Enders report suggested that advertisers would prefer a mixed trading model, with the majority of linear traded by volume (in the same way as BVoD) and some "premium" inventory reserved. According to Enders, volume-based deals are more likely to lead to high quality programming, and a variety of innovative advertising products, covering both linear and BVoD.[37] According to Enders, volume deals would reward those advertisers that spend more, or increase their spend over a period of time, and importantly they provide broadcasters with greater certainty to invest in their product.

5.24 Stakeholders also pointed out that there are other factors, including measurement and the incentive that agencies have to maintain the current model, which lead to a continuation of the share model. It is unclear from the publicly available evidence and our discussions with stakeholders that changes in the trading model would significantly impact on broadcaster revenues, either positively or negatively, though a volume basis may be a more efficient model and is the model adopted in most TV advertising markets internationally.

However, the trading model is already starting to evolve and, in the medium-term, it seems likely that the majority of advertising will move to being traded on a volume-basis.

5.25 The move to IPTV means that in the medium term (within the next 10 years) it is likely there will be less distinction between linear and VoD (and in the event of a DTT "switch off", there would be no distinction), and most/all advertising slots will move to being traded on a volume-basis. Advertisers we spoke to had mixed views on when this would happen.

5.26 This would mean most advertising would be addressable, resulting in less wastage and improved targeting for advertisers. It could also result in most TV advertising being traded programmatically (i.e. bought/ sold through demand/supply-side platforms and allocated by

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[35] See page 19, Enders Analysis (2024), TV advertising's evolution, the broadcasters' perspective. For example, under the current CRR framework ITV would need consent from the CMA to remove linear micro-targeting available through its 13 regional areas (which ITV asserts could be more efficiently done through BVoD) which contributes to significant linear infrastructure costs.

[36] Enders Analysis (2024), TV advertising's evolution, the broadcasters' perspective.

[37] Enders Analysis (2021), TV advertising: Evolving the model.

an algorithm) with key slots (e.g. large-scale events) being bought and sold individually. However, many advertisers want certain “quality” features (e.g. particular placement within the sequence of advertisements shown) when placing advertisements on linear or BVoD, which mean it would not be possible for allocations to be fully programmatic. Advertisers do not have the same quality requirements when advertising on SVoDs/VSPs so this behaviour may change over time.

Conclusion

5.27 The sector is already experiencing convergence in perceptions and behaviour on both the viewing and advertising sides. Audiences and advertisers are beginning to see linear, BVoD, and SVoD as increasingly similar, with VSPs also beginning to move into this space, particularly for some audiences and advertisers. This is likely to be furthered with the move to IPTV, naturally evolving viewing habits, and efforts by SVoDs and VSPs, in particular, to have their content and advertising environment perceived as similarly, or more, desirable than TV to audiences and advertisers.

5.28 The PSBs are facing significant financial challenges and we expect that linear TV advertising revenue will continue to decline, to a degree which is unlikely to be offset by BVoD revenue increases. These challenges put pressure on the ability of PSBs to maintain their spending on programmes and they will find it increasingly difficult to meet their obligations in terms of the range, volume or quality of the TV programmes commissioned.

5.29 PSBs are exploring other ways to reach audiences and generate advertising revenues, through their BVoD offerings and putting their content on VSPs like YouTube, though there are challenges with monetising audiences on VSPs . Media Act implementation could be helpful in ensuring the financial sustainability of the PSBs. For example, introducing prominence for PSBs on connected TV services could help PSBs reach audiences more easily with their BVoD services.