

“ ‘Now that so many commercial television channels are available to audiences there is no longer a need for Public service broadcasting’. Discuss”

Economics of the Mass Media (ECO-M015)

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"The BBC is the world's leading public service broadcaster. Its mission is to enrich people's lives with programmes that inform, educate and entertain" (Inside the BBC, About the BBC)¹

"The licence fee is already an anachronism, and opposition will grow as technological advances and changing viewing preferences make it even more outdated." (Scrap the TV Licence Fee and reform the BBC, Adam Smith Institute)²

With an estimated 60 million televisions in the UK and a population watching an average of 242 minutes of television a day³, the television industry is thriving! Since the creation of digital TV, the restrictions of how many channels could exist, has ceased to exist. Hundreds of channels are now available in one format or another. An ever-changing landscape means the amount on offer is difficult to quantify but the UK's leading broadcaster for quantity of channels, SKY, claims over 600 channels⁴.

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¹ <http://www.bbc.co.uk/aboutthebbc/insidethebbc/whoweare/ataglance/> (Inside the BBC, About the BBC, Accessed 15/11/12)

² <http://www.adamsmith.org/blog/media-and-culture/scrap-the-tv-licence-fee-and-reform-the-bbc> (Scrap the TV Licence Fee and reform the BBC, Adam Smith Institute, a free market think-tank, August 2010, Accessed 15/11/12)

³ <http://media.ofcom.org.uk/facts/> (Ofcom, Facts and Figures, Based in 2011, Accessed 15/11/12).

⁴ "View TV listings from 600+ channels" <http://www.sky.com/findandwatch> (Sky.com, Accessed 15/11/12). Includes Catch-up channels and +1 channels which broadcast the exact same programmes as another channel only an hour later.

Public Service Broadcasting is designed to air programmes that are made for public interest as opposed to a commercial aim of profit maximisation. Therefore a public service broadcaster (PSB) makes and shows a wide range of programmes, designed to cater for all tastes and always serve the public's best interests. In this essay I will be primarily be looking at the UK market and therefore the British Broadcasting Company (BBC), the UK's main PSB, although I will also reference PSB's around the world. A PSB is given a remit which is a set of tasks officially assigned by government (in most cases). In the UK the BBC is funded by a licence fee, which is essentially a tax paid by all owners of televisions. The current fee is £145.50 per year⁵. The amount each year is set by the government and has been frozen for 3 years:

Date from	Colour licence	Black and white licence
1 April 2007	£135.50	£45.50
1 April 2008	£139.50	£47
1 April 2009	£142.50	£48
1 April 2010	£145.50	£49
1 April 2011	£145.50	£49
1 April 2012	£145.50	£49

Fig 1: Cost of License fee. Source:

<http://www.bbc.co.uk/aboutthebbc/insidethebbc/howweare/licencefee/> Accessed 9/12/12

The BBC's remit is delivered by the BBC Trust whose mission is to get the most out of the licence fee and to make sure the BBC acts in the best interest of the public. How it spends its fee is shown below:

⁵ TV Licensing, http://www.tvlicensing.co.uk/pay-for-your-tv-licence/payment-methods/how-would-you-like-to-pay-for-your-tv-licence-pay8/?WT.ac=banner_wtp1_pay, Accessed 9/12/12.

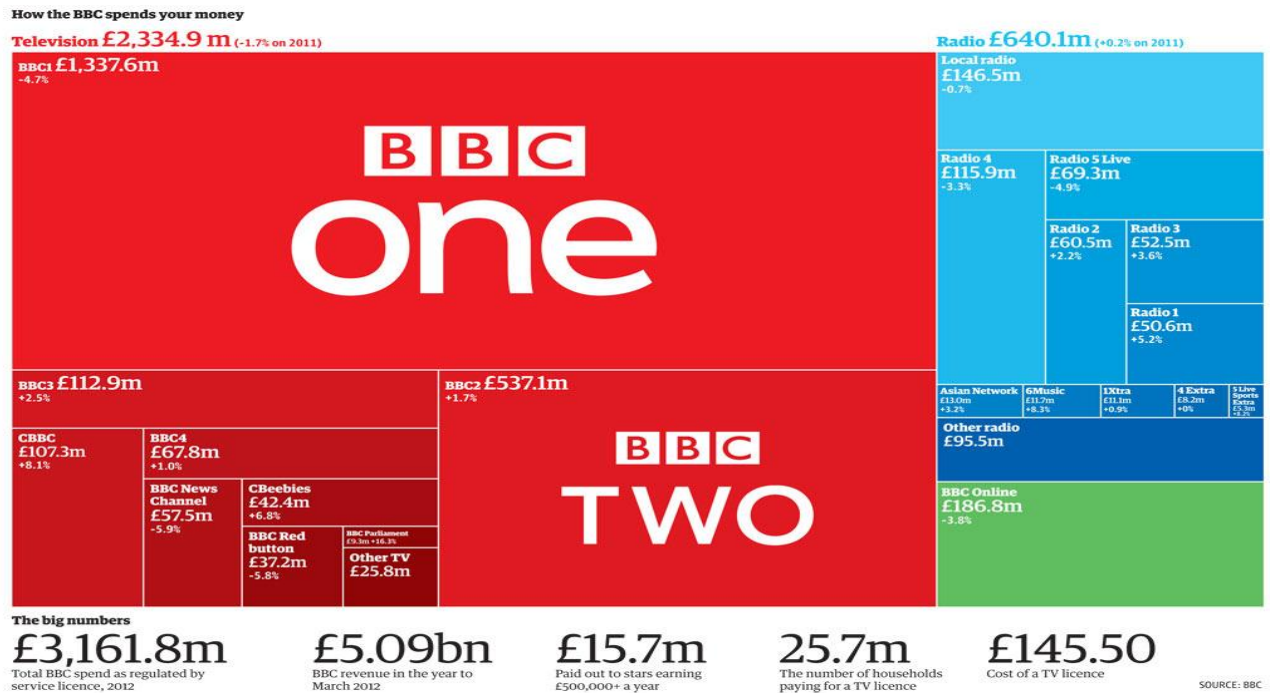


Fig 2: How the Licence fee is spent. Source:

<http://www.guardian.co.uk/news/datablog/2011/jul/12/bbc-spending#> (Accessed 9/12/12).

As shown in the trusts “Public Purpose Remit” it hopes to achieve 6 aims⁶. These include focusing on different nations/communities, providing output in minority languages (for example BBC Alba, broadcast in Gaelic) and to reflect different cultures/religious beliefs. Channel 4 (C4) is also a public service broadcaster. It is publicly owned but commercially-funded. Indeed many PSB’s around the world from Italy’s RAI, France2 and German PSB ARD all have various combinations of licence fees and commercial funding via advertisements. Channel 4 has a different remit to BBC of being experimental and taking more risks, but still has the popular PSB aim of being innovative.

Commercial stations meanwhile have very different aims. They aim for profit maximisation, which often means trying to achieve the biggest audiences possible as they are mainly funded by advertisements. It follows a simple model of the more people watching; the higher the revenue received for those advertisement slots. Example costs of adverts shown on ITV, the largest commercial television network are shown below:

⁶ BBC Public Purpose Remit

http://www.bbc.co.uk/bbctrust/assets/files/pdf/about/how_we_govern/purpose_remits/nations.pdf BBC Trust, Accessed 9/12/12



Cost for one transmission - split by region

REGION	11:00 DAYTIME - THIS MORNING	18:45 EARLY EVENING NEWS	19:30 CORONATION STREET	21:30 MOVIE or DRAMA	23:05 LATE NIGHT MOVIE
ANGLIA	£ 405	£ 2,415	£ 4,412	£ 4,074	£ 985
MERIDIAN	£ 624	£ 3,428	£ 7,062	£ 5,498	£ 1,370
LONDON	£ 1,336	£ 5,415	£ 14,872	£ 9,371	£ 2,215
CENTRAL	£ 727	£ 3,998	£ 10,262	£ 8,145	£ 1,319
HTV W&W	£ 352	£ 1,588	£ 4,219	£ 2,431	£ 482
WESTCOUNTRY	£ 95	£ 545	£ 1,448	£ 829	£ 166
SCOTLAND	£ 171	£ 798	£ 1,615	£ 2,697	£ 182
GRANADA	£ 510	£ 2,354	£ 5,977	£ 3,774	£ 862
BORDER	£ 44	£ 181	£ 473	£ 291	£ 66
YORKSHIRE	£ 411	£ 2,002	£ 5,219	£ 3,617	£ 733
TYNE TEES	£ 180	£ 878	£ 2,289	£ 1,482	£ 321
UTV	£ 165	£ 1,068	£ 1,701	£ 1,037	£ 231
TOTAL	£ 5,020	£ 24,667	£ 59,549	£ 43,243	£ 8,911

Fig 3: Example Spot Costs for Advertising on ITV1 Source:

<http://www.itvmedia.co.uk/assets/itvmedia/content/downloadables/spot%20costs%20-%20itv%20media%20-%20itv1%20and%20multichannel%20-sept%2011.pdf> (Accessed 9/12/12)

As you can see in the table, advert space, particularly for peak programmes, can be very lucrative. This different strategy leads to a change in approach, creating shows that are safe, guaranteeing large audiences at the expense of innovation rather than those that might seem desirable but only attract a minority of people.

Certain aspects of television are often seen to have positive externalities and importance. Programmes with these values are said to be merit goods. Merit goods have two important characteristics; the net benefit of the good is not fully realised at time of consumption. Programmes are experience goods, where the good must be consumed for the attributes of the product to be known. You can therefore not tell how good the programme is and what utility you will receive from it until after you have watched it. The second characteristic of a merit good is it provides external benefits to others within a society, creating an overall gain that is not accounted in the individual's choice to consume. Merit goods are often underprovided by the free market leading to market failure.

“Television in a digital age” (Hargreaves-Heap’s)⁷ provides a list of broadcasting specific market failures that are identified as not diminishing as competition increases. These include lack of innovation and creation of newer more experimental television. There is also the under provision of information based programmes such as current affairs and the overproduction of programmes which feature adult content deemed to produce negative externalities. These are seen as encouraging others to commit violence or standardising and making negative behaviour acceptable within society. Therefore there is a case for intervention to provide programmes with positive externalities and cut back on those with negative externalities that the market by itself would not do. Both sides of the argument for and against PSB’s agree that this is needed; it is whether a PSB is the solution to the problem which is debated.

To evaluate whether there is a need for a PSB in today’s multi-channel broadcasting world we need to weigh the positive and negatives of both the PSB and its commercial counterpart and assess whether the strengths of the PSB could be provided by other means. As discussed, commercial channels can sometimes lack innovation. Being the first to try something new often leads to expensive research and development. Programmes can have large sunk costs, costs which have to be made to produce the programme but cannot be recovered, which accompanied by the “nobody knows” phenomenon where producers will not know if their show will be a hit or failure makes the industry very high risk. Commercial broadcasters therefore often choose to reduce innovation in favour of tried and tested formats, an example of which would be ITV’s reliance on popular reality programmes. These provide consistently high audiences and include highly profitable advert slots but represent very little innovation. The BBC has a much higher culture of trying out new formats and providing a great range and proof of its innovation is everywhere, from its links with Open University to provide educational programs and advances in creating 24hr news broadcasts

⁷ Hargreaves Heap S, 2005, ‘Television in a digital age: What role for public service broadcasting?’, Economic Policy, January, pp111-157

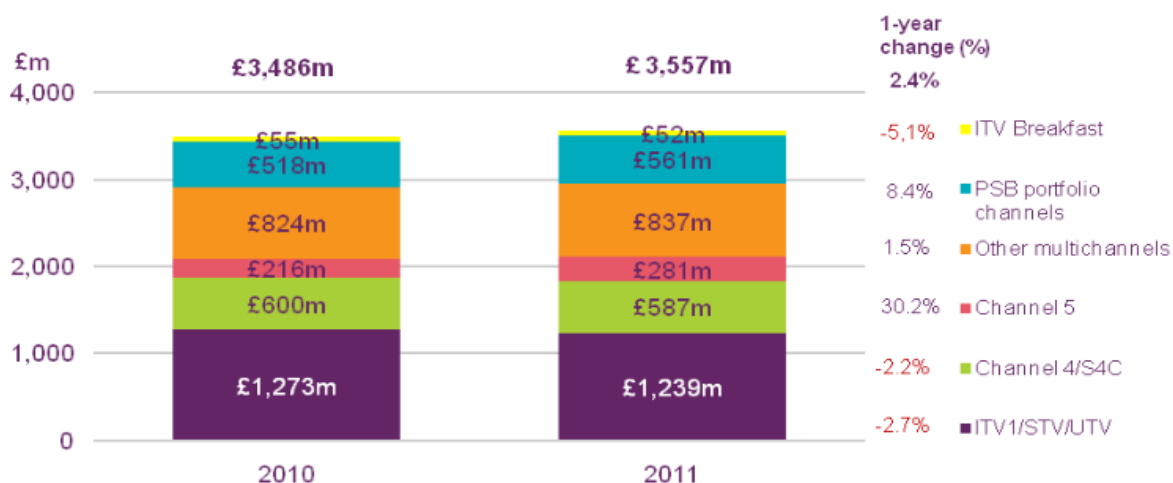
to opening up new experiences and products such as Ceefax (information service) and the BBC-Iplayer (one of the first to create an on demand service).

The BBC is also universally available, without the need for any extra equipment (such as set up boxes) or subscription (like SKY). This is one of its requirements as a PSB. It is also a leader in catering for disabled people, such as its extensive late night signing zones for the deaf, dedicated blogs for disability and accessible websites. Its lack of commercial appeal with little in the way of profits means commercial stations often underprovide this. Culture is also an important part of a PSB's remit, making sure the culture of its country is coming across in programming, indeed many commercial stations buy in programmes (usually from America) which have little risk as they are already hits in their origin country, but this is at the opportunity cost of programmes from the home country which often have much greater cultural aspects.

There is, however, much opposition to public service broadcasters particularly from their rivals. While advertising revenues are generally increasing (See graph below), many of the big commercial channels are seeing decreasing revenue, such as ITV's drop of 34million shown in the graph. James Murdoch, son of SKY owner and key shareholder, described the BBC as "chilling" arguing that as the BBC's income is guaranteed, it does not offer fair competition and made it harder for other broadcasters to survive⁸.

⁸ "Murdoch Attack on 'dominant' BBC" <http://news.bbc.co.uk/1/hi/business/8227915.stm> 29/08/09, BBC NEWS, Accessed 10/12/12

Advertising revenue, by share



Source: Ofcom/broadcasters. Note: Totals may not equal the sum of the components due to rounding. ITV1/Channel 3 includes ITV Plc, STV, UTV and Channel Television.

Figure 4: Advertising revenue Source: <http://stakeholders.ofcom.org.uk/market-data-research/market-data/communications-market-reports/cmr12/tv-audio-visual/uk-2.3>

(Accessed 10/12/12)

One of the biggest arguments against the need for a public service broadcaster is that there is no longer an issue about variety and provision. For example for much of the BBC's life, it had only 2 rivals (ITV and C4) and therefore it played a very important part in broadcasting. Now in the digital age there are hundreds of different channels offering a huge variety of programmes that critics of PSB's argue means the PSB is no longer important. A complete list of channels is hard to come by but a glance through the leading congregator of channels, Sky, came up with at least 342 original channels (excluding +1, HD and regional channels) that provide a large variety of programme types:

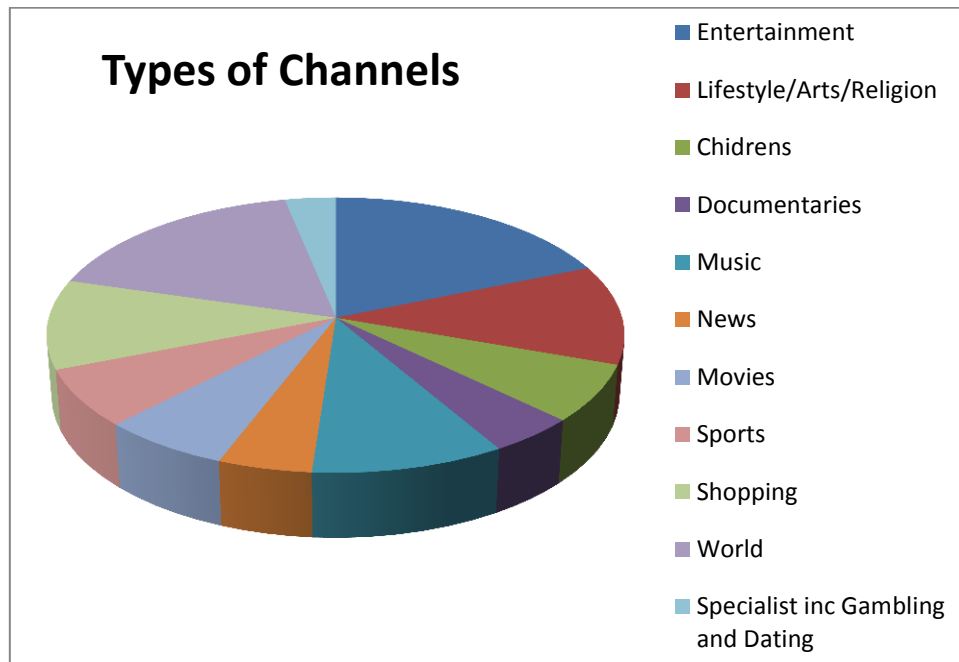


Fig 5: Variety of Channels Source: Created for this essay using information from Sky TV Guide <http://tv.sky.com/tv-guide>

While many might argue entertainment was dominating the market and commercial stations had a lack of variety we can see from this graph that the variety is high and programme types such as religion and arts which are deemed to be underprovided without a PSB are significant in number and in many cases have their own dedicated channels. Critics of PSB's would argue the viewpoint of commercial stations not providing key programming of importance is firmly outdated.

Public service broadcasters all around the world are under pressure as budgets are tightened and more than ever citizens question the need for and price paid for them. Commercial competitors are fighting back, actively criticising their anti-competitiveness and even fans of the PSB's argue that they have become too focussed on competing on audience numbers and less of fulfilling their remits. It is true that many programmes with positive externalities are now being provided such as Sky Arts and Religion specific channels, yet the sheer innovation that have come from PSB's like the BBC are extremely high, as is there provision for minorities such as local community and language channels. Hargreaves Heap⁹

⁹ Hargreaves Heap S, 2005, 'Television in a digital age: What role for public service broadcasting?', Economic Policy, January, pp111-157

points out the focus of conformism, encouraging broadcasters to not stray too far from what others are doing and the reliance on the water cooler effect to get people watching programs by talking about them meaning satisfaction must be instant rather than taking risky approaches for longer term audiences. The paper concludes that PSB's should have new measures of competition to judge whether they are succeeding rather than audience figures to make them distinctive from commercial channels. Indeed the trend of PSB's of competing on market share has led to failures in the system and a demise in the need for public service broadcasting, however the reasons for the existence of PSB's are still very valid, there is a need for public service broadcasting but they must make sure they are fulfilling their aims and not being distracted by trying to be in competition with the commercial sector.

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APPENDIX

DATA COLLECTION OF CHANNELS

This essay included an original graph showing the number of channels and variety of type. An extensive search was done to find an exact list of channels; however with the absence of reliable statistics, I decided to create my own. The original data and graph is shown below. Using SKY, which has the broadest range of channels for its subscribers, I collected the data from its television guide and information from its packages. The data excludes time-cast channels (+1 etc.) which broadcast the same channel an hour or more later, high definition versions of existing channels, regional channels such as the many variations of BBC1 and data channels which do not broadcast video. The key term used in the essay “at least” was to reflect there are almost certainly many other channels available in some format or another.

Genre	Number of Channels
Entertainment	64
Lifestyle/Arts/Religion	40
Chidrens	23
Documentaries	15
Music	33
News	16
Movies	22
Sports	23
Shopping	36
World	59
Specialist inc Gambling and Dating	11
	342

