

The Undertakings

PROPOSED AGREED MERGER OF CARLTON COMMUNICATIONS PLC AND GRANADA PLC

UNDERTAKINGS GIVEN BY CARLTON COMMUNICATIONS PLC AND GRANADA PLC TO THE SECRETARY OF STATE FOR TRADE AND INDUSTRY PURSUANT TO SECTION 88(2) OF THE FAIR TRADING ACT 1973

WHEREAS:

1. (a) On 16 October 2002, Carlton Communications plc and Granada plc announced a proposed agreed merger;
- (b) On 11 March 2003 the Secretary of State for Trade and Industry referred the proposed merger to the Competition Commission under sections 64, 69(2) and 75 of the Fair Trading Act 1973 (the 'Act');
- (c) The report of the Competition Commission (the 'Report') was presented to Parliament in October (Cm 5952) and sets out such conclusions as are mentioned in section 73(1) of the Act;
- (d) Pursuant to a request by the Secretary of State, the OFT has consulted with Carlton and Granada with a view to obtaining from them undertakings to take action in accordance with section 88(1) of the Act;

NOW THEREFORE Carlton and Granada hereby give to the Secretary of State the following undertakings (the 'Undertakings') pursuant to section 88(2) of the Act for the purpose of remedying or preventing the adverse effects on the public interest specified in the Report.

Effective date of these Undertakings

1. These Undertakings shall take effect from the date that, having been signed by Carlton and Granada, they are accepted and dated by the Secretary of State.

Other Licensees

2. Carlton and Granada shall, directly or indirectly,
 - (a) convene the Network Council at least twice a year to: (i) consult the Other Licensees; and (ii) ensure that the Other Licensees are properly and fully informed of the Channel 3 Network's broadcasting and programme strategy, as presently referred to in Clause 4 of the Network Supply Contract. They shall circulate in good time the agenda and supporting papers for such meetings, and provide minutes of such meetings to the Regulator in a form approved by it from time to time;
 - (b) ensure that any Other Licensee's contribution, net of any discount, rebate or abatement currently provided in the Network Supply Contract, to the Network Programme Budget in any year does not increase from such net contribution to the 2003 Network Programme Budget (excluding the costs occasioned by Exceptional Events and excluding the discount relating to the Premier League) by more than the cumulative rate of inflation since December 2002, measured by reference to the Retail Prices Index, save to the extent necessary to meet a fair

and reasonable share of the increased costs occasioned by Exceptional Events which is, at the date hereof, deemed to be the Agreed Share as defined in the Network Supply Contract;

- (c) not make the commissioning or broadcasting of a programme conditional on using Carlton and/or Granada for Programme Compliance for that programme;
 - (d) at no extra cost provide Grampian TV, Scottish TV and Ulster TV (and any future Licensee for the respective Regional Channel 3 Services authorised by such companies' Licences at the date of entry into force of these Undertakings) with a Clean Broadcast Feed from the Channel 3 Network to the extent and on the same basis as it is provided at the date hereof (save as amended from time to time by mutual agreement);
 - (e) offer the Licensee for Ulster (currently Ulster TV) equivalent terms to those made available to Scottish TV following devolution in Scotland, if its local programming obligations set out in its Licence change as a result of devolution in Northern Ireland;
 - (f) report to the Regulator monthly, in a form specified by the Regulator, the number and value of Network Hours by genre and supplier that they have purchased; and
 - (g) use their best endeavours to procure any changes to the Networking Arrangements required to enable them to comply with the Undertakings.
3. Carlton and/or Granada shall offer to each Other Licensee, for the duration of its Licence from time to time, terms similar to those in effect on 1 November 2003 (as amended from time to time by mutual agreement) between it and Carlton and/or Granada for the sale of Commercial Airtime and programme sponsorship.
4. Carlton and/or Granada shall offer to any future Licensee for a Regional Channel 3 Service currently supplied by any Other Licensee, for the duration of its Licence from time to time, the terms last agreed between that Other Licensee and Carlton and/or Granada for the sale of Commercial Airtime and programme sponsorship (which may be amended from time to time by mutual agreement).

The sale of Commercial Airtime

5. The conclusion of any contract for the sale of Commercial Airtime with Carlton and/or Granada is without prejudice to Clauses 12-18 below.
6. Carlton and Granada shall offer to each person that holds or has held a Protected Contract the option of contracting for the purchase of Commercial Airtime on the same terms (including duration) as those contained in such Protected Contract. Carlton and/or Granada shall make this offer to each such person at least two months before any contract with that person for the supply of Commercial Airtime expires. Each such offer shall remain open until accepted or a new agreement for the sale of Commercial Airtime with Carlton and/or Granada enters into force.
7. If a Protected Contract contains any Share of Broadcast provisions, such shares will be revised annually in direct proportion to changes in the Regional Channel 3 Services' share of Commercial Impacts, calculated against the base level of the average share of Commercial Impacts achieved by the Regional Channel 3 Services in 2002, or the relevant Base Year defined in Annex 1.

8. Such revised shares shall not at any time exceed the Initial Share of Broadcast Commitment (as defined in Annex 1) specified in the relevant Protected Contract.
9. The revised Share of Broadcast shall be weighted by the mix of demographic audience, regions and specific time periods contracted for. Annex 1 states how this shall be calculated.
10. Carlton and Granada agree that:
 - (a) they must offer Commercial Airtime on fair and reasonable terms to any person, including any person seeking to vary a contract (whether a Protected Contract or not) for the sale of Commercial Airtime. Any Protected Contract existing on 1 November 2003 (or as modified in relation to any Share of Broadcast provision pursuant to Clause 7) is presumed to be fair and reasonable;
 - (b) where an Advertiser under an Umbrella Agreement switches to a new Media Buyer, that Media Buyer may apply the terms of its Protected Contract to the purchase of Commercial Airtime on behalf of that Advertiser, where the terms of the Protected Contract so provide, or otherwise with the consent of Carlton and/or Granada as the case may be. They may withhold such consent only:
 - (i) to the extent necessary to avoid Overtrading to a material extent;
 - (ii) to the extent necessary to avoid materially increasing existing Overtrading;
 - (iii) to the extent that such switching would put Carlton and/or Granada as the case may be in breach of pre-existing contractual arrangements relating to the use of particular advertising slots; or
 - (iv) if such switching would result in a material reduction of the Advertiser's Share of Broadcast commitment;

Should Carlton and/or Granada withhold consent in the circumstances detailed in Clause 10(b), they shall nevertheless offer fair and reasonable terms to the new Media Buyer with the aim of accommodating such Advertiser and shall offer for such terms to become part of the new Media Buyer's Protected Contract.

- (c) where an Advertiser under a Line-by-Line Agreement switches between Media Buyers, Carlton and/or Granada shall offer terms for that Advertiser to the new Media Buyer no less favourable than those that the Advertiser enjoyed with its previous Media Buyer;
- (d) a person, who has not done so since 31 December 2000, may purchase Commercial Airtime by agreement with a Media Buyer and benefit from such Media Buyer's Protected Contract with Carlton and/or Granada, subject to Carlton's and/or Granada's consent which they may only withhold:
 - (i) to the extent necessary to avoid Overtrading to a material extent;
 - (ii) to the extent necessary to avoid materially increasing existing Overtrading;
or
 - (iii) to the extent that the proposed agreement would put Carlton and/or Granada in breach of pre-existing contractual arrangements relating to the use of particular advertising slots;

- (e) a person that holds or has held a Protected Contract may agree with Carlton and/or Granada that a new or replacement contract, or any variation to its Protected Contract, becomes its Protected Contract. Carlton and/or Granada shall not unreasonably withhold or delay their agreement;
 - (f) Advertisers, which purchase Commercial Airtime under Line-by-Line Agreements, that cease to be distinct may:
 - (i) apply the terms for the supply of Commercial Airtime enjoyed by the larger or largest of those Advertisers with Carlton and/or Granada (calculated by reference to spend on Commercial Airtime), although Carlton and/or Granada may decline to provide Commercial Airtime on that basis:
 - (aa) to the extent necessary to avoid Overtrading to a material extent;
 - (bb) to the extent necessary to avoid materially increasing existing Overtrading; or
 - (cc) to the extent that to do so would put Carlton and/or Granada in breach of pre-existing contractual arrangements relating to the use of particular advertising slots;
 - (ii) apply the weighted average (calculated by annual spend on Commercial Airtime) of those Advertisers' terms contained in their Protected Contracts, or
 - (iii) exercise their rights under Clauses 5 to 10 for each Protected Contract separately;
 - (g) Media Buyers that cease to be distinct may:
 - (i) apply the weighted average (calculated by annual spend on Commercial Airtime) of the terms of their Protected Contracts; or
 - (ii) exercise their rights under Clauses 5 to 10 for each Protected Contract separately; and
 - (h) they shall not change their Current Airtime Sales System without the consent of the OFT in a way that materially alters the basis on and the way in which they offer Commercial Airtime for sale.
11. The Undertakings in Clauses 5 to 10 inclusive only apply to Commercial Airtime sales in relation to the Regional Channel 3 Services provided by Licensees.

Adjudication

- 12. Carlton and Granada agree to comply with and fulfil any obligations placed upon them under the CRRRA Scheme and the CRRRA Rules.
- 13. Any decision of the Adjudicator shall bind Carlton and/or Granada as the case may be. Notwithstanding any conflicting provision contained in a contract with Carlton and/or Granada, they shall offer such terms as are required to comply with the Adjudicator's decision.
- 14. Carlton and Granada shall at all times expressly maintain the offer (whether or not such offer has previously been rejected) to insert the following clause into all contracts with Media Buyers and Advertisers for the sale of Commercial Airtime:

'In the event of any inconsistency between this paragraph and any other provision [*in these Terms and Conditions/of this Agreement*], the provisions of this clause shall prevail.

As regards any dispute between the parties arising out of the interpretation or exercise of the rights given to or obligations upon Advertisers, Media Buyers, Carlton and Granada in relation to contracts for the sale of Commercial Airtime pursuant to the undertakings given by Carlton Communications Plc and Granada Plc to the Secretary of State for Trade and Industry dated [*COMPLETE*] 2003 (the "Undertakings"), including any dispute relating to the interpretation, termination or enforcement of such contracts to the extent referable to such Undertakings, the interpretation of any provision of the Contracts Rights Renewal Adjudication Rules, the Contracts Rights Renewal Adjudication Scheme, or the Adjudicator's jurisdiction to determine the dispute, [*name of Advertiser or Media Buyer*] may refer the dispute to the Contracts Rights Renewal Adjudicator for determination in accordance with the Contracts Rights Renewal Adjudication Scheme and Contracts Rights Renewal Adjudication Rules annexed to the Undertakings and as amended from time to time.'

15. If an Advertiser or Media Buyer accepts this offer and accordingly to be bound by the CRRA Scheme and CRRA Rules, it may refer disputes referred to in Clause 14 to the Adjudicator.
16. Carlton and/or Granada shall offer to persons not holding a contract with them for the sale of Commercial Airtime, for the following disputes to be referred to the Adjudicator for determination in accordance with the CRRA Scheme and CRRA Rules:
 - (a) if a person considers that Carlton and/or Granada have not complied with their obligations under Clauses 10(a) and 10(d);
 - (b) if an Advertiser considers that Carlton and/or Granada have not complied with their obligations under Clause 10(b) and 10(c); and
 - (c) if an Other Licensee considers that Carlton and/or Granada have not complied with their obligations under Clause 3.
17. If a person, Advertiser or Other Licensee accepts this offer and to be bound by the CRRA Scheme and CRRA Rules, it may refer the dispute to the Adjudicator.
18. Carlton and Granada consent to the Regulator providing the Adjudicator with any documents and information received from them relevant to the operation of the CRRA Scheme and CRRA Rules.

Compliance

19. Carlton and Granada shall provide to the OFT or the Regulator such documents and/or information as they may from time to time require for the purposes of ascertaining whether Carlton and Granada have complied with these Undertakings.
20. Carlton and Granada shall deliver a report to the OFT and the Regulator annually, on, or if not a business day on the next business day following, the anniversary of these Undertakings coming into force. It shall include a detailed and accurate account of:
 - (a) steps taken during the preceding year to ensure compliance with the Undertakings;

- (b) instances where a breach or potential breach of the Undertakings has been identified;
 - (c) how the report was compiled.
21. Carlton and Granada shall comply promptly with such written directions as the OFT may from time to time give:
- (a) to take such steps as may be specified or described in the directions for the purpose of carrying out or securing compliance with these Undertakings; or
 - (b) to do or refrain from doing anything so specified or described which they might be required by these Undertakings to do or to refrain from doing.

Transitional provision

22. In relation to any Protected Contract that expires prior to 1 February 2004, Carlton and Granada shall be regarded as having complied with the obligation to make an offer as required in Clause 6 if they make that offer as soon as reasonably practicable following the effective date of these Undertakings.

Interpretation

23. The Interpretation Act 1978 shall apply to these Undertakings as it does to Acts of Parliament.
24. Any word or expression used in these Undertakings shall, unless otherwise defined herein and/or the context otherwise requires, have the same meaning as it has in the Fair Trading Act 1973 or the Enterprise Act 2002, as the case may be.
25. Further, in these Undertakings:

'Advertiser' means a purchaser of Commercial Airtime for the purpose of broadcasting advertisements;

'Adjudicator' means the Adjudicator established under these Undertakings;

'Carlton' means Carlton Communications plc and:

- (a) any person who directly or indirectly controls Carlton Communications plc from time to time; and
 - (b) any person directly or indirectly controlled by Carlton Communications plc from time to time; and
 - (c) any person that from time to time is directly or indirectly controlled by any person falling within paragraph (a) above;
- where such person is a Licensee or carries on any activity that involves or is related to or connected with the broadcast or sale of Commercial Airtime;

'Channel 3 Network' means the nationwide system of television broadcasting services to be provided by Licensees under the Networking Arrangements;

'Clean Broadcast Feed' means the provision of a broadcast transmission feed of the Channel 3 Network schedule of all programmes including end credits but free from all end credit promotions and end credit announcements, commercials, other promotions, interstitial material and continuity announcements not relevant to the regions served;

‘Commercial Airtime’ means the television transmission time that a television channel may sell to third parties to show advertisements in relation to the Regional Channel 3 Services provided by Licensees;

‘Commercial Impact’ means the viewing by one member of the target audience of an advertisement (including an interactive advertisement), as currently measured by BARB (the Broadcasters’ Audience Research Board);

‘CRRRA Rules’ means the rules set out in Annex 2 as amended from time to time;

‘CRRRA Scheme’ means the scheme set out in Annex 3 as amended from time to time;

‘control’ shall be construed in accordance with section 65 of the Act, and **‘controlled’** and **‘controlling’** shall be construed accordingly;

‘Current Airtime Sales System’ means the features and processes currently used by Carlton and Granada in relation to the sale of Commercial Airtime. This includes: the use of SAP, the sale of Commercial Impacts in all regions by all demographic audiences, specific time periods, time length factors and day part definitions as currently sold by Carlton and Granada, and the current limited sale of 'specials' outside contracts for the sale of Commercial Airtime between Carlton or Granada and Advertisers and Media Buyers;

‘Exceptional Events’ means UK parliamentary elections, international conflicts or major international sporting events (namely the Olympics, European Athletics Championships, Football World Cup, European Football Championships, Cricket World Cup, Rugby World Cup and Commonwealth Games);

‘Grampian TV’ means Grampian Television Limited;

‘Granada’ means Granada plc and:

- (a) any person who directly or indirectly controls Granada plc from time to time; and
- (b) any person directly or indirectly controlled by Granada plc from time to time; and
- (c) any person that from time to time is directly or indirectly controlled by any person falling within paragraph (a) above;

where such person is a Licensee or carries on any activity that involves or is related to or connected with the broadcast or sale of Commercial Airtime;

‘ITV Network’ means ITV Network Limited or any successor body which is responsible for the provision of the Networking Arrangements;

‘Licence’ means a licence granted by the Regulator to provide a Regional Channel 3 Service;

‘Licensee’ means a person holding a Licence;

‘Line-by-Line Agreement’ means a type of agreement between a Media Buyer and a particular channel or sales house where the agreement specifies the specific Share of Broadcast commitment and the discount level received by some or all of the Advertisers on whose behalf the Media Buyer is contracting;

‘Media Buyer’ means a purchaser of Commercial Airtime on behalf of an Advertiser;

'Network Council' means the council of ITV Network as constituted under the ITV Network Memorandum and Articles of Association, or any successor body carrying out the same, or similar, functions;

'Network Hour' means an hour of transmission of Channel 3 Network programming, measured in terms of 'slot times' i.e., including advertising breaks, programme trailers and presentation material during and at the end of programmes;

'Network Programme Budget' means for each financial year of ITV Network the total amount of money to be raised for the purposes of the Channel 3 Network programme transmission budget for that year by the payment by each Licensee of its agreed share, as currently set out in Clauses 8 and 9 of the Network Supply Contract;

'Network Supply Contract' means the agreement between the Licensees and ITV Network entered into under the Networking Arrangements which, inter alia, authorises ITV Network, acting on behalf of the Licensees, to commission and acquire ITV Network programmes, to procure that these programmes are made available by ITV Network to each of the Licensees and to set out the financial contributions to be made by each Licensee to ITV Network in relation to such network programmes;

'Networking Arrangements' means, prior to the entry into force of section 291 of the Communications Act 2003, such networking arrangements as are for the time being approved by the Regulator under section 39 of the Broadcasting Act 1990 (as amended), and otherwise approved networking arrangements within the meaning of section 291(2) of the Communications Act 2003 or networking arrangements imposed pursuant to section 292 of the Communications Act 2003, without prejudice to the operation of paragraph 36 of Schedule 18 to that Act;

'Other Licensees' means any Licensee other than one controlled by Carlton and/or Granada;

'Overtrading' means a situation in which Carlton and Granada are or would become unable to meet their contractual obligations to supply Commercial Impacts. This may occur on a total national basis, or for a particular region, for a particular demographic audience, specific time period, or specific airtime slot;

'Programme Compliance' means procedures for the verification of the rights underlying particular programming or the availability of cash-flow finance or production monitoring or for ensuring that a programme complies with the relevant statutory and regulatory provisions, for example the Regulator's Programme Code;

'Protected Contract' means a contract for the purchase of Commercial Airtime:

- (i) between an Advertiser or Media Buyer and Carlton or Granada that has been in force at any time between 1 January 2001 and 1 November 2003 inclusive. Where an Advertiser or Media Buyer has had more than one such contract, or its terms have been altered during this period, the most recent such contract or set of terms is the Protected Contract; or
- (ii) concluded between a person and Carlton and/or Granada who has not held a contract with Carlton or Granada that has been in force between 1 January 2001 and 1 November 2003 inclusive, provided that, without prejudice to Clause 10(e), where an Advertiser or Media Buyer enters into more than one such contract or varies its terms, only the first such contract, or contract as unvaried, shall be a Protected Contract.

Where Carlton and/or Granada have terminated a Protected Contract lawfully due to a breach by an Advertiser or Media Buyer, such contract shall no longer be a Protected Contract;

'Regional Channel 3 Service' has the meaning ascribed to it in section 14(6) of the Broadcasting Act 1990 (as amended);

'Regulator' means the Independent Television Commission ('ITC') and/or the Office of Communications ('Ofcom'), as the context requires and their statutory powers and duties require and/or permit;

'Scottish TV' means Scottish Television Limited;

'Share of Broadcast' means the proportion of an Advertiser's or Media Buyer's total TV advertising spend that it has committed, as part of its contract, to a particular channel or sales house in return for a given discount and which may be specified by reference to any one or more of a total share on a national basis, or for a particular region or regions, or for a particular demographic audience or audiences or for a particular time period or periods;

'Station Average Price' or 'SAP' means a benchmark price for delivery of a specific target audience. It is defined for each target audience and for each region sold. It is calculated as:

$$\text{SAP}_{\text{Demographic A}} = \frac{\text{Total Revenue committed to that station (all audiences)}}{\text{Total number demographic A impacts}}$$

'Ulster TV' means Ulster Television Limited;

'Umbrella Agreement' means a type of agreement between a Media Buyer and a particular channel or sales house, where the agreement specifies the Media Buyer's Share of Broadcast commitment and the discount level it will receive in aggregate; and

unless the context requires otherwise, the singular shall include the plural and vice versa.

SIGNED FOR AND ON BEHALF OF CARLTON COMMUNICATIONS PLC

.....	Signature	Signature
.....	Name	Name
.....	Title	Title
.....	Date	Date

AND GRANADA PLC

..... Signature

..... Name

..... Title

..... Date

Calculation of Revised Share of Broadcast Commitment

Under a given Initial Share of Broadcast Commitment within a Protected Contract a Media Buyer or Advertiser will have purchased Commercial Airtime in the Current Year against n different demographic audiences with Carlton and Granada, where $n \geq 1$. For audience a let S_a be the share of the total revenue committed by the Media Buyer or Advertiser against a given audience under that Initial Share of Broadcast Commitment in the Current Year, calculated as follows:

$$S_a = \frac{\text{Sum of all REVENUES bought against Audience } a \text{ committed in the Current Year by the Advertiser or Media Buyer under the Protected Contract in the Regions and, where relevant, in the Time Periods to which the Initial Share of Broadcast Commitment relates.}}{\text{Sum of all REVENUES bought against all } n \text{ Audiences committed in the Current Year by the Advertiser or Media Buyer under the Protected Contract in the Regions and, where relevant, in the Time Periods to which the Initial Share of Broadcast Commitment relates.}}$$

Such that

$$\sum_{a=1}^n S_a = S_1 + S_2 + S_3 + \dots + S_n = 100\%$$

of the total spend committed by the Advertiser or Media Buyer under the Initial Share of Broadcast Commitment(s) within the Protected Contract in the Current Year

For these same n audiences, the relevant share of Commercial Impacts, or SOC1% across year y (where y may be the Current Year, the Base Year or Year 2002, as explained below), is calculated from BARB data (subject to note 1 below) as follows:

$$I_a^y = \frac{\text{Sum of all Commercial Impacts for Audience } a \text{ generated by Commercial Airtime in Year } y \text{ in the Regions, in the months and, where relevant, in the Time Periods to which the Initial Share of Broadcast Commitment relates.}}{\text{Sum of all Commercial Impacts for Audience } a \text{ generated by all television channels in the Year } y \text{ in the Regions, in the months and, where relevant, in the Time Periods to which the Initial Share of Broadcast Commitment relates.}}$$

The CRR Ratchet

The ratchet R is to be applied to the Initial Share of Broadcast Commitment(s) (SOB_{Initial}) to determine the Revised SOB Commitment(s) pursuant to Clause 7 of the undertakings, as shown in the calculation below.

For the given Protected Contract across n demographic audiences given and S_a (as I_a^y defined above) and *Current Year* and *Base Year* (as defined below):

$$R = S_1 \cdot \left(\frac{I_1^{\text{Current}}}{I_1^{\text{Base}}} \right) + S_2 \cdot \left(\frac{I_2^{\text{Current}}}{I_2^{\text{Base}}} \right) + S_3 \cdot \left(\frac{I_3^{\text{Current}}}{I_3^{\text{Base}}} \right) + \dots + S_n \cdot \left(\frac{I_n^{\text{Current}}}{I_n^{\text{Base}}} \right)$$

Unless R is greater than one in which case R is capped at one i.e.

If $R \leq 1$ then $R = R$, however, if $R > 1$ then $R = 1$

Calculation of Revised SOB Commitment

The Revised SOB Commitment(s) shall be calculated annually as soon as reasonably practicable after the relevant data becomes available and shall take effect on the same day of the year the Protected Contract came into force, for each Initial Share of Broadcast Commitment as follows:

Revised SOB Commitment = $R \times \text{SOB}_{\text{Initial}}$

Definitions

Base Year means the following:

Where a Protected Contract came into force prior to 1 January 2004, Base Year is the calendar year 2002 if the Protected Contract runs on a calendar year basis, or, if the Protected Contract runs on any other basis, 2002-2003 on that same basis;

Where a Protected Contract came into force on or after 1 January 2004, Base Year is the 12 month period prior to the Protected Contract coming into force.

Current Year means the 12 month period prior to the date on which the Revised SOB Commitment takes effect pursuant to clause 7 of the Undertakings.

Initial Share of Broadcast Commitment(s) ($\text{SOB}_{\text{Initial}}$) means the following:

Where a Protected Contract came into force prior to 1 January 2004, $\text{SOB}_{\text{Initial}}$ is the Share of Broadcast committed by the Media Buyer or Advertiser to Carlton and Granada (including to individual regions) under that Protected Contract in the final 12 months of that Protected Contract;

Where a Protected Contract came into force on or after 1 January 2004, $\text{SOB}_{\text{Initial}}$ is the Share of Broadcast committed by the Media Buyer or Advertiser to Carlton and Granada (including to individual regions) in the first 12 months of that Protected Contract;

Region means an ITV franchise region which is available individually to Advertisers and Media Buyers for purchase of Commercial Airtime.

Revised SOB Commitment means the Share of Broadcast Commitment(s) which will apply pursuant to clause 7 of the Undertakings.

Time Period means any period of time of less than a week which is specified in the Protected Contract as the sole time period for which the Advertiser or Media Buyer will purchase Commercial Airtime against a given audience (including without limitation peak, off-peak, weekend, weekday, children's airtime).

Explanatory Notes

Note 1:

BARB does not report multichannel impacts by region. The data processing organisation, DDS, uses a series of factors to impute impacts at a regional level and, in the future, other organisations may provide such a service.

Note 2:

Where the Protected Contract contains a Share of Broadcast Commitment specific to a particular Region or Time Period, then the Ratchet shall be calculated at the level at which that Share of Broadcast Commitment is contracted. Where the Protected Contract contains any other form of specific quantified commitment to a particular Region or Time Period, the Ratchet will be weighted to reflect the form of this commitment.

Note 3:

Carlton and Granada undertake to provide Media Buyers and Advertisers with the most accurate forecasts of Commercial Impacts available to them and the estimated Revised SOB Commitment at least two months prior to calculation of the Revised SOB Commitment and updates upon request of the Media Buyer or Advertiser throughout the negotiations. Where the Revised SOB Commitment is calculated on the basis of an estimated level of Commercial Impacts, the Revised Share of Broadcast Commitment shall be subsequently adjusted once the Commercial Impacts figures are finalised.

Contracts Rights Renewal Adjudication Rules under the undertakings given by Carlton Communications Plc (“Carlton”) and Granada Plc (“Granada”) to the Secretary of State for Trade and Industry pursuant to Section 88 (2) of the Fair Trading Act 1973 (the “CRRA Rules”)

(6 November 2003, Edition v.1)

Definitions

1. Except where the context otherwise requires or as otherwise defined herein, words and expressions used in this document shall have the same meaning as in the undertakings given by Carlton and Granada to the Secretary of State for Trade and Industry (the “Undertakings”).

Authority

2. In relation to the exercise of its powers and fulfilling its obligations under the CRRA Rules, in this document references to the Office of Communications (“Ofcom”) shall mean Ofcom after any consultation which Ofcom deems appropriate with the Independent Television Commission (the “ITC”).

Application

3. The following Rules as amended from time to time with the consent of the Office of Fair Trading may be incorporated by reference into any contract for the sale of Commercial Airtime between Carlton and/or Granada and any Advertiser or Media Buyer and any reference to the “Contracts Rights Renewal Adjudication Rules” in such contract shall mean, in relation to any adjudication, the most recent edition hereof as at the date of the Notice of Adjudication. These Rules may also apply in the circumstances set out in Clause 16 of the Undertakings.

The Adjudicator

4. The Adjudicator shall be appointed and exercise his functions in accordance with the Undertakings, the CRRA Scheme and the CRRA Rules annexed to the Undertakings as each may be amended from time to time. In the case of any inconsistency or conflict between the provisions of the CRRA Scheme and the CRRA Rules, the provisions of the CRRA Scheme will prevail; and, in the case of any inconsistency or conflict between the provisions of either or both of the CRRA Scheme and the CRRA Rules and the Undertakings, the provisions of the Undertakings shall prevail.

Notice of Adjudication

5. Any Advertiser or Media Buyer who is a party to a contract with Granada and/or Carlton concerning the sale of Commercial Airtime in the United Kingdom and who has agreed to be bound by the CRRA Scheme and the CRRA Rules, or any other person who has agreed to be bound by the CRRA Scheme and the CRRA Rules under paragraph 16 of the Undertakings (the “Referring Party”) may apply to the Adjudicator, by giving written notice (the “Notice of Adjudication”). The Notice of Adjudication shall request the Adjudicator to determine any dispute arising out of the interpretation or exercise of the rights given to, or obligations upon, Advertisers,

Media Buyers, Carlton and Granada or any such other person in relation to contracts for the sale of Commercial Airtime pursuant to the Undertakings, including any dispute relating to the interpretation, termination or enforcement of such contracts to the extent referable to such Undertakings, the interpretation of any provision of these Rules or the CRRRA Scheme, or his jurisdiction to determine the dispute (a "Dispute").

6. The Notice of Adjudication and all accompanying documents shall at the same time be given by the Referring Party to every other party to the contract or Dispute.
7. The Notice of Adjudication shall set out briefly:
 - (a) the nature and a brief description of the Dispute, details of the contract under which it arises, if any (and of any related contract) and of the parties involved, and shall be accompanied by copies of the relevant television advertising airtime sales contract or contracts and such other documents as the Referring Party intends to rely upon. Although the Referring Party must send copies of all such documents to the Adjudicator with the Notice of Adjudication, in sending the Notice of Adjudication to the other parties to the Dispute only, it may omit any such copies or redact them (and the Notice of Adjudication) for reasons of commercial confidentiality, subject to the right of the Adjudicator to direct disclosure of any such material to the other parties if he deems it appropriate, having given the party desiring confidentiality the opportunity to make further representations on this issue. The fact that redacted copies of any documents have been served on other parties to the Dispute shall be drawn to the attention of the Adjudicator when the Notice of Adjudication is given to him, together with copies of any such redacted documents;
 - (b) details of where and when the Dispute has arisen;
 - (c) the nature of the redress which is sought; and
 - (d) the names and addresses of the parties to the Dispute (including, where appropriate, the addresses which the parties have specified in any contract for the giving of notices).
8. The Adjudicator shall confirm in writing within two working days of receiving a Notice of Adjudication whether or not:
 - (a) he is able to act; or
 - (b) he considers the Notice of Adjudication discloses no reasonable grounds for him to act and/or it is an abuse of the CRRRA Scheme and/or the CRRRA Rules for him to proceed to determine the Dispute. If he so considers, the Adjudicator shall issue a written, reasoned decision to the parties.
9. Where in relation to a particular Dispute the Adjudicator indicates to the parties that he is unable to act, or where he resigns pursuant to paragraph 12, or fails to respond in accordance with paragraph 8(1), the Referring Party may request Ofcom to, or Ofcom may on its own initiative, select a person to act as substitute Adjudicator.
10.
 - (1) The Adjudicator may adjudicate at the same time on one or more Disputes under the same contract.
 - (2) The Adjudicator may, with the consent of all the parties to any related Disputes, adjudicate at the same time on such related Disputes under different contracts, and shall do so where different contracts provide for joinder of Disputes.

Notice of Reply

11. Unless the Adjudicator otherwise directs, within five working days of receiving the Notice of Adjudication, the other party or parties shall give a Notice of Reply. This shall contain their response to the Notice of Adjudication and be accompanied by copies of any documents upon which the other party or parties intend to rely. Although the other party or parties must send copies of all such documents to the Adjudicator with the Notice of Reply, in sending the Notice of Reply to the Referring Party and any other party to the Dispute, it or they may omit any such copies or redact them (and the Notice of Reply) for reasons of commercial confidentiality, subject to the right of the Adjudicator to direct disclosure of any such material to the Referring Party and any other party to the Dispute if he deems it appropriate, having given the party desiring confidentiality the opportunity to make further representations on this issue. The fact that redacted copies of any documents have been served shall be drawn to the attention of the Adjudicator when the Notice of Reply is given to him together with copies of any such redacted documents. The Notice of Reply shall be served by the relevant party on the Adjudicator, the Referring Party and any other party to the Dispute simultaneously.
12. The Adjudicator shall resign from determining any particular Dispute or Disputes as soon as:
 - (a) he becomes aware of a conflict of interest; or
 - (b) he is not competent to decide the dispute; or
 - (c) he becomes aware that a dispute varies significantly from the dispute referred to him in the Notice of Adjudication and for that reason he is not competent to decide it.

Powers of the Adjudicator

13. (1) The Adjudicator shall act fairly and impartially in carrying out his duties and shall do so in accordance with the CRRA Rules, the CRRA Scheme, the Undertakings and any relevant terms of any contract, having regard to the relevant Budget, and shall reach any decision concerning a Dispute as expeditiously as possible in accordance with the applicable law in relation to the contract or Dispute.
- (2) The Adjudicator shall take the initiative in ascertaining the facts and the law necessary to determine the Dispute, and shall decide on the procedure to be followed. In particular he may:
 - (a) request any party to the Dispute to supply him with such documents and information as he may reasonably require (other than documents that would be privileged from production to a court) including, if he so directs, any written statement from any party to the Dispute supporting or supplementing the Notice of Adjudication or Notice of Reply and any other documents given under paragraphs 7(a) and 11, and to draw such inference as may seem proper from any imbalance in such documentation that may become apparent;
 - (b) meet and question any of the parties to the Dispute and their representatives;
 - (c) obtain and consider such representations and submissions as he requires, and appoint experts, assessors or legal advisers;
 - (d) give directions as to the timetable for the adjudication, any deadlines, or limits as to the length of written documents or oral representations to be complied with; and

- (e) issue other directions relating to the procedure and timetable for the adjudication and the conduct of the adjudication generally.
14. The parties shall comply with any request or direction of the Adjudicator in relation to the adjudication.
 15. If, without showing sufficient cause, a party fails to comply with any request, direction or timetable of the Adjudicator made in accordance with his powers, fails to produce any document, information or written statement requested by the Adjudicator, or in any other way fails to comply with a requirement under these provisions relating to the adjudication the Adjudicator may:
 - (a) continue the adjudication in the absence of that party or of the document, information or written statement requested;
 - (b) draw such adverse inferences from that failure to comply as may, in the Adjudicator's opinion, be justified;
 - (c) make a decision on the basis of the information before him attaching such weight as he thinks fit to any evidence submitted to him outside any period he may have requested or directed; and
 - (d) refuse to determine the matter or matters in dispute.
 16. Subject to any agreement between the parties to the contrary, any party to the Dispute may be assisted by, or represented by, such advisers or representatives (whether legally qualified or not) as it considers appropriate.
 17. The Adjudicator shall consider all documents and information submitted to him by any of the parties to the Dispute and shall make available to them any documents and information to be taken into account in reaching his decision (subject to any omissions or redactions he considers appropriate for reasons of commercial confidentiality).
 18. (1) Subject to paragraph 18(2), the Adjudicator and any party to the Dispute shall:
 - (a) keep any information other than that a Dispute has been commenced before the Adjudicator on a specific date and that Carlton and/or Granada is a party to such dispute confidential; and
 - (b) not disclose to any other person, including the ITC and Ofcom, any information or document provided to it or him in connection with the Dispute which is confidential, except to the extent that disclosure by the Adjudicator is necessary for the purposes of, or in connection with, any decisions the Adjudicator takes in relation to the Dispute and any review thereof in accordance with paragraph 23 of these Rules or in order for the Adjudicator to fulfil his reporting functions set out in paragraph 22 of the CRR Scheme.(2) The Adjudicator has the authority to disclose the nature of the Dispute and his determination, although he shall not disclose confidential information.
 19. (1) Subject to the power of the Adjudicator alone to make a direction otherwise in exceptional circumstances, the Adjudicator shall give his decision not later than:
 - (a) fifteen working days after the date of the Notice of Adjudication; or

- (b) twenty working days after the date of the Notice of Adjudication, if the Referring Party consents to such an extension of time; or
 - (c) such period exceeding twenty working days after the date of the Notice of Adjudication as all the parties to the Dispute and the Adjudicator may agree; or
 - (d) in the case of joinder of Disputes, a date agreed between the Adjudicator and all the parties.
- (2) Where the Adjudicator fails, for any reason, to deliver his decision in accordance with paragraph 19(1):
 - (a) any of the parties to the Dispute may serve a fresh Notice of Adjudication under paragraph 5 and shall request Ofcom to name a substitute Adjudicator to determine the Dispute in accordance with these Rules; and
 - (b) if requested by the substitute Adjudicator, and in so far as it is reasonably practicable, the parties shall supply him with copies of all documents and information which they had made available to the previous Adjudicator.
 - (3) As soon as possible after he has reached a decision, the Adjudicator shall deliver a copy of that decision to each of the parties.

Adjudicator's Decision

- 20. In the adjudication of a Dispute, the Adjudicator shall decide all the matters in dispute as identified in the Notice of Adjudication. He may take into account any other matters which the parties to the Dispute agree should be within the scope of the adjudication, or which are matters which he considers are necessarily connected with the Dispute, but only insofar as such matters relate to the subject matter of the Dispute as identified in the Notice of Adjudication.
- 21. (1) In the absence of any directions by the Adjudicator relating to the time for performance of his decision, Carlton and/or Granada as the case may be shall be required to comply with any decision of the Adjudicator immediately on delivery of the decision to the parties, subject to any outstanding review brought under paragraph 23 below, and the other parties to the adjudication (the "Other Parties") shall be required to comply with any decision of the Adjudicator in accordance with paragraph 21(2).
 - (2) The Other Parties shall be required to comply with any decision of the Adjudicator *either*:
 - (a) within five working days of the delivery of the decision to such parties, if a Review Notice has not been lodged in compliance with paragraph 23(2) or;
 - (b) immediately upon Ofcom, in accordance with paragraph 23(2), informing the parties that it has decided not to review the relevant determination of the Adjudicator; or immediately upon Ofcom issuing a final determination of the Dispute after reviewing the relevant decision of the Adjudicator.
- 22. The Adjudicator shall provide a written decision including reasons for his decision.

Effects of Decision

23. (1) The decision of the Adjudicator shall be final and binding on Granada and/or Carlton as the case may be. The decision of the Adjudicator shall be binding (but not final) on the Other Parties, any one or more of whom shall have the right if dissatisfied to request Ofcom to review the decision of the Adjudicator in accordance with paragraph 23(2) provided that where the context permits, any one or more of such Other Parties may elect to revert to the terms of its or their previous Protected Contract or to keep to the terms of its or their existing Protected Contract, as appropriate, by giving notice to Carlton and/or Granada as the case may be within five working days of receipt of the Adjudicator's decision.
- (2) The Other Parties' right to ask Ofcom to review a decision of the Adjudicator must be exercised within five working days of receipt of the decision, otherwise it lapses. To exercise this right the Other Party or Parties must send a request in writing to Ofcom (the "Review Notice"), copied to Carlton and/or Granada as the case may be, attaching a copy of the decision, together with any other relevant documents, and a summary of the reasons as to why that Party considers that Ofcom should review the decision. Ofcom shall review such decision and rehear the Dispute on its merits, with Ofcom acting as expert and not arbitrator, unless Ofcom considers that the review would not have a real prospect of success; or there is no other compelling reason why they should hear the review. Within five working days of receipt of the Review Notice (provided all the necessary documents have been provided), Ofcom shall inform the parties in writing whether it shall proceed with the review. If it decides not to proceed with the review, Ofcom shall issue a written reasoned decision. If it decides to proceed, Ofcom shall give appropriate directions in order for it to do so. For the purposes of any such review, Ofcom will have the power to open up, revise and review any decision taken by the Adjudicator. Ofcom will issue a written decision including reasons for its determination which shall be final and binding on all parties subject, where the context permits, to the relevant Other Party's or Other Parties' right to revert to the terms of its or their previous Protected Contract or to keep to the terms of its or their existing Protected Contract, as appropriate, by giving notice to Carlton and/or Granada as the case may be within five working days of receipt of Ofcom's decision. Any such review shall be carried out by the full Board of Ofcom or a committee or body to whom they delegate the necessary powers.
- (3) When, in accordance with this paragraph 23, the Adjudicator's (or Ofcom's) decision becomes final and binding upon all the parties, it shall be final and binding except in the case of fraud, or where a decision is made in bad faith or is so clearly and manifestly erroneous on its face that it would be unconscionable for it to stand.
24. (1) An award or decision of the Adjudicator or Ofcom may, by leave of the court, be enforced in a summary manner.
- (2) Where leave is so given, judgement may be entered in terms of the award or decision.
- (3) In certain circumstances a failure to comply with an award or decision of the Adjudicator or Ofcom may also constitute a breach of a relevant licence granted under the Broadcasting Act 1990 (as amended) or the Communications Act 2003, and the ITC and Ofcom reserve their rights to take enforcement action by these means as appropriate.
25. (1) The fees and expenses of the Adjudicator shall be paid directly and in the first instance by Ofcom, but Carlton and Granada shall be responsible for all such fees and expenses (giving credit for any fee paid by the Referring Party) in accordance

with the CRRRA Scheme and shall reimburse Ofcom for all such costs on demand as directed by Ofcom without prejudice to paragraph 25(2) below.

- (2) The Adjudicator may in his discretion decide that it is appropriate that: (a) Carlton and Granada should bear all or a proportion of the legal costs and expenses relating to the adjudication incurred by any one or more of parties to the dispute other than Carlton or Granada; or (b) in exceptional circumstances, it is appropriate for any one or more of the parties to the Dispute other than Carlton and Granada to bear the costs of the adjudication, or for such party or parties to bear a proportion of such costs. Such costs shall include the fees and expenses of the Adjudicator and the fees and expenses of any witnesses in relation to the Dispute, and the legal costs and expenses properly incurred by the parties relating to the adjudication.

Immunity

26. The Adjudicator and his staff, employees and agents (including any advisers appointed by him) shall not be liable for anything done or omitted in the discharge or purported discharge of his functions as the Adjudicator unless the act or omission is in bad faith.

Contracts Rights Renewal Adjudication Scheme under the undertakings given by Carlton Communications Plc (“Carlton”) and Granada Plc (“Granada”) to the Secretary of State for Trade and Industry pursuant to Section 88 (2) of the Fair Trading Act 1973 (the “CRRA Scheme”)

Definitions

1. Except where the context otherwise requires or as otherwise defined herein, words and expressions used in this document shall have the same meaning as in the undertakings given by Carlton and Granada to the Secretary of State for Trade and Industry (the “Undertakings”).

Authority

2. In relation to the exercise of its powers and fulfilling its obligations under the CRRA Scheme, in this document references to the Office of Communications (“Ofcom”) shall mean Ofcom after any consultation which Ofcom deems appropriate with the Independent Television Commission (“ITC”).

Application

3. This Scheme as amended from time to time may be incorporated by reference into any contract for the sale of Commercial Airtime between Carlton and/or Granada and any Advertiser or Media Buyer and any reference to the “Contracts Rights Renewal Adjudication Scheme” in such contract shall mean, in relation to any adjudication, the most recent edition hereof as at the date of submission of the Notice of Adjudication under the CRRA Rules. This Scheme may also apply in the circumstances set out in Clause 16 of the Undertakings.

Appointment

4. Ofcom shall appoint one or more persons to an office known as the Contracts Rights Renewal Adjudicator (the “Adjudicator”).
5. The Adjudicator shall be independent, and in particular from the ITC, Ofcom, any commercial television broadcaster in the United Kingdom and all other parties to any dispute he is asked to decide upon. A person requested or selected to act as the Adjudicator shall not be an employee of or consultant to any commercial television broadcaster or any Advertiser or Media Buyer in the United Kingdom, or an employee of Ofcom or the ITC for the duration of his appointment. He shall be under an obligation to declare immediately any interest, financial or otherwise, in any matter relating to any dispute he is asked to determine.
6. The Adjudicator shall be appointed for any period or periods specified by Ofcom provided that his appointment shall terminate when all the relevant provisions of the Undertakings cease to be in force. Without prejudice to paragraphs 9 and 19(2) of the CRRA Rules and paragraph 14 of this CRRA Scheme, Ofcom shall appoint a substitute Adjudicator to take account of the situation arising from the death, retirement, incapacity or resignation (whether permanent or in relation to one or more particular Disputes) of the Adjudicator after appointment.

7. Following the termination of his appointment, the Adjudicator shall: (a) not without Ofcom's consent (which shall not be unreasonably withheld) be employed by or act as consultant or adviser to any commercial television broadcaster or any Advertiser or Media Buyer in the United Kingdom for a period which will expire on the later of (i) 31 January following the termination of the Adjudicator's appointment, and (ii) the date 6 months after the date of such termination; and (b) not disclose to any person any confidential information or confidential document provided to him in connection with his appointment as Adjudicator.

Functions

8. The Adjudicator shall have the function of determining any dispute between (a) Carlton and/or Granada, whether as separate or merged companies, and (b) any Media Buyers and Advertisers or any other person, arising out of the interpretation or exercise of the rights given to, or obligations upon, Advertisers, Media Buyers, Carlton and Granada or any such other person in relation to contracts for the sale of Commercial Airtime pursuant to the Undertakings, including any dispute relating to the interpretation, termination or enforcement of such contracts to the extent referable to such Undertakings, the interpretation of any provision of the CRRA Scheme or the CRRA Rules, or his jurisdiction to determine the dispute (a "Dispute"). The Adjudicator shall reach his decision and deliver it in accordance with the Undertakings, the CRRA Rules attached to the Undertakings and this CRRA Scheme. In addition the Adjudicator shall be under a duty to make reports to Ofcom and the Office of Fair Trading as set out in paragraph 22.
9. In the event that a substitute Adjudicator is appointed as a result of the original Adjudicator ceasing to be independent as described in paragraph 5 or for any other reason, any directions or decisions made by the original Adjudicator shall remain effective unless reviewed by the substitute Adjudicator in which case all time scales shall be recalculated from the date of the substitution.

Remuneration and Budget

10. There must be paid to the Adjudicator such remuneration, travelling and other allowances, pension or gratuity, or such contributions or payments towards provision for such a pension, allowance or gratuity, as Ofcom may determine.
11. The Adjudicator may incur such other costs as may be required for the fulfilment of his functions, including for office accommodation, staff, legal advice and any other requirements, up to but not exceeding the amount of the Budget set in accordance with paragraph 12 below.
12. Ofcom will set a budget for the total costs of the Adjudicator and his office for each calendar year in advance, having consulted with Carlton and Granada (the "Budget"). Such Budget will be for an amount sufficient in the view of Ofcom alone to enable the Adjudicator properly to discharge his functions and will also cover the costs of recruitment of the Adjudicator (and any substitute Adjudicator) and any staff or advisers that he may appoint. Any Budget may be increased by Ofcom on one or more occasions during any year, after having consulted with Carlton and Granada, where Ofcom considers this necessary in order to enable the Adjudicator properly to discharge his functions.
13. Ofcom shall pay all such remuneration, travelling and other allowances, pension, gratuities, contributions or payments and costs of the Adjudicator and his office as set out in paragraphs 10 to 12 inclusive in the first instance. Ofcom shall invoice

Carlton and Granada quarterly for the actual costs incurred up to the maximum of the relevant Budget. Carlton and Granada agree to reimburse Ofcom for all such costs on demand as directed by Ofcom without prejudice to paragraph 25 of the CRRA Rules.

Resignation or removal from office

14. A person may resign from office as the Adjudicator at any time by giving three months' notice in writing to Ofcom. Ofcom may remove a person from office as the Adjudicator on the grounds of incapacity or misbehaviour, or where Ofcom considers there has been unreasonable delay in the discharge of the functions of the Adjudicator. Where the Adjudicator has a conflict of interest, Ofcom may remove a person from office as the Adjudicator or may appoint a substitute Adjudicator in relation to a particular Dispute.

Immunity

15. Neither the Adjudicator, nor his staff, employees and agents (including advisors) are to be liable for anything done or omitted in the discharge or purported discharge of his functions as the Adjudicator unless the act or omission is in bad faith.

Adjudicator: staff

16. The Adjudicator may appoint such staff as he may determine, subject to any restrictions contained in the terms of his appointment. The staff of the Adjudicator are to be appointed on such terms and conditions as he may determine, subject to any restrictions contained in the terms of his appointment and subject to the Budget for the relevant period set in accordance with paragraph 12.
17. Any function of the Adjudicator, other than making a final determination in relation to any Dispute, may be exercised by any member of his staff authorised for the purpose by him, whether specially or generally.

Status of decision of Adjudicator

18. The Adjudicator shall act as an expert, and neither as arbitrator, mediator, conciliator nor any similar role and shall determine the Dispute in accordance with the Undertakings, the CRRA Rules and, insofar as relevant, this CRRA Scheme.
19. The effects of a decision of the Adjudicator in relation to any Dispute shall be as set out in the CRRA Rules.

Review of CRRA Scheme and CRRA Rules and provision of information

20. The Adjudicator shall keep this CRRA Scheme and the CRRA Rules under review and report to Ofcom and the Office of Fair Trading on them periodically (but at least annually) in accordance with this CRRA Scheme and his terms of appointment. He may in any such report recommend at any time to Ofcom and the Office of Fair Trading amendments to the CRRA Scheme and the CRRA Rules. Changes to the CRRA Scheme and CRRA Rules may be made with the consent of the Office of Fair Trading.
21. Carlton and Granada shall promptly provide all the information and documents about their advertising and trading as requested by the Adjudicator as deemed necessary

by him to fulfil his functions, and in as much detail as he may require, including information as to their monthly trading position in each region, demographic group and time period that they identify separately in any contract for the sale of Commercial Airtime. In order to fulfil his reporting functions, the Adjudicator may disclose any such information to Ofcom and the Office of Fair Trading. Any person who agrees to be bound by this CRRRA Scheme and the CRRRA Rules agrees that the ITC and Ofcom may disclose to the Adjudicator any information or documents supplied by such person to either of them (whether pursuant to the Undertakings or otherwise) which they consider may be relevant to, and assist the Adjudicator in, the carrying out of his duties.

Adjudicator Reports

22. The Adjudicator shall make a written report to Ofcom and the Office of Fair Trading every three months or as otherwise agreed with Ofcom (the "Periodic Reports"), setting out his determinations in relation to any Dispute, his views about the operation of the Undertakings, the CRRRA Scheme and CRRRA Rules together with any recommendations, his views about the performance of Carlton and Granada in complying with the Undertakings, his opinion about the evolution of the advertising airtime sales market and any other relevant matters and information that he may think appropriate. The Adjudicator shall bring to Ofcom's and the Office of Fair Trading's immediate attention any matter that gives rise to a reasonable suspicion on his part that Carlton and/or Granada are not complying with the Undertakings. The amount of detail included in such Periodic Reports will be at the discretion of the Adjudicator but should be such as to inform Ofcom and the Office of Fair Trading adequately. After consultation with Ofcom as to date and contents, one Periodic Report each year shall be designated the Adjudicator's Annual Report and this will consider all the matters above and any others the Adjudicator considers relevant and appropriate in greater detail.
23. Ofcom and the Office of Fair Trading may publish or disclose all or any parts of the Periodic Reports or the Adjudicator's Annual Report as either considers appropriate.

Conduct of our review

1. This appendix sets out the conduct of our review of the CRR Undertakings.

The OFT's review of the CRR Undertakings

2. In October 2006, ITV asked the OFT to conduct a review of clauses 5 to 11, and the associated clauses and annexes of the Undertakings, covering the CRR remedy (the CRR Undertakings).¹
3. After considering the matter under its prioritization principles, the OFT began its review of ITV's request on 30 January 2008, with assistance from Ofcom. The OFT published a [consultation document](#) setting out its preliminary views on 15 January 2009 and it received a number of responses from interested parties.
4. On 29 May 2009, the OFT sent the CC its [advice](#), which advised the CC to consider varying the CRR Undertakings in light of changes of circumstances since the remedy was put in place in 2003. A [non-confidential version of this advice](#) was published by the OFT (and also on the CC's website) on 11 June 2009.
5. Ofcom also submitted its views and analysis to the OFT. Copies of third party responses to the consultation and Ofcom's submission to the OFT were sent to us at the time of the OFT's advice. A copy of [Ofcom's advice](#) was published by Ofcom in April 2010 following a Freedom of Information Request.

Our review of the CRR Undertakings

6. ITV and several third parties provided us with comments on the non-confidential version of the OFT's advice. Although we have no formal powers to gather evidence, we found it appropriate to invite additional evidence from ITV and a range of third parties, including other commercial broadcasters, media agencies, advertisers, the Office of the Adjudicator, Ofcom and trade associations. In particular, further information was sought on the methodologies and assumptions used in the coverage analyses submitted by parties. We contacted the Office of the Adjudicator regarding the functioning of the CRR remedy and disputes which had arisen since 2004. We were also in contact with ITV to seek additional information and ask for clarifications in relation to its evidence and proposals.
7. We engaged with ITV in various different ways during the review through meetings, written questions and a staff site visit, and ITV was invited to comment on any significant additional evidence submitted to us by third parties.
8. On 15 September 2009, 15 weeks after the OFT's advice, we published our [Provisional Decision as to Changes of Circumstance](#) (the Provisional Decision) alongside a [Notice of Possible Variations](#) (the Notice) which invited views on possible variations to the CRR Undertakings. We received a number of responses from both ITV and third parties.

¹Specifically, clauses 5 to 11 and Annex 1 which relate to the sale of commercial airtime, clauses 12 to 18 and Annexes 2 and 3 which relate to adjudication, and clauses 23 to 25 which relate to the interpretation of words and expressions used in the Undertakings. The Undertakings also have provisions in clauses 2 to 4 in relation to other Regional Channel 3 Services licensees, but these are outside the scope of this review.

9. Separate to its response to the Provisional Decision, ITV also put forward a brief outline of its ideas for a possible alternative remedy, which it developed and refined into a separate proposal called 'Rules for the Protection of Advertisers' (RPA) on 22 October 2009. ITV subsequently provided a [response to the Notice](#) and this response was published on our website alongside a [summary of third party responses](#).
10. Staff meetings were held with ITV regarding its comments on the Notice and ITV attended a hearing with the Group on 4 November 2009 to discuss possible variations, and in particular ITV's alternative remedy proposal. On 18 November 2009, ITV submitted an amended version of its remedy proposal following the hearing with the Group. In December 2009, we provided a range of third parties with a description of ITV's proposal to seek their views.
11. A number of further questions were also put to ITV and other parties, and additional analysis was undertaken on the effects of launching ITV1+1 and ITV1 HD services. We considered the comments received and the proposal put forward by ITV, along with our additional analysis, and on 19 January 2010 we published our [Provisional Decision on Remedy Variations](#) (the Provisional Remedies Decision).
12. Responses were received to the Provisional Remedies Decision from ITV and a number of third parties. As part of ITV's response, on 5 February 2010 it submitted a revised remedy proposal (RPA Mk 2). A number of staff meetings were held with ITV to seek to understand the revised proposal and we published ITV's revised proposal alongside a [Notice of consultation](#) on 24 February 2010. A large number of responses were received from major advertisers, media agencies, broadcasters and others (including the Office of the Adjudicator, Ofcom and ITV). Meetings were also held with a number of agencies, ISBA and a large media auditor. [Non-confidential versions of these submissions and summaries of the meetings](#) have been published on our website. On 12 March 2010 ITV submitted further amendments to its remedy proposal.
13. On 17 March 2010 we set out our provisional views on the revised remedy proposal in a letter to ITV. ITV submitted further proposed amendments to CRR, should the CC decide not to accept its remedy proposal, on 19 March 2010. ITV commented on our provisional views and submitted a further revised remedy proposal (RPA Mk 2.1) on 29 March 2010. We responded to ITV regarding RPA Mk 2.1 and its further proposed amendments to CRR on 14 April 2010.
14. We would like to thank all of those who have assisted with our review.
15. A copy of our decision has been placed on the CC website.

Explanation of advertising campaign terms

1. This appendix provides further explanation of advertising campaign terms including impacts, television ratings, coverage and frequency, and station average price (SAP).

Impacts and television ratings

2. A commercial impact (or impact) is a single viewing of an advertisement by a member of the target audience.¹
3. TVRs are the number of impacts achieved (by an individual spot, or aggregated over a specified time period or an entire advertising campaign) expressed as a percentage of the target audience. For a particular campaign, one TVR equates to reaching 1 per cent of the target audience with one 30-second advertisement.² Thus, an advertisement in a programme that reaches 25 per cent of a particular target audience delivers 25 TVRs.

Campaign coverage and frequency

4. A campaign's performance is often expressed in terms of coverage and frequency.

Coverage

5. A campaign's coverage is the proportion of the target audience viewing the advertisement at least once over the campaign period.
6. *Example calculation:* if a campaign's coverage of 'Adults' is said to be 80 per cent then the advertisement was seen at least once by 38.6 million of the 48.2 million 'Adults' in the UK television viewing population: $38.6 \div 48.2 = 80$ per cent.
7. Coverage is also sometimes known as 'reach', ie the percentage of the target audience that the campaign has been able to reach.

Frequency

8. A campaign's frequency is the proportion of the target audience that has seen the advertisement at least a particular number of times over the campaign period. For example, '4+' refers to a viewing frequency of four or more times.
9. *Example calculation:* if a campaign's 4+ cover is said to be 40 per cent then the advertisement was seen four or more times by 19.3 million of the 48.2 million 'Adults' in the UK television viewing population: $19.3 \div 48.2 = 40$ per cent.
10. '1+ cover' is the same as the simple measure of reach or coverage defined above.

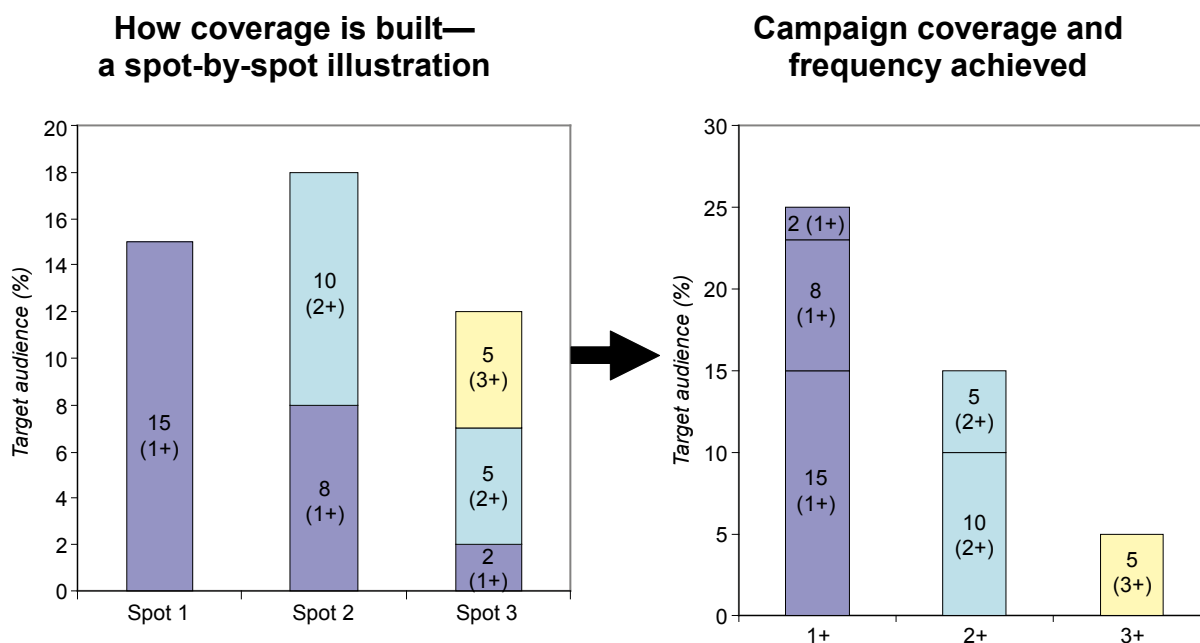
¹A total of ten impacts could be achieved in a number of ways: by ten people viewing a single commercial; by one person seeing the commercial ten times; by five people seeing the commercial twice and so on.

²While a 30-second advertisement is the general standard, advertisements can often range in time length (for example, 10 or 60 seconds). These will be converted into a 30-second equivalent TVR for the purposes of measurement.

How coverage and frequency are achieved—a spot-by-spot illustration

11. The example in Figure 1 illustrates how coverage and frequency are achieved. In a typical campaign, when the advertisement, spot 1, is first aired, some people will be exposed to it for the first time (1+). In the example in Figure 1, 15 TVRs are achieved in spot 1 equating to 15 per cent of the target audience seeing the first spot, ie 15 per cent at 1+ cover. When the advertisement is next aired, spot 2, some of the people exposed to it previously will see it again and some new people will be exposed to it for the first time. In spot 2, 18 TVRs are achieved, 8 per cent of the target audience have seen it for the first time (8 TVRs at 1+) and 10 per cent of the target audience have seen the advertisement twice (10 TVRs at 2+). This process then continues, ie spot 3 achieves 12 TVRs broken down by 2 TVRs (1+), 5 TVRs (2+) and 5 TVRs (3+).
12. The overall effectiveness of the campaign is expressed in terms of TVRs, coverage and frequency.³ This is the sum of the TVRs for every spot in the campaign. In the campaign example in Figure 1 the following are achieved:
 - (a) 45 TVRs = 15 TVRs (spot 1) + 18 TVRs (spot 2) + 12 TVRs (spot 3);
 - (b) 25 per cent 1+ cover = 15 TVRs (spot 1) + 8 TVRs (spot 2) + 2 TVRs (spot 3);
 - (c) 15 per cent 2+ cover = 10 TVRs (spot 2) + 5 TVRs (spot 3); and
 - (d) 5 per cent 3+ cover = 5 TVRs (spot 3).

FIGURE 1



Source: ITV.

³For example, a 400 TVR campaign targeted at 'ABC1 Adults'.

Pricing of television advertising

13. Media buyers purchase impacts/TVRs. The price of impacts is expressed in terms of SAP, a notional ex-post benchmark price, the basis of which is described below. The sales house will estimate the SAP for the demographic being purchased at the time of booking and this will be reconciled subsequently with the actual SAP achieved. Discounts from SAP will be negotiated at the time of the annual deal round.

Calculation of SAP

14. The SAP for a target audience/demographic (for example, 'ABC1 Men') is calculated as:

$$\text{SAP ('ABC1 Men')} = \frac{\text{Total revenue committed to station by all advertisers/media buyers for all audiences}}{\text{Total 'ABC1 Men' impacts delivered}}$$

15. A key feature of SAP is that it is calculated ex-post, ie the SAP varies on a month-to-month basis depending on the impacts delivered by the sales house against each demographic, and the amount of overall revenue received by the sales house from media buyers. However, advertising expenditure commitments are influenced in turn by media buyers' expectations of what the SAP will be, as this will determine how much they need to spend to achieve their target level of ratings.
16. The SAP for a given demographic is not a true average price: it is the price that would apply if all advertising expenditure, by every media buyer, were made against that demographic, and each spot was valued by its ability to deliver that demographic and no other. Rather than entitling media buyers to a given number of impacts, the SAP mechanism entitles media buyers to a share of the impacts actually delivered.

Discounts from SAP

17. Media agencies and sales houses may agree a range of different discounts from SAP, including:
- a single discount which applies to all demographics for all of a media agency's advertising clients;
 - different discounts for each demographic for all of a media agency's advertising clients;
 - a single discount which applies to all demographics for most of a media agency's advertising clients;
 - individual discounts for specific advertisers across all demographics; and/or
 - individual discounts for specific advertisers for each demographic.
18. A discount from SAP equates to a bigger proportion of impacts than the proportion of expenditure (for example, a discount of 15 per cent results in 15 per cent more impacts being delivered such that, if an advertiser buys 100 impacts, it receives 115 impacts after the discount). As there are a fixed number of impacts, any increase in discount to one media agency must be offset by another media agency receiving a lower discount.

19. Sales houses are able to offer discounts from SAP because sales houses are able to 'optimize' airtime. If advertisements were broadcast randomly throughout the day, without considering when these advertisements were most likely to be seen by the target audience, broadcasters would not be able to offer a discount from SAP. However, by matching advertisements with an appropriate programme spot and appropriate demographic, sales houses are able to maximize the number of impacts for a particular demographic. It is, therefore, possible for all impacts to be sold at a discount from SAP.
20. If a media agency operates an 'umbrella contract',⁴ once the overall discounts are negotiated with the sales house, the media agency will need to consider how these are distributed across its advertising clients.⁵ This distribution will be influenced by the contracts agreed between the media agency and its advertising clients and may be affected by other commercial factors such as: the size of the advertiser's contract with the media agency; the nature of the advertiser and its potential for growth; and whether the contract with the media agency is due for renewal in the near future.

⁴A contract between a sales house and a media agency will specify the discount granted to the agency which the agency will allocate among its clients.

⁵This is in contrast to a 'line-by-line' deal whereby agencies agree specific terms with sales houses in relation to specific clients.

Review of coverage analyses

Introduction

1. This appendix reviews the methodologies and key findings of the different coverage analyses that were conducted by ITV and third parties.
2. Coverage analyses conducted for this review compared the coverage and/or frequency achievable by an advertising campaign with ITV1 in the schedule and without ITV1 in the schedule. The aim of such analyses was to assess whether an advertising campaign was able to achieve its coverage or frequency objectives¹ when ITV1 was excluded from the channel mix.² When the analysis was repeated in different time periods, it was possible to assess whether there had been any change in such ability over time. Coverage analyses have a number of limitations (see paragraphs 25, 38 and 39); any assessment of ITV1 substitutability and of any change in this substitutability over time needs also to consider those aspects that are not captured by these analyses (see Section 5 of the report). For this reason in this appendix we use the term ‘coverage analysis’ rather than ‘substitutability analysis’ which was used by ITV.
3. Coverage analyses were based on two different approaches: (a) using media planning software (‘software-based’ coverage analysis) and (b) using manual reallocation of spots (‘manual’ coverage analysis). ITV undertook both types of analysis. Most third parties focused on software-based coverage analyses (ten third parties), with only a few third parties providing us with manual coverage analyses (three third parties).
4. Coverage analyses either took a snapshot in 2007/08/09 or looked at changes between 2002/03 and 2007/08/09. The majority of third parties’ evidence related to the former, with only ITV and two third parties providing evidence on the latter.
5. In this appendix, we consider:
 - (a) the methodological approaches to the coverage analyses taken by ITV and third parties, discussing software-based and manual methodologies in turn; and
 - (b) coverage analyses conducted by ITV and third parties, presenting first analyses that reflect a snapshot in 2007/08/09 and then analyses that draw a comparison over time.

Review of software-based methodologies for coverage analysis

6. In this section we provide details on the methodologies used for software-based coverage analyses. We first present ITV’s methodology and then outline how third-party analyses adopted different assumptions from those used by ITV. We conclude the section with a discussion of the limitations of the software-based approach.

¹See Appendix C for an explanation of coverage and frequency.

²This appendix focuses on commercial channels (ie all channels excluding the BBC). In what follows, we will refer to ‘commercial channels’ or ‘channels’ indifferently.

ITV's methodology

7. ITV's software-based methodology is summarized in Figure 1. In each scenario, ITV took a hypothetical campaign and distributed ratings (TVRs) according to 'natural delivery', ie the TVRs were apportioned among the available viewing audience (by channel and by daypart) according to each channel's demographic-specific SOCI.³ It then calculated the cost of this campaign. To assess the effect of removing ITV1 from the schedule, ITV reallocated TVRs away from ITV1 according to natural delivery and based on the same budget and same price of impacts.⁴ It then compared the resulting changes in coverage and frequency. This approach was the same as that used by Carlton and Granada in 2003 and allowed direct comparisons to be drawn between coverage analyses in 2003 and in 2008/09.
8. ITV also conducted the software-based coverage analysis assuming that a large number of campaigns had already been switched away from ITV1. ITV examined the switching of an individual campaign after taking into account the effect on the price of impacts on ITV1 and other commercial channels of switching (a) £30 million⁵ ('£30 million scenario') and (b) £205 million⁶ ('£205 million scenario') away from ITV1.⁷ ITV submitted that £30 million was the correct benchmark for any assessment of switching behaviour.

Third parties' methodologies

Differences in assumptions

9. Figure 1 outlines the basic ITV framework for software-based coverage analysis (left-hand side of the diagram) whilst capturing how third-party analyses have adopted different assumptions (right-hand side of the diagram).

³In what follows, we use indifferently the terms 'target audience' and 'traded demographic' (also abbreviated to 'demographic').

⁴The price of impacts is expressed in terms of cost per thousand ratings (CPTs).

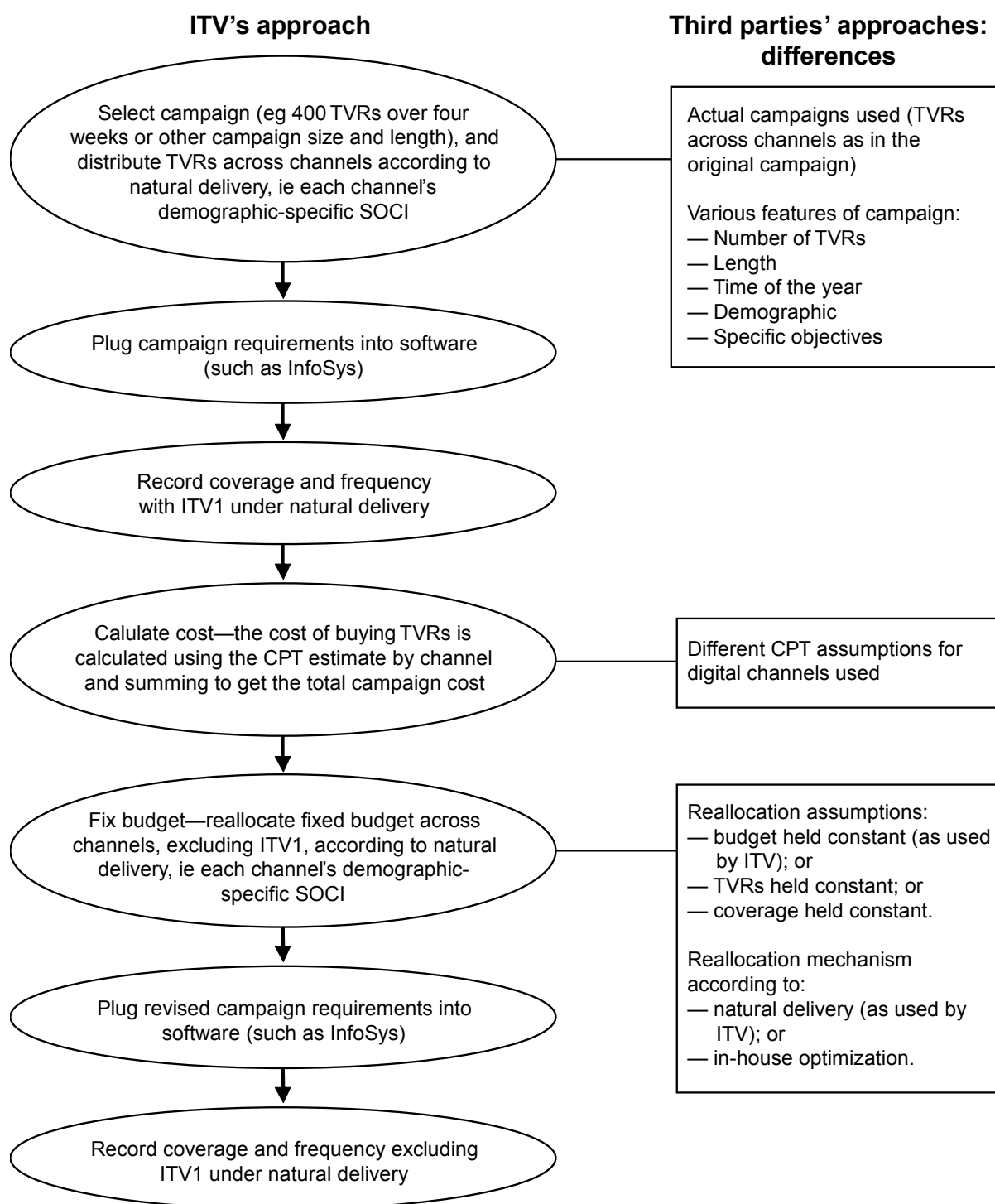
⁵£30 million was chosen as ITV's survey of customers (see Appendix G) suggested that, if the price of ITV1 rose by 5 per cent, only around £[redacted] million would have to switch to other television channels for the price rise to be unprofitable. ITV said that it [redacted] to ensure that the conditions of sufficient switching were more than met.

⁶ITV submitted that the figure of £205 million was appropriate for a number of reasons. First, based on ITV's survey results it represented [redacted]. Second, it represented 15 per cent of ITV's total revenue for 2007, or approximately 200 campaigns, or 40 billion impacts. Third, it was nearly seven times the level of switching from ITV1 to other channels needed to constrain ITV1 from demanding an increased spend commitment. Finally, it was also greater than the amount that most media agencies spent in total on ITV1 in 2007.

⁷The OFT advice noted that the methodology adopted appeared to assume that the inflated CPTs on other channels applied only to the expenditure that was switched away from ITV1 (paragraph 5.85). ITV submitted that in the £30 million and £205 million scenarios its software-based coverage analysis, based on InfoSys, took full account of the inflated CPTs on other channels and assumed that these were applied to all airtime purchased on those other channels, not just the marginal expenditure substituted away from ITV1. ITV also submitted that the inflated CPTs were applied to the switched campaigns only in the manual coverage analysis undertaken on behalf of ITV by [redacted] (see footnote to paragraph 29 and first footnote to paragraph 39(b)).

FIGURE 1

Methodological approaches for software-based coverage analysis



Source: CC.

10. As shown in Figure 1, the key methodological differences between ITV's and third parties' software-based coverage analyses were the campaigns selected and the reallocation process used.
11. In relation to the selection of campaigns, the key differences in the approaches included:

- (a) *Type of campaign.* ITV and some third parties used theoretical campaigns allocating TVRs according to natural delivery; many third parties used actual campaigns, which might have different initial allocations of TVRs between commercial channels.
- (b) *Campaign's features and dynamics.* The campaigns analysed varied according to the target audience, the number of TVRs, the campaign's length, the time of the year and the campaign's objectives (eg 1+ cover, 4+ cover).
12. In relation to the reallocation process,⁸ the key differences between the coverage analyses included:
- (a) *Reallocation assumption.* Different variables were held constant in the revised schedule without ITV1, ie budget, TVRs or coverage. In our review of the evidence we omitted scenarios that held coverage (or frequency) constant. As, in practice, a budget is typically assigned to a campaign, we considered it most appropriate to hold the budget constant, while the coverage, frequency and TVRs were flexed. We included in our review of evidence those analyses that held TVRs constant, but we put less weight on them than those analyses in which the budget was held constant;
- (b) *Reallocation mechanism.* When ITV1 is excluded from the channel mix, the reallocation mechanism varied from a reallocation on the basis of natural delivery to reallocation using in-house client objective efficiency optimization software (see [Agency A's] methodology, paragraphs 18 and 22). In the latter case, the analyses used software programmes to allocate TVRs between channels. Such programmes are probability-based systems that calculate the coverage and frequency of campaigns depending on various criteria, for example the date, SOCI by channel, dayparts and weight of campaign. In addition, one third party (see [Agency C's] analysis⁹) applied ratings caps for Channel 4 and Channel 5 when undertaking the reallocation of ratings (see Section 5 of the report for a discussion of different channels' sales policies). We recognize that coverage analyses that include ratings caps may show a lower ability for advertising campaigns to achieve the same coverage and frequency without ITV1 than those analyses that exclude ratings caps.
13. We provide further detail on the different assumptions used when reviewing the evidence in paragraphs 62 to 109. Third-party evidence on software-based coverage analysis is mostly related to the analyses submitted by Five and [Agency A], whose methodologies we now review in turn.

Five's methodology

14. Five submitted two types of analysis. The first analysis attempted to reproduce one of ITV's software-based approaches, switching ITV1 expenditure for an individual campaign on to other commercial channels and redistributing such spend by natural delivery. Instead of using theoretical campaigns, as ITV did, Five used actual campaigns to carry out this analysis. Five noted that, in theory, individual campaigns could replicate the coverage of ITV1 using this approach, but said that this did not

⁸We considered analyses that focused on the exclusion of ITV1 only as this is consistent with the objective of our review. We did not therefore consider coverage analyses that excluded the ITV Group.

⁹The analysis involves three campaigns only.

demonstrate that in reality a large number of campaigns that currently included ITV1 could be run without the level of coverage that can be achieved with ITV1.¹⁰

15. The second analysis involved switching a £1 million budget theoretical campaign away from ITV1 under two scenarios, referred to as '£1 million scenario' and '£205 million scenario' respectively.¹¹ The key differences between Five's and ITV's approaches were that:
- Allocation of ratings across channels was based on natural delivery in both approaches, but Five focused on the budget rather than on the number of TVRs. In particular, instead of allocating TVRs according to each channel's demographic-specific SOCI, Five allocated the £1 million budget according to SOCI and then bought TVRs with this budget based on an assumed CPT for each channel. Given the higher CPT of ITV1 compared with other channels, this may lead to fewer ratings being bought when ITV1 was included in the schedule.
 - In the '£1 million scenario', Five reallocated a hypothetical campaign costing £1 million to other channels, keeping CPTs unchanged. This approach differed from ITV's approach in that it used a £1 million campaign rather than a 400 TVRs campaign. In practice, this led to an approximately 460 TVRs campaign being re-allocated.
 - In the '£205 million scenario', Five tried to capture the effect of moving large amounts of advertising spend out of ITV1 by reallocating £205 million of annual budget to other channels (£17 million in a month) and reweighting CPTs on other channels to adjust for the additional expenditure being switched from ITV1. Five then repeated the exercise of reallocating a hypothetical campaign costing £1 million to other channels based on these revised CPTs. Again, this approach differed from ITV's £205 million scenario in that the hypothetical campaign was a £1 million budget rather than a 400 TVRs campaign.
16. ITV said that Five's methodology based on a theoretical campaign with a £1 million budget under the '£1 million scenario' and the '£205 million scenario' was fundamentally different from its own approach and it was biased and distortive. In particular, ITV raised the following points: (a) a £1 million budget campaign was not representative as campaigns with £1 million or more budget accounted for less than 4 per cent of all campaigns; (b) distributing budget, rather than TVRs, according to SOCI did not reflect actual market parameters—in aggregate this would imply that the distribution of NAR would be equal to SOCI (not SOB as should be the case) and the distribution of TVRs would bear no relationship to SOCI; and (c) the approach led to theoretical campaigns being tested that did not reflect actual campaigns purchased in the television advertising market.
17. We noted the different assumptions used by Five compared with those used by ITV and the likely effects these would have on the results. In particular, we noted the contrasting possible effects of distributing budget rather than TVRs (see paragraphs 15 and 16) and that a 460 TVR campaign was not unrepresentative (see paragraphs 46 to 52). ITV's arguments in relation to Five's methodology did not lead us to dismiss Five's evidence.

¹⁰Five highlighted some limitations of this approach, including the limited number of campaigns that it had analysed; that campaigns selected tended to have a higher share of TVRs on ITV1 than the station average; and that it had no information on which ITV1 programmes or dayparts the campaign ran in, or how campaigns were distributed across other sales houses and hence how easy it would be in practice to obtain similar value and coverage to that achieved on ITV1.

¹¹Five carried out this analysis for one-week and four-week campaigns. The results we present in Tables 4, 6, 8, 10, 12 and 14 are for a four-week period.

[Agency A's] methodology

18. [Agency A] told us that the in-house optimization approach tried to replicate client- and campaign-specific objectives, rather than just achieve the same reach and frequency. For example, if the original campaign objective related to 1+ coverage only, then the main aim of the optimization tool would be to achieve the same 1+ coverage. The optimization process was based on an algorithm that selected the best available spot. The algorithm was tailored to a campaign's objectives and used data based on the performance of programmes on other channels.
19. ITV submitted that the use of an in-house optimization system by [Agency A] was methodologically flawed because the CC had not tested [Agency A's] software and the system did not provide representative results. ITV argued that in-house optimization meant that an individual advertiser may be able to maximize the level of coverage (ie to achieve a coverage that is greater than that achievable under natural delivery), but another advertiser would have to receive less than the optimal coverage (ie to receive a coverage that is lower than that achievable under natural delivery). The total amount of coverage must balance back to that achievable under natural delivery as there is a finite amount of discount achievable overall by demographic. For this reason, ITV stated that: (a) in-house optimization did not give an insight into the substitutability of ITV1 across a particular demographic as a whole and only examined the potential outcome of a subset of campaigns, thus leading to non-representative results; (b) in-house optimization substantially under-estimated the substitutability of ITV1 airtime; and (c) natural delivery demonstrated the average achievable coverage by a campaign, which therefore provided results which were representative and could yield insight into ITV1 substitutability overall.
20. ITV also submitted that in effect [Agency A] carried out a manual assessment requiring a subjective determination of replacement spots.
21. In our view, we could not be reasonably expected to test 'in-house' systems. Instead, we questioned [Agency A] in order to understand how its optimization process worked (see paragraph 18).
22. As regards the representativeness of the results, use of either natural delivery or in-house optimization are critical assumptions that must be taken into account when evaluating the results of coverage analyses. We consider next the points raised by ITV in paragraph 19:
 - (a) [Agency A's] approach used real campaigns. Since these campaigns were bought, they must fall within the 'representative' set of campaigns. If [Agency A] had selected campaigns with objectives strongly targeted to ITV1, the approach would underestimate the ability of such campaigns to reach the same coverage and/or frequency without ITV1 in the schedule. However, we found no evidence that this was the case.
 - (b) The in-house optimization approach to coverage analysis would not always underestimate the ability of campaigns to reach the same coverage and/or frequency without ITV1. In fact, the approach of finding the next best spot is likely to overestimate such ability compared with natural delivery.¹² We do not therefore consider that this is a reason to discount coverage analyses that used in-house optimization.

¹²Under natural delivery, there is no optimization between channels (as the allocation between channels is determined by each channel's SOCI). In addition, TVRs are allocated to particular spots within channels on the basis of probabilities within planning systems such as Infosys or Xpert. Again there is no optimization.

- (c) Although a natural delivery campaign is like an ‘average’ campaign (because it is based on SOCI by demographic), it is a hypothetical campaign which may not actually have been bought. In addition, the ‘average’ campaign ignores the distribution of actual campaigns and there is no basis on which to discount other campaigns either side of this ‘average’.
23. Finally, we recognize that any assessment based on the known performance of programmes is different from assessments based on predicted performance, which is how the software packages are usually used. However, we considered that, as [Agency A’s] analysis was based on an algorithm, it was less prone to manipulation than manual approaches (see paragraphs 38 and 39).
24. For the reasons discussed above, ITV’s arguments in relation to in-house optimization did not lead us to dismiss [Agency A’s] evidence.

Limitations of the software-based approach

25. The weaknesses of the software-based approach identified during this review are similar to those raised in the 2003 report. Although the approach appears to be technically correct, the analysis has a number of limitations, which we consider in detail in Section 5 of the report. In particular:
- (a) The approach assumes that each impact for a given demographic is of the same value to the advertiser, regardless of the programme it is associated with, the channel it is shown on or the time at which it is shown.
- (b) The approach does not take into account important campaign parameters or contractual requirements, other than coverage and frequency objectives, including daypart splits and positions in break. In addition, the approach does not consider the existence of:
- clashes of the same type of advertisements within breaks;
 - limitations on the number of spots required on other commercial channels in order to deliver the same number of ratings; and
 - the availability of inventory on other commercial channels.
- (c) The approach does not take into account the annual negotiations which determine SOB commitments and discounts and, therefore, may not reflect media buyers’ actual ability to switch some expenditure away from ITV1.
- (d) The approach does not incorporate the dynamic effects of reactions to changes in price following any switching.

Review of manual methodologies for coverage analysis

26. In this section we provide details on the methodologies used for manual coverage analysis, first presenting ITV’s methodology and then outlining how third parties’ analyses adopted different assumptions from those used by ITV. We conclude the section with a discussion of the limitations of the manual approach.

ITV's methodology

27. ITV investigated whether 'real' campaigns could have used slots on non-ITV1 channels to deliver the same levels of coverage and frequency as were achieved with ITV1 (see Figure 2). This analysis was undertaken through the manual reallocation of advertising slots incorporating expert judgement rather than following a software algorithm. This approach relies on the inspection of television schedules and ratings.
28. ITV commissioned a media auditor, [redacted], to examine a number of actual campaigns and to reallocate spots without ITV1 in the schedule for the same budget. The media auditor used media planning best practice to reallocate spots to other commercial channels. The media auditor's broad approach was to replace ITV1 spots used in each campaign while taking into account the sales practices of the different broadcasters.¹³ The media auditor examined the resulting changes in coverage and frequency for scenarios with and without ITV1. This manual coverage analysis was not conducted by Carlton and Granada in 2003, so no comparisons could be drawn between 2003 and 2008/09.
29. The media auditor revised the manual coverage analysis to consider the effect of replicating an individual campaign without ITV1 if either £30 million or £205 million worth of campaigns had already been moved from ITV1 to other channels and the price of the non-ITV1 channels had consequently increased.¹⁴

Third parties' methodologies

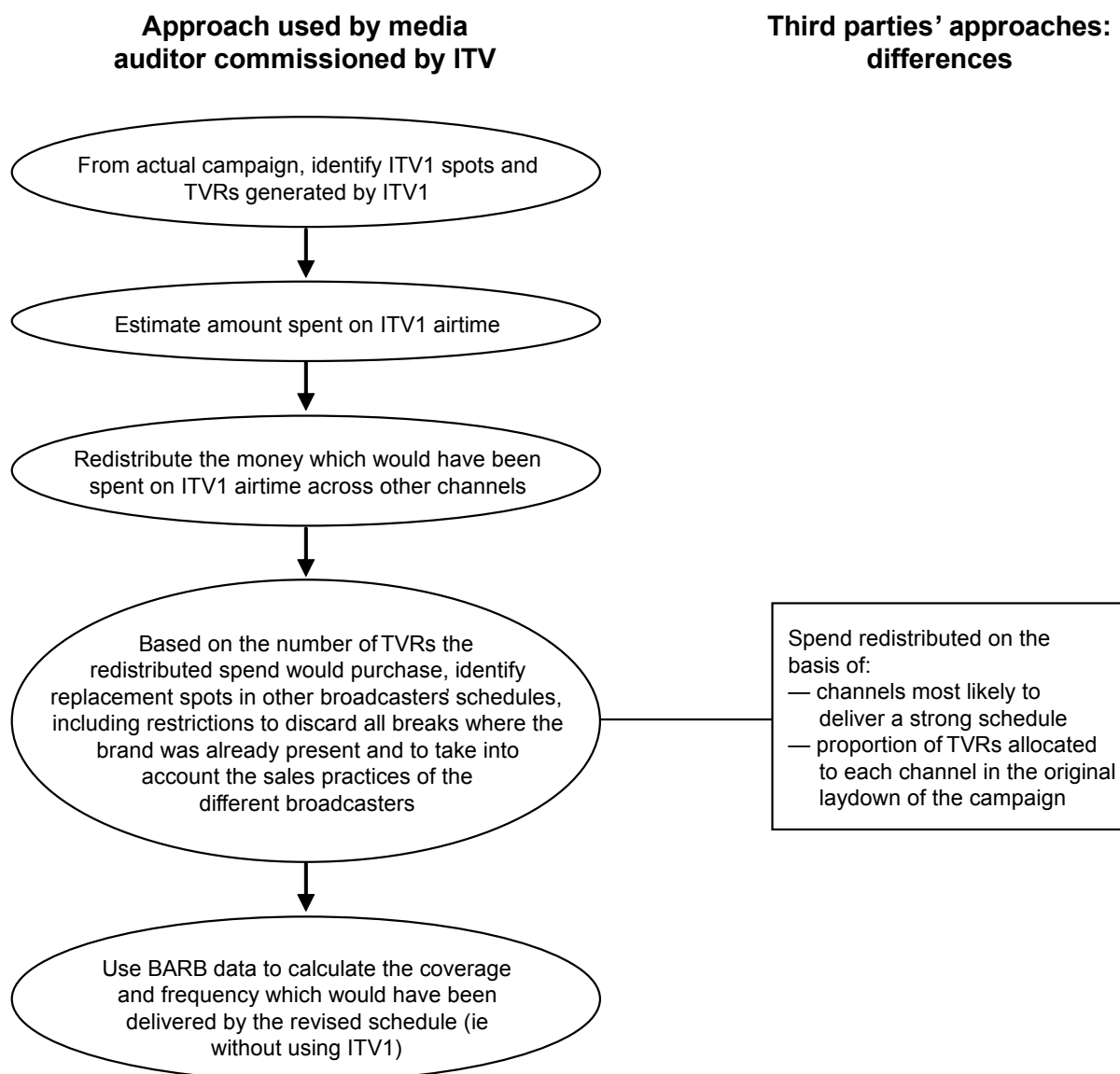
30. Three third parties ([Agency B], [another party] and [Media Buyer D]) submitted the results of manual coverage analyses. Figure 2 outlines the framework for manual coverage analysis used by the media auditor commissioned by ITV (left-hand side of the diagram), whilst capturing how third-party analyses have adopted different assumptions (right-hand side of the diagram).

¹³In particular, ITV stated that this was to avoid too many advertisements on the same channel, avoid using rarely-used channels and be consistent with other commercial channels' sales policies.

¹⁴The inflated CPTs have been applied to the switched campaigns only.

FIGURE 2

Methodological approaches for manual coverage analysis



Source: CC.

31. [Another party's] and [Agency B's] approaches were to adhere to original daypart and strike weight allocation.
32. [Another party] manually reallocated ITV1's share of TVRs for a '16–34 Adults' campaign, using similar dayparts and strike weightings but with discretion over the choice of alternative spots. [Another party] argued that it was possible to manipulate the results of any manual exercise, highlighting the flaws in this approach.
33. [Agency B] provided a manual reallocation analysis for [Client A's] campaign ('ABC1 Women'), [Client B's] campaign ('Housewives') and [Client C's] campaign ('ABC1 Adults'). [Agency B's] analysis assumed that the budget spent on ITV1 was re-allocated to the other channels in the original campaign on a reweighted 'as delivered' basis for each audience, ie based on the weights in terms of TVRs allocated to each channel in the original campaign. [Agency B] stated that 'peak delivery was

maintained throughout the schedule' and that the reallocation tried to 'stick to a real life schedule', eg avoiding clashing spots and maintaining sales house agreements.

34. As regards [Media Buyer D's] manual analysis, in the revised schedule 75 per cent of airtime was taken from ITV1 and redistributed among the other channels. [Media Buyer D] told us that it tried to take ITV1 entirely out of the schedule, but this was not possible as there was not enough space relevant to the target audience on other channels to reallocate all the spots. In particular, when reallocating the budget, [Media Buyer D] assumed that all spots were available, but obtained unreasonable results in terms of an extremely high number of spots required on other channels across a restricted period of time (eg duplication of the advertisement in the same break/programme). This implied that only about 75 per cent of airtime on ITV1 (ie TVRs) could be reallocated to other channels.
35. ITV argued that the approach of 'adhering to original daypart allocations/strike weights' by [Another party] and [Agency B] was inherently biased against finding ITV1 to be substitutable. ITV stated that at certain points in the day or across the duration of a campaign different channels would perform more or less strongly than other channels at the same time.¹⁵ Therefore, ITV argued that, if the requirement was that strike weights must be retained, this would bias the methodology towards finding higher coverage with ITV1 than without.
36. As daypart allocations and strike weights can be requirements of advertising campaigns, in our view it was not unreasonable to try to adhere to these requirements when rescheduling a campaign without ITV1. We also note that ITV suggested that 'at certain points of the day/across the duration of a campaign different channels will perform more or less strongly than other channels at the same time', so there is no reason to assume that this approach would necessarily 'bias against ITV1 substitutability'.
37. However, we note that a few specific issues arose in relation to some of these third parties' manual coverage analyses which meant that little weight was placed on them. In particular, we had some reservations about [Agency B's] [Client B] analysis as the replacement schedule had multiple spots appearing in the same breaks on certain channels. In addition, [Another party's] analysis appeared to choose some of the worst spots on other channels, which would underestimate the extent to which advertising campaigns could achieve the same coverage or frequency without ITV1 in the schedule.

Limitations of the manual approach

38. The manual coverage analysis attempts to address the drawbacks which arise in relation to the software-based methodology. However, in our view the main limitation of this approach is the degree of discretion and subjectivity involved in the reallocation of ITV1 slots to other commercial channels. As noted above, ITV and third parties made judgements about reallocating ITV1 spots used in each campaign taking into account the sales practices of the different broadcasters.
39. We identified a number of other issues in relation to the manual coverage analysis which cast further doubt on the weight that we could place on this evidence:

¹⁵ITV told us that, for example, if two episodes of *Coronation Street* are removed from the schedule, it was certain that reach would fall when ITV1 was omitted if impacts must be reallocated at a similar time, since *Coronation Street* often had about a 40 per cent share of audience at the time at which it was broadcast.

- (a) Advertisement spots are reallocated from ITV1 to other commercial channels with the benefit of hindsight, ie spots are selected when the performance of programmes on other channels is known.¹⁶
- (b) Although the manual coverage analysis considered the effect of switching on the price of airtime of channels to which, hypothetically, campaigns were switched,¹⁷ it did not consider the impact of this switching on the price of residual ITV1 airtime. We noted ITV's point that this would not materially affect the results of the analysis, but in our view this failed to capture the dynamic effects on price of any reduction in SOB commitment, particularly through annual negotiations.¹⁸
- (c) The manual coverage analysis did not fully take into account constraints which would be imposed by the scarcity of spots due to entitlements and demands of other media buyers. In particular, the corresponding impacts may not be attainable at 'average' prices as some of the better spots available on other channels may already be taken (ie spots in peak-time programmes or in programmes which reach large audiences, of which relatively few exist).¹⁹

Evidence on coverage analysis

40. In this section, we first present an overview of the campaigns used by ITV and third parties in their coverage analyses. We then review the results of the coverage analyses in terms of changes in the coverage and frequency achievable when ITV1 is excluded from the schedule. We consider by demographic both software-based and manual coverage analyses conducted by ITV and third parties. Our review of the results is organized as follows. We first present coverage analyses that reflect a snapshot in 2007/08/09. We then summarize analyses that look at changes over time, drawing a comparison between 2007/08/09 and 2002/03. Finally, we review ITV's comparison of coverage analyses between 2009 and Carlton/Granada pre-merger.

¹⁶ITV noted that the media auditor's manual coverage analysis focused on what would be realistically achievable for a media agency and as such ensured that its replacement spots were only placed in spots that would have been available to the advertiser and that the media agency would itself have been able to identify in advance if it were a reasonably efficient media agency. ITV also argued that such analysis was likely to underestimate possible coverage achievable without ITV1 since: (a) the media auditor had to pick spots without the benefit of using a software planning tool such as InfoSys, which is typically used by media agencies/advertisers; and (b) due to optimization, each broadcaster may have been able to 'slot' the new campaign more efficiently than the media auditor thereby potentially yielding higher coverage levels than the media auditor was able to achieve on the basis of its sub-optimal slotting. It was unclear to us whether the benefit of hindsight would be outweighed by the media auditor picking spots without the benefit of media planning software.

¹⁷The media auditor's analysis done on behalf of ITV considered the impact of large volumes of campaigns being moved off ITV1 to other channels on the price of the non-ITV1 channels only for those campaigns that switched and not for all pre-existing campaigns, ie it assumed that the inflated prices on other channels applied only to the expenditure that switched away from ITV1 and therefore does not take into account the expenditure already on other channels. The media auditor argued, and ITV supported, that to make assumptions about removing individual spots from all other channels based on revised CPTs would have resulted effectively in 'guesswork' which would have made the methodology less robust. However, ITV stated that the media auditor did quantify the effect of applying inflated CPTs only to the switched revenues from ITV1 and not to the pre-existing campaigns revenues on the other channels to ensure that it would not materially affect its results. In the case of £30 million being removed from ITV1, the media auditor calculated the effect of applying the inflated CPTs to both the switched revenues from ITV1 and the pre-existing campaigns revenues on other channels, and found that across the full 400 TVRs over four-week campaigns this would have resulted in only approximately 1.5 TVRs fewer in total. This would have had no material effect on the media auditor's findings. In the case of £205 million being removed from ITV1, this would have resulted in approximately 25 TVRs fewer in total, which again would not have materially affected the media auditor's findings.

¹⁸ITV and the media auditor argued that it would not be appropriate to factor in a presumed outcome, ie an increase in the prices of ITV1 residual airtime, as this assumption required that ITV1 airtime was not substitutable, while if ITV1 were substitutable then it was not the case that a reduction in SOB commitments increased ITV1 residual prices.

¹⁹ITV argued that the media auditor selected spots that would have been open to media agencies based on the budget for that campaign and these spots were not chosen with any foreknowledge as to how they would perform on a coverage basis.

Overview of campaigns selected

ITV's analyses

41. ITV tested campaigns of different ratings, length and at different times of the year.²⁰ In this appendix, we consider the main scenarios tested by ITV, but do not summarize evidence on 300 and 400 TVRs campaigns in one week. Evidence from ITV and third parties suggests that campaigns are rarely of this size in one week.
42. In relation to the manual coverage analysis done on behalf of ITV, the media auditor tested six campaigns dated March 2007 and six campaigns dated April 2008 for four-week 400 TVRs campaigns. The media auditor also analysed a number of campaigns of a shorter duration across different demographics and for different TVR levels.

Third parties' analyses

43. Table 1 presents some summary information on the characteristics of the advertising campaigns used by third parties in the software-based coverage analyses.²¹ We reviewed third parties' coverage analysis for 79 advertising campaigns,²² 58 of which were actual campaigns. Out of 79 campaigns, only ten campaigns were run at more than 150 TVRs per week. Of these ten campaigns, four were (actual) campaigns lasting one week and two were (actual) campaigns lasting less than one week. These two campaigns²³ required a high number of TVRs in a short space of time and we took the nature of this requirement into account when interpreting the results of the coverage analysis for these campaigns.

TABLE 1 Third parties' advertising campaigns

Total campaigns	79
Total actual campaigns	58
Total campaigns of 1 week or less	11
Total actual campaigns of 1 week or less	9
Total campaigns with greater than or equal to 150 TVRs per week	10
Total actual campaigns with greater than or equal to 150 TVRs per week	8
of which:	
Total actual campaigns of 1 week or less and greater than or equal to 150 TVRs per week	6

Source: CC analysis.

-
44. ITV criticized third parties' software-based coverage analyses for using campaigns, which ITV considered were biased, non-representative and/or outdated.²⁴ ITV submitted that for a campaign to be considered to be representative it must at least be:
(a) carried out at a reasonably representative level of TVRs over an appropriate

²⁰For example, ITV examined 400 TVRs campaigns, 100 TVRs campaigns and 150 TVRs campaigns over different time periods (for example, one week and four weeks) and also provided the breakdown by week of four-week campaigns on a week-by-week basis (ie showing 200 TVRs after two weeks, 300 TVRs after three weeks).

²¹Given that most third parties undertook software-based coverage analyses and we identified concerns with some third parties' manual coverage analyses (see paragraph 37), in this section we have focused on campaigns used for software-based analyses only.

²²The number of campaigns analysed by third parties and presented throughout this appendix were more than 79 because manual coverage analyses were also included.

²³The two campaigns are [Agency A]—[Brand M] ([~~ⓧ~~] TVRs and one day length campaign) and [Agency A]—[Brand L] ([~~ⓧ~~] TVRs and four day length campaign).

²⁴Similar concerns were raised by ITV in relation to third parties' manual coverage analyses.

number of weeks; (b) sufficiently recent to have some bearing on the issue of ITV1 substitutability in 2010; and (c) undertaken in a month that is reasonably representative.

45. We acknowledge that the number of TVRs per week, the year and the time of the year in which the campaign was run are the main parameters that identify a campaign and, hence, are all relevant to define a 'representative' campaign. However, we considered that the representativeness of a campaign should be defined in the context of the coverage analyses whose aim was to assess the ability of individual campaigns to meet their objectives without ITV1. In this context, achieving objectives without ITV1 may be more problematic on some campaigns than on others and we disagree with ITV's view that only 'average' or 'typical' campaigns should be included in our review. We now discuss ITV's points on the representativeness of third parties' campaigns in more detail.

Number of TVRs and length of the campaign

46. Advertising campaigns can be identified in terms of the total number of TVRs over the length of the campaign, normally expressed in the form of a number of weeks,²⁵ or, equivalently, the number of TVRs per week. It should be noted, however, that expressing a campaign in this way does not capture the distribution of TVRs over the duration of the campaign.²⁶
47. Table 2 shows the average number of TVRs per week across all the third parties' campaigns we reviewed and some relevant subsets of these campaigns.

TABLE 2 **Average number of TVRs per week**

Average TVRs per week across all campaigns	115.9
Average TVRs per week across actual campaigns	117.7
Average TVRs per week across campaigns excluding campaigns with greater than or equal to 150 TVRs per week	93.6
Average TVRs per week across actual campaigns excluding campaigns with greater than or equal to 150 TVRs per week	89.1
Average TVRs per week across actual campaigns excluding one-week or less campaigns with greater than or equal to 150 TVRs	93.4

Source: CC analysis.

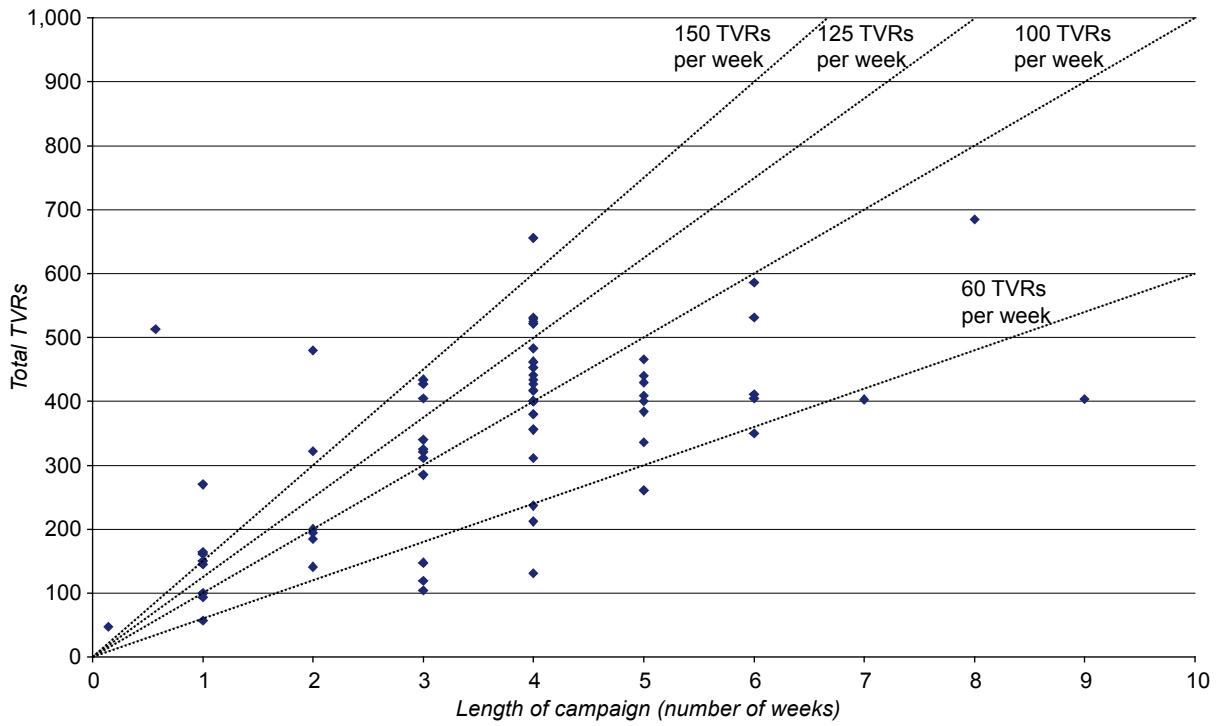
48. In Figure 3, each advertising campaign is plotted in terms of total number of TVRs and length of campaign. Dotted lines corresponding to 60, 100, 125 and 150 TVRs per week have also been plotted. Points lying below each line represent campaigns that have fewer than that number of TVRs per week.

²⁵We have considered the effective number of weeks when the campaign was 'on' rather than the calendar length of the campaign. In other words, if a campaign ran for three weeks on, one week off, two weeks on (ie six weeks from start to finish), we have counted the campaign length as five weeks (three weeks plus two weeks). It should be noted that this methodology gives higher weekly campaign strike weights than using the full calendar length of the campaign, thus leading to a bias equivalent to that implied by ITV's methodology (see footnote to paragraph 51), ie the number of TVRs per week of the campaign is overestimated if compared with a calculation where the whole calendar length of the campaign is considered.

²⁶This information was available only for a minority of the campaigns we have reviewed.

FIGURE 3

Campaigns by length and total TVRs

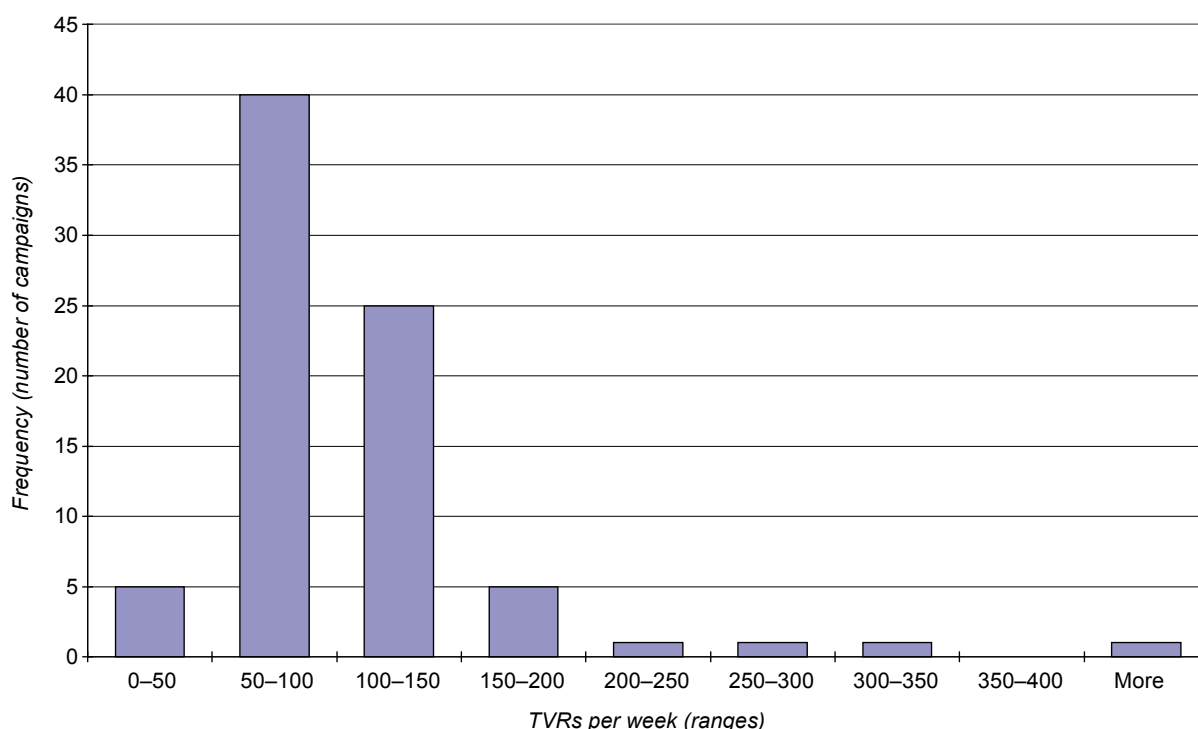


Source: CC analysis.

49. Figure 4 shows the distribution of advertising campaigns by range of TVRs per week.

FIGURE 4

Distribution of campaigns by range of TVRs per week



Source: CC analysis.

50. As Figures 3 and 4 show, most of the third parties' advertising campaigns we have reviewed were run at 150 TVRs per week or fewer (89 per cent of campaigns) and a significant proportion of campaigns were run at 100 TVRs per week or fewer (57 per cent of campaigns).
51. ITV submitted that, based on actual campaign data, the average number of TVRs per active advertising campaign per week is 60 TVRs and that the distribution of campaigns provided by third parties to the CC was substantially skewed towards providing campaigns with higher levels of TVRs per week than was typically purchased. In addition, ITV submitted that, based on a sample of advertising campaigns, campaigns of fewer than 100 TVRs per week (ie campaigns averaging 400 TVRs or fewer over four weeks) accounted for [a significant proportion] of total television NAR and [the vast majority] of campaigns.²⁷ As approximately half of third parties' campaigns required more than 400 TVRs over four weeks, ITV argued that they were therefore atypical and non-representative.
52. Based on the data provided by ITV and Figures 3 and 4, we consider that overall these campaigns are not unrepresentative. We note that only a small minority of campaigns had a high number of TVRs in a week and that in some of these cases third parties explicitly selected the campaign to show that switching away from ITV1 was problematic. We took this into account when interpreting the results.

²⁷ITV also submitted that, based on the same sample of campaigns, campaigns of fewer than 125 TVRs per week (ie campaigns averaging 500 TVRs or fewer over four weeks) accounted for [3%] per cent of total television NAR and [3%] per cent of campaigns, and campaigns of fewer than 150 TVRs per week (ie campaigns averaging 600 TVRs or fewer over four weeks) accounted for [3%] per cent of total television NAR and [3%] per cent of campaigns. In order to carry out this analysis, ITV defined a campaign as continuous weeks of broadcast activity, ie where a brand had a week without advertising, further advertising was considered to be a new campaign. ITV noted that this methodology biased the results towards overestimating the number of TVRs per week of the campaign.

Year of the campaign

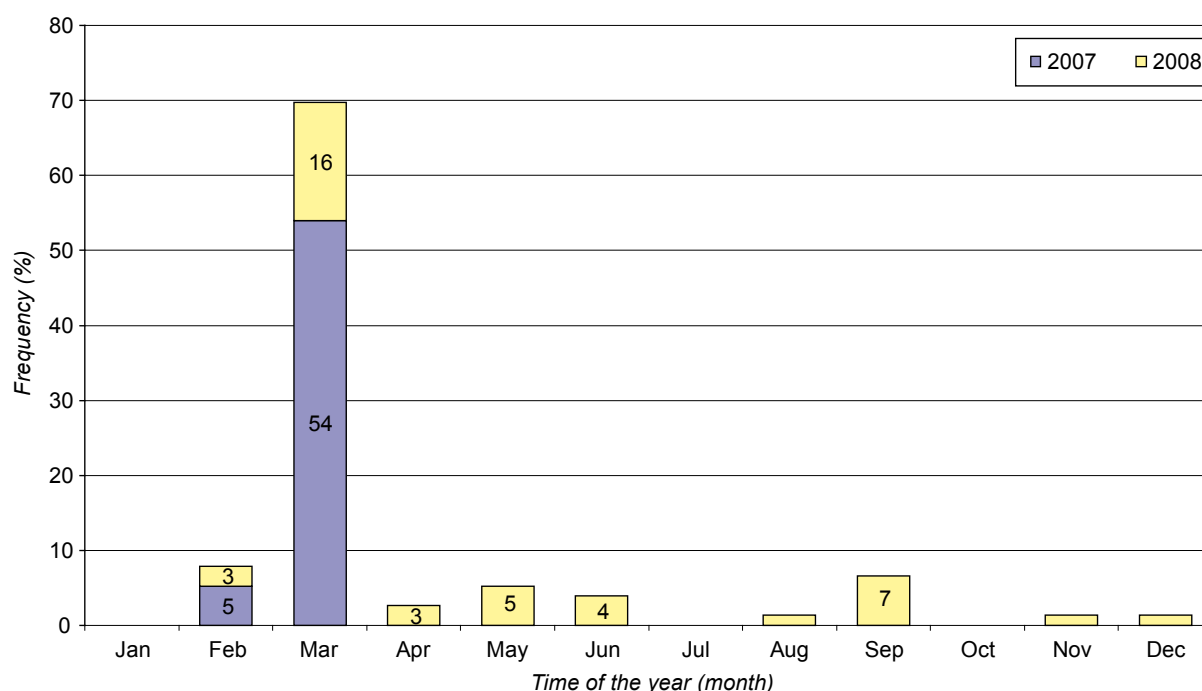
- 53. 57 per cent of third parties' advertising campaigns were run in 2007 and 43 per cent in 2008.
- 54. ITV submitted that advertising campaigns run in 2007, and to a lesser extent those run in 2008, were outdated and should not be included in the CC's assessment of ITV1 substitutability.
- 55. We consider that ITV's argument is not sufficient to dismiss third parties' evidence based on 2007 data. The evidence-gathering process started at the OFT in 2008; coverage analysis based on 2007 data represented the most recent data available at that time. As a general point, we agree with ITV that the ability to achieve the same coverage and frequency without ITV1 as with ITV1 has increased over time and we have interpreted third parties' results accordingly.

Time of the campaign

- 56. Nearly 70 per cent of third parties' advertising campaigns were run in March, as the OFT requested that this month was used at the time of the evidence-gathering process.²⁸ Figure 5 shows the distribution of the advertising campaigns by time of the year and the split between 2007 and 2008.

FIGURE 5

Distribution of campaigns by month of the year



Source: CC analysis.

²⁸For campaigns run over more than one month, we have considered the month when the campaign was started. As a consequence, a few campaigns which run in March have not been categorized as 'March campaigns' because they started earlier in the year. Out of 79 campaigns analysed, in three cases the time of the year was not identifiable with a specific month, for example because the campaign was a regular weekly campaign or average data across different months was provided.

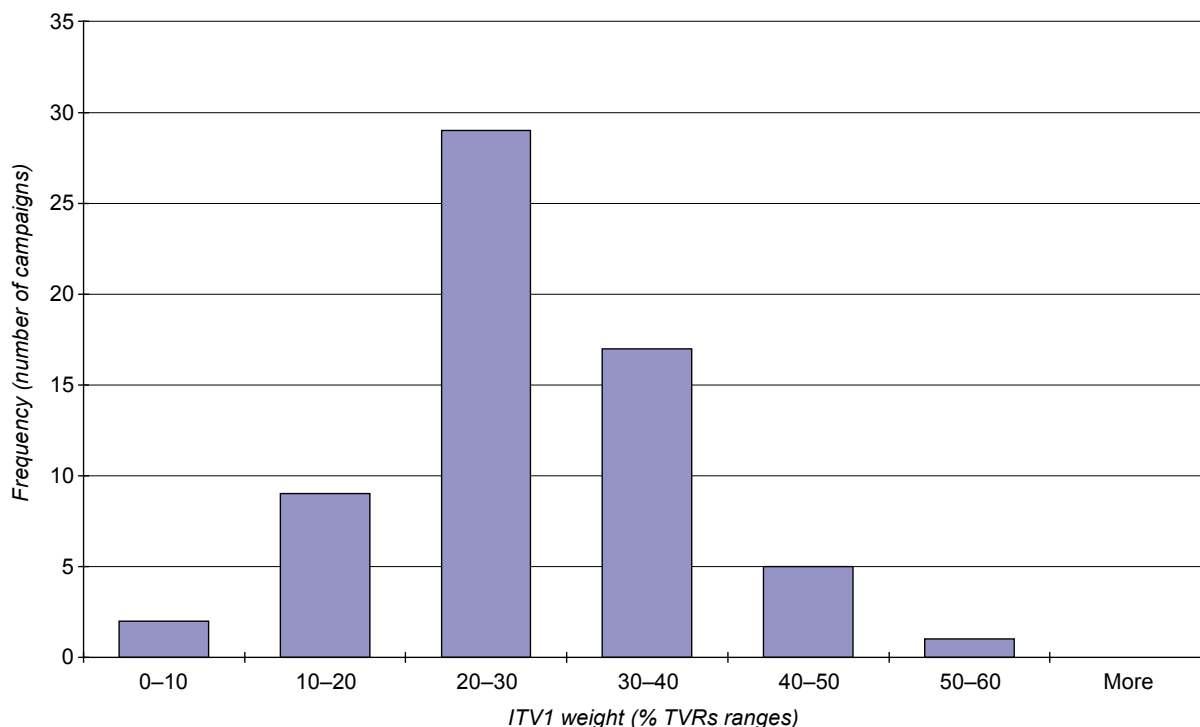
- 57. ITV submitted that coverage analysis should be based on advertising campaigns at times of the year that were typical and unbiased.
- 58. Based on the distribution shown in Figure 5, we do not have significant concerns regarding the time of the year in which most of the campaigns were conducted.²⁹

ITV1 weight in the campaign

- 59. ITV submitted that an advertising campaign that used 40 per cent of ITV1 airtime at the outset of the campaign was not typical.³⁰ We therefore examined the weight of ITV1 in third parties' campaigns.
- 60. Figure 6 shows the distribution of the advertising campaigns by range of ITV1 weight expressed as a proportion of TVRs allocated to ITV1. Out of 63 campaigns for which we have the relevant information, we found that 57 campaigns (90 per cent) have an ITV1 weight of 40 per cent or less. These fall within the 'typical' range put forward by ITV.

FIGURE 6

Distribution of campaigns by range of ITV1 weight (% TVRs)



Source: CC analysis.

- 61. In any case, given that, in 2008, ITV1 had a share of NAR of 39 per cent, it does not seem unreasonable to take into account a campaign with a weighting of 40 per cent of TVRs to ITV1.

²⁹Some concern may arise in relation to a campaign run in December. However, we note that this was just one campaign and therefore we do not expect its inclusion to affect our results. ITV said that Easter fell in March in 2008 and, as such, March 2008 could not be considered to be a typical month. We noted that Easter would be likely to affect all commercial channels in a similar way and should not therefore significantly distort the outcome of the coverage analyses.

³⁰This issue was raised in relation to [Media Buyer A's] campaign.

Snapshot on coverage/frequency achievable without ITV1 in 2007/08/09

62. ITV sells television airtime across 15 demographics,³¹ as shown in Figure 7. It provided coverage analyses (both software-based and manual analyses) for the six largest demographics (in revenue terms).

FIGURE 7

ITV1's 2008 revenue by demographic

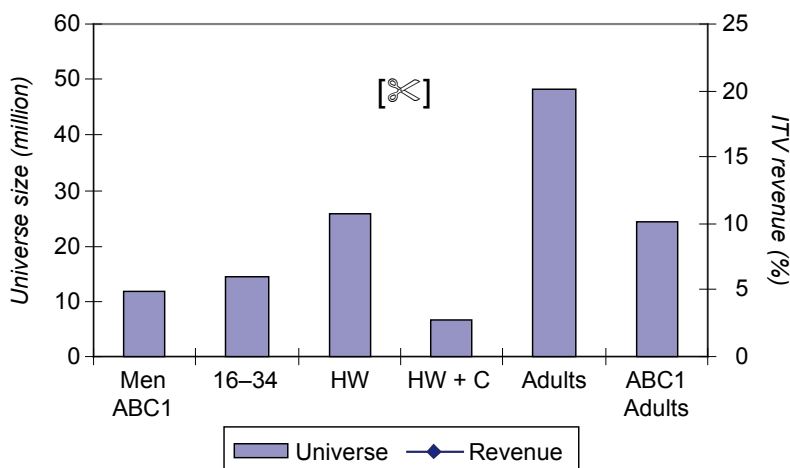
[✂]

Note: [✂].
Source: CC based on ITV data.

63. ITV1's revenue by demographic does not correspond to the total audience size of each demographic in the UK, as shown in Figure 8: [✂].

FIGURE 8

ITV's top six demographics by revenue compared with total audience size



Source: ITV.

64. We have considered both software-based and manual coverage analyses together and have grouped the demographics into four categories which are discussed in detail below:

- (a) Group A: 16–24 Adults, Children, 16–54 Housewives (16–54 HW), Men;
- (b) Group B: 16–34 Men, Women, 16–34 Women, ABC1 Women;
- (c) Group C: ABC1 Housewives (ABC1 HW), ABC1 Men, 16–34 Adults and Housewives + Children (HW + C); and
- (d) Group D (wider demographics): Housewives (HW), Adults and ABC1 Adults.

³¹Audiences are conventionally divided into some 15 different demographic groups: Adults, ABC1 Adults, 16–24 Adults, 16–34 Adults, Men, ABC1 Men, 16–34 Men, Women, ABC1 Women, 16–34 Women, ABC1 Housewives, 16–54 Housewives, Housewives, Housewives with Children and Children.

65. In this section, we have summarized ITV's analyses and third parties' analyses in tables.³² When presenting ITV's analyses we have described separately results of the approaches that assumed a large number of campaigns had already been switched away from ITV1; we have not reported these results in the tables.³³

Group A: 16–24 Adults, Children, 16–54 HW, Men

66. ITV1's revenue share for each of these four demographics is low (less than 5 per cent) and it did not therefore undertake any coverage analysis. Third parties did not provide coverage analysis in relation to campaigns bought against these demographics.

Group B: 16–34 Men, Women, 16–34 Women and ABC1 Women

67. ITV1's revenue share for each of these four demographics is low (less than 5 per cent) and it did not undertake coverage analyses. Some third parties provided some examples of campaigns bought against these demographics.
68. 16–34 Men accounted for [X] per cent of ITV1's revenue. [Agency A] analysed two relatively long actual campaigns—[Brand A] and [Brand B].³⁴ Assuming a constant budget, the [Brand B] example showed that 1+ cover fell whilst 4+ cover remained the same. In contrast, the [Brand A] campaign case, which kept TVRs constant, indicated that coverage and frequency increased without ITV1.
69. Women accounted for [X] per cent of ITV1's revenue and the only third party example excluded the entire ITV Group rather than ITV1 only.
70. 16–34 Women accounted for [X] per cent of ITV1's revenue. [Agency A] provided two examples—[Brand C] and [Brand D].³⁵ Assuming a constant budget, the analysis of these campaigns showed that 1+ and 4+ cover increased when ITV1 was excluded.
71. ABC1 Women accounted for [X] per cent of ITV1's revenue. [Agency A's] analysis of the four-week [Brand E] campaign, assuming a constant budget, showed that 1+ cover fell whilst 4+ cover increased. [Agency B] provided a manual reallocation analysis for a three-week [Client A] campaign obtaining the same result—1+ cover fell whilst 4+ cover increased.
72. In summary, campaigns purchased against these demographics represent a small proportion of ITV1's revenue and therefore ITV did not provide any coverage analysis. Some third parties provided some examples in which 1+ cover fell when ITV1 was excluded, for 16–34 Men and ABC1 Women, and some examples where it increased. We consider that the examples provided are too few for us to reach a view on whether or not campaigns targeting these demographics can achieve the same level of coverage and frequency without ITV1.

³²As already discussed, we (a) omitted scenarios that held coverage or frequency constant and flexed the budget and TVRs (see paragraph 12(a)); and (b) focused on the exclusion of ITV1 only (see paragraph 12).

³³The media auditor also extended the manual coverage analysis to fast-build campaigns. These were defined as campaigns running at 100/150/200/250 TVRs over a single week in 2008. The results followed a similar pattern to the standard results. In all cases, except for the Housewives demographic, the same 1+ and 4+ coverage levels could be achieved without ITV1.

³⁴[Brand A] is a five-week campaign and [Brand B] is a nine-week campaign.

³⁵[Brand C] is a four-week campaign and [Brand D] is a three-week campaign.

Group C: ABC1 HW, ABC1 Men, 16–34 Adults and HW + C

73. Each of these four demographics accounted for in excess of 5 per cent of ITV1’s revenue. ITV provided coverage analyses for ABC1 Men, 16–34 Adults and HW + C.³⁶

ABC1 HW

74. ABC1 HW accounted for [X] per cent of ITV1’s revenue. [Media Buyer F’s] analysis of [Brand A] three-month (one week on, one week off—five weeks ‘on’ overall) campaign showed that, assuming constant TVRs, both 1+ and 4+ cover fell when ITV1 was excluded.³⁷ [Media Buyer A’s] analysis of the five-week campaign, which kept the budget constant, obtained similar results.³⁸

ABC1 Men

75. ABC1 Men has a total audience size in the UK of 11.8 million and a share of ITV1’s revenue of [X] per cent.

TABLE 3 ABC1 Men: ITV’s coverage analyses—ITV1 excluded

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		–	+	[X]	[X]
	Apr 08		–	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	+	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	+	+	[X]	[X]
2 week	Sep 08	150	+	+	[X]	[X]
	Sep 08	200	–	+	[X]	[X]
	Mar 07	200	+	+	[X]	[X]
3 week	Apr 08	200	+	+	[X]	[X]
	Mar 07	300	+	+	[X]	[X]
4 week	Apr 08	300	+	+	[X]	[X]
	Mar 07	400	+	+	[X]	[X]
	Apr 08	400	+	+	[X]	[X]
	Dec 08	400	+	+	[X]	[X]
	Mar 09	400	+	+	[X]	[X]

Source: ITV.

76. As shown in Table 3, ITV’s software-based coverage analysis showed an increase in 1+ cover and 4+ cover without ITV1 in almost all major scenarios. Similar results (ie an increase in 1+ cover and 4+ cover without ITV1) were obtained in the £30 million scenario. For the £205 million scenario 1+ cover fell, whilst 4+ cover increased.³⁹

³⁶[X]

³⁷ITV submitted that [Media Buyer F’s] campaign was not representative because a three-month (week on, week off) campaign was not a typical campaign profile run on ITV1. We note that the campaign is for [X] TVRs over three months. This generates an average weekly weighting of [X] TVRs in the five weeks in which the campaign is ‘on’ (see also paragraph 45).

³⁸[Media Buyer A’s] reallocation methodology used natural delivery. ITV1 represented 40 per cent of TVRs in the original campaign. [Media Buyer A] stated that the campaign was for a new product launch implying that the initial two weeks’ coverage was particularly important and excluding ITV1 would under-deliver. This represented 1.1 million fewer ABC1 HWs. ITV submitted that an advertising campaign that used 40 per cent ITV1 airtime at the outset of the campaign was not typical. As discussed in paragraph 61, given that ITV1 had a SOCI of 30 per cent and a share of NAR of 39 per cent, a weighting of 40 per cent of TVRs to ITV1 does not seem unrepresentative, especially for the launch of a new product.

³⁹The exception was that 1+ coverage improved for the one-week 100 TVRs campaign scenario.

77. ITV's manual coverage analysis showed that 4+ cover increased when ITV1 was excluded, but 1+ cover fell slightly (see Table 3). This result held for the £30 million scenario, but not for the £205 million scenario where 4+ cover also fell.
78. Third-party evidence in Table 4 shows that coverage and frequency could fall when ITV1 was excluded, especially for 1+ cover.

TABLE 4 **ABC1 Men: third-party coverage analyses— ITV1 excluded**

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference— 1+	Difference— 4+
<i>Software-based coverage analysis</i>							
Five—[Brand A]	3 week	√			√	1.6	5.9
Five—[Brand B]	4 week	√			√	1.1	5.3
Five—[Brand C]	5 week	√			√	1.2	4.0
[Agency A]—[Brand F]	6 week	√			√	-3.2	-2.5
[Agency A]—[Brand F]	6 week	√		√		-4.6	-5.9
[Agency A]—[Brand H]	6 week	√			√	-0.4	4.6
[Agency A]—[Brand H]	6 week	√		√		-3.3	-1.9
[Agency A]—[Brand I]	6 week	√		√		-3.3	-3.6
[Agency C]—[Brand A]	6 week	√			√	0.5	3
Five—£1 million scenario	4 week		√		√	-1.4	3.3
Five—£205 million scenario	4 week		√		√	-2.8	0.4
IPA	4 week		√		√	0.4	5.1

Source: Third-party submissions.

16–34 Adults

79. 16–34 Adults has a total audience size in the UK of 14.4 million and accounted for [X] per cent of ITV1's revenue. For all major scenarios tested under ITV's software-based coverage analysis, coverage and frequency increased in the absence of ITV1 (see Table 5). The results were unchanged in the £30 million and £205 million scenarios. ITV's manual coverage analysis also displayed an improvement in 1+ and 4+ cover (see Table 5). However, under the £30 million scenario using the manual coverage analysis 1+ cover fell with 4+ cover also falling under the £205 million scenario.

TABLE 5 16–34 Adults: ITV’s coverage analyses—ITV1 excluded

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		+	+	[X]	[X]
	Apr 08		+	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	+	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	+	+	[X]	[X]
	Sep 08	150	+	+	[X]	[X]
	Sep 08	200	+	+	[X]	[X]
2 week	Mar 07	200	+	+	[X]	[X]
	Apr 08	200	+	+	[X]	[X]
3 week	Mar 07	300	+	+	[X]	[X]
	Apr 08	300	+	+	[X]	[X]
4 week	Mar 07	400	+	+	[X]	[X]
	Apr 08	400	+	+	[X]	[X]
	Dec 08	400	+	+	[X]	[X]
	Mar 09	400	+	+	[X]	[X]

Source: ITV.

80. Third-party evidence in Table 6 was mixed and not fully consistent with ITV’s. Five’s analysis showed that coverage and frequency increased when £1 million was excluded from ITV1, but they fell when £205 million was excluded from ITV1. Coverage and frequency also improved using Five’s approach based on actual campaigns. [Agency A], [Media Buyer C]⁴⁰ and [another party] all found a fall in 1+ cover when ITV1 was excluded.

TABLE 6 16–34 Adults: third-party coverage analyses—ITV1 excluded

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference—1+	Difference—4+
<i>Manual coverage analysis</i>							
[Another party]—[Brand A]	4 week	√			√	-1.5	-0.3
<i>Software-based coverage analysis</i>							
Five—[Brand D]	1 week	√			√	1.6	3.2
[Agency C]—[Brand C]	1 week	√			√	0.1	
Five—[Brand F]	2 week	√			√	1.9	5.4
Five—[Brand G]	2 week	√			√	2.8	3.4
[Agency A]—[Brand J]	5 week	√			√	-1.6	2.4
[Agency A]—[Brand J]	5 week	√			√	-2.5	-1.1
Five—[Brand E]	6 week	√			√	1.1	3.7
[Media Buyer C]	1 week		√		√	-0.8	
Five—£1 million scenario	4 week		√		√	0.1	3.0
Five—£205 million scenario	4 week		√		√	-1.4	-0.2
IPA	4 week		√		√	2.3	7.6

Source: Third-party submissions.

HW + C

81. HW+C accounted for a relatively high share of ITV1’s revenue ([X] per cent), whilst the total audience size for this demographic in the UK is only 6.7 million. For all scenarios tested under the software-based approach, ITV’s analysis illustrated that 1+ and 4+ cover increased in the absence of ITV1 (see Table 7). These results held under the £30 million scenario, but 1+ cover fell under the £205 million scenario.

⁴⁰Analysis carried out by a [media agency].

ITV's manual substitutability analysis also illustrated that 1+ and 4+ cover increased in the absence of ITV1 (see Table 7). The results were unchanged in the £30 million and £205 million scenarios.

TABLE 7 HW + C: ITV's coverage analyses—ITV1 excluded

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		+	+	[X]	[X]
	Apr 08		+	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	+	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	+	+	[X]	[X]
	Sep 08	150	+	+	[X]	[X]
	Sep 08	200	+	+	[X]	[X]
2 week	Mar 07	200	+	+	[X]	[X]
	Apr 08	200	+	+	[X]	[X]
3 week	Mar 07	300	+	+	[X]	[X]
	Apr 08	300	+	+	[X]	[X]
4 week	Mar 07	400	+	+	[X]	[X]
	Apr 08	400	+	+	[X]	[X]
	Dec 08	400	+	+	[X]	[X]
	Mar 09	400	+	+	[X]	[X]

Source: ITV.

-
82. Third-party evidence in Table 8 was mixed and not fully consistent with ITV's. Five's analyses based on actual campaigns displayed an increase in 1+ and 4+ cover, whilst simulations taking £1 million or £205 million out of ITV1 showed a fall in 1+ cover when ITV1 was excluded.
83. [Media Buyer D's] manual coverage analysis showed an increase in coverage and frequency, but [Media Buyer D] submitted that this did not illustrate that ITV1 was substitutable. [Media Buyer D] submitted that switching away from ITV1 increased the proportion of the audience seeing the advertisement more than ten times, which it deemed excessive.

TABLE 8 HW + C: third-party coverage analyses—ITV1 excluded

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference—1+	Difference—4+
<i>Manual coverage analysis</i>							
[Media Buyer D]	4 week	√			√	0.7	10.5
<i>Software-based coverage analysis</i>							
Five—[Brand H]	2 week	√			√	0.5	4.6
Five—[Brand I]	2 week	√			√	2.5	5.6
[Agency D]—[Brand A]	2 week	√			√	1.0	5.5
Five—[Brand J]	3 week	√			√	2.4	7.0
Five—[Brand K]	3 week	√			√	2.3	6.5
[Media Buyer F]—[Brand C]	4 week	√		√		1.0	-1.4
Five—[Brand M]	4 week	√			√	1.9	3.7
[Agency A]—[Brand K]	4 week	√			√	0.9	5.6
[Agency A]—[Brand K]	4 week	√		√		-1.4	-0.9
[Agency D]—[Brand B]	4 week	√			√	0.2	2.6
[Agency F]—[Brand A]	4 week	√		√		-2.7	
[Media Buyer F]—[Brand B]	4 week	√		√		-1.9	
Five—[Brand L]	8 week	√			√	0.2	2.1
[Media Buyer C]	1 week		√	√		-1.4	
Five—£1 million scenario	4 week		√		√	-1.4	2.2
Five—£205 million scenario	4 week		√		√	-2.7	-1.5
IPA	4 week		√		√	1.1	8.7

Source: Third-party submissions.

Summary

84. Each of these demographics (ABC1 HW, ABC1 Men, 16–34 Adults and HW + C) accounted for more than 5 per cent of ITV1’s revenue. ITV provided coverage analyses for ABC1 Men, 16–34 Adults and HW + C. For ABC1 Men, 16–34 Adults and HW + C, ITV’s coverage analyses indicated that it was possible for campaigns to exclude ITV1 and still reach their coverage objectives. However, third-party evidence cast some doubt on the extent to which the same reach and frequency could be achieved without ITV1 when buying against these demographics, especially when analysing 1+ cover. For ABC1 HW, ITV did not undertake any analysis, whilst third-party evidence questioned the ability for campaigns to reach their coverage objectives when excluding ITV1 from the schedule. Overall, although ITV1 could be excluded from some campaign schedules without compromising the coverage objectives, there remained a number of campaigns that would not be able to achieve the same 1+ cover.

Group D: HW, Adults and ABC1 Adults

85. This group includes wider demographics and those which account for more than 10 per cent of ITV1’s revenue.

HW

86. HW accounted for [X] per cent of ITV1’s revenue and the total audience size in the UK is 25.9 million. In almost all scenarios ITV’s software-based analysis showed a reduction in 1+ cover and an increase in 4+ cover (see Table 9). Under the £30 million scenario there was also a fall in 4+ cover. With the £205 million scenario 1+ and 4+ cover fell. ITV’s manual coverage analysis also showed that 1+ cover fell when ITV1 was excluded (see Table 9), and fell by more under the £30 million and £205 million scenarios.

TABLE 9 HW: ITV's coverage analyses—ITV1 excluded

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		–	–	[X]	[X]
	Apr 08		–	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	–	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	–	+	[X]	[X]
	Sep 08	150	–	+	[X]	[X]
	Sep 08	200	–	+	[X]	[X]
2 week	Mar 07	200	–	+	[X]	[X]
	Apr 08	200	–	+	[X]	[X]
3 week	Mar 07	300	–	+	[X]	[X]
	Apr 08	300	–	+	[X]	[X]
4 week	Mar 07	400	–	–	[X]	[X]
	Apr 08	400	–	+	[X]	[X]
	Dec 08	400	–	+	[X]	[X]
	Mar 09	400	–	+	[X]	[X]

Source: ITV.

87. Third-party evidence in Table 10 was consistent with ITV's analyses illustrating that 1+ cover fell when ITV1 was withdrawn in almost all simulations. However, the analyses showed that 4+ cover fell in a number of simulations. The same result in terms of 1+ cover was obtained by [Agency B] in its manual reallocation analysis. However, as explained in paragraph 37, we had some reservations about [Agency B's] [Client B] analysis and so we placed little weight on the results.

TABLE 10 HW: third-party coverage analyses—ITV1 excluded

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference—1+	Difference—4+
<i>Manual coverage analysis</i>							
[Agency B] and [Client B]—[Brand A]	1 week	√			√	–3.8	3.8
<i>Software-based coverage analysis</i>							
Five—[Brand O]	1 week	√			√	–3.1	1.4
Five—[Brand P]	2 week	√			√	–4.5	1.0
Five—[Brand Q]	3 week	√			√	1.3	–0.2
Five—[Brand R]	3 week	√			√	–2.9	0.1
[Media Buyer F]—[Brand C]	4 week	√		√		–4	–2.7
Five—[Brand S]	4 week	√			√	–4.0	1.6
[Media Buyer F]—[Brand B]	4 week	√		√		–1.5	
Five—[Brand N]	5 week	√			√	–1.0	–0.4
[Media Buyer F]—[Brand A]	5 week	√		√		–3.5	–2.6
Five—£1 million scenario	4 week		√		√	–4.3	–1.7
Five—£205 million scenario	4 week		√		√	–5.4	–4.5
[Another party]	4 week		√		√	–1.7	
IPA	4 week		√		√	–2.1	0.5

Source: Third-party submissions.

Adults

88. Adults accounted for [X] per cent of ITV1's revenue and the total audience size in the UK is 48.2 million.
89. For all major scenarios, ITV's software-based analysis showed that excluding ITV1 4+ cover increased; however, 1+ cover fell for campaigns requiring a higher number

of TVRs (see Table 11). For the £30 million scenario ITV results showed a drop in 1+ cover and for the £205 million scenario 4+ cover also fell.

90. 1+ and 4+ cover increased when ITV1 was excluded under ITV's manual coverage analysis (see Table 11). ITV's manual analysis showed similar results under the £30 million scenario, but not under the £205 million scenario.

TABLE 11 **Adults: ITV's coverage analyses—ITV1 excluded**

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		+	+	[X]	[X]
	Apr 08		+	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	+	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	+	+	[X]	[X]
	Sep 08	150	-	+	[X]	[X]
	Sep 08	200	-	+	[X]	[X]
2 week	Mar 07	200	-	+	[X]	[X]
	Apr 08	200	+	+	[X]	[X]
3 week	Mar 07	300	-	+	[X]	[X]
	Apr 08	300	-	+	[X]	[X]
4 week	Mar 07	400	-	+	[X]	[X]
	Apr 08	400	-	+	[X]	[X]
	Dec 08	400	-	+	[X]	[X]
	Mar 09	400	+	+	[X]	[X]

Source: ITV.

91. Third-party evidence in Table 12 was mixed. 1+ cover fell for most campaigns and 4+ cover also fell in a few scenarios.

TABLE 12 **Adults: third-party coverage analyses—ITV1 excluded**

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference—1+	Difference—4+
<i>Software-based coverage analysis</i>							
[Agency A]—[Brand M]	1 day	√		√		7.1	2.4
[Agency A]—[Brand L]	4 day	√		√		1.5	5.1
Five—[Brand T]	1 week	√			√	-1.2	2.7
Five—[Brand U]	3 week	√			√	1.3	1.6
[Agency A]—[Brand L]	3 week	√			√	-0.3	1.4
[Agency A]—[Brand L]	3 week	√		√		-1.1	-0.7
[Agency A]—[Brand O]	4 week	√		√		-0.3	-5.9
[Agency C]—[Brand D]	4 week	√			√	-1.0	4.0
[Agency A]—[Brand N]	5 week	√		√		5.8	8.6
Five—£1 million scenario	4 week		√		√	-3.0	0.2
Five—£205 million scenario	4 week		√		√	-4.2	-2.5
IPA	4 week		√		√	-1.3	1.3

Source: Third-party submissions.

ABC1 Adults

92. ABC1 Adults is ITV's largest demographic in terms of share of ITV1 revenue at [X] per cent. The total audience size in the UK is 24.3 million. Excluding ITV1 increased 1+ and 4+ cover in almost all scenarios in 2008/09 (see Table 13). The £30 million scenario resulted in a drop in 1+ cover and, in the £205 million scenario, 4+ cover fell as well.

93. ITV's manual coverage analysis showed an increase in 1+ and 4+ cover with the exclusion of ITV1 (see Table 13). This result held for the £30 million scenario; however, 4+ cover fell under the £205 million scenario.

TABLE 13 **ABC1 Adults: ITV's coverage analyses—TV1 excluded**

Week	Date of analysis	TVRs	Difference in coverage excluding ITV1			
			1+	4+	1+	4+
<i>Manual coverage analysis</i>						
	Mar 07		+	+	[X]	[X]
	Apr 08		+	+	[X]	[X]
<i>Software-based coverage analysis</i>						
1 week	Mar 07	100	+	+	[X]	[X]
	Apr 08	100	+	+	[X]	[X]
	Sep 08	100	+	+	[X]	[X]
	Sep 08	150	+	+	[X]	[X]
	Sep 08	200	-	+	[X]	[X]
2 week	Mar 07	200	+	+	[X]	[X]
	Apr 08	200	+	+	[X]	[X]
3 week	Mar 07	300	-	+	[X]	[X]
	Apr 08	300	+	+	[X]	[X]
4 week	Mar 07	400	-	+	[X]	[X]
	Apr 08	400	+	+	[X]	[X]
	Dec 08	400	+	+	[X]	[X]
	Mar 09	400	+	+	[X]	[X]

Source: ITV.

94. Third-party evidence for ABC1 Adults in Table 14 did not appear consistent with ITV's software-based analysis. 1+ cover fell when ITV1 was excluded in almost all simulations. We observed a number of simulations—most of those relating to longer campaigns—where 4+ cover also fell. [Agency B's] manual reallocation analysis showed a fall in 1+ cover when ITV1 was excluded and an increase in 4+ cover.⁴¹

⁴¹As discussed in paragraph 33, [Agency B] stated that 'peak delivery was maintained throughout the schedule'. In the [Client C] analysis, the replacement airtime used by [Agency B] reflected a cross-section of the airtime available on the replacement channels. The average spot rating for each channel was similar in the original and the replacement schedule, showing that a representative cross-section was used.

TABLE 14 **ABC1 Adults: third-party coverage analysis— ITV1 excluded**

Third party	Time period	Campaign type		Variable held constant		Difference in coverage excluding ITV1	
		Actual	Theoretical	TVR	Budget	Difference— 1+	Difference— 4+
<i>Manual coverage analysis</i>							
[Agency B]—[Client C]	4 week	√			√	-1.7	11
<i>Software-based coverage analysis</i>							
Five—[Brand V*1]	1 week	√			√	-5.8	3.3
Five—[Brand V*2]	1 week	√			√	-4.5	4.5
Five—[Brand X]	1 week	√			√	-0.4	3.4
Five—[Brand Y]	3 week	√			√	0.0	2.1
Five—[Brand V] (addition of two campaigns)*	3 week	√			√	-1.7	4.1
Five—[Brand Z]	3 week	√			√	0.2	5.4
[Agency A]—[Brand O]	4 week	√		√		-1.7	-3.4
[Agency A]—[Brand G]	5 week	√			√	-1.9	-0.2
[Agency A]—[Brand G]	5 week	√		√		-2.9	-2
[Agency A]—[Brand P]	7 week	√			√	-0.7	0.6
[Agency A]—[Brand P]	7 week	√		√		-2.3	-3.4
Five—£1 million scenario	4 week		√		√	-2.2	2.2
Five—£205 million scenario	4 week		√		√	-3.5	-0.7
IPA	4 week		√		√	-0.6	3.8

Source: Third-party submissions.

Summary

95. Each of these three demographics (HW, Adults and ABC1 Adults) accounted for more than 10 per cent of ITV1's revenue. ITV's analyses showed that in many of its scenarios in the HW and Adults demographics 1+ cover fell or increased very slightly. ITV's software-based analysis showed an improvement in 4+ cover when ITV1 was excluded in almost all scenarios. Third-party evidence indicated that campaigns bought against these demographics could not reach the same coverage and frequency without ITV1. In particular, third-party evidence highlighted problems with reduced 1+ cover across all three demographics. Some of the falls in 1+ cover were significant when viewed as numbers of impacts lost for these advertisers and for HWs, with the exception of one simulation, all evidence indicated that 1+ cover fell when ITV1 was excluded.

Change in coverage/frequency achievable without ITV1 over time—comparison between 2007/08/09 and 2003

96. ITV's software-based coverage analysis, which was also provided in 2003, allowed a comparison of the ability for campaigns in 2003 and 2009 to reach their coverage and frequency objectives without ITV1. ITV did not provide any manual substitution analysis in 2003. Two third parties examined changes in coverage analysis over time.

ITV's analysis

97. ITV's software-based coverage analysis conducted using Infosys showed an improvement in coverage between 2003 and 2009 when ITV1 was excluded, as shown in Figure 9.

FIGURE 9

Difference in 1+ coverage based on 400 TVRs over four weeks



Source: ITV.

98. Figure 10 displays this same data but also charts ITV1's initial TVR allocation. This shows that in March 2009, under natural delivery, fewer TVRs were allocated to ITV1 than in March 2003.

FIGURE 10

Difference in 1+ coverage based on 400 TVRs over four weeks charted against initial ITV1 TVR allocation



Source: CC and ITV data.

Third parties' analyses

99. The IPA submitted an analysis⁴² showing the impact in terms of 1+ cover and 3+ cover of removing ITV1 from the schedule in 2002, 2003 and 2007 for a 60 TVRs theoretical campaign based on natural delivery for several demographics.⁴³ The analysis showed a fall in 1+ cover for all demographics when ITV1 was not purchased for all years. However, the differences decreased over time for all demographics (except ABC1 Men where it increased between 2003 and 2007 and 16–34 Adults where it increased between 2002 and 2003 and decreased afterwards). The results also showed that for all demographics 3+ cover increased slightly if ITV1 was excluded from the schedule. The 3+ cover analysis did not display any discernable trend over time.
100. [Agency D] submitted an analysis of the replicability of 1+ cover and 4+ cover for two actual campaigns aimed at HW + C in 2003, 2007 and 2008—[Brand A] and [Brand B]. The first example used was a 200 TVRs campaign over two weeks and the second example was a 400 TVRs campaign over four weeks. Both examples showed that 1+ cover improved without ITV1 in 2007 and 2008 (but not in 2003), but the increase in 1+ cover was small for the first campaign. 4+ cover increased without ITV1 for both campaigns in all years. The results showed that the ability to achieve 1+ cover without ITV1 improved over time.

Summary

101. On the basis of the evidence above, the ability for campaigns to achieve their coverage objectives without ITV1 has improved since 2003.

⁴²This analysis was carried out by an IPA member agency using Infosys software.

⁴³The demographics are: Adults, HW+C, ABC1 Adults, ABC1 Men and 16–34 Adults.

Change in coverage/frequency achievable without ITV1 over time—ITV’s comparison between 2009 and pre-merger simulations

102. ITV submitted coverage analysis conducted using SPC Xpert⁴⁴ to show that the increase in the ability for advertising campaigns to reach their coverage and frequency objectives without ITV1 since 2003 was sufficient to erode the effect of the merger between Carlton and Granada:

- (a) First, ITV’s analysis looked at the comparison, in terms of coverage and frequency achievable, between excluding either Carlton or Granada in 2003 and excluding ITV1 in 2003. This was meant to capture the ‘merger effect’.⁴⁵
- (b) Second, the analysis considered the effects on coverage and frequency of excluding ITV1 in 2009 and in 2003. This was meant to capture the change that had occurred since 2003.
- (c) If the second effect was shown to be greater than the first, then, ITV argued, the merger effects had disappeared.

103. The relevant evidence provided by ITV is shown in Tables 15 and 16. Table 15 shows the ‘merger effect’, while Table 16 illustrates the change in coverage and frequency since 2003.

TABLE 15 Coverage analysis excluding Carlton/Granada in 2003 compared to excluding ITV1 in 2003

	Excl Carlton 2003		Excl Granada 2003		Excl ITV1 2003	
	1+	4+	1+	4+	1+	4+
Adults	[X]	[X]	[X]	[X]	[X]	[X]
Adults ABC1	[X]	[X]	[X]	[X]	[X]	[X]
16–34 Adults	[X]	[X]	[X]	[X]	[X]	[X]
Men ABC1	[X]	[X]	[X]	[X]	[X]	[X]
HW	[X]	[X]	[X]	[X]	[X]	[X]
HW+C	[X]	[X]	[X]	[X]	[X]	[X]

Source: ITV.

TABLE 16 Coverage analysis excluding ITV1 in 2003 compared to excluding ITV1 in 2009

	Excl ITV1 2003		Excl ITV1 2009		Difference 2003 vs 2009	
	1+	4+	1+	4+	1+	4+
Adults	[X]	[X]	[X]	[X]	[X]	[X]
Adults ABC1	[X]	[X]	[X]	[X]	[X]	[X]
16–34 Adults	[X]	[X]	[X]	[X]	[X]	[X]
Men ABC1	[X]	[X]	[X]	[X]	[X]	[X]
HW	[X]	[X]	[X]	[X]	[X]	[X]
HW+C	[X]	[X]	[X]	[X]	[X]	[X]

Source: ITV.

104. Based on Table 15, ITV highlighted that advertisers would have had a greater degree of dependence on the merged entity ITV1 over and above that on either Carlton or Granada pre-merger for only three demographics:

⁴⁴ITV used SPC Xpert rather than InfoSys because SPC Xpert allowed for the exclusion of Carlton or Granada, which could not be easily achieved using InfoSys. ITV noted that SPC Xpert showed ITV1’s major target audiences as more replicable than InfoSys because InfoSys treated ITV1 as more important in its planning algorithm. This seemed to create approximately a two percentage point difference between SPC Xpert and InfoSys.

⁴⁵ITV submitted that, given that Carlton and Granada did not merge until February 2004, the 2003 figures for Carlton and Granada were pre-merger figures. In addition, as the BARB panel was reconfigured in 2002, data for 2002 was unreliable.

- (a) Adults—for which coverage without ITV1 fell by [X] points more than when omitting only Carlton;⁴⁶
 - (b) HW—for which coverage without ITV1 fell by [X] points more than when omitting only Carlton; and
 - (c) HW + C—for which coverage without ITV1 fell by [X] points more than when omitting only Carlton.
105. Coverage analysis was not used in this way in the 2003 report but ITV submitted that the results supported its argument that competition between Carlton and Granada was low pre-merger: media buyers' ability to substitute away from either Carlton or Granada and meet their campaign objectives was limited pre-merger, despite the small overlap in London. ITV explained that advertisers had a greater reliance on Granada than Carlton because Granada had a higher share of broadcast than Carlton.
106. ITV explained that excluding ITV1 in 2003 mostly had a better effect on coverage than excluding either Carlton or Granada in 2003 because:
- (a) coverage modelling was not additive when excluding the different regions; and
 - (b) although removing expenditure from all Carlton regions and redistributing the money across Granada regions and other channels allowed for a certain number of additional TVRs to be purchased on other channels, the revenue redistributed would have to be used to purchase less targeted macro regions/all network airtime on other channels. For example, purchasing additional network TVRs on Channel 4 would deliver a number of the same viewers already covered through purchasing the Granada regions. When all ITV1 regions were omitted, so was this duplication in viewers. Therefore, for a fixed amount of budget, lower duplication in coverage was achievable when all ITV1 was excluded than when either Carlton or Granada were excluded.
107. Based on Table 16, ITV submitted that, for each demographic, the degree of reliance that advertisers had on ITV1 in 2009 was significantly less than their reliance on ITV1 in 2003. ITV said that, by comparing the evidence reported in the two tables, the increase in dependence that was introduced by the merger for the three demographics mentioned in paragraph 104 had been fully eroded due to the increase in competition from other broadcasters:
- (a) Adults—the [X] points of coverage lost post-merger had now been replaced by a [X] point increase in coverage⁴⁷ ([X] points higher than pre-merger);
 - (b) HW—the [X] points of coverage lost post-merger had now been replaced by a two-point increase in coverage ([X] points higher than pre-merger); and
 - (c) HW + C—the [X] points of coverage lost post-merger had now been replaced by a [X] point increase in coverage ([X] points higher than pre-merger).

⁴⁶[X] is the difference between the lost 1+ coverage without Carlton in 2003 (-[X]) and the lost 1+ coverage without ITV1 in 2003 (-[X]).

⁴⁷In Table 16 see the column '1+' under the heading 'Difference 2003 vs 2009'.

108. In addition to the above comparison, ITV used SPC Xpert to compare the effect of excluding either Carlton or Granada (assuming they were sold separately) in 2009 with the effect of excluding ITV1 in 2009.⁴⁸ The results are shown in Table 17.

TABLE 17 Coverage analysis excluding Carlton and Granada in 2009 compared with excluding ITV1 in 2009

	<i>Excl Carlton 2009</i>		<i>Excl Granada 2009</i>		<i>Excl ITV1 2009</i>	
	1+	4+	1+	4+	1+	4+
Adults	[X]	[X]	[X]	[X]	[X]	[X]
Adults ABC1	[X]	[X]	[X]	[X]	[X]	[X]
16-34 Adults	[X]	[X]	[X]	[X]	[X]	[X]
Men ABC1	[X]	[X]	[X]	[X]	[X]	[X]
HW	[X]	[X]	[X]	[X]	[X]	[X]
HW+C	[X]	[X]	[X]	[X]	[X]	[X]

Source: ITV.

109. ITV said that its analysis showed that if Carlton and Granada were demerged today and ITV sought to remerge the two businesses, there would be no diminution of competition as advertisers would have no greater reliance on ITV1 as a whole than they would on either a demerged Carlton or a demerged Granada. ITV added that, since Carlton and Granada both provided regional services (other than a small overlap in London), the increase in the ability to meet campaign objectives since 2003 must have been driven by increased competition from other broadcasters.

110. The weight we have attached to this analysis is set out in Section 5 of the report.

⁴⁸ITV conducted this analysis in response to our Provisional Decision.

Quality of impacts

Introduction

1. In this appendix we consider evidence from ITV and from media buyers as to whether ITV1's impacts are *qualitatively* different from and 'better' than those of other commercial television channels.¹ This assessment is to assist our examination of whether, as a result of any such qualitative differences, ITV1's impacts may be more effective in generating a response than other commercial channels'.
2. Advertisers are ultimately concerned with the cost-effectiveness of their investment in advertising: the return that it will deliver in terms of results (for example, higher sales). This in turn will depend upon, for example, the cost of buying advertising space or airtime, the number of people who are exposed to the message and the additional purchases they make as a result of seeing the advertisement. In addition to these quantitative factors, there may be qualitative differences in the relationships which consumers have with various media which will affect the way they respond to advertisements. As a result, some impacts would be more valuable than others and 'coverage' on its own would not fully capture the subtleties of advertising effectiveness.

ITV's evidence

3. Although ITV did not argue in its submission to us that ITV1's impacts were qualitatively superior, it has, through its sales and marketing communications to media buyers over many years, suggested that ITV1's viewers relate to certain of its programmes in ways such that other commercial channels may be an imperfect substitute for ITV1 even if they replicate its coverage. In its submissions to this review, however, ITV stated that the research underlying these arguments was not robust and that its marketing material used the results of the research that were most helpful to its sales arguments. ITV told us that there was no qualitative difference in how engaged or immersed viewers were with ITV1 programming or advertising relative to programming and advertising on other commercial channels.
4. Several pieces of ITV research were brought to our attention during our review: (a) 'tvWorks' in 2002;² (b) a 'Fame' presentation in 2004;³ (c) an 'Event TV' marketing presentation in 2008; and (d) the (ongoing) audience appreciation index (AI). As we are required to examine changes since 2003, we consider only the two most up-to-date pieces of research in this appendix: Event TV and the AI. The CC took into account the tvWorks research in the 2003 report, and we noted that the Fame presentation was conducted at a similar time to the merger.

¹In the report we also examine the advantages that ITV1 has in its ability to deliver large audiences, and thus large *quantities* of impacts, to advertisers.

²This study linked exposure to television advertisements to sales uplift in FMCG purchases and concluded that ITV1 was the most effective of the commercial television channels. See 2003 CC report, [paragraph 5.140](#).

³In its autumn presentation to advertisers in 2004, the argument regarding the quality of ITV1's impacts was developed in the context of 'fame', the suggestion being that brands associated with very popular, and in particular 'talked-about' programmes, gained a degree of celebrity from this association.

Event TV

5. In 2008, ITV developed the concept of 'Event TV'. ITV's marketing presentations observed that certain programmes were watched by a higher proportion of viewers with a greater degree of 'engagement' with the programme (so-called 'True Fans'), which in turn indicated a greater engagement with the programme's advertising content and thus a higher propensity to purchase the product or service being advertised. The presentation noted that ITV1 showed more 'Event TV' programmes than other commercial broadcasters across almost every programme genre (sport, light entertainment etc).
6. ITV told us that this research was only undertaken for marketing purposes and was not robust (see paragraph 3). ITV submitted that many of the results of its research in fact showed that, when compared with other commercial channels, ITV1 did not have a more engaged audience nor was there any specific sales uplift attributable to ITV1. Further, ITV told us that ITV1 did not fare well in terms of 'water-cooler moments'⁴ as viewers who strongly liked ITV1 were least likely to say that television programmes gave them something to talk about.
7. We agree that the research supporting the Event TV marketing presentation had significant flaws, including the following:
 - (a) Only 16 consumers took part in the qualitative element of this exercise. This was insufficient to provide a robust basis for us to draw conclusions on the quality of ITV1's impacts.
 - (b) The work was carried out for specific marketing purposes. It used the results that were most helpful to ITV1 and omitted many negative comments about ITV.
 - (c) The True Fans research,⁵ which formed a quantitative element of the Event TV presentation, used an online survey to collate opinions on specific genres of television regardless of the channel on which it was watched. As a result, this data generates no evidence as to people's behaviour and preference for watching ITV1.

Audience appreciation index

8. ITV uses an audience AI to track audience appreciation of its programmes relative to programmes on other channels.
9. The survey is run independently of ITV by GfK NOP and is representative of the UK population. The ITV Vision online panel consists of 10,000 respondents and around 3,000 adults reporting their viewing preferences every day. This panel is used to calculate AI. Viewers report their preferences within 36 hours of watching the programme based on what they actually watched, rather than what they prefer to watch.
10. Respondents are asked which television programmes they watched for more than 5 minutes and, having selected the programmes watched, are asked questions on them, including a question to rate the programme out of 10, where 10 is the highest score. These scores are then averaged for each individual programme, and reported

⁴This phrase is used to refer to conversations at work or school about events depicted in television programmes which are exciting, controversial or shocking enough to warrant discussion.

⁵True Fans was a quantitative piece of research carried out in April 2008 via an online survey and covered 5,000 respondents. The survey, conducted by the independent market research company, Other Lines of Enquiry, questioned respondents on their likelihood of watching different genres of programmes (for example, live sport, live reality entertainment, US drama, etc).

as an index out of 100. For example, if *Coronation Street* is rated by two individuals at 9 and 8 out of 10, then the programme's AI would be 85.

11. ITV said that, on the basis of AI data collected in the first 22 weeks of 2008, programming on ITV1 was [redacted] than programming on the other major channels. It said that the average AI score for ITV1 programmes within the top 50 was [redacted] and that this was [redacted], which scored [redacted]. ITV also presented results of the top 50 shows across all channels—of the total 1,100 shows (22 weeks x 50 shows), ITV [redacted] in this list.
12. We agree that AI measures audience appreciation across a range of programmes and channels. The panel is run by an independent market research agency on a continuous basis, and data collated from a large sample, which gives rise to robust figures. The figures quoted by ITV1 for 2008 imply that at that time overall ITV1's programmes were [redacted] by audiences (and by implication advertisers) than those on other channels.

Evidence from media buyers

Media agencies' evidence

13. Several media agencies told us that they believed that ITV1 engaged with consumers in subtle and effective ways either on the basis of ITV's research or evidence of their own.⁶ We examined in particular submissions from three media agencies.

Agency A

14. This media agency has developed its own index which it said it used in order to try to optimize its clients' advertising schedules.
15. It constructed a model based on BARB data which it said could predict whether viewers of a particular programme would be likely to claim that they had given their full attention to the programme or not. The model from which it derived its index used 14 BARB measures, the most important of which were the proportion of the programme viewed and the degree of 'flicking'.⁷ It told us that this measure indicated some qualitative differences between ITV1 and other channels.
16. Data from this model suggested differences between the amount of attention being paid by viewers to end and centre breaks, with viewers apparently less engaged during end breaks than they were during centre breaks. Further, the model suggested that ITV1 retained the attention of viewers better than other channels and that, within the ITV1 schedule, popular soaps like *Coronation Street* and *Emmerdale* performed consistently well during their centre breaks.

Agency B

17. Agency B had a similar analysis tool to determine the 'stickiness' of ITV1's programming. The methodology linked programme viewing persistency, ie how many viewers watch the programme the whole way through, to whether or not viewers could recall the advertisement the day after. The longer the uninterrupted viewing time, the higher the recall was of commercials that appeared in the advertisement breaks in that

⁶In addition, [redacted], responding on behalf of [redacted], cited the high quality of the broadcast environment as a feature, including fewer repeats, high production values and shorter advertisement breaks (compared with other commercial channels).

⁷Changing between channels during the programme or advertisement break.

programme. The media agency concluded, on the basis of this analysis, that ITV1 had a significant advantage in terms of viewing persistence for programmes that delivered an audience in excess of 1 million viewers.

Agency C

18. Agency C described its tracking tool, which drew upon BARB data and proprietary research. It told us that it had analysed a campaign for an advertiser targeting 16- to 34-year-olds and estimated the quality of impacts on each channel. On the basis of this analysis, ITV1 was the top-rated channel.

ITV's comments on media agencies' evidence

19. ITV told us that, although it was not able to assess the models used by the three media agencies in detail, it was clear that they were either not robust or based on biased parameters that would always be expected to yield more positive outcomes in respect of ITV1.

Our views on media agencies' evidence

20. Our view is that the BARB data referenced by the three media agencies indicates that persistence of viewing varies from programme to programme. It does not, however, demonstrate unambiguously that a greater engagement with advertisements on particular programmes on ITV1 than on other commercial channels leads to a greater propensity to purchase products or services.

Advertisers' evidence

21. Some advertisers suggested that certain features of the ITV1 audience might offer qualitative advantages. In many cases, advertisers referred to ITV's research on Event TV (see paragraphs 5 to 7). In general, however, advertisers did not lay great stress on the *quality* of ITV1 impacts, concentrating instead on a different metric: the return on advertising investment they achieved. In other words, they mostly tried to measure the results of their campaigns against their investment rather than against other factors, like 'engagement', which might or might not have contributed to those results. We examined evidence from five advertisers.

Tesco

22. Tesco told us that it commissioned Accenture to estimate the return on investment of its media spend. This exercise was only sensitive to the medium and not to the individual television channel. Nonetheless, Tesco noted that it used ITV1 heavily and the Accenture work indicated a positive return on its television advertising.

Mars

23. Mars told us that, like ITV, it used TNS Single Source data to monitor sales uplifts against advertising placed with various television channels and to compare purchases by consumers who had been exposed to that advertising and those who had not. On the basis of this analysis, it concluded that ITV1 delivered better sales uplifts than Channel 4, Five or multichannel. Mars added that, when this effect was considered in the context of ITV1's share of audience, ITV1 was responsible for more than half of the sales uplift from those exposed to the television advertisement.

Argos

24. Argos told us that work conducted by the media auditor Billetts indicated that for every £1 invested in ITV1 it received a return of £[~~3~~]. Argos did not provide comparable results for other television channels.

Kraft Foods

25. Kraft showed us analysis conducted for it by TNS linking exposure to its commercials to likelihood of product purchase.⁸ It also showed us some post-campaign analysis which compared results for different channels achieved against its media plans. However, neither of these analyses focused on a comparison between the quality of impacts on different channels. Kraft used these examples to demonstrate the importance it attached to the delivery of discrete frequency ranges and the avoidance of excessive frequency.

An entertainments company

26. An entertainments company also shared with us its analysis of the return it achieved on its investment in television airtime. It told us that ITV1 consistently delivered cost-effective results on the majority of its activity and that, conversely, other terrestrial channels delivered patchy results. However, the data it supplied on the cost per unit (CPU) sold by channel did not point to a clear pattern favouring ITV1 and might also have been affected by its commitment to each channel.

ITV's comments on advertisers' evidence

27. ITV said that a test of the return on television advertising investment was not relevant in assessing whether the 'quality' of ITV1 airtime was greater than that of airtime on other channels. ITV said that the relevant issue was whether or not ITV1 airtime delivers a relatively greater return on investment than investing in other commercial channels on a direct comparison basis normalized for relative coverage delivery, rather than whether it delivers any positive return at all. Moreover, it did not see how such an approach was capable of distinguishing between 'quality' effects as opposed to other effects such as coverage. It provided detailed comments on each of the advertiser's submissions including, for example, that some appeared to be based on research undertaken prior to 2003, which would no longer be relevant.

Our views on advertisers' evidence

28. The evaluation work undertaken by advertisers was limited and focused on measuring effectiveness rather than the underlying drivers of effectiveness. The evidence we have seen from advertisers tended to demonstrate that advertising on ITV1 was a good investment, but not necessarily that viewers engaged with advertisements on ITV1 in some special way.

⁸Particularly in terms of the closeness in time between seeing the advertisement and purchasing, and also the relationship between frequency and purchase.

Concentration of media agencies

1. This appendix provides details on the change in concentration of media agencies since 2003.
2. Since 2003 there has been consolidation of media agencies. In addition, some media agencies now trade together without having formally merged their businesses:
 - Mindshare, Mediaedge:CIA, Maxus (BJKE) and Mediacom now trade together as Group M;
 - OMD, MGM and PHD now trade collectively as Opera;
 - Vizeum and Carat trade as Aegis;
 - Starcom and MediaVest merged creating the Starcom MediaVest Group, which also generally trades collectively with Zenith Optimedia as Vivaki; and
 - Initiative and Universal McCann now tend to trade together as Magna.
3. Table 1 shows the increase in consolidation for the top six media agencies between 2003 and 2009.

TABLE 1 Top six group agency buying units' television expenditure*

Group agency buying unit (Top 6)	2003		Group agency buying unit (Top 6)	2009	
	TV expenditure £m	% of total TV revenue		TV expenditure £m	% of total TV revenue
Magna	518.0	13.7	Group M	974.0	29.0
Starcom	486.4	12.9	Vivaki	560.9	16.7
Group M	454.7	12.0	Opera	522.5	15.6
Aegis	444.0	11.8	Aegis	486.8	14.5
OMD	380.2	10.1	Magna	143.6	4.3
Mediacom	339.2	9.0	Walker Media	116.6	3.5
Total TV revenue	3,774.6		Total TV revenue	3,355.3	
Total top 6	2,622.5	69.5	Total top 6	2,804.3	83.6

Source: Data from Nielsen Media Research.

*Group agency buying units are the buying points that negotiate on behalf of a number of agencies in the same agency group (for example, Group M represents Mediacom, Mindshare, Maxus (BJKE) and MediaEdge:CIA).

4. Table 2 shows that in 2003 the top three media agencies' share of ITV1's total revenue was [X] per cent, but by 2009 this had risen to [X] per cent of ITV1 revenues, [X] the share in 2003.¹

¹ ITV added that the top four media agencies accounted for [X] per cent of ITV1's revenues, whereas ITV1 accounted for [X] per cent of these media agencies' respective budgets.

TABLE 2 Top three, five and ten media agencies' expenditure on ITV1, 2003, 2008 and 2009

<i>Media agencies</i>	<i>2003</i>		<i>2008</i>		<i>2009</i>	
	<i>Expenditure on ITV1 £m</i>	<i>% of ITV1 revenue</i>	<i>Expenditure on ITV1 £m</i>	<i>% of ITV1 revenue</i>	<i>Expenditure on ITV1 £m</i>	<i>% of ITV1 revenue</i>
Top 3	[X]	[X]	[X]	[X]	[X]	[X]
Top 5	[X]	[X]	[X]	[X]	[X]	[X]
Top 10	[X]	[X]	[X]	[X]	[X]	[X]

Source: ITV.

Review of ITV's customer survey

1. This appendix provides a review of ITV's customer survey. We first describe ITV's survey and outline its results. We then discuss our concerns with the survey relating to representativeness of the sample and the sample size.

Background

2. ITV commissioned an independent market research agency to carry out a survey into the switching behaviour of media buyers. At the core of this research were a number of quantitative questions designed to understand how media buyers would behave in the event that ITV1 were to attempt to extract a higher SOB commitment by a small but significant non-transitory amount (5 to 10 per cent). The results were then used to assess the effect of media buyers' reactions on ITV1's revenues.
3. Respondents were screened to ensure that they had the relevant knowledge and understanding of the subject matter to be able to answer the questionnaire.¹ In particular, it was necessary to ensure that respondents understood the television advertising market and were actively involved in the decision of purchasing television airtime. The survey was executed using an online questionnaire.

Survey results

4. One hundred and two people completed the survey, comprising 59 media agencies and 43 advertisers.
5. ITV highlighted the following results and implications from the survey:
 - (a) Although 74 per cent of respondents stated that ITV1 was essential to their media mix (with 94 per cent of respondents citing access to large audiences as the reason), a significant proportion ([redacted] per cent) of those respondents who stated that ITV1 was essential stated that they would switch some or all of their expenditure away from ITV1 in response to a 5 per cent increase in the cost of purchasing ITV1 airtime. This percentage rose to [redacted] per cent when the increase in price was 10 per cent.
 - (b) ITV used the survey results to calculate that approximately [redacted] per cent of ITV1's revenue would be lost if ITV were to demand a 5 per cent increase in expenditure on ITV1 from media buyers. This amounted to approximately £[redacted] a year, of which £[redacted] would be diverted to non-ITV1 television channels.²
 - (c) ITV used its survey to derive the amount of expenditure that would need to be switched away from ITV1 in order to make a price rise unprofitable (a 'critical loss' type calculation). It said that this was the only reliable source of data for

¹ Respondents were screened by age, type of company, job role, primary industry of focus, UK company turnover, UK location, television advertising purchasing activity and spend, and level of involvement in allocating spend across terrestrial and multi-media channels.

² Based on the survey responses (including responses as to how much expenditure, if any, would be switched away from ITV1 following a price increase), the loss in revenue on ITV1 was calculated as the difference between the pre-price-change revenue, ie £[redacted], and the post-price-change revenue, ie £[redacted]. The survey question allowed respondents to distinguish between revenue lost to other media and revenue lost to other television channels (ie it asked 'switch some/all of your spend to another channel/channels').

such a calculation. Based on the survey responses, if ITV were to demand a 5 per cent increase in expenditure on ITV1 from media buyers, approximately £[redacted] of expenditure switching away from ITV1 would be sufficient to offset any revenue gains to ITV1 from media buyers paying the increased 'price'.

(d) Based on the same survey responses, of this £[redacted] would switch to other media and £[redacted] would switch to other television channels. Therefore, in the event that ITV were to attempt to extract a 5 per cent increase in expenditure on ITV1 from media buyers, ITV stated that £[redacted] worth of expenditure would need to be absorbed by other commercial channels. ITV submitted that this provided the relevant switching constraint in determining whether media buyers could continue to meet their campaign objectives without ITV1.

6. ITV carried out a number of sensitivity tests which showed that the survey results were robust. In particular, one of the sensitivities showed that even if respondents had overstated their likely switching by 85 per cent, ITV1 would still make a loss if it attempted to increase its price by 5 per cent.

Issues with the survey

7. Whilst it is always hard to interpret the answers to stated preference questions, the survey used a well-recognized process based on actual revenues provided by the respondent. However, we identified a number of issues with the survey relating to representativeness of the sample and the sample size.

Representativeness of sample

ITV's views

8. The market research agency told us that its extensive knowledge of the television advertising market and the screening of respondents through a qualifying recruitment survey (see paragraph 3) both ensured that only the correct individuals were included within the study. ITV also stated that respondents covered media buyers accounting for 75 per cent of ITV1's revenue. The respondent sample was weighted so as to match the population of media buyers.

Our views

9. The respondents were media agencies or advertisers. Of the 102 respondents, only [redacted] respondents stated their job role as buyer, or planner and buyer (combined role), of airtime. The others stated their job as a planner or strategist, or did not give their job role. It was not clear to us, therefore, whether the majority of respondents were responsible for making the major decisions on purchasing advertising airtime (including, as appropriate, taking decisions about whether to switch expenditure away from ITV1).
10. Respondents were categorized based on whether they were a brand owner, an advertiser or a media agency and, within these groups, by how much they spent. The sample was not representative of the population of media buyers, for example media agencies spending up to £2.5 million account for [redacted] per cent of ITV1's customers by number, yet were only [redacted] per cent of the sample (similarly, on a revenue basis, media agencies spending up to £2.5 million account for [redacted] per cent of revenue, yet they represented only [redacted] per cent of the sample).

11. Whilst the market research agency used a weighting system to adjust for these sampling issues, weighting can cause distortions in data results.³

Sample size

ITV's views

12. The market research agency stated that, typically, for a large (consumer) population size, a sample of 500 to 1,000 is considered to be robust for estimating percentages; however, for a known population the sample size can be significantly lower. The market research agency also submitted that the [] per cent of revenue that would be lost if ITV1 were to demand a 5 per cent increase in expenditure from media buyers⁴ was accurate at the 95 per cent level, the confidence interval being +/-3.8 per cent.⁵ The market research agency concluded that, given this confidence interval, the results obtained from the survey responses were robust.

Our views

13. We regarded the sample size as being too small to lead to quantitatively robust findings. The price sensitivity question for increasing the price of ITV1 advertising by 5 per cent had [] of the 102 respondents stating that they would switch some, or all, of their expenditure away from ITV1. Only [] of these respondents classified themselves as buyers or planners/buyers.

³The weighting for media agencies spending up to £2.5 million takes the sample share for this group from [] per cent up to [] per cent—neither of which were close to the [] per cent they actually represented.

⁴Based on a sample which covers 75 per cent of ITV1's revenues.

⁵This means that the loss in revenue can be stated to be between [] and [] per cent with 95 per cent confidence.

Evidence of disputes before the Office of the Adjudicator

1. This appendix summarizes the disputes referred to the Office of the Adjudicator (the Adjudicator) since 2004. We focus on two particular disputes relating to attempts by media agencies to reduce their SOB commitment beyond the level indicated by the CRR ARM.

Summary of disputes since 2004

2. Since 2004, 15 disputes have been brought to the Adjudicator and informal guidance has been sought on many more.¹ As outlined in Table 1, these disputes occurred for a variety of reasons; a few related to the terms offered by ITV to a media agency that was proposing to amend some of the parameters of its core agency deal. Disputes also occurred over the policy on day-to-day trading, particularly the price offered for 'burst' campaigns² and 'late approvals'.

¹Nine of these disputes were decided in favour of the complainant and four in favour of ITV; the remaining two were settled before an adjudication decision was made.

²A burst campaign is a heavy weight of advertising over a short space of time. It is used when advertisers want to reach a large number of people quickly.

TABLE 1 **Disputes submitted to the Adjudicator**

Year	Number of guidance enquiries	Number of disputes	Details	Complainant	ITV	Settled
2004	N/A	3	<ol style="list-style-type: none"> 1. 'Burst' campaign—price offered 2. 'Late approvals'—prices offered after advanced booking deadline (ABD) 3. CRR interpretation—commitment to deliver both a guaranteed share and a minimum expenditure to Carlton and Granada 	3		
2005	103 Telephone alone	3	<ol style="list-style-type: none"> 1. Penalty charges relating to changed dates of campaign and brand 2. ITV's new terms of the share and price for advertiser that switched media agency 3. Resubmission of a previous dispute—revised penalty charges relating to change dates of campaign and brand 	1		2
2006	68	3	<ol style="list-style-type: none"> 1. The terms proposed to amend agency deal parameters 2. 'Burst' campaign—terms offered 3. Resubmission of a previous dispute—the terms proposed to amend agency deal parameters 	2	1	
2007	37	3	<ol style="list-style-type: none"> 1. Line-by-line deal request for an advertiser previously within an agency deal—terms offered 2. The terms proposed to amend agency deal parameters 3. Contract enforcement and interpretation 	1	2	
2008	37	3	<ol style="list-style-type: none"> 1. Offering airtime on a fair and reasonable basis 2. Offering airtime on a fair and reasonable basis 3. Contract enforcement and interpretation 	2	1	
2009	<u>28</u>	<u>0</u>				
Total	273	15		9	4	2

Source: Office of the Adjudicator annual reports.

Note: N/A = not available.



Costs attributed by ITV to CRR

1. In this appendix we provide further details of the bottom-up approach to the quantitative assessment of the costs of CRR conducted by OC&C on behalf of ITV. This appendix supports our assessment in Section 6 of the report.
2. In the bottom-up approach, OC&C identified specific costs to ITV of CRR totalling between £[redacted] million and £[redacted] million a year in 2008/09 (giving a mid-range estimate of £[redacted] million). OC&C stated that each of these costs was directly attributable to 'dynamic inefficiencies' resulting from CRR. In addition, OC&C noted that there was £[redacted] million a year of administrative costs created by CRR. These costs are summarized in Table 1.

TABLE 1 Summary table of OC&C estimates of costs attributed by ITV to CRR

<i>'Cost' attributed by ITV to CRR</i>	<i>Cost estimate by OC&C £m</i>
A. The effect of the ARM in creating incentives to:	
(i) Focus on daytime rather than peak-time impacts	[redacted]
(ii) Align programming investment with high viewing months rather than NAR	[redacted]
(iii) Focus on volume of impacts rather than profile	N/A
(iv) Reduce levels of new higher-risk programming investment in favour of ageing programme formats*	N/A
(v) Increased number of soap operas instead of greater variety of programmes	N/A
(vi) Not invest in ITV1+1 or ITV1 HD	[redacted]
B. The role of protected contracts in creating deal debt and requiring ITV to [redacted] for [redacted] rights to address this deal debt	[redacted]
C. Operational constraints	[redacted]
D. Regulatory risk and uncertainty	N/A
E. Administrative costs of CRR to ITV including the costs of the Office of the Adjudicator and internal compliance costs	[redacted]
Total	[redacted]

Source: OC&C analysis.

*OC&C estimated a cost of £[redacted] million for this unintended effect but did not use it in their total estimate.

Notes:

1. N/A = costs were not able to be quantified.
2. Figures may not sum due to rounding.

3. We consider 'costs' B, C, D and E in Section 6 of the report. We have also considered cost A in the report, but in this appendix we provide detail on each possible effect of the ARM considered by OC&C (ie costs A(i) to A(vi)).

The effect of the ARM

ITV's views

4. ITV submitted that CRR had distorted its incentives to deliver what advertisers and audiences wanted. In particular, the ARM was based on SOCI, which meant that ITV was incentivized to maximize ITV1's SOCI. This led to outcomes that were inconsistent with the demands of advertisers and audiences. ITV submitted that prior to CRR being introduced, Carlton and Granada negotiated with media buyers across a range of factors: reach and frequency, quality of programming, ability to deliver viewers in key demographics, average programme viewings and other qualitative terms (for example, position in break).

5. The ARM focuses solely on changes in ITV1's SOCI, weighted by demographic. Under the ARM, for each percentage point fall in SOCI there is a proportionate fall in SOB commitment. CRR therefore rewards ITV for maximizing volumes of commercial impacts on ITV1 so as to maintain SOCI and prevent decreases in the SOB commitment of individual media buyers. ITV argued that the consequence of the ARM not capturing reach and other quality parameters was that, to prevent reductions in SOB commitment, ITV was indifferent between reach and frequency on ITV1, focusing only on maintaining SOCI.
6. ITV submitted that there were six main effects of the incentive to maximize SOCI:
 - (a) to focus on daytime rather than peak-time impacts;
 - (b) to align programming investment with high viewing months rather than NAR;
 - (c) to focus on volume of impacts rather than profile;
 - (d) to reduce the level of new higher-risk programming investment in favour of ageing programme formats;
 - (e) to increase the number of soap operas instead of greater variety of programmes; and
 - (f) not to invest in ITV1+1 and/or ITV1 HD.
7. On each cost, we present in turn ITV's (and OC&C's) views and our assessment.

Focus on daytime rather than peak-time impacts

ITV's views

8. ITV stated that the ARM created an incentive to invest in daytime rather than peak time because SOCI treated all impacts at all times and on all channels as equal. Consequently ITV submitted that it was incentivized to maximize impacts on ITV1 wherever it could gain incremental viewers for least cost, irrespective of time of day. ITV argued that, because peak-time programmes were more expensive to produce¹ and faced greater competition than daytime television,² it was more expensive and harder to attract incremental viewers during peak time. ITV had therefore focused on increasing ITV1 impacts in the daytime rather than peak time. ITV told us that, although increasing impacts, this was inconsistent with advertisers' wish for ITV to maximize its delivery of ITV1's peak-time impacts.
9. ITV submitted that the share of ITV1's programming expenditure spent on daytime programming increased from [X] per cent in 2003 to [X] per cent in 2007 and [X] per cent in 2008. However, despite the incentive to maximize ITV1's SOCI, ITV adopted a '2100 strategy' for ITV1 (investing in its 9pm peak-time programming) from September 2007. ITV submitted that this recognized that the long-term success of ITV1 was dependent on delivering a diverse range of quality programming in peak time but noted that, as this strategy did not seek to maximize SOCI, it might lead to a reduction in revenue under CRR.

¹OC&C noted that ITV1's anchor daytime programming—*Jeremy Kyle* and *Loose Women*—all delivered impacts at a cost of less than £[X] per thousand impacts versus more than £[X] per thousand impacts for many of ITV1's high-profile peak-time programmes (eg *Britain's Got Talent*, *Kingdom*, *Dancing on Ice*).

²OC&C noted that many multi-channel broadcasters do not start broadcasting until late afternoon. For example, only 54 per cent of commercial channels within Sky's entertainment genre provide a full 24-hour schedule.

10. OC&C estimated this cost by comparing the proportion of ITV1's programming expenditure spent on daytime and peak time in 2007 and 2008 with the proportion in 2003. OC&C assumed that, absent CRR, ITV would realign programme expenditure to the 2003 proportions between daytime and peak time. It then used the relative cost effectiveness of selected peak-time and daytime programmes and the relative value placed by a major advertiser ([REDACTED]) on peak-time impacts over daytime impacts to calculate the potential improvement in returns from reallocating programming expenditure to peak time from daytime. This generated a range of £[REDACTED]–£[REDACTED] million a year, depending on whether 2008 or 2007 was used as the comparator year.
11. ITV submitted that 2003 and 2007 were the right comparators to use for assessing this cost because 2003 was the year of the merger and 2007 was the date at which ITV's strategy changed and so represented the cost to ITV of SOCI maximization. ITV added that 2008 was not a valid reference point since this represents costs under a non-SOCI maximization business model.

Our assessment

12. We consider the extent to which programming decisions should be attributed to CRR in Section 6 of the report.
13. We also identified two specific issues with the reliability of OC&C's estimate of the revenue forgone:
 - (a) It was not clear to us that the point estimate of expenditure in 2003 was the 'right' level to which to compare the proportion of programming expenditure between daytime and peak-time programming. Although this was the pre-merger level, it was unclear what would have happened to programming expenditure absent CRR.
 - (b) The 'upper bound' estimate of this cost (£[REDACTED] million) was based on a comparison between 2003 and 2007 daytime expenditure, despite ITV's change in strategy and a decline in daytime expenditure since 2007. This suggested that it was not appropriate to use this as a comparator as effects other than CRR were likely to be included in the 2007 figures.

Align programming investment with high viewing months rather than net advertising revenue

ITV's views

14. OC&C submitted that, absent the need to maximize SOCI, it would be commercially rational for ITV to seek to align monthly programming expenditure on ITV1 to advertiser demand (as measured by the proportion of total NAR that is spent by advertisers in a given month). However, OC&C said that ITV [REDACTED].
15. OC&C assumed that ITV would be able to close the gap in this inefficient spending by [REDACTED] per cent, enabling it to reappportion programming expenditure from low-yielding months to higher-yielding months. OC&C further assumed that this re-allocation would enable ITV to increase the returns on its marginal programming expenditure by up to [REDACTED]. These assumptions generated an estimate of the cost to ITV of CRR in this respect of between £[REDACTED] million and £[REDACTED] million a year.
16. Based on the variance in ITV1's NAR between 2001 and 2008, OC&C noted that it would expect a natural mismatch between programming expenditure and NAR of

[REDACTED] per cent. ITV did not provide any evidence of the pattern pre-CRR and OC&C argued that it was not relevant because of the underlying changes in relevant market dynamics since that period.

Our assessment

17. We found that it was not clear that this cost could be directly attributed to CRR. In particular, we would expect some misalignment between programme expenditure and NAR. However, no comparisons were provided pre-CRR. We acknowledged OC&C's estimate regarding the natural mismatch between programming expenditure and NAR of [REDACTED] per cent and that it would only be able to close the gap in inefficient spending by [REDACTED] per cent, but OC&C's estimate did not provide any robust basis for this assumption. In addition, we noted that other strategic factors were likely to have had a bearing on programming decisions (see Section 6 of the report) and hence the pattern of programme expenditure during the year.

Focus on volume of impacts rather than profile

ITV's views

18. ITV stated that the ARM created an incentive for it to be risk averse in its programming choices. ITV told us that, because media buyers' SOB commitment fell in line with SOCI, it had become more risk averse in its programming decisions. In addition, ITV told us that, as the ARM was weighted by revenue for each demographic, it focused attention on the largest demographics. ITV is therefore less incentivized to reach less popular demographics. ITV submitted that, because of these two factors, it had focused on ITV1 programmes that guaranteed a high volume of impacts in the required demographics.
19. ITV submitted that, absent CRR, it might commission or schedule a programme even if it did not maximize SOCI. Examples included programming to attract new viewers and extend reach (eg new movies); high-quality or 'event' status programming, which had a 'halo effect' (positive association) on brands in advertisements (eg *The Brits*); and programming targeted at a demographic valued by certain advertisers but potentially not delivered effectively elsewhere in ITV1's schedule.
20. OC&C noted that, absent the ARM, it would have been commercially rational for ITV to commission programming aligned to advertiser demand for programmes which deliver targeted, high-quality audiences. However, ITV has instead been incentivized to invest in programming which delivers high volumes regardless of audience profile and the long-term impact on the ITV brand. OC&C was not able to quantify this effect but identified an example of this issue when *Lost in Austen* was not recommissioned due to a poor total audience volume performance despite achieving critical acclaim and a strong 'ABC1' audience profile.

Our assessment

21. We did not find that there was clear evidence linking this effect to CRR. ITV1's approach of focusing on volumes rather than profile is a function of the short-term strategy it adopted between 2003 and 2007 (see Section 6 of the report). ITV has continued to invest in high-profile event programming since CRR, even before it changed its strategy in September 2007—notably programmes such as *Britain's Got Talent*, *The X Factor* and *Champions League*. Even with the ARM, it is commercially rational for ITV to deliver the programmes and audiences that advertisers want

because this would encourage them to maintain their proportionate advertising demand on ITV1.

22. We consider further the extent to which programming decisions should be attributed to CRR in Section 6 of the report.

Reduce the level of new higher-risk programming investment in favour of ageing programme formats

ITV's views

23. ITV cited evidence to illustrate that it has reduced levels of new higher-risk programming investment in favour of ageing programme formats:
 - (a) *Recommissioning series that have performed well rather than taking a risk on a new series.* In a marketing presentation entitled 'Event Entertainment programming', ITV submitted that there were [X] times as many series in 2006 and 2007 as in 2003. ITV calculated that [X] per cent of its impacts on ITV1 now came from only [X] series.
 - (b) *Giving recommissioned series extended runs rather than taking a risk on a new series.* For example, *Ant & Dec's Saturday Night Takeaway* was 66 per cent longer in 2005 compared with 2004 and *Bad Girls* was 80 per cent longer in 2005 compared with 2004.
24. OC&C noted that, without the disincentive from the ARM, ITV would be expected to be more willing to invest in new programming. OC&C estimated that the relative performance of new versus established dramas at 9pm was a revenue loss of £[X] million. However, OC&C did not include this estimate in its overall assessment of the cost to ITV of CRR.

Our assessment

25. We noted that between 2002 and 2003 ITV's investment in new programming on ITV1 fell—it is not therefore clear whether the pattern of greater recommissioning of programmes was a continuing trend from prior to the implementation of CRR. We also noted that, despite ITV's comments regarding a focus on ageing formats, it has continued to commission new programmes since 2003, including some that have been less successful (such as *Echo Beach/Moving Wallpaper*, *Rock Rivals* and *The Palace*) and some that have been successful (for example, *Doc Martin*, *Footballers' Wives*, *Lewis*, *Primeval* and *Kingdom*). These programmes have all been commissioned with particular motives in mind, but in our view CRR is only one of many factors influencing these programming decisions (see Section 6 of the report). Indeed, we noted that the change in strategy in September 2007 included a commitment to focus on new commissioned content with CRR in place.

Increase the number of soap operas instead of greater variety of programmes

ITV's views

26. ITV submitted that it had increased programming of soaps in order to maximize SOCI. For example, *Emmerdale* had an extra episode introduced in January 2004. ITV submitted that occasional additional episodes of *Coronation Street* and *The Bill* had also been screened since 2004 with a view to increasing ITV1's SOCI. ITV

added that these additional episodes, although increasing SOCI, were damaging the programme brands because they increased frequency rather than reach.

Our assessment

27. We noted that an additional episode of *Coronation Street* was introduced pre-CRR in 2002. ITV did not provide a convincing explanation as to why this pattern of programming had commenced pre-CRR. We also noted that in March 2010 ITV announced that *The Bill* was to be withdrawn from ITV1 to be replaced with investment in drama programming.³ In our view, this aspect of ITV's strategy cannot therefore be directly attributed to CRR.

Not to invest in ITV1+1 and/or ITV1 HD

ITV's views

28. ITV submitted that the definition of ITV1 had reduced the incentive for ITV to invest in ITV1+1 and ITV1 HD services because impacts delivered through these services would not count as part of the ARM and hence ITV would lose media buyers' SOB commitment in line with the reduction in ITV1's SOCI. The existence of CRR might therefore mean that ITV makes less revenue than it otherwise would do by introducing these channels. ITV submitted that other commercial channels introducing HD or +1 channels did not suffer from an overall reduction in their SOCI (even if some parent channel impacts were taken by the +1 channel), whereas ITV1's SOCI would fall if it lost impacts to ITV1+1 or ITV1 HD and, under CRR, this would entitle ITV1's customers to an automatic reduction in the level of their SOB commitments in their next year's contracts for ITV1 airtime.⁴
29. OC&C estimated the cost of this effect in relation to ITV1+1 to be a lost profit impact on ITV of £[redacted] million. This figure was derived from a net SOCI increase of [redacted] per cent from the introduction of ITV1+1 and cost estimates of £[redacted] million a year.

Our assessment

30. We agree with ITV that this cost can be directly attributed to CRR. We discuss our views on this effect in Section 6 of the report.

³<http://news.bbc.co.uk/1/hi/entertainment/8588941.stm>.

⁴ITV submitted that a similar argument applied to its other digital channels but not to the same extent because these channels were targeted at different audiences and so there was less cannibalization of ITV1 impacts.

ITV's RPA proposals—RPA Mark 2 and Mark 2.1

1. This appendix sets out the text of ITV's proposals for a possible alternative remedy entitled 'Rules for the Protection of Advertisers' (RPA) Mark 2 and Mark 2.1. In October 2009, ITV put forward a proposal entitled 'RPA' which was published as part of our Provisional Decision on Remedy Variations. ITV submitted a revised RPA proposal in February 2010 entitled 'RPA Mark 2' and on 29 March 2010 ITV submitted a further revised proposal entitled 'RPA Mark 2.1'. The text for each of these revised remedy proposals is outlined below.

RPA Mark 2

ITV obligations under RPA

- ITV would be under an obligation (as under CRR) to make a separate stand alone offer on ITV1.
- ITV would be subject to an obligation to offer ITV1 airtime on fair and reasonable terms to all advertisers/agencies (both new and existing).
- ITV would be required to publish a set of Transparency Rules for Advertisers ("TRA") which would specify parameters and processes for determining whether an offer of ITV1 airtime by ITV is fair and reasonable.
- ITV would be required to report annually to Ofcom on the detail of its compliance with the TRA. The report would provide sufficient information to allow Ofcom to ensure that any areas of residual concern that the CC identifies can be appropriately monitored.
- ITV would not be able to change the TRA without Ofcom's consent.

Transparency Rules for Advertisers (TRA)

Price control

- ITV would commit to a form of "price control" on ITV1 airtime which would incorporate parameters for determining whether any changes in SOB commitments and discounts are fair and reasonable:

SOB commitments

- ITV would offer a SOB commitment that fairly reflected any change in ITV1 SOCI.
 - (1) An offer would be presumed to be fair (i.e. it would not be capable of Adjudication on these grounds) if it involved a direct (one-for-one) link between SOB and ITV1 SOCI (either upwards or downwards)¹.

¹A downwards adjustment of SOB of more than one-for-one, or an upwards adjustment of SOB of less than one-for-one (ie that is more favourable to the buyer than the change in ITV1 SOCI) would not be capable of Adjudication.

- (2) It would be open to ITV to make an offer with a SOB commitment that did not reflect a one-for-one relationship with SOCI. If ITV were to make such an offer and ITV and the buyer did not agree terms, then the buyer could take ITV to Adjudication. In that case it would be for ITV to show that, in the context of the overall terms for ITV1 contained in its offer, its proposed SOB commitment was not unreasonable.

Discounts

- Overall discount level: ITV would commit to maintaining weighted average contracted discounts at not less than their current levels across ITV1 airtime as a whole. The discount would be calculated in the manner described in Annex 1. Ofcom would monitor ITV's compliance with this commitment.
- Individual advertiser discount level: ITV would be limited in the amount that any individual advertiser's discount could be reduced:
 - An offer with a discount reduction of no more than [x] percent would be presumed to be fair (i.e. it would not be capable of Adjudication on these grounds). ITV proposes that 10% would be an appropriate value for x.
 - ITV would be free to offer a discount reduction greater than [10] percent, but if it did so and ITV and the buyer did not agree terms, then the buyer could take ITV to Adjudication. In that case it would be for ITV to show that, in the context of the overall terms for ITV1 contained in its offer, the level of discount proposed was not unreasonable.

Specials

- ITV would commit to maintain access to ITV1 specials at their current levels and at current prices as specified in each advertiser/agency's current protected contracts, subject to content rights.

Processes to be adopted by ITV when making an offer on ITV1

- ITV would make a separate stand alone offer on ITV1 (as under CRR). The offer would cover ITV1+1/ITV1 HD (subject to resolving issues about regional caveats).
- ITV would write to all advertisers/agencies that have annual deals 10 weeks before their current contract ends in order to seek confirmation whether or not they intend to purchase ITV1 airtime in the upcoming year.
- ITV would provide all advertisers/agencies who have annual deals, and who had indicated an intention to purchase ITV1 airtime in the upcoming year, with an indicative offer for airtime on ITV1 in line with the TRA 8 weeks before their current contract ends.
- ITV would provide all advertisers to whom it had provided an indicative offer with a formal offer for airtime on ITV1 in line with the TRA before their current contract ends.

- Any grounds for Adjudication would arise only in relation to ITV's formal offer.

Adjudication

- In the event of a dispute, the dispute would be referred to an Adjudicator (as under CRR). The current rules and procedures for Adjudication would be modified, *inter alia*:
 - To reflect the different role of the Adjudicator under RPA;
 - To include new provisions designed to ensure that Adjudications are conducted with appropriate regard to the rules of fair process; and
 - To provide for ITV to have a right of appeal to Ofcom in the event that the Adjudicator fails to act in accordance with the requirements of fair process in any Adjudication, or makes a decision that is unreasonable or irrational. A successful appeal to Ofcom would involve remission of the dispute to the Adjudicator.

Internal monitoring of compliance

- ITV would establish new internal arrangements for ensuring compliance with RPA. These arrangements would include the following:
 - The adoption of an appropriate Code of Conduct for all personnel involved in the sale of ITV1 airtime
 - The development of specific training and guidance for personnel involved in the sale of ITV1 airtime to ensure compliance with the Code of Conduct
 - A review of employee conditions and incentives to ensure that they are appropriately aligned with compliance with ITV's commitments under RPA
 - The establishment of new internal monitoring procedures to ensure compliance with ITV's commitments under RPA

Annex 1: Calculating the weighted average contracted discount

Under the RPA scheme ITV will be required to maintain weighted average contracted discounts at no less than their current level across the market. ITV will calculate its current weighted average contracted discount level and this will provide the aggregated contracted discount obligation that ITV will be required to deliver in the following year. The contracted discount obligation figure will be weighted by demographic spend on a one year lagged basis (similar to CRR) to ensure it reflects actual demand across advertisers/agencies for different demographics. This will also ensure there is a clear target for ITV each year ahead of the deal season for negotiations.

The contracted discount obligation figure will be rebased each year to ensure it continues to reflect the effective discount available in the market in 2009 even if actual demand by demographic changes over time.

Overall, the steps involved in the RPA weighting calculation are similar to those currently carried out by ITV under CRR (applied in this case to discounts rather than to SOB), though the RPA weighting process is less complex as it is not carried out on an advertiser by

advertiser basis and uses less weighting factors than CRR (i.e. the RPA does not require weighting by regions or day-parts). Below, ITV sets out the step by step calculations involved in this process.

The first part of the RPA process is to calculate the weighted average contracted discount that is currently delivered (The Year 0 weighted average contracted discount). Using the indicative data from Figure 1 (which is illustrative only), this is calculated as follows:

- The first step is to calculate the actual contracted *value* delivered by advertiser by demographic. This is calculated by taking the actual spend by advertiser by demographic and applying the contracted discount. For example if Advertiser A spends £4000 on Adults at a 15% discount then Advertiser A realises £4706 of value. This is calculated as: $£4000 / (85/100)$.
- This is carried out for each advertiser for each demographic.
- The actual spend by advertiser by demographic is then summed, and the actual contracted value delivered by advertiser by demographic is also summed. This provides the total actual spend by demographic and the total actual contracted value delivered by demographic.
- The total actual spend by demographic is then summed which gives the total actual spend against all demographics. The total actual contracted value delivered by demographic is also then summed which gives the total actual contracted value delivered against all demographics.
- The overall weighted average contracted discount is then calculated based on these two numbers. Again, from the data in Figure 1 the total actual spend against all demographics is £81,200 and the total actual contracted value delivered against all demographics is £88,877 then the total weighted average contracted discount is 8.6. This is calculated as: $100 - ((81,200/88,877) * 100)$.

Therefore, based on the Figure 1 data, the weighted average contracted discount that ITV would be required to deliver in Year 1 would be at least 8.6%. Therefore, in negotiations for Year 1 ITV would be required to ensure that it delivers a weighted average contracted discount of at least 8.6% to the market on the basis that the same relative audience volume demand in Year 1 is maintained as at Year 0 i.e. in negotiations for Year 1 ITV must ensure that its weighted average contracted discount obligation is achieved at year end for Year 1 if the same relative audience volume demand were to be maintained throughout Year 1 as in Year 0. This ensures that ITV can continue to meet its weighted average contracted discount obligation even if demand for demographics change year on year. It also ensures that ITV has reasonable certainty as to what its required weighted average contracted discount obligation is likely to be ahead of the deal season minimising the need for a reconciliation mechanism.

Using the same steps set out above for Year 0, the weighted average contracted discount obligation would be recalibrated annually based on actual spend to take account of variations in advertisers'/agencies' spend patterns from year to year. Annual rebasing of the weighted average contracted discount obligation ensures that it continues to reflect actual demand over time, thereby avoiding rigidities creeping in over time as demand changes and ensuring that the mismatch of supply and demand that resulted under CRR does not materialise under the RPA.

Figure 1: Calculating the Year 0 weighted average contracted discount

Year 0		Adults	16-34s	Adults ABC1	Total spend
Agency A	Discount	-15.0	-3.0	-5.0	
	Volume of spend	£ 4,000	£ 9,400	£ 23,000	£ 36,400
Agency B	Discount	-11.0	-9.0	-8.0	
	Volume of spend	£ 7,500	£ 2,000	£ 13,900	£ 23,400
Agency C	Discount	-15.0	-10.0	-11.0	
	Volume of spend	£ 10,000	£ 3,000	£ 8,400	£ 21,400
Total spend by audience		£ 21,500	£ 14,400	£ 45,300	£ 81,200
% of total revenue		26%	18%	56%	
Total weighted average discount		-8.6			

RPA Mark 2.1

ITV obligations under RPA

- ITV would be under an obligation (as under CRR) to make a separate stand alone offer on ITV1.
- ITV would be subject to an obligation to offer ITV1 airtime on fair and reasonable terms to all advertisers/agencies (both new and existing).
- ITV would be required to publish a set of Transparency Rules for Advertisers (“TRA”) which would specify parameters and processes for determining whether an offer of ITV1 airtime by ITV is fair and reasonable.
- ITV would be required to report annually to Ofcom on the detail of its compliance with the TRA. The report would provide sufficient information to allow Ofcom to ensure that any areas of residual concern that the CC identifies can be appropriately monitored.
- ITV would not be able to change the TRA without Ofcom’s consent.

Transparency Rules for Advertisers (TRA)

Price control

- ITV would commit to a form of “price control” on ITV1 airtime which would incorporate parameters for determining whether any changes in SOB commitments and discounts are fair and reasonable:

SOB commitments

- ITV would offer a SOB commitment that fairly reflected any change in ITV1 SOCI.
 - (1) An offer would be presumed to be fair (i.e. it would not be capable of Adjudication on these grounds) if it involved a direct (one-for-one) link between SOB and ITV1 All Adult SOCI (either upwards or downwards)².
 - (2) It would be open to ITV to make an offer with a SOB commitment that did not reflect a one-for-one relationship with SOCI. If ITV were to make such an offer and ITV and the buyer did not agree terms, then the buyer could take ITV to Adjudication. In that case it would be for ITV to show that, in the context of the overall terms for ITV1 contained in its offer, its proposed SOB commitment was not unreasonable.

Discounts

- Overall discount level: ITV would commit to maintaining weighted average contracted discounts at not less than their current levels across ITV1 airtime as a whole. The discount would be calculated in the manner described in Appendix 1.
 - Ofcom would monitor ITV's compliance with this commitment. Following ITV's provision of formal offers to agencies/advertisers (which it would make at least two weeks before their current contracts end, see below) but before the end of the deal season, ITV would provide Ofcom with a compliance calculation demonstrating that this obligation had been met.
 - There would be power to impose a fine on ITV if it failed to meet its weighted average contracted discount obligation (outside of agreed operational tolerances). The (maximum) amount of the fine would be equal to 1% of NAR for each point of discount missed.
- Individual advertiser discount level: ITV would be limited in the amount that any individual advertiser's discount could be reduced:
 - An offer with a discount reduction of no more than [x] percent would be presumed to be fair (i.e. it would not be capable of Adjudication on these grounds). Following the CC's rejection of 10%, ITV is open to the CC's views as to an appropriate value for x.
 - ITV would be free to offer a discount reduction greater than [x] percent, but if it did so and ITV and the buyer did not agree terms, then the buyer could take ITV to Adjudication. In that case it would be for ITV to show that, in the context of the overall terms for ITV1 contained in its offer, the level of discount proposed was not unreasonable.

²A downwards adjustment of SOB of more than one-for-one, or an upwards adjustment of SOB of less than one-for-one (ie that is more favourable to the buyer than the change in ITV1 SOCI) would not be capable of Adjudication.

Existing terms and conditions

- ITV would commit to maintaining access to ITV1 specials at their current levels and at current prices as specified in each advertiser/agency's current protected contracts, subject to content rights.
- ITV would commit to maintaining the distribution of daypart terms that currently exist within contracts.
 - This would be subject to a uniform formula being applied to all contracts in order to adjust daypart commitments to bring them back in line with ITV1's existing supply of inventory
 - This adjustment would be carried out on an annual basis to ensure contractual daypart commitments remain in line with ITV1's actual inventory.

Processes to be adopted by ITV when making an offer on ITV1

- ITV would make a separate stand alone offer on ITV1 (as under CRR). The offer would cover ITV1+1/ITV1 HD (subject to resolving issues about regional caveats).
- ITV would write to all advertisers/agencies that have annual deals 10 weeks before their current contract ends in order to seek confirmation whether or not they intend to purchase ITV1 airtime in the upcoming year.
- ITV would provide all advertisers/agencies who have annual deals, and who had indicated an intention to purchase ITV1 airtime in the upcoming year, with an indicative offer for airtime on ITV1 in line with the TRA 8 weeks before their current contract ends.
- ITV would provide all advertisers to whom it had provided an indicative offer with a formal offer for airtime on ITV1 in line with the TRA at least 2 weeks before their current contract ends.
- Any grounds for Adjudication would arise only in relation to ITV's formal offer.
- In the event of a dispute in relation to ITV's formal offer which extends beyond the end of the buyer's contract, ITV would continue to provide airtime to the affected buyer on the terms of their existing contract until the dispute is resolved. Following resolution of the dispute the buyer's annual commitment would be reconciled to the new contractual terms.

Adjudication

- In the event of a dispute, the dispute would be referred to an Adjudicator (as under CRR). The current rules and procedures for Adjudication would be modified, *inter alia*:
 - To reflect the different role of the Adjudicator under RPA;
 - To include new provisions designed to ensure that Adjudications are conducted with appropriate regard to the rules of fair process; and

- To provide for ITV to have a right of appeal to Ofcom in the event that the Adjudicator fails to act in accordance with the requirements of fair process in any Adjudication, or makes a decision that is unreasonable or irrational. A successful appeal to Ofcom would involve remission of the dispute to the Adjudicator.

Internal monitoring of compliance

- ITV would establish new internal arrangements for ensuring compliance with RPA. These arrangements would include the following:
 - The adoption of an appropriate Code of Conduct for all personnel involved in the sale of ITV1 airtime
 - The development of specific training and guidance for personnel involved in the sale of ITV1 airtime to ensure compliance with the Code of Conduct
 - A review of employee conditions and incentives to ensure that they are appropriately aligned with compliance with ITV's commitments under RPA
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Under the RPA scheme ITV will be required to maintain weighted average contracted discounts at no less than their current level across the market. ITV will calculate its current weighted average contracted discount level and this will provide the aggregated contracted discount obligation that ITV will be required to deliver in the following year. The contracted discount obligation figure will be weighted by demographic spend on a one year lagged basis (similar to CRR) to ensure it reflects actual demand across advertisers/agencies for different demographics. This will also ensure there is a clear target for ITV each year ahead of the deal season for negotiations.

The contracted discount obligation figure will be rebased each year to ensure it continues to reflect the effective discount available in the market in 2009 even if actual demand by demographic changes over time.

Overall, the steps involved in the RPA weighting calculation are similar to those currently carried out by ITV under CRR (applied in this case to discounts rather than to SOB), though the RPA weighting process is less complex as it is not carried out on an advertiser by advertiser basis and uses less weighting factors than CRR (i.e. the RPA does not require weighting by regions or day-parts). Below, ITV sets out the step by step calculations involved in this process.

The first part of the RPA process is to calculate the weighted average contracted discount that is currently delivered (The Year 0 weighted average contracted discount). Using the indicative data from Figure 1 (which is illustrative only), this is calculated as follows:

- The first step is to calculate the actual contracted *value* delivered by advertiser by demographic. This is calculated by taking the actual spend by advertiser by demographic and applying the contracted discount. For example if Advertiser A spends £4000 on Adults at a 15% discount then Advertiser A realises £4706 of value. This is calculated as: $£4000 / (85/100)$.

- This is carried out for each advertiser for each demographic.
- The actual spend by advertiser by demographic is then summed, and the actual contracted value delivered by advertiser by demographic is also summed. This provides the total actual spend by demographic and the total actual contracted value delivered by demographic.
- The total actual spend by demographic is then summed which gives the total actual spend against all demographics. The total actual contracted value delivered by demographic is also then summed which gives the total actual contracted value delivered against all demographics.
- The overall weighted average contracted discount is then calculated based on these two numbers. Again, from the data in Figure 1 the total actual spend against all demographics is £81,200 and the total actual contracted value delivered against all demographics is £88,877 then the total weighted average contracted discount is 8.6. This is calculated as: $100 - ((81,200/88,877)*100)$.

Therefore, based on the Figure 1 data, the weighted average contracted discount that ITV would be required to deliver in Year 1 would be at least 8.6%. Therefore, in negotiations for Year 1 ITV would be required to ensure that it delivers a weighted average contracted discount of at least 8.6% to the market on the basis that the same relative audience volume demand in Year 1 is maintained as at Year 0 i.e. in negotiations for Year 1 ITV must ensure that its weighted average contracted discount obligation is achieved at year end for Year 1 if the same relative audience volume demand were to be maintained throughout Year 1 as in Year 0. This ensures that ITV can continue to meet its weighted average contracted discount obligation even if demand for demographics change year on year. It also ensures that ITV has reasonable certainty as to what its required weighted average contracted discount obligation is likely to be ahead of the deal season minimising the need for a reconciliation mechanism.

Using the same steps set out above for Year 0, the weighted average contracted discount obligation would be recalibrated annually based on actual spend to take account of variations in advertisers'/agencies' spend patterns from year to year. Annual rebasing of the weighted average contracted discount obligation ensures that it continues to reflect actual demand over time, thereby avoiding rigidities creeping in over time as demand changes and ensuring that the mismatch of supply and demand that resulted under CRR does not materialise under the RPA.

Figure 1: Calculating the Year 0 weighted average contracted discount

Year 0					
		Adults	16-34s	Adults ABC1	Total spend
Agency A	Discount	-15.0	-3.0	-5.0	
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	Volume of spend	£ 7,500	£ 2,000	£ 13,900	£ 23,400
Agency C	Discount	-15.0	-10.0	-11.0	
	Volume of spend	£ 10,000	£ 3,000	£ 8,400	£ 21,400
	Total spend by audience	£ 21,500	£ 14,400	£ 45,300	£ 81,200
	% of total revenue	26%	18%	56%	
	Total weighted average discount	-8.6			

Effect of introducing an ITV1+1 service

1. In this appendix we discuss the effect on ITV1's SOCI and revenue of introducing an ITV1+1 service. We received evidence on the potential size of the revenue effect of introducing ITV1+1 from ITV and a number of broadcasters. This evidence focused on two main issues:
 - (a) the effect on a parent channel's SOCI and revenue of launching a +1 channel; and
 - (b) the potential effect on ITV1's SOCI and revenue of launching ITV1+1.
- (a) Effect on a parent channel's SOCI and revenue of launching a +1 channel**
2. We were provided with evidence from broadcasters of the effect of launching different +1 channels in terms of:
 - (a) the reduction in impacts on the parent channel (cannibalization); and
 - (b) the additional impacts on the +1 channel (incremental impacts/net uplift).
 3. Third parties analysed the effect of introducing a +1 channel in a variety of different ways—by looking at the change in impacts on the parent channel and +1 channel combined after one month, after three months and after one year; and by looking at the share of impacts between the parent channel and the +1 channel. From the analysis, it was clear that, whilst it is relatively straightforward to understand the amount of impacts delivered on each new +1 channel, it is difficult to isolate the amount of cannibalization from the parent channel, and the incremental impacts attributable to the launch of the +1 channel because, in particular, of the following factors:
 - (a) The lack of a relevant control group to understand the cannibalization effect on the parent channel. It is not usually possible to control for other factors that affect the change in SOCI on the parent channel over the period since the launch of the +1 channel.
 - (b) The effect of different programming schedules and other factors such as the weather. These make monthly comparisons pre- and post-launch of a +1 channel unreliable.
 - (c) Differences in the effect on different platforms (digital terrestrial television (DTT), digital cable and satellite) carrying the channel. These differences are caused by different relative positions of the new +1 channel to the parent channel in the electronic programme guide (EPG) (eg an EPG position closer to the main channel can help increase viewing on the +1 channel); different levels of usage of personal video recorders (PVRs) and video on demand (VOD) for viewers on different platforms (eg increased usage of PVR and VOD among satellite viewers can lead to a smaller increase in viewing of a +1 channel); and different viewing behaviour within demographics on different platforms (eg other channels that appeal to the same demographics and are being launched on a particular platform at the same time).

(d) The increase in digital penetration over time affecting the different levels of take-up of particular +1 channels, and in particular exogenous events leading to jumps in digital penetration (eg the football World Cup).

4. Given these factors, it is most appropriate to look across the full range of +1 channels to see the effects of cannibalization and incremental impacts. [redacted]¹

[redacted]

5. [redacted]

[redacted]

6. [redacted]

7. The range of the size of these effects from –1 to 66 per cent highlighted the sensitivities of the effect of a +1 channel to the factors set out in paragraph 3.

(b) The potential effect on ITV1’s SOCI and revenue of launching ITV1+1

8. ITV said that there was considerable uncertainty regarding the effect on ITV1’s SOCI and revenue of launching an ITV1+1 service. In its internal assessment of launching a new ITV1+1 service, ITV assumed that there would be cannibalization by the ITV1+1 service of [redacted] per cent of ITV1’s SOCI with a net uplift of [redacted] per cent in SOCI of ITV1 and ITV1+1 combined.

9. Taking into account the evidence on the effect of other +1 channel launches, third parties provided estimates of the likely effect of launching an ITV1+1 service. Table 1 shows that cannibalization estimates were consistently at 5 per cent of SOCI and the net uplift in SOCI ranged from 4 to 10 per cent. In all cases, third parties noted that the effects were difficult to predict given the issues highlighted in paragraph 3.

TABLE 1 Summary of third party views on the effect of ITV1+1 on ITV1’s SOCI

	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]*	[redacted]
	<i>per cent</i>							
Cannibalization from ITV1	-5	-4	N/A	N/A	N/A	-5	N/A	N/A
Total impacts on ITV1+1	15	9	N/A	N/A	N/A	10	N/A	N/A
Net effect (incremental impacts) (%)	10	5	8	8	4.2-8	5	At least 5	10

Source: Third party analysis.

*[redacted] analysis was based on share of viewing rather than SOCI.

Notes:

1. Figures in the table are expressed in terms of percentage change in ITV1’s SOCI.
 2. N/A = the party only provided the net effect.

10. ITV and third parties each used these estimates to assess the impact of launching ITV1+1 on their own businesses:

(a) ITV used the estimates to evaluate the effect of launching ITV1+1 on ITV’s profitability (after taking into account the costs of launching ITV1+1, [redacted]). ITV estimated that the net impact on its earnings before interest, tax, depreciation and amortization would be up to £[redacted] million a year.

¹[redacted]

(b) Third parties tended to use the estimates to evaluate the net revenue impact on other broadcasters resulting from the net uplift in ITV1's SOCI. The net revenue effect calculated was the revenue that ITV would be able to take from competitors as a result of launching ITV1+1. Third parties' estimates of the net revenue effect ranged from £17 million to £93.5 million depending on the assumptions used.

Glossary

2003 report	<i>Carlton Communications plc and Granada plc: a report on the proposed merger</i> , October 2003 (www.competition-commission.org.uk/inquiries/completed/2003/carlton/index.htm).
Act	The Enterprise Act 2002.
The Adjudicator	Office of the Adjudicator.
Airtime	Time that a channel is broadcasting. At times advertising airtime, the time available for broadcasting advertising, it is abbreviated to airtime.
ARM	Audience ratchet mechanism. A mechanism in the CRR Undertakings which allows for SOB commitment to ITV1 specified in a protected contract to vary in direct proportion to ITV1 's weighted SOCI , subject to a cap of the SOB commitment specified in the protected contract.
BARB	Broadcasters' Audience Research Board Ltd, a body jointly funded by ITV , the BBC, Channel 4 , Channel 5 , BSkyB and the IPA , which measures television audiences.
Channel	A collection of programming bundled, scheduled, distributed and branded as a single proposition, recognized and located in a consistent way by the viewer.
Channel 4	Channel Four Television Corporation, owner of the Channel 4 licence.
Channel 5	Channel 5 Broadcasting Limited, holder of the Channel 5 licence. Owned by the RTL Group (part of the German Bertelsmann group).
Commercial impact	A single viewing of a television advertisement by a member of the target audience . Also referred to as an 'impact'.
COSTA	Code on Scheduling of Television Advertising.
Coverage	The proportion of the target audience viewing the advertisement at least once over the campaign period. 1+ cover (or reach) refers to the percentage of the target audience viewing the advertisement at least once over the campaign period. A frequency of 4+ cover refers to the percentage of the audience viewing the advertisement at least four times over the campaign period.
CPT	Cost per thousand. The cost of 1,000 commercial impacts for a target audience . CPT is used when purchasing and measuring the efficiency of advertising campaigns.
CRR	Contracts Rights Renewal.

Daypart	One of a number of periods into which the broadcasting day is divided for the purposes of scheduling.
Deal debt	When individual advertisers are receiving less than their 'agreed share of impacts' in that month, the sales house owes a 'deal debt' to advertisers/ media agencies . If this is carried over into the following month, the sales house will face an increased difficulty in delivering on all its discount commitments in that month.
Demographic group	Demographic audiences against which most television airtime is sold. ITV sells against 15 groups: Adults, ABC1 Adults, 16–24 Adults, 16–34 Adults, Men, ABC1 Men, 16–34 Men, Women, ABC1 Women, 16–34 Women, ABC1 Housewives, 16–54 Housewives, Housewives, Housewives with Children and Children.
Discount (off SAP)	Discounts off SAP are not money discounts; they are, in effect, a commitment by a sales house to deliver additional commercial impacts to a media buyer for a given price. Increasing the discount means giving a media buyer a greater proportion of impacts for a given sum of money; conversely, reducing the discount means giving the media buyer a smaller proportion of impacts for a given price. Airtime is generally sold at a discount off SAP for a particular demographic group .
DSO	Digital switchover.
Five	The on-air brand identity for Channel 5 .
FMCGs	Fast-moving consumer goods such as packaged groceries, confectionery and toiletries.
Frequency	The proportion of the target audience that has seen the advertisement a particular number of times over the campaign period. For example, 4+ refers to a viewing frequency of 4 or more times during the campaign period.
FTA	Fair Trading Act 1973.
GMTV	GMTV Limited, a company in which ITV has full control over, holds the only national Channel 3 licence and broadcasts daily from 6.00am to 9.25am.
HD	High definition.
HW	Housewives—a demographic group . The member of the household who is solely or mainly responsible for household duties. A housewife may be male or female. There is only one housewife per household.
HW + C	Housewives with children—a demographic group . Housewives living in a household in which a child (or children) aged 0–15 also lives.
IPA	Institute of Practitioners in Advertising.

ISBA	Incorporated Society of British Advertisers.
ITV	ITV plc, created by the merger of Carlton Communications plc and Granada plc.
ITV1	ITV's Channel 3 service.
ITV1+1	A possible service comprising time-shifted ITV1 content transmitted 1 hour later than shown on ITV1 .
ITV1 HD	A service comprising ITV1 content transmitted in high definition rather than standard definition.
Line-by-line contract	A deal between a media agency and a broadcaster under which a specified SOB and discount are both contracted at a named advertiser level.
Media agency	A media agency or agency is an organization that buys and books airtime on behalf of its advertiser clients.
Media auditor	Employed by the advertiser to assess the buying efficiency of media agencies .
Media buyer	Anyone who buys media, whether an advertiser or a media agency .
Multi-channel	All television channels in the UK that are broadcast via platforms other than the old analogue terrestrial platform, ie cable, satellite or digital terrestrial transmissions.
NAR	Net advertising revenue: total advertising revenue, less agency fees and commission.
Ofcom	Office of Communications, the regulator of the UK communications industries, with responsibilities across television, radio, telecommunications and wireless communications services.
Optimization	Through optimization sales houses can maximize the number of impacts traded and effectively achieve better results than would be achieved were advertisements shown randomly throughout the day.
Overtrading	A situation in which advertisers have not received the impacts that the broadcaster agreed to deliver.
Peak time	The period during which a television station broadcasts its early and mid-evening schedule, typically used by Ofcom to refer to the period between 18.00 and 22.30 each day (including week-ends).
Platform	The particular technology used to distribute television programmes to homes.
Position in break	Position in break means any specific position within an advertisement break, ie first advertisement, centre advertisement, etc.

Reach	The percentage of the target audience that has seen an advertisement at least once over the campaign period. Reach is always expressed in terms of 1+ coverage .
RPA	Rules for the Protection of Advertisers, a remedy proposal put forward by ITV .
Sales house	An organization which sells advertising airtime on behalf of one or more television broadcasters.
SAP	The station average price for buying airtime on a channel ; it is not a fixed price but varies according to supply (of impacts) and demand (from advertisers). It is estimated in advance and calculated after the end of each month based on actual impacts and revenues achieved. Each ITV region has a separate monthly SAP for each demographic group .
Share deal	An agreement in which a media buyer commits a proportion of its annual television advertising budget to a broadcaster (SOB), in return for agreed discounts off or premiums on SAP and other terms and conditions on which the media buyer is able to buy airtime for specific target audiences .
Share of viewing	The percentage of the total viewing audience watching over a given period of time. This can apply to channels , programmes, time periods etc. For example, a share of 58 per cent for <i>Coronation Street</i> would mean that, of all the viewers watching television when <i>Coronation Street</i> was being transmitted, 58 per cent were watching <i>Coronation Street</i> .
SOB	Share of broadcast; the proportion, by value, of a media buyer's television advertising received by (or committed to) a particular channel .
SOCI	Share of commercial impacts .
Specials	Programmes designated by ITV to which particular access terms, usually premiums above SAP , apply. These may include the finals of programmes like <i>The X Factor</i> or sports tournament finals.
Spot	An individual occurrence of a commercial.
Strike weights	The weight of TVRs by day, week, month or other predetermined period.
Target audience	The demographic group at which the advertisement is aimed, for example ABC1 Men.
TVR	Television rating. 1 TVR equates to 1 per cent of the relevant target audience .
Umbrella contract	A contract between a sales house and a media agency which sets out the terms at which that media agency can buy airtime on behalf of any of its advertising clients. These contracts generally specify the overall discount granted to the media agency ,

which the **media agency** then allocates among its advertising clients.

Undertakings

Following the **2003 report**, Undertakings were given by Carlton and Granada and accepted by the Secretary of State for Trade and Industry under section 88(2) of the **FTA** for the purpose of remedying or preventing the adverse effects on the public interest specified in the **2003 report**.