4 The relevant markets and the effects of the proposed mergers

Contents

Page

Introduction

4.1. This chapter examines the relevant markets or areas of activity in this inquiry and the expected effects of the three proposed mergers in those markets. We start by providing an overview of TV broadcasting in the UK in terms of the alternative delivery systems (analogue and digital); the delivery platforms (free-to-air terrestrial analogue and the pay-TV platforms of DTH, cable networks and DTT); the range of channels available; and the main elements of the regulatory environment. We then set out our reasoning on the product and geographic definitions of the three main markets or areas of activity of relevance to this inquiry, namely TV viewing, the markets for advertising, and TV programme production/supply.

4.2. Against that background, we then move on to give an account of the ownership/operators, funding and other main characteristics of the terrestrial free-to-air analogue channels (BBC, ITV/Channel 3—see paragraph 4.31—and Channels 4 and 5), the pay-TV platforms, and several emerging delivery technologies. Following that, we evaluate the three main markets of relevance to this inquiry, namely viewing markets, the markets for advertising, and that for TV programmes. Barriers to entry are considered in Appendix 4.6.

4.3. The three main parties, the financial performance of each of them and the reasons for, and claimed benefits from, the merger are considered in Chapter 3. The views of third parties and the main parties are considered in Chapters 5 and 6 respectively. A glossary of terms is included at the end of the report.

Overview of current TV broadcasting: delivery systems, channels and platforms

4.4. TV broadcasting markets in the UK have been considered and reported on by this Commission in three recent merger inquiries, namely BSkyB/Manchester United, NTL/Cable & Wireless, and Vivendi/BSkyB (see Appendix 4.1, items 1 to 3). As explained in those reports, the two alternative TV transmission systems in use are analogue and digital. Analogue terrestrial TV makes use of land-based transmitters to broadcast signals to viewers within reasonably close proximity too a transmitter. This is the traditional way in which terrestrial channels like the BBC, ITV etc have been broadcast and received in the UK (and elsewhere): an aerial plus a standard TV (with analogue tuner) is the only equipment required to view the channels—though payment of a licence fee (£104 for colour reception, as from April 2000) is also necessary.

4.5. The Government has announced its intention that analogue terrestrial TV transmissions should cease sometime in the period 2006 to 2010 (subject to certain criteria being met); and that they should be replaced entirely by digital TV, which utilizes the radio spectrum allocated to TV broadcasting far more efficiently (thereby allowing a much greater number of channels than the current five). The Government has indicated that before the switchover occurs, all viewers that can receive analogue TV now (99.4 per cent of the population) must be able to receive the main free-to-air channels digitally.

4.6. UK cable TV networks and satellite TV transmissions (ie DTH) also use analogue transmission at present, although they are in the process of converting to a fully digital service. In both cases, this affords a considerable increase in channel capacity and functionality (for example, the provision of interactive services and near-video-on-demand (NVOD) film channels). As regards DTH, BSkyB introduced its digital system toward the end of 1998, which it currently operates in parallel (albeit using different satellite locations, reception from which requires a different dish aerial) with its existing analogue service: the digital capacity at present is of the order of 200 channels, more than twice that of analogue. The three main cable operators expect their digital systems to have full (or virtually full) service area coverage by the middle of 2001, which would encompass around 50 per cent of UK homes. Operating in parallel with up to 50 analogue channels, each of these cable-based digital systems will offer around 150 channels: when the analogue transmissions cease, digital cable systems in the UK will be capable of delivering more than 500 channels.

4.7. DTT services, by contrast, are fully digital, and the major DTT platform in the UK (operated by ONdigital, which is owned by Carlton and Granada, two of the main parties to this inquiry; see paragraphs 4.46 to 4.51) accommodates about 30 channels. Once the terrestrial analogue transmissions cease (see above), it is possible—the ITC told us—that additional DTT multiplexes/platforms could be licensed, thereby expanding the number of digital channels available on DTT. Such developments are subject to Government plans for the sale of released spectrum, and no detailed proposals have yet been formulated.

4.8. As explained in our earlier reports (see Appendix 4.1), cable networks, DTH and the DTT platforms all provide subscription-based and/or pay-per-view services which are collectively termed ‘pay-TV’. These platforms offer many more channels than are available from analogue free-to-air—which is effectively limited to the five existing channels—although the free-to-air channels are also carried on these platforms (the exception at present being ITV which is not available on digital satellite). Although advertising is generally carried on non-BBC channels available on the pay-TV platforms (although not, for example, on the Disney Channel, and advertising on film channels is also minimal), the platforms themselves are funded largely by subscription revenues.

4.9. As regards the economic regulation of TV, commercial channels available in the UK are licensed and regulated primarily by the ITC operating under the Broadcasting Acts of 1990 and 1996, with the Department for Culture, Media and Sport (DCMS) having overall governmental responsibility. The ITC’s ambit includes: licensing; monitoring of channel operators in respect of their licence requirements; issuing codes of behaviour on various broadcasting matters; and the collection of annual tender payments or ‘spectrum fees’ (based on advertising and sponsorship revenues) from the ITV operators and Channel 5. The ITC told us that the ITC's primary remit was to protect and promote the interests of viewers. In the context of programming requirements, it added that, to perform its functions effectively, it needed to work closely with its licensees. Although it has some responsibilities in the area of advertising, it does not seek to regulate the TV advertising market as such. Regulatory matters are considered further in Appendix 4.2.

Emerging technologies (ADSL, MVDS and UMTS)

4.10. The delivery of TV material to homes may also be possible using ADSL technology (one of several digital subscriber line (DSL) technologies). This uses a modem both at the local telephone exchange and at individual homes to transform the standard telephone line (twisted copper wire) into a high-speed digital pathway, which is capable of delivering broadband services such as a video-on-demand (VOD) TV channel or high-speed Internet access. BT is introducing ADSL to its exchanges on an extensive scale this year (2000). Other operators will be able to obtain wholesale versions of retail ADSL services provided by BT. Also, BT is currently in discussions with the Office of Telecommunications (OFTEL) regarding the provision of a local loop product with which other operators could use their own DSL (including ADSL) equipment from July 2001.

4.11. Although ADSL is widely used in the USA (almost entirely for high-speed Internet access), the future impact of ADSL-based systems within the UK—especially for TV broadcasting—appears uncertain at this time. The capacity of ADSL depends crucially on the length of line between local telephone exchanges and the premises using the service, and much of BT's network is such that—whilst entirely suitable for high-speed Internet access—its capacity with respect to TV channels is limited. We note, however, that a limited-area VOD service using ADSL has been introduced recently in London by Video Networks Ltd. Additionally, the network operated by Kingston Communications (Hull) plc (Kingston Communications) (a localized telecommunication services provider) is more suitable than that of BT for providing TV services. Reflecting that, Kingston Communications is in the process of introducing a TV/VOD system in its Hull service area using ADSL technology; and has also announced a joint venture with BSkyB. Some of the cable operators are also conducting their own technical trials of ADSL. UNM told us that it considered ADSL to constitute a greater commercial threat to ITV than may be implied by this analysis.

4.12. Microwave video distribution services (MVDS) may also offer the prospect in the future of delivering TV material direct to homes, although it may also be used as an adjunct to cable networks. MVDS uses microwave spectrum (radio frequencies) to transmit broadband services, which may include TV channels, VOD, high-speed Internet access and interactive services. Since 1990, cable operators have been permitted to use a given spectrum allocation for MVDS services, in order to extend their networks to sparsely-populated areas of the UK where the cost of installing cable would have been prohibitive. In practice, the cable operators have not developed MVDS systems to any significant extent. Nonetheless, the Government has recently announced proposals to auction additional spectrum for MVDS usage, with a view to encouraging the future development of such services.

4.13. Third generation mobile phones using UMTS (Universal Mobile Telecommunications Standard) technology will also be capable of delivering broadband services, including Internet access and some TV/broadcast content. In the UK, the licences to operate UMTS services have only recently been awarded and as a result, the necessary infrastructure is not yet in place. Once established, UMTS mobiles seem likely to offer complementary services to those of TV broadcasting rather than constituting a genuine alternative or substitute product.

Market definition (viewing, advertising and programmes)

4.14. In order to evaluate the effects of the three proposed mergers, we need to consider which markets or areas of activity are of relevance, what products/services they include and also their geographic scope (local, national or international). In our view, there are three main areas that are of relevance to this inquiry (and to the three proposed mergers): TV viewing (retail market(s) in a broad sense); commercial advertising (where the main competition issues appear to arise); and programme production/supply.

4.15. Looking first at the viewers/retail market, we begin by noting that consumer demand for TV is widespread (virtually all UK households own or rent a TV set); and that it derives from the demand for home entertainment services. Both free-to-air services and pay-TV channels (taken as a whole) broadcast a wide range of programmes of various genres (general entertainment, comedy programmes, films and sport etc), though the two also exhibit a number of different characteristics. Terrestrial free-to-air analogue services are limited to five channels, for example, each of which offers a range of programming within its daily schedule, including general entertainment, news and documentaries, drama/films, sports coverage, as well as educational programmes (except Channel 5). By contrast, there are many more channels on pay-TV, including many that are devoted to specialist genres/programmes; exclusive live coverage of many sports events; and the showing of feature films at a significantly earlier release date than on free-to-air TV. Pay-TV is also financed largely by subscription revenues rather than advertising, and these are additional to the TV licence fee paid by all viewers, including pay-TV subscribers.

4.16. In its earlier reports (see Appendix 4.1, items 1 to 3), this Commission argued—and we agree—that the normal tests of substitutability used for market definition purposes were not readily applicable in broadcasting markets at the retail level, because free-to-air channels were free and because consumers/viewers of pay-TV will in any event have access to free-to-air channels as well. While accepting that there was a degree of price constraint exerted by free-to-air TV (in that viewers had to be persuaded that pay-TV was worth the added expense) it did not see this as central to the question of market definition. Consumers were likely to choose whether or not to subscribe to pay-TV according to a broad assessment of its benefits, in particular the very different (from free-to-air) choice of TV viewing that was offered and its cost. A willingness to pay an additional charge (subscription fee) for pay-TV services was therefore a clear indication that customers wanted and valued a service that was different from and additional to free-to-air TV, rather than seeing pay-TV as a simple substitute for free-to-air.

4.17. TV broadcasting markets have not only been considered by this Commission, but also by the European Commission (DGIV) in a number of recent cases (each of which involved pay-TV broadcasting; see Appendix 4.1). In each of these cases, pay-TV at the retail level—essentially the market for viewers—was considered to be a distinct market and therefore separate from free-to-air terrestrial TV. This has also been the view of the OFT, the ITC, the BBC, the European Commission and previous reports by this Commission. In contrast to that, the three main parties argued that—in the context of this inquiry and the proposed mergers, as opposed to these other investigations—the relevant market included both free-to-air terrestrial channels and pay-TV, on the grounds that all TV channels compete with each other to a greater or lesser extent, both for viewers/audience share and also (excluding the BBC) for advertising revenues.

4.18. In our view, the focus of pay-TV, with its particular emphasis on film and sport, is different in some respects from that of free-to-air TV; in particular, it is funded differently, since finance comes primarily from subscriptions; the prices it charges customers (on an annual basis) for all but some very limited bundles of programmes are significantly higher than the licence cost for receiving free-to-air channels; and its subscription income puts it in a strong position to bid for the most significant broadcasting rights. Because of their greater capacity, moreover, only pay-TV channels are in a position to broadcast sports and films so extensively.

4.19. Nevertheless, whilst we accept that free-to-air TV and pay-TV can at present be regarded as largely separate market segments, there are some significant similarities and overlaps/interactions between the two which are of particular relevance to this inquiry. The market is also undergoing a process of substantial change with viewing habits becoming more diverse, as most obviously reflected by the increasing penetration of pay-TV in UK homes which might once have been limited to free-to-air viewing (see Figure 4.2 and Table 4.3). The significance of this is that in homes with pay-TV, viewers are now readily able to switch between pay-TV and free-to-air channels without cost, and the ease of migration increases the degree of competition between the different channels available. Excluding the BBC channels, both of course carry commercial advertising, which we consider further below; and there are also overlaps in programme content markets (for example, the ITV companies produce programmes for both free-to-air and pay-TV channels; see paragraph 4.137).

4.20. As regards the geographical dimension, we believe that viewer activity can be regarded as essentially national—none of the main parties suggested otherwise in this—the bulk of programmes having primarily national appeal and being broadcast on a national basis (notwithstanding the regional structure and elements of regional programming in the case of ITV/Channel 3).

Advertising

4.21. Turning to advertising markets—which we see as central to this inquiry—display advertising in its widest sense is possible using both TV and other media, including newspapers and magazines, outdoor posters, commercial radio, cinema and increasingly the Internet (see paragraphs 4.96 to 4.98). The extent to which TV and these other media compete for advertising revenues has been considered in a number of previous reports by this Commission, notably in the reports on the Trinity/Mirror Group proposed merger and that between Capital and Virgin (see Appendix 4.1, items 4 and 5). In the latter report, it was concluded that TV and these other media were separate economic markets because of the limitations on substitutability between them. The choice of which to use was said to be dictated largely by 'creative' considerations and the overall strategy of the advertising campaign for a particular product or service. TV, for example, is particularly good for developing brand images because of the visual nature of the medium. Radio, on the other hand, is effective for certain types of products, but may often be used to support a TV or press campaign and to reinforce the message: to that extent, radio is more a complement to the other two media than a substitute. Much of the advertising in the regional/local press, of course, is classified rather than display.

4.22. These differences between TV, radio and the press are accompanied by very different arrangements for the selling of advertising, which makes advertising price comparisons extremely difficult. This difficulty in comparability is likely to reduce the ability of advertisers and agencies to react consistently to price changes.

4.23. The Capital/Virgin report also noted that similar considerations apply to the development of the new media, notably Internet advertising and interactive digital TV. At that time and now, both are nascent in the UK (and elsewhere), though they clearly offer a new scope and wider opportunities for advertisers as a whole. To that extent, they may also present a new competitive threat to the advertising revenues of both TV and other media, though the scale of impact—and perhaps also its direction in some instances—is inevitably difficult to judge at this time.

4.24. Carlton argued that there was an element of substitutability and therefore competition between TV and other display media, while UNM considered that both were considerable. However, advertisers, the media buyers/analysts and also Granada appear to regard TV advertising as having distinctive features and advantages that distinguish it from other forms of advertising. In particular:

(a) TV on all channels and platforms is the only mass medium with daily availability in virtually all UK homes.

(b) It can build 'mass awareness' more rapidly than other media, with the potential (using ITV in particular) to offer 60 to 70 per cent awareness of a brand or product within a weekend.

(c) TV (on all channels and platforms) offers the scope for combining colour, sound and moving images to create a high 'impact' with potential consumers (although cinema has always offered these features, and the Internet is increasingly able to do so).

(d) TV—given the range of channels and programmes available—offers the advertiser the ability to target (and monitor in some detail) particular audiences and demographic/socio-economic groups (SEGs), whether these be all adults, housewives or ABC1 male adults etc.

4.25. Responses to the questionnaires we issued to advertisers and media buyers (see Appendix 4.4) strongly supported the notion that, at the least, TV advertising constitutes a separate market from advertising in other media. We note also that the ten largest advertisers in the UK allocate, on a regular basis, nearly 70 per cent of their total advertising expenditure to TV; and that in a recent report prepared for ITV, Billetts (a media auditor) concluded that there was no evidence that changes in TV advertising prices had any effect on the demand for press or other media. In view of the evidence summarized above, we conclude in the context of this inquiry that TV advertising is at present separate from the markets for other advertising media.

4.26. We have also to consider whether there may be different market segments within TV advertising, reflecting in particular: the distinctive remits and programming characteristics of different channels and delivery platforms; the differences in advertising prices (measured on a CPT basis); and also the consequent differences in shares of NAR—see Table 4.11. Pay-TV channels, for example, are mostly specialized and genre specific (for example, sports, feature films, special interest channels etc). They also tend—at present, at least—to offer advertisers relatively small audiences, albeit generally more demographically focused than the terrestrial channels (across the full range of daily/weekly programming—individual programmes may be more directly comparable). As explained later (see paragraph 4.117), advertising costs on pay-TV channels are also significantly less on average than for terrestrial channels and, taken as a whole, across the full range of pay-TV channels, their share of NAR (currently 12 per cent) is therefore lower than their audience share (currently 14 per cent). In addition, commercial free-to-air channels such as ITV are dependent on advertising revenues, while pay-TV channels are largely funded by subscription fees, although some also generate significant revenues from advertising.

4.27. These factors might be viewed as suggesting that advertising on pay-TV is a separate market segment from that of advertising on the main terrestrial channels of ITV and Channel 4, albeit that pay-TV channels may be a rather closer substitute for Channel 5. Whilst that may be the case at present, we have explained earlier (see paragraph 4.19) that there appears to be an increasing convergence between pay-TV and free-to-air services in the context of viewing markets: similar considerations may well apply to advertising markets, since the two are closely related. Indeed, Carlton/UNM have argued that the BSkyB block of channels competes directly with the individual ITV sales houses for advertising revenues—and also with the other terrestrial channels. They further suggested that because advertising is in practice sold in relation to narrowly targeted viewing audiences, BSkyB channels had a positive competitive advantage over ITV.

4.28. Across the terrestrial channels, the different remits and levels of programming expenditure of the three commercial channels also lead to differences in programming content. Broadly speaking, ITV/Channel 3 offers 'popular' or 'mass-appeal' programming which in some instances commands strong viewer loyalty and frequently attracts audiences of over 10 million in peak hours; Channel 4 offers more specialized or 'alternative' programmes which appeal to a generally younger audience than that of ITV, although total audiences are far lower; and Channel 5 offers 'mainstream' programming, but has yet to fully develop viewer loyalty and large audiences. As regards pricing, ITV prices on average (although not necessarily for all regions) are the highest: indeed, Carlton told us that ITV's position and the price premium it commanded was due to its ability to deliver mass audiences quickly. Channel 4 prices are generally slightly lower than those of ITV (see paragraph 4.117 and Figure 4.5). Channel 5 prices are at present significantly less than those of ITV (and therefore closer to those of pay-TV channels in general, although the prices for BSkyB channels are closer to those of ITV).

4.29. ITV's greater audience share, especially at peak viewing times, means that for major advertising campaigns, advertisers have limited options about whether or not to use ITV. That is not to say, however, that Channels 4 and 5 do not compete to some extent with ITV for advertising revenues. Indeed, Channel 4 is probably the nearest equivalent to ITV in terms of both audience size and attractiveness to advertisers. But we nevertheless see them taken individually as only partial substitutes, and in some respects they are complementary to ITV in the advertising reach that they offer at present. As regards combinations of Channel 4, Channel 5 and the pay-TV channels, only a limited proportion of advertisers are likely to regard these as offering comparable national coverage and reach to that of ITV. In view of the above, we conclude that, for the moment at least, ITV represents a market segment in economic terms, though the degree of segmentation is already, and will increasingly be, under pressure from the growth of pay-TV and other terrestrial channels.

4.30. With regard to ITV advertising itself, Carlton and UNM argued that the three ITV sales houses (and the regions/licensees they represent; see paragraphs 4.55 to 4.59) compete with each other only 'at the margin'; and that for the bulk of advertising, they are more complements than substitutes, because national advertisers need to use all three sales houses to reach the UK population as a whole. Only in London, they asserted, does real competition occur between the sales houses (Carlton Sales and Granada Media Sales (GMS)); and UNM (but not Carlton) said that for each ITV sales house, the main competition came from other commercial TV channels, particularly where (as with Channels 4 and 5) broadly comparable regional coverage was available. They pointed also to the stability of their market shares over time: each of the three ITV sales houses has consistently achieved a one-third share of ITV's NAR, with only modest variations from year to year (see Table 4.13).

4.31. Granada, on the other hand, said that there was a meaningful or substantive level of substitutability—and therefore competition—between the three ITV sales houses. It also drew a distinction between the four most affluent franchise areas, which Granada described as 'prime' licences (LWT, owned by Granada; Carlton TV and Central TV, owned by Carlton; and Meridian TV, owned by UNM), that attract the largest amount of advertising revenue and for which the CPT prices are above the average, and the other 11 'non-prime' licences.

4.32. Each of the regional ITV licences covers a distinct geographic part of the UK and also therefore a distinct viewing population. To that extent, the sales houses represent separate viewing 'segments', the partial exception being London because of its two-licence structure, where one licence (LWT/Granada) covers the weekend audience and the other (Carlton TV) broadcasts only on weekdays. But other market conditions suggest that the ITV segment is more unified in an economic sense. As explained earlier, there is a high proportion of common programming across the ITV Network, particularly at peak viewing times and for the most widely viewed programmes, such as *Coronation Street*.

4.33. Nor is it obvious that national advertisers and campaigns need necessarily to use each sales house to the same extent. Branded products that are available nationally may nevertheless be more popular in some regions/areas than others; national campaigns are also often 'rolled out' from one region to another. Some advertisers/media buyers have suggested to us also that it is entirely possible to 'up-weight' advertising spend in, say, two of the three sales houses, and use the Channel 4/5 macro-regions to 'in-fill' and thereby give an appropriate national coverage for a given campaign. This would suggest that some substitution—reflecting differences in prices—between the three ITV sales houses and between each of them and other channels is commercially feasible and practicable for advertisers, albeit within limits.

4.34. Turning to the pricing of advertising airtime, the pricing practices of the sales houses are much the same in form (based on discounts from a retrospectively determined SAP, share deals and also a measure of short-term spot pricing; see paragraphs 4.110 to 4.130 and Appendix 4.3), which at the least facilitates price comparisons. But a particular feature of ITV pricing is the use of 'share deals' (on an annual or longer-term basis), under which more favourable price terms (in the form of 'discounts' off SAP) are offered to advertisers for agreeing to allocate a given proportion of their total TV advertising expenditure to a particular ITV sales house and, in many cases, to ITV as a whole. This has the effect, for the duration of the agreement, of 'locking-in' advertisers to particular sales houses (and to ITV as a whole) by limiting their ability to respond to changes in prices and to substitute one sales house for another in terms of advertising expenditure (and similarly, the ITV share deals limit substitution between ITV and other advertising channels). Granada argued that these arrangements were essentially pro-competitive. In our view, however, these practices—and particularly the use of 'all-ITV' share deals—may to lead to muted competition, in particular between ITV and other channels and to contribute directly to the stability of sales houses' market shares.

4.35. In summary, the evidence available to us in this inquiry suggests that advertising on ITV constitutes an identifiable segment within a wider market covering all commercial TV channels. Some advertisers are likely to regard various combinations of Channel 4, Channel 5 and the pay-TV channels as offering comparable national coverage and reach to that of ITV. We also believe, however, that the growth of other channels is likely in due course to erode the current advantages of ITV as an advertising medium, and thereby diminish the current segmentation of the market.

Programmes

4.36. With regard to programming and related markets, it is self-evident that all TV channels/broadcasters need to acquire programming content for subsequent broadcast. In its widest sense, and across all channels available in the UK, such content includes both UK- and foreign-produced programmes of various genres (soap dramas, comedy programmes, quiz shows, documentaries etc) as well as programmes based on acquired broadcasting rights (for feature films and sports events, in particular). In the UK, the BBC and ITV are both major customers for programme makers and also major producers in their own right (taken together, their annual programming expenditure is in excess of £2 billion). Other substantial, non-broadcaster producers include Flextech and Pearson (until recently; see paragraph 4.142), and there are also many smaller, independent producers (over 1,000, including Hat Trick, Hartswood, Celador, Talkback, Red Rooster etc).

4.37. For the purposes of this inquiry, however, the main areas of programming activity (on both demand and supply sides) are more narrowly focused, and relate to programmes of all genres made to be shown on ITV. As explained in paragraph 4.43, many of these programmes on ITV (especially at peak viewing times) are commissioned or purchased through the ITV Network Centre and subsequently broadcast over the full ITV Network. A far smaller proportion are 'regional' in nature, and these programmes are commissioned directly by the individual ITV operating companies in each licence area. Of particular importance is that the range of ITV programming across genres, the proportion of regional programmes shown (relative to the whole schedule), and also the minimum proportion of programmes to be made by independent producers are determined by the Broadcasting Acts, ITC regulations and the programming remits set out in the terms of the individual ITV licences.

4.38. In this context and that of the three proposed mergers, the main issues arising in this area of activity are, first, whether any of the mergers would cause commercial disadvantage to other producers, with a consequent reduction in the overall quality of programmes produced; and, on the benefits side, whether consolidation would enhance ITV's ability to create and commission attractive programming.

Free-to-air TV channels

BBC channels

4.39. Constituted as a public corporation operating under its own Charter, the BBC is the longest-established, national TV channel operator in the UK. It operates two terrestrial analogue channels (BBC1 and BBC2), as well as a number of digital channels (BBC Knowledge, BBC Choice etc). As set out in its Charter, the BBC's remit is to provide a broad range of high-quality programming within its broadcasting schedule, including: entertainment, educational material, news and current affairs, children's programmes, programmes of regional interest and sport. As with other terrestrial channels, the BBC is required to commission at least 25 per cent of its original programmes from independent producers.

4.40. Although the BBC has some commercial interests and income, its TV (and radio) channels do not carry advertising and they are funded almost entirely from the annual licence fee, which in 1999 amounted to about £2.2 billion. As explained later (see paragraph 4.134), the BBC is a major producer of TV programmes, although it also buys in material: the total programming expenditure in 1999 on BBC1 (its main channel, with an audience share of just under 30 per cent) was around £750 million.

ITV (Channel 3)

4.41. Established in the mid-1950s, ITV/Channel 3 was the first commercial (advertising-funded) TV channel in the UK and, whilst essentially a national channel, it has always been structured as a network of separate regional franchises or licensed areas. It currently comprises one national licence (for morning/breakfast-time TV, ie GMTV; see also Chapter 3) and 15 regional licences, two of which cover the London area (weekdays and the weekend): licences are issued (on a ten-year basis) and regulated by the ITC. We take GMTV to be part of ITV/Channel 3, although we distinguish between the regional and national licensees as appropriate. Figure 4.1 shows the areas covered by each of the regional licences and Table 4.1 provides summary details of the population in each licence/franchise area, together with audience shares of all TV viewing (see also paragraphs 4.67 to 4.93) and shares of NAR (see also paragraphs 4.101 and 4.102).

TABLE 4.1 **ITV regional licences: population, shares of audience and NAR**

Licence	*Region*	*Population m**	*Audience share† %*	*Share of total NAR‡ %*	*Share of ITV NAR %*
Anglia TV	East of England	4.0	1.8	4.3	7.1
Border TV	Borders and the Isle of Man	0.6	0.5	0.4	0.7
Carlton TV	London Weekday	11.0	2.8	9.5	15.7
Central TV	East, West and South Midlands	9.2	4.7	10.0	16.5
Channel TV	Channel Islands	0.1	0.1	-	-
Grampian TV	North Scotland	1.1	0.6	0.9	1.5
Granada TV	North-west England	6.4	3.9	6.0	9.9
HTV	Wales and West of England	4.5	2.3	3.5	5.7
LWT	London Weekend	11.0	2.0	7.2	11.9
Meridian TV	South and South-East of England	5.1	2.4	6.9	11.4
Scottish TV	Central Scotland	3.4	1.9	2.8	4.6
Tyne Tees TV	North-east England	2.8	1.5	2.2	3.7
Ulster TV	Northern Ireland	1.5	1.0	1.2	2.0
Westcountry TV	South-west England	1.6	0.8	1.3	2.2
Yorkshire TV	Yorkshire	5.6	3.2	4.3	7.2
ITV	UK	54.6	29.5	60.5	100.0

Source: Granada.

*Broadcasters' Audience Research Board Ltd (BARB) figures for individuals aged 4+.
†ITC audience share figures for 1999.
‡All NAR figures are industry estimates. NAR figures for Meridian TV include estimates for Channel TV.

4.42. Although there are some variations between them, the terms of all the regional licences specify licensees' remit or obligations to broadcast a range of content, which may be summarized as: programmes of regional interest and origin; programmes appealing to a wide variety of tastes and interests; programmes covering news (throughout the week), current affairs (about an hour and a half weekly), children's interests (around 10 hours weekly) and religion (around 2 hours weekly). Additionally, at least 60 per cent of programming must be original commissions and a minimum of 25 per cent of programmes must be independently produced. Each licensee pays a fixed annual payment linked to the RPI, together with an annual 'tender payment' or licence fee (essentially for the use of broadcast spectrum) of up to 23 per cent of qualifying revenue (which approximates to NAR).

4.43. Although each regional licensee broadcasts from transmitting stations within its own franchise area (transmission contracted out), they are effectively linked together as a national network, and broadcast many of the same programmes simultaneously. This common scheduling is coordinated through the ITV Network Centre (a separate company, owned collectively by the 15 licensees), which commissions and schedules programmes for broadcast over the network as a whole. About 90 per cent of programmes shown on ITV at peak viewing times (6.00 to 10.30 pm) are common throughout the network, and include some of the most popular (widely-viewed) ITV programmes, such as *Coronation Street* and *Emmerdale*. Network Arrangements are considered in more detail in Appendix 4.5.

4.44. In the early days of ITV, each licence was operated by a separately-owned company, but in more recent years there have been a series of mergers and ownership changes of licences/franchises. Under the Broadcasting Act 1990, ownership rules were still relatively restrictive: no one company was permitted to control more than two of the six licences designated as 'small', or more than one small and one of the nine licences regarded as 'large'. Only one merger occurred under these rules: Yorkshire TV/Tyne Tees TV in 1992. The following year, the rules were relaxed to allow two large licences to come under common ownership/control; and in 1994, a further condition was added ('the 1994 undertakings'; see Appendix 4.2) whereby a 25 per cent limit on all-TV NAR was imposed for any single ITV company/licensee. Three mergers occurred under these rules. Subsequently, the Broadcasting Act 1996 replaced the numerical limits on the control of ITV licences (based on the number of licences) with a limit of 15 per cent of total TV viewing, although it retained the two-licence rule for London. Subsequent to that change, Westcountry TV, Yorkshire TV/Tyne Tees TV and HTV were taken over by Carlton, Granada and UNM respectively, to form the current structure within which these three companies account for all but a small proportion of ITV viewing and advertising revenue. The next section provides a more detailed profile of Carlton, Granada and UNM, and also the smaller franchisees.

ITV licensed operators (main parties and others)

4.45. We next provide a brief outline (greater detail is given in Chapter 3) of the ITV licensed channel operators (or franchisees), of which the three main parties to these merger inquiries—Carlton, Granada and UNM—are by far the largest, before moving on to consider the other terrestrial analogue channels (Channel 4 and Channel 5).

Carlton

4.46. Carlton is a publicly quoted UK company with a turnover of over £1.9 billion and a market capitalization of around £4.8 billion. In addition to its media/broadcasting businesses (see paragraphs 4.47 and 4.48), Carlton has commercial interests in a range of audio-visual processing products and services, cinema advertising and Internet-related services, which together account for around 56 per cent of its total annual revenue.

4.47. Carlton's media interests are vertically integrated and include both programme production (and export sales) and TV broadcasting (on ITV and several pay-TV channels, and through its interest in ONdigital/DTT). The sale of advertising airtime (through Carlton Media Sales; see paragraph 4.58) is Carlton's main source of revenue from its media interests (nearly three-quarters of its total revenue of £860 million in 1999). With regard to terrestrial analogue TV, it holds three ITV licences/franchises: Carlton TV (since 1993), Central TV (since 1994) and Westcountry TV (since 1996). In addition to its main programme production business (see paragraph 4.139), Carlton owns Action Time and Planet 24, which produce niche programming for both ITV and other channels. It also owns 20 per cent of Meridian

TV, 25 per cent of GMTV, 20 per cent of ITN, and half of London News Network (Granada owns the other half).

4.48. Within digital TV, Carlton owns half of ONdigital (the main DTT operator, the other half being owned by Granada); and 37.7 per cent of ITV2 (of which Granada owns 35.2 per cent, UNM 26.4 per cent and Border TV 0.7 per cent). It also owns two pay-TV channels, namely Carlton Food Network and Carlton Cinema, which (as with ITV2) are available on some cable networks and ONdigital, but not the DTH/BSkyB platform.

Granada

4.49. Granada is a publicly quoted, UK company with a turnover of just over £4 billion and a market capitalization of £12.4 billion. In addition to its media/broadcasting businesses (see paragraphs 4.50 and 4.51), Granada has a diversified range of UK-based commercial interests, including hotels, catering (restaurants and motorway services) and TV/VCR rental, which together account for around three-quarters of its total annual revenue. Granada also has a 10 per cent equity interest in Liverpool Football Club.

4.50. Granada's media interests include both programme production (and export sales) and TV broadcasting (on ITV and several pay-TV channels, and through its interest in ONdigital/DTT). The sale of its advertising airtime (through GMS, which also sells airtime on behalf of Border TV; see paragraphs 4.57 and 4.58) is Granada's main source of revenue from its media interests (nearly two-thirds of its total revenue of £1 billion in 1999). With regard to terrestrial analogue TV, it currently holds four ITV licences/franchises—Granada TV (since 1954), LWT (since 1994), Yorkshire TV and Tyne Tees TV (since 1997)—and three programme production businesses (Granada is by far the largest programme producer for ITV; see paragraph 4.139) which are closely associated with its three franchise areas. It also owns 18.1 per cent of SMG, 25 per cent of GMTV, 20 per cent of ITN, and half of London News Network (Carlton owns the other half). During the course of this inquiry, a proposed takeover of Border TV by Capital Radio was announced, under the terms of which Granada has an option (subject to regulatory approval and not for a year after completion of the takeover) to buy Border TV's TV interests from Capital Radio for £50.5 million, and Capital Radio has a 'put' option in similar terms.

4.51. Within digital TV, Granada owns half of ONdigital (the main DTT operator, the other half being owned by Carlton); 35.2 per cent of ITV2 (of which Carlton owns 37.7 per cent, UNM 26.4 per cent and Border TV 0.7 per cent); and a 50.5 per cent economic interest in GSkyB, a joint venture with BSkyB, which owns and operates a number of channels on pay-TV platforms, namely Granada Plus, Granada Men & Motors and Granada Breeze. It also has joint venture interests in Shop! (a home shopping channel, in which Littlewoods has an interest) and MUTV (a sports channel devoted to the activities of Manchester United football club, in which Manchester United and BSkyB also have interests).

UNM

4.52. UNM is a publicly quoted UK company with a turnover of around £2.2 billion and a market capitalization of around £4.0 billion. In addition to its media/broadcasting businesses (see paragraphs 4.53 and 4.54), UNM has a diversified range of mainly UK-based commercial interests, including newspapers (the *Express* and *Star* titles) and advertising periodicals, business services (including exhibition organizing; magazines; Internet-related services; and market research services through NOP, Mediamark and Paradigm), which together account for around 74 per cent of its total annual revenue.

4.53. UNM's media interests are vertically integrated and include both programme production (and export sales) and TV broadcasting (on ITV; and through its equity interests in Channel 5, other pay-TV channels and the DTT pay-TV platform). The sale of advertising airtime (through TSMS, which also sells advertising airtime for SMG, Ulster TV and Channel TV; see paragraphs 4.55 and 4.56) is UNM's main source of revenue from its media interests. With regard to terrestrial analogue TV, it holds three ITV licences/franchises—Anglia TV (since 1994), Meridian TV (since 1993: Carlton also holds 20 per cent) and HTV (since 1997)—and also owns 35 per cent of Channel 5 (the other equity holders being Pearson with 30 per cent and CLT-UFA with 35 per cent) and 20 per cent of ITN). In addition to its regional programme production facilities, UNM owns two programme production businesses, namely United Productions and United Wildlife.

4.54. Within digital TV, UNM owns one-third of SDN, which operates one of the six DTT multiplexes: the other one-third equity holders are NTL, a cable operator, and S4C. UNM also owns 26.4 per cent of ITV2 (of which Carlton owns 37.7 per cent, Granada 35.2 per cent and Border TV 0.7 per cent); and 20 per cent of Satellite Information Services (SIS, a specialized horse-racing channel) and Rapture (a youth-oriented channel, wholly owned by UNM), both of which are available only on pay-TV platforms.

Other ITV operators

4.55. The other ITV regional operators are SMG, Ulster TV (Northern Ireland), Border TV and Channel TV. SMG (which also has newspaper and radio interests) operates the two main licences in Scotland, namely Scottish TV and Grampian TV, although the sale of SMG's advertising is undertaken by TSMS (owned by UNM; see paragraph 4.58). SMG's two largest shareholders are Granada, with 18.1 per cent, and Flextech (a major channel provider on pay-TV), with 17.6 per cent.

4.56. Ulster TV is an independent company operating the franchise covering Northern Ireland: the sale of its advertising is undertaken by TSMS (owned by UNM). Border TV (which also has interests in commercial radio) is another independent company operating the franchise covering Cumbria, the south of Scotland and the Isle of Man. The sale of Border TV's advertising is undertaken by Granada/GMS. Channel TV, the smallest ITV licensee, operates in the Channel Isles only; the sale of its advertising airtime is undertaken by TSMS.

Sales houses (sale of advertising airtime)

4.57. As indicated earlier, ITV is almost entirely advertising funded (sponsorship revenues are currently minimal, partly reflecting regulatory restrictions on the use of sponsorship): total NARs in 1999 were around £1.9 billion. These revenues arise from the sale of advertising airtime 'spots': each operator (licensee) is permitted an average of 7 minutes advertising an hour overall, a maximum of 7.5 minutes on average during peak viewing hours and up to 12 minutes in any one hour (see Appendix 4.2). In practice the maximum hourly minutage is used during peak viewing hours. Within each advertising 'break' of 2 to 3 minutes, there may be up to half a dozen 30-second slots (the typical advert length), though in practice there is often a mixture of 10-, 20- and 30-second advertisements within any given break.

4.58. Each of the three main parties sells its advertising airtime (for both its terrestrial and pay-TV channels) through its own 'sales house', which (except Carlton) also sells airtime on behalf of the smaller ITV licensees. Hence, Carlton TV's airtime is sold through Carlton Sales; that of Granada TV is sold though GMS, which also sells airtime on behalf of Border TV; and UNM sells through TSMS (which also sells airtime on behalf of SMG and Ulster TV). All three sales houses sell airtime for ITV2, although the final booking and scheduling of advertising slots is undertaken by GMS. Under the ITC regulations, however, ITV regional licensees are not permitted to sell airtime on behalf of GMTV, Channel 4 and Channel 5, which therefore sell their own airtime (see Appendix 4.2).

4.59. Each of the sales houses is organized in a rather similar manner and they also employ much the same sales, marketing and pricing practices: advertising pricing is considered in detail in paragraphs 4.110 to 4.115 and Appendix 4.3. A sales house typically comprises a series of scheduling teams, each of which is allocated to a particular product sector or group of customers; a more senior sales team which is supported by a research team; and schedule-checking and IT personnel (the allocation and scheduling of advertising slots is IT intensive). The customers themselves are typically media-buying companies that operate on behalf of advertisers. The scheduling staff and media buyers deal with each other on a day-to-day basis, negotiating terms in relation to individual specific slots (for example, the length and appearance order of a given advertisement in a given programme on a given day); the wider development and progress of particular advertising campaigns; and also settlement terms (on a monthly basis).

4.60. Notwithstanding that many such negotiations are on a day-to-day basis, they take place in the context of longer-term agreements (typically for one to three years), between media buyers/advertisers and the sales houses, which set out the main pricing and discount terms (see Appendix 4.3) for any given advertising customer); and also the advertising expenditure committed by a particular advertiser in any particular month. It is the role of the sales team to secure these agreements with their clients. We note also that sales teams, with the support of their research staff, proactively market the regions represented by the sales house, encouraging media buyers/advertisers to increase their expenditure in particular franchise areas. For example, GMS, although based in London, also has sales offices in the North, and its marketing efforts there are focused on increasing advertising spend in Granada TV, Yorkshire TV and Tyne Tees TV (as well as in the Border TV area).

Channel Four

4.61. Originally established in the early 1980s (but restructured in 1990; see Chapter 3), Channel 4 is a statutory or publicly-owned organization and TV channel (with full national coverage), although it is funded almost entirely from TV advertising revenues. Its ITC licence remit is broadly to provide innovative, experimental and educational programmes/broadcast content to appeal to tastes not otherwise catered for on terrestrial channels. Its more detailed licence requirements include showing a minimum of 60 per cent of original productions; a maximum of 40 per cent of repeats (20 per cent at peak times); at least 25 per cent of programmes must be independently produced; and there are specified minimum hours per week for news and current affairs (4 hours each), educational programmes (7 hours) and multicultural content (3 hours). Its total programming costs (including the purchase of ready-made content) are in excess of £400 million a year. Some of its most popular series/programmes include *Brookside* (soap drama), *Father Ted*, *Friends* and *Drop the Dead Donkey* (all comedy programmes).

4.62. In addition to being a terrestrial analogue channel, Channel 4 is available on the three pay-TV platforms (DTH, cable and DTT/ONdigital) in analogue/digital form; and on free-to-air digital transmission on Multiplex 3&4 (which it operates as a joint venture with ITV). It also operates a stand-alone subscription film channel (called FilmFour), which is available on the pay-TV platforms.

4.63. Accounting for about 10 per cent of total TV viewing in the UK (see Table 4.2), Channel 4 has a generally younger audience than ITV and with a higher proportion of ABC1 SEGs. With regard to advertising, Channel 4 sells its own advertising airtime (since 1993; prior to that it was sold by ITV), and its annual revenues of about £600 million in 1999 account for nearly 20 per cent of total NAR (see Table 4.11). Unlike ITV operators, Channel 4 does not pay an annual fee to HM Treasury for its spectrum use (although it does pay corporation tax on its profits, which were £46 million in 1999).

Channel 5

4.64. Channel 5 (operated by Channel 5 Television Group Limited) is the newest and consequently least-established terrestrial TV channel. Set up in 1997, Channel 5 has less than full national coverage, its terrestrial analogue transmissions being receivable in about 80 per cent of UK homes (it is also available, however, on the DTH, DTT and cable platforms; to that extent, it is viewable in principle in all UK homes). As with ITV and Channel 4, Channel 5 is funded almost entirely from TV advertising revenues. As mentioned earlier (see paragraph 4.53), UNM owns 35 per cent of Channel 5's equity, the other equity holders being CLT-UFA with 35 per cent and Pearson with 30 per cent. During the course of this inquiry, a proposed merger was announced between CLT-UFA and the broadcasting interests of Pearson.

4.65. Channel 5's ITC licence remit is less detailed than those of both the ITV operators and Channel 4. It is nevertheless required to offer a range of programming/broadcast content (including drama, entertainment, sport, current affairs etc), and its licence specifies minimum broadcast hours per week for these. It also specifies a minimum of 51 per cent original productions, and that at least 25 per cent of programmes must be independently produced. Its total programming spend is about £120 million a year. Some of its most popular series/programmes include *Fort Boyard*, *Sex and Shopping*, *Night Fever* and the 9.00 pm feature films.

4.66. Accounting for about 5 per cent of total TV viewing in the UK (see Table 4.2), Channel 5 takes about 6 per cent of NAR (Channel 5 sells its own advertising airtime and its revenues in 1999 were about £185 million; see Table 4.11). As with ITV operators, Channel 5 pays an annual fee for its spectrum use, amounting to about £22 million a year (adjusted annually in line with inflation). Additionally, as a condition of obtaining its licence (in 1997), it was required to pay for the large-scale retuning of VCRs (to avoid interference), which cost in excess of £150 million. Channel 5 in principle pays corporation tax, although it has yet to make positive profits.

The market(s) for viewers (audience shares and trends)

4.67. As explained earlier (see paragraphs 4.15 to 4.20), although free-to-air and pay-TV may be considered at present to be separate viewer/retail market segments (because of the differences between the two in terms of programme offerings and means of funding), there are also many similarities as far as viewers are concerned, and an increasing convergence between the two. In this section, we give details of the current audience shares of the main free-to-air and pay-TV channels and consider the effects of the three proposed mergers. We then examine the changes that have occurred in TV viewing shares since 1990; the growth in the number of subscribers to pay-TV services over this period; and possible future trends (to 2005) in these markets. Following that, we consider the possible effects of growth in the number of pay-TV subscribers/homes on the audience shares of free-to-air channels; as well as the TV channel ratings/audience shares both at different times of the day, and with respect to the most popular (widely-viewed) programmes.

4.68. Table 4.2 gives ITC/BARB figures for 1999 of overall audience/viewing shares (in all TV homes in the UK) for TV channels with a share of 0.1 per cent or more. Viewing shares are given in relation to total audience viewing rather than for each of the two market segments in order to facilitate comparison with other data on share changes over time (see Table 4.2). As shown in the table, the free-to-air terrestrial channels (BBC, ITV, Channel 4/S4C and Channel 5) together account for nearly 86 per cent of all TV viewing in the UK. Within that, BBC1 has a share of 28 per cent, BBC2 11 per cent, Channel 4 nearly 10 per cent, and Channel 5 has 5.3 per cent.

4.69. ITV/Channel 3 as a whole (including GMTV) is the largest single channel and by far the largest commercial (or non-BBC) channel, with an overall share of 31 per cent (which represents 36 per cent of free-to-air terrestrial TV). Granada, through its four ITV regional licences (see paragraph 4.50), has a 10.6 per cent share of the UK audience, followed by Carlton (three licences) with 8.3 per cent and UNM (three licences) with 6.5 per cent: all three of these companies also have interests in other TV channels (see paragraphs 4.45 to 4.56 and note 2 to Table 4.2). The other smaller ITV regional licensees and GMTV taken together have a share of 5.6 per cent, within which SMG is the largest, with a share of 2.5 per cent.

4.70. The figures mentioned above are the ITC/BARB 12-month moving average data for 1999, which are updated quarterly. We note that, as pointed out to us by Carlton/UNM, ITC/BARB figures for the year ended March 2000 show a reduction in ITV viewing share to 28.8 per cent (excluding GMTV), down from 29.4 per cent in 1999. BBC1 fell 0.1 percentage points to 28.2, BBC2 remained at 10.8, Channel 4 increased its share by 0.1 points to 10.0 per cent, and Channel 5's share increased 0.3 points to 5.6 per cent.

4.71. With regard to the proposed mergers, the effects on audience share and franchise ownership would be as set out below, based on the 1999 data and our normal approach to market shares (under which we attribute the whole of the market share of a given supplier to any company that has material influence over that supplier). On the further assumption that no divestments take place as part of the merger arrangements, all three mergers would exceed the 15 per cent audience limit specified in the Broadcasting Act 1996 (see paragraph 4.44 and Appendix 4.2, which explains the approach to determining audience shares specified in the Act, the calculation of which includes the audience share of digital channels, of which Granada Plus and ITV2 are the largest). They would also exceed the permitted holding of 20 per cent in ITN (see Appendix 4.2); and exceed the 25 per cent of NAR limit (see paragraph 4.4 and Appendix 4.2):

(a) Carlton/UNM would have an audience share of 16.4 per cent (including GMTV, in which Carlton has a 25 per cent stake), plus 5.3 per cent from UNM's one-third share in Channel 5, making a total of 21.7 per cent (although, under the terms of the Act, their audience share would be less, at about 18.3 per cent). The merged group would control three leading licences (Carlton TV, Central TV and Meridian TV); and would have interests in five digital multiplexes (the regulatory limits are explained in Appendix 4.2).

(b) Carlton/Granada would have an audience share of 20.5 per cent (including GMTV, in which both have a 25 per cent stake): under the terms of the Act, their audience share would be 20.1 per cent. Were Granada also to take over Border TV (see paragraph 4.50), its combined share would be only 0.5 per cent higher at 21 per cent. The merged group would control both London licences, which is not permitted under the Broadcasting Acts.

(c) Granada/UNM would have an audience share of 18.7 per cent (including GMTV, in which Granada has a 25 per cent stake), plus 5.3 per cent from UNM's one-third share in Channel 5, making a total of 24.0 per cent (though under the terms of the Act their audience share would be less, at about 21.0 per cent). The merged group would have interests in five digital multiplexes.

TABLE 4.2 **Overall audience shares (all TV homes) and rank ordering of selected UK TV channels, 1999**

per cent

A. Free-to-air terrestrial TV channels

Owner	*Channel*	*Share*	*Total*
BBC	*BBC1*	28.3	
	BBC2	10.8	39.1
Channel 3 (ITV):			
Granada	Granada TV	3.9	
	Yorkshire TV	3.2	
	LWT	2.0	
	Tyne Tees TV	1.5	10.6
Carlton	Central TV	4.7	
	Carlton TV	2.8	
	Westcountry TV	0.8	8.3
United	Meridian TV	2.4	
	HTV	2.3	
	Anglia TV	1.8	6.5
SMG	Scottish TV	1.9	
	Grampian TV	0.6	2.5
Other ITV	Ulster TV	1.0	
	Border TV	0.5	3.1
ITV excluding GMTV			29.4
	GMTV		1.6
Total ITV			31.0
Channel 4	Channel 4	9.9	9.9
Channel 5	Channel 5	5.3	5.3
S4C	S4C Wales	0.3	
Other		0.2	0.5
Total free-to-air			**85.8**

B. Pay-TV channels

Owner	*Channel*	*Share*	*Total*
BSkyB	Sky One	1.6	
Sports	Sky Sports 1	0.9	
	Sky Sports 2	0.6	
	Sky Sports 3	0.2	
Movies	Sky Premier	0.8	
	Sky Moviemax	0.5	
	Sky Cinema	0.1	
Other	Sky News	0.4	
	Fox Kids Network	0.1	
	History Channel	0.1	5.3
BSkyB joint ventures with:			
Viacom	Nickelodeon	0.7	
Granada	Granada Plus	0.3	
QVC	QVC	0.2	
Paramount Pictures	The Paramount Channel	0.1	1.3
Flextech	UK Gold	0.9	
	Living	0.5	
	Bravo	0.2	
	Challenge TV	0.2	
	Trouble	0.2	
	UK Horizons	0.1	
	UK Style	0.1	2.2
Viacom	MTV	0.4	
	VH1	0.3	0.7
Discovery	Discovery	0.3	
	Home and Leisure	0.2	
	Animal Planet	0.1	0.6
TimeWarner	Cartoon Network	0.8	
Disney	Disney Channel	0.4	
Zee TV	Zee TV Europe	0.3	
Eurosport International	Eurosport	0.3	
Universal Studios	Sci-Fi Channel	0.2	
Turner	TNT	0.2	
The Box	The Box	0.2	
BBC	BBC News 24	0.1	
ITV	ITV2	0.1	
CNN	CNN	0.1	
Other			2.3
Total pay-TV			**14.0**

Source: ITC/BARB.

Notes:
1. Figures do not sum to 100 because of rounding.
2. Many small-share channels on the pay-TV platforms are excluded. Among these are Granada channels (Granada Breeze, Granada Men & Motors, MUTV and Shop!), Carlton channels (Carlton Food Network and Carlton Cinema) and UNM channels (Rapture and SIS).
3. The data do not include viewing on DTT.

4.72. Turning to pay-TV, many of the channels carried are available on two, or all three, of the pay-TV platforms (satellite/DTH, cable and DTT). As well as being the main DTH operator, BSkyB is the most important channel provider on pay-TV, in terms of both audience share and the value of subscriptions. As shown in Table 4.2 (based on 1999 data), its most-viewed channel is Sky One, with an all-channel viewing share of 1.6 per cent, followed by Sky Sports 1 with 0.9 per cent and Sky Premier (a movie channel) with 0.8 per cent. In total, BSkyB channels have an audience share 5.3 per cent, or 6.6 per cent if its joint ventures with other channel providers (such as Granada) are included: this represents nearly half of all viewing on pay-TV channels. Flextech is the next largest channel provider with a share of around 2.2 per cent across all of its seven channels, its most popular channel being UK Gold with a 0.9 per cent share.

4.73. Apart from BSkyB and Flextech, the 16 next largest pay-TV channels taken together account for only 2.5 per cent of audience share. Within that group, ITV2 (which is available on cable and DTT, but not satellite/DTH) has a share of only 0.1 per cent; and the other channels operated by the main parties each have an overall share of less than that (see note 2 to Table 4.2). We estimate that, taken together, the six pay-TV channels (including ITV2) in which Granada has interests account for about 0.6 per cent of all TV viewing: those of Carlton (including ITV2) account for about 0.2 per cent, and those of UNM (including ITV2) for less than 0.2 per cent.

4.74. Looking now to changes in audience shares over time, some significant changes occurred during the 1990s, largely due to the growth in take-up of pay-TV. Table 4.3 provides estimates for the period 1990 to 1999, and forecasts for 2000 to 2005, of the viewing shares of individual free-to-air terrestrial channels and the three pay-TV platforms (grouping together the viewing of all the channels carried on each of the three platforms: because of differences in sources, the data relating to 1999 differ slightly between Tables 4.2 and 4.3): these data are presented in graphical form in Figure 4.2.

4.75. The source of the actual/forecast data in Table 4.3 is a report *UK Television Forecasts to 2005* published in March 2000 by Zenith Media, the largest media-buying agency in the UK: the actual/past data is from BARB. We have seen various industry forecasts, but have chosen to include those of Zenith Media on the grounds that they are independent and generally well regarded. Zenith Media publishes its updated forecasts twice yearly, entirely independently of the present inquiry, and they are widely used by the advertising/broadcasting sector. Indeed, a number of parties that put evidence to us, including the ITC, drew on Zenith Media figures.

TABLE 4.3 **Overall share of TV viewing (all homes) by channel/platform**

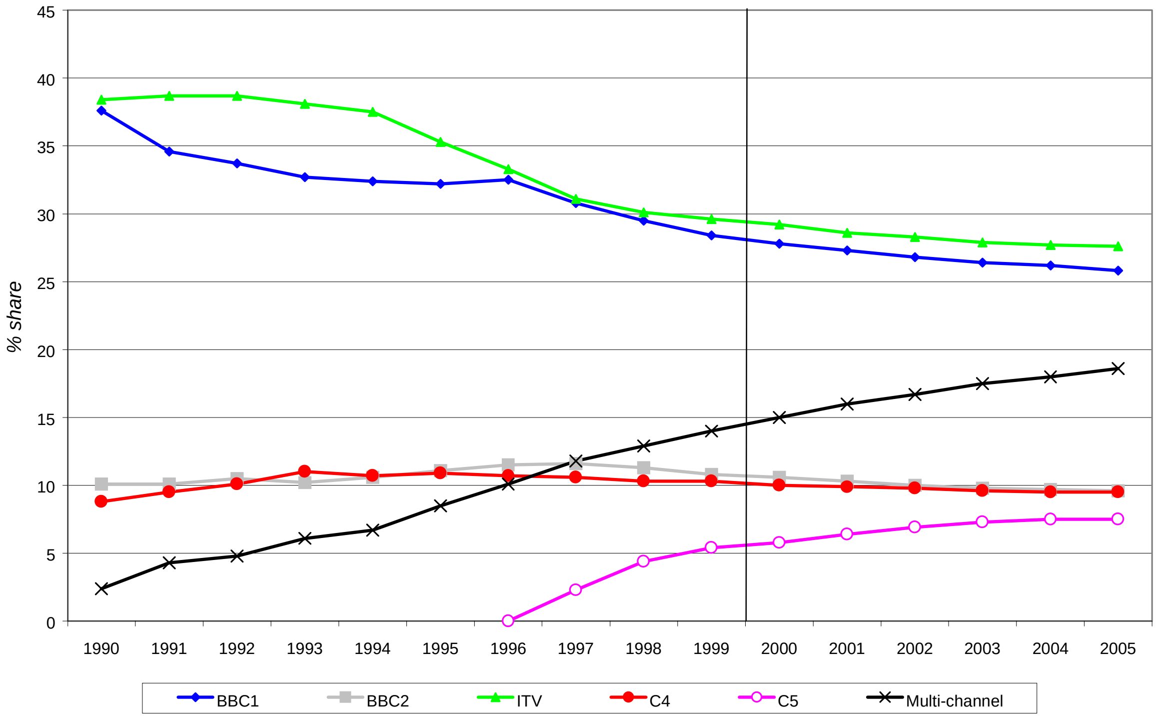
per cent

		Channel/platform									
Actual	*Average viewing (hours per day)*	*BBC1*	*BBC2*	*ITV*	*C4*	*C5*	*GMTV*	*Cable*	*Satellite*	*DTT*	*Multi-channel*
1990	3.4	37.6	10.1	38.4	8.8	-	2.7	0.7	1.7	-	2.4
1991	3.7	34.6	10.1	38.7	9.5	-	2.8	1.0	3.3	-	4.3
1992	3.9	33.7	10.5	38.7	10.1	-	2.2	1.4	3.4	-	4.8
1993	3.8	32.7	10.2	38.1	11.0	-	1.9	1.6	4.5	-	6.1
1994	3.6	32.4	10.6	37.5	10.7	-	2.1	1.9	4.8	-	6.7
1995	3.6	32.2	11.1	35.3	10.9	-	2.0	2.7	5.8	-	8.5
1996	3.6	32.5	11.5	33.3	10.7	-	1.9	3.7	6.4	-	10.1
1997	3.6	30.8	11.6	31.1	10.6	2.3	1.8	4.8	7.0	-	11.8
1998	3.6	29.5	11.3	30.1	10.3	4.4	1.6	5.8	7.0	0.1	12.9
1999	3.7	28.4	10.8	29.6	10.3	5.4	1.6	5.8	7.3	1.0	14.0
Forecast											
2000	3.7	27.8	10.6	29.2	10.0	5.8	1.6	5.8	7.6	1.6	15.0
2001	3.6	27.3	10.3	28.6	9.9	6.4	1.5	6.1	7.6	2.3	16.0
2002	3.6	26.8	10.0	28.3	9.8	6.9	1.5	6.5	7.3	2.9	16.7
2003	3.6	26.4	9.8	27.9	9.6	7.3	1.5	7.0	7.1	3.4	17.5
2004	3.6	26.2	9.7	27.7	9.5	7.5	1.4	7.5	6.9	3.7	18.0
2005	3.6	25.8	9.6	27.6	9.5	7.5	1.4	8.1	6.6	3.9	18.6

Source: Zenith Media/BARB.

FIGURE 4.2

Overall share of TV viewing (all homes) by channel/platform



Source: Zenith Media.

4.76. However, both Carlton and UNM also provided to us their own forecasts (produced during the course of this inquiry) for the period 2000 to 2005, which show somewhat lower predicted audience shares (and also lower advertising revenues) for ITV than those of Zenith Media. The differences between the Carlton/UNM/Zenith Media forecasts (see also paragraphs 4.87 to 4.89) largely reflect differences in methodology and assumptions about the growth in take-up of pay-TV, as well as the effect of free-to-air digital channels.

4.77. As indicated in Table 4.3, people on average watch TV for a little over three and a half hours a day (mainly in the evenings). UK viewing habits also appear to be highly stable: the average time spent watching TV changed only marginally throughout the 1990s (the modest increase in 1992/93 coincided with an economic recession) and Zenith Media predicted that it would continue to be highly stable in the future, notwithstanding the expected increase in PC/Internet usage and the growth of other leisure activities. UNM, on the other hand, argued that the increase in PC/Internet usage in particular would lead to reduced TV viewing, including that of the ITV channel.

4.78. As also shown in Table 4.3, satellite/DTH, cable and DTT channels increased their combined audience share from only 2.4 per cent in 1990 to 14 per cent in 1999. Of this, viewing on satellite channels accounts for around 7.3 per cent, cable nearly 6 per cent and DTT (in effect, ONdigital which was launched in late 1998) accounts for 1 per cent. Channel 5, launched in 1997, gained a market share of over 5 per cent by 1999. Most of the growth in pay-TV and Channel 5 viewing has been at the expense of BBC1 and ITV, each of which lost around nine percentage points of market share over the period. By contrast, both BBC2 and Channel 4 have achieved modest increases in audience share compared with 1990.

4.79. BBC1's audience share fell by three percentage points in 1991, and by a further one percentage point in each of the following two years. Its share remained stable at around 32 per cent from 1994 to 1996, and then fell by a further four percentage points between 1997 and 1999. Similarly, ITV's share declined slightly in 1993/94, and then at around two percentage points a year in each of the following three years. However, the rate of decline in ITV's audience share appears to have slowed in 1998 and 1999 (particularly for peak-time viewing); although it appears to have reverted to its earlier 2 per cent rate of decline in the first few months of this year.

4.80. As regards future trends (on which the parties laid great stress), Zenith Media's forecasts suggest that ITV's share will decline by a further two percentage points over the next six years to 27.6 per cent. Carlton told us, however, that on the basis of its own forecasts, it expected ITV's share to fall to [✄] per cent by 2005; and similarly UNM forecast that it would fall to [✄] per cent (see also paragraphs 4.87 to 4.89). Granada also considered that Zenith Media's forecasts underestimated the likely decline in ITV's audience share.

4.81. The profile of growth in pay-TV has differed across the three platforms. Satellite/DTH's audience share grew steadily throughout the 1990s, although it seems now to have reached a plateau at about 7 per cent or so of total TV viewing. Indeed, Zenith Media predicts a modest decline over the next five years. Growth in the take-up of cable TV was relatively slow in the early 1990s, but has accelerated in recent years, and Zenith Media forecasts that cable viewing will overtake that on the DTH platform over the next few years. Similarly, DTT is predicted to increase its audience share from only 1 per cent in 1999 to nearly 4 per cent in 2005. As discussed in paragraph 4.89, the respective future market shares of the pay-TV platforms will depend on a number of uncertain factors, including the speed of take-up of digital TV and the success of channel/platform operators in bidding for attractive content rights.

4.82. The recent report by the CC on the proposed NTL/Cable & Wireless merger (see Appendix 4.1, item 2) examined the different strategies adopted by platform operators in encouraging the take-up of pay-TV. In general, BSkyB's success in building market share appears to have been due to its acquisition of key sports and movie rights, which made it highly attractive to viewers who placed a premium on this type of programme content. The recent increases in share by the cable operators appear to be due to a strategy of offering 'free' pay-TV, the cost of which is included in the charge for telephone rental. The ability of the cable operators to make such an offer is due to the nature of cable technology and the economies of scope involved. As a result, it may be argued that cable customers are less likely to be interested in the additional programme content available on pay-TV channels than customers of BSkyB. Indeed, it appears that far fewer cable customers than BSkyB/satellite customers subscribe to the premium sports and movie channels that are available across both platforms, and this is also true of DTT subscribers. Estimates, quoted by Zenith Media, are that the typical DTT subscriber buys the basic package plus 1.1 premium channels, cable subscribers buy basic plus 1.3 premium channels, while the typical satellite/BSkyB subscriber buys basic plus three premium channels.

4.83. As might be expected, the audience share of pay-TV channels tends to be related to the proportion of households subscribing to one or other of the pay-TV delivery systems. Table 4.4 shows that the total number of TV households in the UK has grown by around 2.5 million since 1990, and is expected to continue growing at a similar rate over the next six years. In 1999, 32 per cent of homes subscribed to satellite, cable TV or DTT, as compared with only 7 per cent in 1990. Until now, satellite/DTH/BSkyB has been the most successful pay-TV platform with 16.5 per cent of homes, followed by cable with 13 per cent and DTT with 2 per cent. Zenith Media forecast that satellite's share of households would peak at 19 per cent or so in 2001, before returning to present levels in 2005, while cable would increase to 20 per cent and DTT to 10 per cent by 2005. Overall, Zenith Media forecast that multi-channel or pay-TV penetration would increase from 32 per cent now to nearly 46 per cent in 2005.

4.84. Zenith Media also forecast that by 2002 around 1 million homes would have purchased integrated digital TVs (IDTVs), and so would be able to receive directly (without a separate decoder) the digital terrestrial transmissions of BBC1, BBC2, ITV, Channel 4/S4C and Channel 5, as well as any other channels being transmitted free-to-air via digital (at present, these are BBC Choice, BBC News 24, BBC Knowledge, BBC Parliament and ITV2). Based on the historical rate of replacement of TV sets, Zenith Media estimated that this figure would have increased to just under 8 million by 2005. Carlton, on the other hand, estimated that there would be [✄] million such homes in 2005, and that the effect of having these additional channels would reduce ITV's share of viewing in these homes from 32 to [✄] per cent.

TABLE 4.4 **Multichannel TV penetration**

	Total TV homes '000	*Percentage penetration of TV homes*				*Non-terrestrial channels' share of TV viewing (%)*	
		Cable	*Satellite*	*DTT*	*Total*	*All TV*	*Commercial TV*
Actual							
1990	21,553	2.0	5.1	-	7.1	2.4	4.6
1991	22,026	2.2	7.1	-	9.3	4.3	7.7
1992	22,088	3.0	6.8	-	9.8	4.8	8.6
1993	22,247	3.5	9.9	-	13.4	6.1	10.7
1994	22,359	4.7	12.1	-	16.9	6.7	11.8
1995	23,331	6.1	13.2	-	19.2	8.5	15.0
1996	23,538	8.4	14.4	-	22.8	10.1	18.0
1997	23,627	10.4	15.0	-	25.4	11.8	20.5
1998	23,804	12.2	14.7	-	27.1	12.9	21.8
1999	23,988	13.2	16.5	2.2	31.9	14.0	23.0
Forecast							
2000	24,252	14.5	18.8	4.0	37.3	15.0	24.4
2001	24,519	15.6	19.4	6.0	41.0	16.0	25.6
2002	24,788	16.5	18.8	7.5	42.8	16.7	26.4
2003	25,061	17.6	18.0	8.5	44.1	17.5	27.4
2004	25,337	18.7	17.2	9.2	45.1	18.0	28.1
2005	25,615	20.0	16.2	9.7	45.9	18.6	28.8

Source: Zenith Media.

4.85. At 14 per cent, the combined audience share of pay-TV channels is markedly less than the proportion of UK households currently subscribing to pay-TV (32 per cent). This is because a large proportion of viewing in 'pay-TV homes' continues to be accounted for by terrestrial free-to-air channels, which they can access directly or via the pay-TV platforms (the pay-TV operators are required to carry the major free-to-air channels: in practice, ITV is not carried by DTH/BSkyB because, we were told, its regional structure would necessitate using large amounts of expensive transponder capacity). Table 4.5 provides estimates of the share of viewing of the five main terrestrial channels, both in homes which have pay-TV and those which do not. The figures may, to some extent, reflect a difference in demographics (or viewing preferences) between these two groups, rather than a marked change in viewing habits on the part of households which have chosen to subscribe to pay-TV.

TABLE 4.5 **Terrestrial channel shares of viewing in multichannel and non-multichannel homes**

Channel	*Share of viewing* *Terrestrial-only homes*	*Multi-channel homes*	*Loss of share in multi-channel homes*
BBC 1	34.5	23.6	31.6
BBC 2	12.7	6.5	48.8
ITV	33.6	24.7	26.5
Channel 4	11.2	6.6	41.1
Channel 5	5.0	3.4	32.0

Source: ISBA.

4.86. BBC1's share in homes which do not subscribe to pay-TV is 34.5 per cent, slightly above that of ITV at 33.6 per cent. ITV's share in pay-TV homes is around nine percentage points lower than in other homes, while the difference for BBC1 is 11 per cent.

4.87. As indicated earlier, the differences between Zenith Media's projection of ITV audience share (27.6 per cent) in 2005, Carlton's forecast ([✄] per cent) and that of UNM ([✄] per cent) are largely due to different assessments of the future impact of pay-TV. Carlton told us that, of the [✂] percentage points difference between the Zenith Media and Carlton forecasts, [✂] per cent was because of differences in estimates of ITV viewing share in pay-TV homes. It claimed that pay-TV households tended to be larger than those without pay-TV; and that those subscribing to DTH tended to be larger than those which took DTT. Carlton believed that Zenith Media had failed to take account of this difference, and that the failure to convert homes (subscribers) into individuals (viewers) had distorted Zenith Media's viewing share estimates. Zenith Media told us that while it did not discuss its methods with outsiders, its forecasts took adequate account of the population of pay-TV homes. We note that the profile of homes which subscribe for the first time to pay-TV over the next few years may well be different from the profile of those that have already done so: in particular, DTT subscription is expected to grow more quickly in the near future than satellite (see paragraph 4.83). This may suggest that the average size of pay-TV homes will be smaller in the future than it has been in the past, in which case the negative impact of increased pay-TV subscriptions on ITV viewing shares may be less than expected. Carlton and UNM told us that this had already been factored into their forecasts.

4.88. Secondly, Carlton told us that Zenith Media counted a home as subscribing to pay-TV if it had done so at any time in the year, whereas Carlton's figures were calculated on a rolling monthly basis. Carlton believed that Zenith Media's historical data therefore exaggerated ITV's viewing share in pay-TV homes, and that this had led Zenith Media to underestimate the potential impact of future pay-TV growth on ITV viewing share. Zenith Media told us that it was aware of, and accounted for, this problem, and that it had no knowledge of the existence of monthly pay-TV home statistics. In addition, Carlton told us that differences in projections of pay-TV penetration accounted for [✂] of the [✂] percentage points discrepancy between its own estimate and that of Zenith Media. Carlton estimated that pay-TV would achieve [✂] per cent penetration by 2005, whereas Zenith Media estimated the figure at 45.9 per cent. Carlton told us that last year Zenith Media underestimated DTH and ONdigital penetration, and that it had now revised its forecasts upward. Carlton also told us that its own predictions of pay-TV penetration by 2005 were lower than some recent brokers' reports. It attributed most of the remainder of the difference between its estimates of viewing shares and those of Zenith Media to the purchase of digital TVs by homes which did not subscribe to pay-TV (see paragraph 4.84).

4.89. We note the differences in these forecasts of ITV's audience share and the uncertain validity of the underlying assumptions used in each of them, most especially those concerning the take-up of pay-TV and the consequent effects on ITV viewing. Whilst we consider the Zenith Media forecasts to be broadly sound in themselves—and all the forecasts suggest a similar gradual but continuing decline in ITV's overall viewing share—there is inevitably a degree of uncertainty involved with such forecasts, and the further into the future they go, the wider is the band of expected values. The forecasts of Zenith Media, and others, are also somewhat mechanistic in format, whilst future viewing shares will depend in part, of course, on the actions of the individual channel operators. Were ITV, for example, to further increase its programme expenditure, or acquire even more attractive content rights, its audience share may well turn out, other things being equal, to be greater than currently expected or than would otherwise be the case. But if other channels similarly enhanced their programme offerings at the same time, the opposite effect might occur.

4.90. Moving on to other aspects of TV viewing markets, channels/platforms compete for viewers and audience share for different reasons, depending on whether they are funded by a licence fee (BBC only), subscription charges or advertising revenues. For ITV, while it is important to maintain a high level of average viewer share, its ability to deliver audiences at peak times to individual advertisers—who will pay a premium for the ability to reach a large audience quickly—is of particular significance. Advertising markets are discussed in greater detail in paragraphs 4.94 to 4.109 but, as a prelude to that, Table 4.6 compares audience shares in four periods of the day ('day-parts'). ITV's overall share is 31 per cent (see Table 4.2), but its share of peak-time viewing is considerably higher at 37 per cent. Of the other commercial channels, Channel 4 has a lower audience share at peak times than at other times of the day, while Channel 5 has its highest audience share after 10.30 pm. The other commercial channels—on satellite, cable and DTT—have a peak-time share of only 10.5 per cent, compared with 17 per cent at other times of the day.

TABLE 4.6 **Audience share of viewing by day-part by channel, 1999**

per cent of audience share

Day-part	*BBC1*	*BBC2*	*ITV*	*Channel 4*	*Channel 5*	*Other*
Breakfast time 6.00 am to 9.30 am	24.1	14.7	30.3	10.4	3.5	17.0
Daytime 9.30 am to 6.00 pm	27.1	12.4	25.0	12.9	5.1	17.5
Peak time 6.00 pm to 10.29 pm	29.8	10.0	36.9	7.7	5.0	10.5
Late night 10.30 pm to 5.59 am	27.7	8.5	25.4	13.1	8.1	17.2

Source: BARB.

4.91. The audience share of individual TV programmes is also of particular interest to advertisers wishing to achieve a high level of coverage over a short period of time. Table 4.7, based on BARB data published in *Broadcast* magazine, compares ratings for the 20 most popular programmes on free-to-air terrestrial channels with the 20 most popular pay-TV programmes over a single week. All programmes in the top 70 received ratings of above 5 million, and all of these were on BBC1 or ITV except *Journeys to the Bottom of the Sea*, ranked at 62, which was shown on BBC2. The top dozen or so programmes all had audiences of 10 million or more. The highest-rated Channel 4 programme was *Countdown* (Friday), which had 3.4 million viewers.

4.92. In contrast, pay-TV audiences are far smaller and more fragmented. Only three pay-TV programmes achieved ratings of 1 million or more, the highest of these being *Friends* with 1.6 million viewers. The average for the top 20 programmes is under 0.7 million.

4.93. In summary, ITV is by far the largest commercial channel in terms of both free-to-air terrestrial viewing and overall, accounting for nearly a third of TV audiences in total and 37 per cent of peak-time viewing. It also carries most of the 'mass-audience' programmes. Its viewing share has nonetheless declined over the past ten years with the growth in take-up of pay-TV and the advent of Channel 5. Including GMTV, ITV's audience share is forecast by Zenith Media to continue declining from 31.2 per cent now to 29.0 per cent in 2005.

Advertising markets

4.94. As discussed in paragraphs 4.21 to 4.27, we consider TV advertising to be a separate market from advertising through other media, and within that we view advertising on pay-TV as distinct from advertising on free-to-air TV. In addition, we view ITV as a separate advertising market segment, due largely to its unique ability to build advertising coverage quickly, and the importance of this to many major advertisers. Advertising on Channel 4 is probably the closest or nearest substitute. Some advertisers, however, are likely to regard various combinations of Channel 4, Channel 5 and the pay-TV/BSkyB channels as offering comparable national coverage and reach to that of ITV.

4.95. In this section we discuss historical and forecast data on advertising revenues and market shares. We begin with a comparison of expenditure and revenue figures for all display (as distinct from classified) advertising media. We then consider changes in total display advertising revenue in recent years, and changes in the revenue shares of the different media. Next we look at the shares of TV NAR of the commercial TV channels, including ITV. Within ITV, we compare the market shares of each region and each advertising sales house, the effects of the proposed mergers, and changes in market shares over time.

4.96. Expenditure on display advertising in the UK was estimated at £14.3 billion in 1998 by the Advertising Association. TV advertising accounted for £4 billion of this and press advertising (newspapers and magazines) for £7.5 billion. Around £1.7 billion was spent on direct mail, £0.6 billion on outdoor advertising, £0.5 billion on radio, and £0.1 billion on cinema. Table 4.8 compares total

TABLE 4.7 **Twenty highest-rated programmes, week ending 19 March 2000**

	Broadcast on terrestrial free-to-air TV				*Broadcast on pay-TV*			
	Programme	*Time*	*Viewers m*	*Broadcaster (producer)*	*Programme*	*Time*	*Viewers m*	*Channel*
1	*Coronation Street*	Mon 1930	16.6	ITV (Granada)	*Friends*	Thu 2100	1.6	Sky One
2	*Coronation Street*	Sun 1930	16.1	ITV (Granada)	*Super Sunday Live*	Sun 1600	1.2	Sky Sports 1
3	*East Enders*	Mon 2000	14.0	BBC1	*The Simpsons*	Sun 1800	1.0	Sky One
4	*Coronation Street*	Fri 1930	13.7	ITV (Granada)	*X Files*	Sun 2000	0.9	Sky One
5	*East Enders*	Tue 1930	13.4	BBC1	*Mercury Rising*	Sat 2000	0.9	Sky Premier
6	*East Enders*	Thu 1930	13.1	BBC1	*The Simpsons*	Mon 1800	0.7	Sky One
7	*Seeing Red*	Sun 2000	12.3	ITV (Granada)	*The Simpsons*	Tue 1900	0.7	Sky One
8	*Coronation Street*	Wed 2205	11.7	ITV (Granada)	*ER*	Thu 2130	0.7	Sky One
9	*Emmerdale*	Wed 1900	11.2	ITV (Granada)	*The Simpsons*	Wed 1900	0.6	Sky One
10	*Casualty*	Sat 2005	11.2	BBC1	*Star Trek: Deep Space 9*	Mon 2000	0.6	Sky One
11	*Emmerdale*	Tue 1900	11.2	ITV (Granada)	*King of the Hill*	Sun 1900	0.6	Sky One
12	*Emmerdale*	Thu 1900	11.2	ITV (Granada)	*Friends*	Sun 1930	0.6	Sky One
13	*Randall & Hopkirk (Deceased)*	Sat 2055	10.6	BBC1 (WTTV*)	*UEFA Cup Live*	Thu 1950	0.6	Sky Sports 3
14	*Big Match*	Wed 1930	9.9	ITV (Carlton/ISN*)	*Angel*	Fri 2100	0.6	Sky One
15	*Ground Force*	Fri 2000	9.8	BBC1 (Bazal*)	*Buffy the Vampire Slayer*	Fri 2000	0.6	Sky One
16	*Peak Practice*	Tue 2100	9.7	ITV (Carlton)	*Super Sunday post-match*	Sun 1800	0.6	Sky Sports 1
17	*Antiques Roadshow*	Sun 1845	9.3	BBC1	*Football League Live*	Sun 1300	0.5	Sky Sports 3
18	*Blind Date*	Sat 1905	9.1	ITV (Granada)	*The Simpsons*	Thu 1900	0.5	Sky One
19	*This is Your Life*	Mon 2030	8.7	BBC1 (Thames*)	*Stargate S G-1*	Wed 1700	0.5	Sky One
20	*The Blind Date* (drama)	Mon 2100	8.6	ITV (Granada)	*Porridge*	Sun 2025	0.5	UK Gold

Source: BARB, *Broadcast* magazine.

*Independent producers.

advertising expenditure in each medium with NAR in 1998, the latest year for which expenditure data are currently available. Production costs (for advertisements) account for around 15 per cent of TV advertising expenditure, and advertising/media buying agency commissions account for a further 15 per cent (see Appendix 4.3), leaving a TV NAR of £2.9 billion in 1998. Granada and Carlton each had over 20 per cent of NAR in 1998, while UNM had 15 per cent. UNM also had a [✄] per cent share of press advertising revenue, which amounted to £[✄] million, and Carlton had a [✄] per cent share in cinema advertising revenues, worth around £[✄] million in 1998.

TABLE 4.8 **Advertising expenditure and revenue, 1998**

£ million

	*Total expenditure**	*NAR*			
		All	*Granada*	*Carlton*	*UNM*
TV (terrestrial, cable and satellite)	4,029	2,861	585	610	431
Share of TV NAR (%)	-	-	*20.4*	*21.3*	*15.1*
Press	7,489	5,212		-	[✄]†
Direct mail	1,666	-	-	-	-
Outdoor	563	442	-	-	-
Radio	463	358	-	-	-
Cinema	97	82	-	[✄]†	-
Total	14,307	8,954			
TV share of total (%)	28	32			

Source: CC, based on data from Zenith Media, *Advertising Statistics Yearbook*, Carlton, UNM.

*Includes production costs and agency commission.
†Excludes two months of regional newspaper advertising revenue, as UNM disposed of this business in March 1998.
‡The revenue figure for cinema advertising (£82 million) is revenue before discounts are applied. Carlton told us that this discount was typically 30 per cent, and that its revenue, net of discounts, from cinema advertising in 1998 was £39.3 million.

4.97. Changes in NAR over the period 1990 to 1999, and forecasts to 2005, are shown in Table 4.9. Display advertising revenue across all media fell in real terms in 1991 and 1992, but grew by an average of 6 per cent a year from 1993 to 1999, rising from £7.3 billion in 1990 to £9.3 billion in 1999. Zenith Media forecast that advertising revenue would continue to grow in real terms for the next six years, but at a slower average rate of 2 per cent a year. Share of revenue by each medium is relatively stable from one year to the next, but has changed over the past ten years. TV's share of all advertising revenue grew from 30 per cent in 1990 to 33 per cent in 1993, and has remained at between 32 and 33 per cent since then. However, Zenith Media predicts that TV's share will increase to 37 per cent by 2004.

TABLE 4.9 **NAR and share by medium**

	Total £m constant 1998 prices	*% share of revenue by medium*		
		TV	*Press*	*Other**
Actual				
1990	7,346	30	63	7
1991	6,640	31	62	7
1992	6,596	32	61	7
1993	6,722	33	60	8
1994	7,251	33	59	8
1995	7,593	32	59	9
1996	7,973	32	59	9
1997	8,455	32	59	10
1998	8,954	32	58	10
1999	9,296	33	57	10
Forecast				
2000	9,548	34	56	11
2001	9,743	35	55	11
2002	9,838	35	54	11
2003	10,147	36	53	11
2004	10,394	37	52	11
2005	10,748	37	52	11

Source: Zenith Media.

*Includes radio, cinema, Internet and outdoor advertising.

4.98. Advertising is generally recognized as being strongly pro-cyclical (positively dependent on GDP). MindShare, a media-buying agency, said in its Media Inflation report, 1999, that increasing consumer expenditure at the start of a period of economic growth increased 'market opportunities', ie the chance of a sale, and hence the potential return on advertising. MindShare believed that falling company profits at the beginning of a recession acted as a brake on advertising because many businesses were only prepared to fund advertising out of current profits. Table 4.10 compares inflation-adjusted growth in advertising revenue with economic growth in the UK. Figure 4.3 compares growth in TV and ITV revenues with GDP. From 1990 to 1992, when economic growth was low or negative, NAR fell in real terms. Between 1994 and 1999 advertising revenue grew in real terms at 5.5 per cent a year on average, around twice the rate of economic growth over the period. TV advertising revenue has grown at a similar rate over this period. Zenith Media forecast that overall advertising revenue would grow at 2.4 per cent a year in real terms over the next six years, and that TV NAR would grow at 4.5 per cent a year in real terms. The quality of advertising revenue forecasts is, to a large extent, dependent on the accuracy of the forecast of economic growth on which they are based.

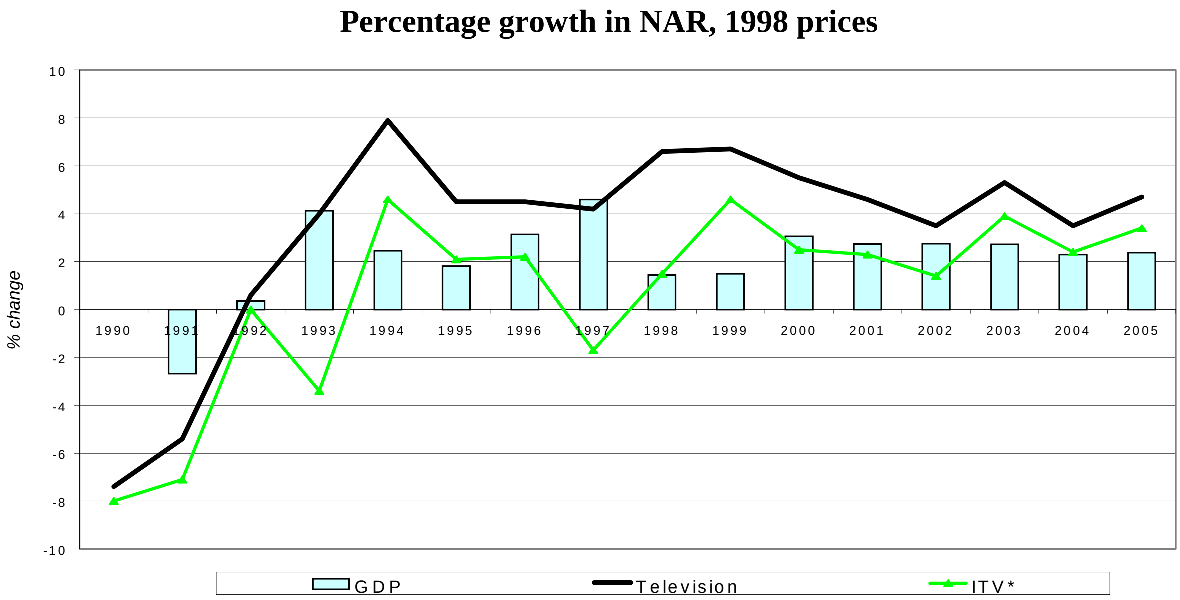
TABLE 4.10 **Percentage growth in NAR, 1998 prices**

		Medium		*Change in GDP at constant prices*
	All media	*TV*	*ITV**	
Actual				
1990	–11.7	–7.4	(–8.0)	0.00
1991	–9.6	–5.4	(–7.1)	–2.68
1992	–0.7	0.6	(0.0)	0.36
1993	1.9	4.0	(3.4)	4.13
1994	7.9	7.9	4.6	2.46
1995	4.7	4.5	2.1	1.81
1996	5.0	4.5	2.2	3.14
1997	6.0	4.2	–1.7	4.59
1998	5.9	6.6	1.5	1.44
1999	3.8	6.7	4.6	1.50
Forecast				
2000	2.7	5.5	2.5	3.06
2001	2.0	4.6	2.3	2.74
2002	1.0	3.5	1.4	2.75
2003	3.1	5.3	3.9	2.73
2004	2.4	3.5	2.4	2.30
2005	3.4	4.7	3.4	2.38

Source: Zenith Media, ONS.

*Excluding GMTV. Figures in parentheses include Channel 4 advertising revenue.
†1995 prices.

FIGURE 4.3



Source: Zenith Media, ONS.

4.99. Total TV NAR in the UK was £2.2 billion in 1990 (at 1998 prices) and grew in real terms by an average of 3.7 per cent a year to reach £3.1 billion in 1999, as shown in Table 4.11 and Figure 4.4. Zenith Media forecast that this growth would continue at a slightly higher rate up to 2005. During this period of growth, the NAR shares of the commercial channels have changed considerably. ITV's share of TV advertising revenue has fallen from virtually 100 per cent before the establishment of Channel 4 in 1982, to 74 per cent in 1993, when Channel 4 was first permitted to manage its own advertising, and down to 60.5 per cent in 1999. From 1994 to 1996 ITV lost an average of 1.8 share points a year. In 1997 and 1998 its share fell by a total of seven percentage points, and this appears to have been largely due to the launch of Channel 5. Zenith Media forecast that ITV's share of TV advertising revenue would fall by six percentage points to 54.3 per cent in 2005. Carlton and Paradigm (a media consultancy which is 50 per cent owned by TSMS) both estimated that ITV's share would be [✂] per cent in 2005. Carlton told us that the difference between Zenith Media's forecast ITV revenue share and its own was largely due to differences in their respective forecasts of ITV audience share (see paragraphs 4.87 and 4.88).

TABLE 4.11 **Share of TV NAR by channel**

per cent

	TV advertising revenue £m, constant 1998 prices	*Channel*				
		*ITV**	*C4**	*GMTV*	*C5*	*Pay-TV channels*
Actual						
1990	2,207	94.4		4.9	-	0.7
1991	2,088	92.7		4.9	-	2.5
1992	2,100	92.2		4.8	-	3.1
1993	2,185	74.2	17.4	3.4	-	4.8
1994	2,358	71.9	18.7	3.6	-	5.5
1995	2,463	70.2	19.8	3.6	-	6.0
1996	2,574	68.7	20.2	3.2	-	7.5
1997	2,683	64.8	19.7	2.8	3.2	9.2
1998	2,861	61.7	19.3	2.5	5.0	11.2
1999	3,052	60.5	19.0	2.1	6.0	12.1
Forecast						
2000	3,221	58.8	18.6	2.1	7.0	13.5
2001	3,370	57.5	18.2	1.9	7.7	14.5
2002	3,487	56.3	18.0	1.9	8.3	15.4
2003	3,671	55.6	17.5	1.8	8.7	16.2
2004	3,800	55.0	17.1	1.7	9.0	17.0
2005	3,977	54.3	17.0	1.6	9.2	17.7

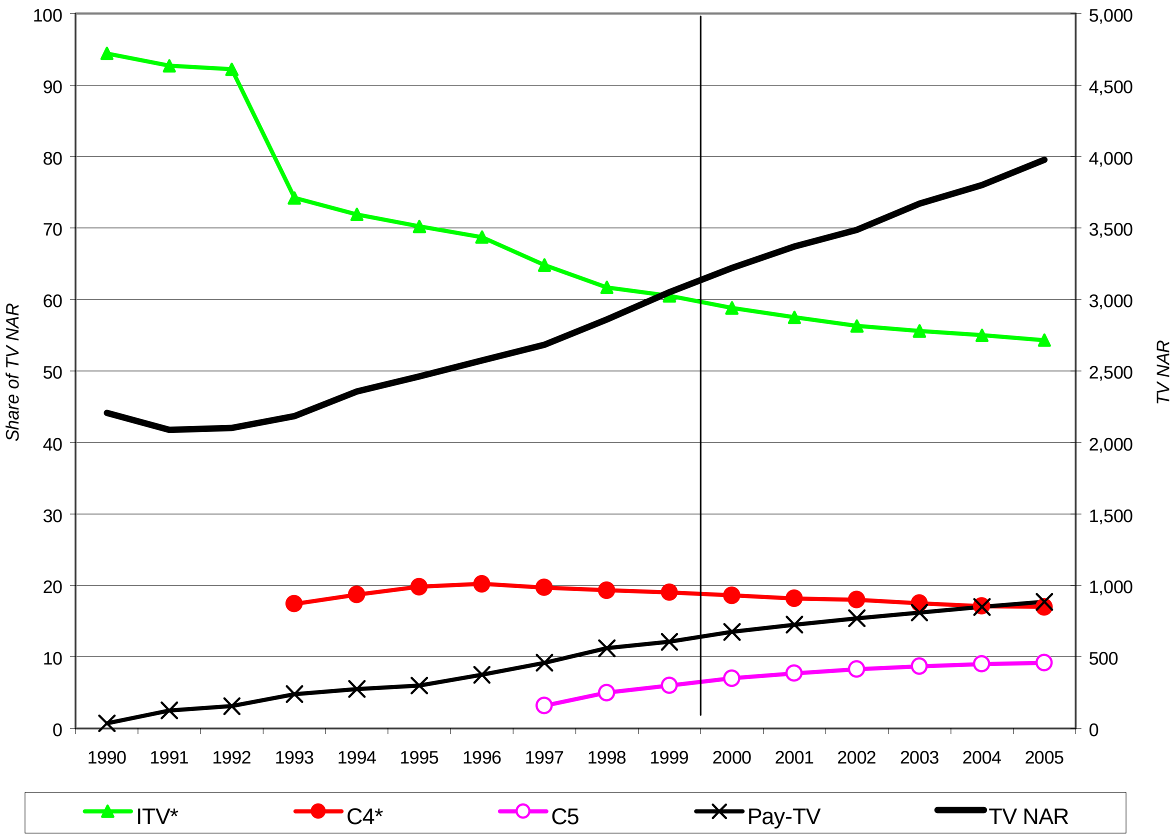
Source: Zenith Media.

*Excludes S4C, which has a share of between 0.2 and 0.4 per cent.

4.100. Channel 4, in Zenith Media's forecast, would lose two percentage points by 2005, while Channel 5 would gain three percentage points and pay-TV a further six percentage points over this period. However, the rate of increase of total advertising revenue has been greater than the rate of decline of ITV's share of that revenue. As a result, ITV's revenue has grown in real term, by an average 2.2 per cent a year since 1994, and this rate of growth was predicted by Zenith Media to increase slightly to 2.6 per cent a year over the next six years.

FIGURE 4.4

TV NAR and shares by channel



Source: Zenith Media.

*ITV and Channel 4 share combined before 1993.

4.101. As discussed in paragraphs 4.50 and 4.53, GMS and TSMS sell advertising airtime on behalf of other ITV regions as well as their own. Details of advertising revenue by region and sales house are given in Table 4.12. Carlton's three regions have a combined 34.4 per cent share of ITV advertising revenue. Sales by GMS account for 33.3 per cent, including sales on behalf of Border TV, which Granada does not own (but see paragraph 4.50). TSMS, UNM's sales house, represents the remaining 32.3 per cent share of ITV revenue, but this includes sales of airtime for SMG (6.1 per cent) and Ulster TV (2 per cent) which are not owned by UNM. In terms of all-channel TV NAR, Carlton has a share of 21 per cent, Granada 20 per cent, and UNM 14.5 per cent, although TSMS represents a further 5 per cent on behalf of SMG and Ulster TV.

4.102. The value of advertising airtime depends in part on the demographic (SEG) profile and viewing habits of the audience. As a result, ITV licensees in more affluent regions tend to have a higher advertising revenue share, relative to their audience share, than those in other regions. This is true of the two London (Carlton TV and LWT) licences in particular (each has considerably higher share of the ITV revenue than of ITV audience) and also, to a lesser extent, of Meridian TV. In contrast, the Granada TV and Yorkshire TV regions each have a smaller share of advertising revenue than of audience. Variations in the value of airtime between regions also reflect differences in ITV ratings across regions (see paragraph 4.118). Granada told us that it regarded LWT, Carlton TV, Central TV and Meridian TV as the 'prime' ITV licences, due to their ability to charge a higher price for advertising relative to their audience share, and also due to their absolute size in revenue share terms.

TABLE 4.12 **ITV regional share of advertising revenues and viewers**

per cent

		Advertising revenue £m	*Share of TV advertising revenue*	*Share of ITV advertising revenue**	*Share of TV audience*	*Share of ITV audience**
Carlton (Carlton Sales)	Carlton TV	294.6	9.5	15.7	2.8	9.7
	Central TV	309.4	10.0	16.5	4.7	16.3
	Westcountry TV	40.5	1.3	2.2	0.8	2.8
	Total Carlton/ Carlton Sales	644.5	20.8	34.4	8.3	28.8
Granada (GMS)	LWT	224.0	7.2	12.0	2.0	6.9
	Granada TV	185.4	6.0	9.9	3.9	13.5
	Yorkshire TV	134.1	4.3	7.2	3.2	11.1
	Tyne Tees TV	68.5	2.2	3.7	1.5	5.2
	Total Granada	612.0	19.7	32.7	10.6	36.8
	Border TV	13.1	0.4	0.7	0.5	1.7
	Total GMS	625.1	20.2	33.3	-	38.5
UNM (TSMS)	Meridian TV	213.9	6.9	11.4	2.4	8.3
	Anglia TV	132.7	4.3	7.1	1.8	6.3
	HTV	107.0	3.5	5.7	2.3	8.0
	Total UNM	453.6	14.6	24.2	6.5	22.6
	Scottish TV and Grampian TV	114.5	3.7	6.1	2.5	6.6
	Ulster TV	36.6	1.2	2.0	1.0	3.5
	Total TSMS	604.7	19.5	32.3	-	32.6
GMTV		66.0	2.1	-	1.6	-

Source: Granada, Zenith Media and ITC.

*Excluding GMTV.

4.103. With regard to the proposed merger, the effects on audience share and franchise ownership would be as set out below, assuming that no divestments take place as part of the merger arrangements. As mentioned in paragraph 4.44, all three possible mergers would exceed the 25 per cent of NAR limit specified in the 1994 undertakings to the OFT, as well as the 15 per cent audience share limit, and the maximum permitted holding of 20 per cent in ITN. In the case of a Carlton/Granada merger the statutory requirement that the two London franchises should not be owned by the same party would also be contravened (Broadcasting Act 1996):

(a) Carlton/UNM would directly control a 35.4 per cent share of TV NAR from their ITV licences, and Carlton Sales/TSMS would represent a further 4.9 per cent share from other ITV regions (Scottish TV, Grampian TV and Ulster TV). In addition, UNM has a one-third stake in Channel 5, which has a 6.0 per cent share of NAR (though UNM said that it had no influence over the sale of Channel 5's advertising airtime, since this was handled by a separate sales team). Carlton has a 25 per cent share of GMTV which has an NAR share of 2.1 per cent, making a total of 48.4 per cent of NAR controlled or represented by the group, or in which the group would have an interest. (Carlton told us that in 1994 its interest in GMTV was not taken into account for the purposes of the NAR cap.) The merged group would have 66.7 per cent of ITV revenue, including SMG and Ulster, but excluding GMTV.

(b) Carlton/Granada would directly own a 39.9 per cent share of NAR through their ITV franchises, would represent 0.4 per cent for Border TV, and would have a combined 50 per cent stake in GMTV, making a total of 42.4 per cent of NAR. The combined group would represent 67.7 per cent of ITV advertising and would have a monopoly of ITV advertising in London.

(c) Granada/UNM would directly control 34.3 per cent of NAR through its own ITV regions, and would represent a further 5.3 per cent on behalf of other licensees. If UNM's interest in Channel 5 and Granada's in GMTV are included the total rises to 47.7, with a 65.6 per cent share of ITV regions' NAR.

4.104. The revenue shares of the three sales houses are remarkably similar at one-third of ITV revenue each, and these have changed little in recent years: Table 4.13 provides historical share data for the period 1994 to 1999.

TABLE 4.13 **Share of ITV advertising revenue of each sales house***

	% share		
	Carlton Sales†	*GMS*	*TSMS*
1994	32.4	33.9	33.7
1995	32.9	33.8	33.3
1996	32.9	34.0	33.2
1997	33.2	33.2	33.7
1998	33.1	33.9	33.1
1999	34.4	33.3	32.3

Source: Granada and UNM/TSMS.

*Excludes GMTV, which sells its own airtime. Airtime on ITV2 is sold by Carlton Sales, GMS and TSMS.
†Source data exclude Westcountry TV.

4.105. However, while major advertisers generally use all three sales houses, they do not necessarily allocate one-third of their ITV advertising expenditure to each. Table 4.14 shows the average share of ITV revenues from the top 20 UK advertisers received by each sales house from 1997 to 1999. While the average shares for the top 20 were similar to the overall average, there was some variation on an individual basis. Only five of the 20 gave each sales house 30 per cent share or above, and eight gave less than 25 per cent of its spending to one of the three sales houses. Renault UK allocated only 16 per cent to Carlton over the three years, while Volkswagen placed 50 per cent of its spending with GMS.

TABLE 4.14 **Share of ITV advertising revenue allocated to each sales house, 1997 to 1999**

	Average % share 1997 to 1999		
Top 20 advertisers	*TSMS*	*Carlton Sales*	*GMS*
Unilever	35	33	32
Procter & Gamble	39	40	21
Mars UK	36	42	22
British Telecommunications	33	23	44
Nestlé UK	37	33	30
Kelloggs	35	34	31
HM Government	33	35	32
L'Oreal Golden	35	22	43
Diageo	34	29	36
SmithKline Beecham	35	36	29
Ford	33	30	36
Peugeot	36	45	19
Volkswagen UK	28	21	50
Kingfisher	36	29	35
General Motors	34	39	27
PepsiCo	27	43	30
Coca Cola UK	35	22	42
Renault UK	36	16	49
McDonalds	34	39	27
J Sainsbury	35	38	27
Average	34	33	33
Minimum	27	16	19
Maximum	39	45	50
Range	12	29	31

Source: CC, based on data from MMS Monitor supplied by Carlton and UNM.

4.106. The optimum allocation of an advertising budget between ITV regions may differ from the average due to differences in the value of each region to the individual advertiser. For example, the greater number of Sainsbury stores in the south of the country than in the north may partly account for the smaller share of its budget which Sainsbury spends with GMS.

4.107. There is also some scope for individual advertisers to vary the proportion of their advertising spend on each sales house from one year to the next, whether as a response to price changes or due to a change in the advertiser's regional strategy. Movements of revenue share between the three sales houses, from 1997 to 1999, are shown in Table 4.15. For the top 20 UK advertisers, the average maximum shift to or from any one sales house is 2.3 share points, or 8 per cent of that sales house's share of the advertiser's spending on ITV. The largest shift among these advertisers over the period shown was that of Ford, which moved around 11 share points from Carlton Sales to GMS in 1998. Granada told us that this was due to a decision by Ford to shift advertising from weekdays to the weekend, and hence from Carlton TV to LWT, when ITV began broadcasting Grand Prix races at weekends. Diageo increased GMS's share of its budget by five share points in 1998. Both Coca-Cola and PepsiCo increased their use of Carlton Sales by around four share points in 1998.

4.108. Granada told us that the key skill of its sales force was to convince the advertiser that, due to greater sales potential in a given region, it was in the advertiser's interest to spend more in that region. It estimated that the part of the market that was contestable between the three ITV sales houses was well in excess of £100 million. The proportion of the market which is contestable may be expected to be somewhat larger than the proportion that actually moves between sales houses in any given year. Carlton estimated the total actual revenue shifting between sales houses between 1998 and 1999 as around £51 million, if shifting within London (ie between LWT and Carlton TV) is excluded. It said that this accounted for 3.4 per cent of the total market in 1999, in excess of the 2.3 per cent figure mentioned in paragraph 4.107. UNM estimated that overall ITV switching was around £40 million (excluding London) at 1999 prices, or 2.13 per cent of ITV NAR. Carlton's estimate was based on the expenditure of the top 1,000 advertisers, whereas that of UNM was extrapolated from the top 20 advertisers. Both Carlton and UNM told us that their estimates included switching as a result of changes in regional strategies by the advertisers, in addition to changes in response to relative prices.

4.109. To summarize, both advertising revenue and TV's share of that revenue have grown in recent years and it is expected that this growth will continue. While ITV's share of TV revenue is expected to decline in the near future, its actual revenue is expected to increase in real terms by over 2 per cent a year over the next six years. Within ITV, each of the three sales houses have maintained a share of almost exactly one-third of the market in recent years, although individual advertisers do not necessarily allocate one-third of their share to each sales house. On average, the top 20 advertisers move around 2 per cent of their advertising revenue between sales houses in a year, and a little more if London is included.

Pricing of TV advertising

4.110. In this section we provide an overview of the main features of TV airtime pricing (with particular reference to ITV sales houses); together with a comparative analysis of airtime charges with respect to charges made by different channels and changes over time. A more detailed appraisal of airtime pricing is given in Appendix 4.3.

4.111. As explained earlier (see paragraph 4.34), almost all ITV airtime for advertising is sold on the basis of discounts or premiums in relation to SAP, a notional 'benchmark' price which can vary on a monthly basis by demographic group, depending on changes in viewer ratings and total advertising expenditure in a given month. The latter is itself partly dependent on advertisers' expectations of future demand for airtime, and relative to advertisers the ITV sales houses may enjoy a short-term informational advantage on this in the context of price determination.

4.112. Advertising airtime is generally sold against a particular demographic group, such as adults, housewives or ABC1 men etc (see Table 4.17), for which SAPs vary considerably (see Table 4.17). Because a given advertising 'spot' can be sold against a number of different demographic groups, the sales houses also have some scope to vary/optimize the supply of ratings achieved against that group. Notwithstanding the regulatory constraints on advertising airtime minutage, their ability to influence both the supply of and demand for advertising endows the ITV sales houses with a degree of commercial discretion over prices. Concerns have also been expressed to us (and the ITC) that sales houses may be able to influence prices by advertising their own products and services or those of related companies on their own airtime, particularly at peak times. In general terms, the prices of other TV channels largely follow those of ITV, which in practice is the 'price leader'.

TABLE 4.15 **Year on year changes in share of ITV advertising revenue allocated to each sales house***

per cent

Top 20 advertisers	*Year*	*Share points increase/decrease* *TSMS*	*Carlton Sales*	*GMS*	*Maximum increase/decrease*
Unilever	1998	–1.86	0.16	1.7	1.86
	1999	–0.06	1.53	–1.47	1.53
Procter & Gamble	1998	0.86	–0.03	–0.83	0.86
	1999	1.36	–2.59	1.23	2.59
Mars UK	1998	2.13	1.12	–3.25	3.25
	1999	–0.05	–0.11	0.16	0.16
British Telecommunications	1998	1.04	2.28	–3.32	3.32
	1999	–0.51	0.5	0.01	0.51
Nestlé UK	1998	0.23	1.18	–1.41	1.41
	1999	–0.64	1.40	–0.76	1.40
Kelloggs	1998	0.48	–0.79	0.29	0.79
	1999	0.91	–1.04	0.14	1.04
HM Government	1998	3.08	0.02	–3.11	3.11
	1999	–2.10	0.46	1.63	2.10
L'Oreal Golden	1998	0.88	–0.49	–0.39	0.88
	1999	–1.27	3.37	–2.10	3.37
Diageo	1998	–4.26	–1.12	5.38	5.38
	1999	–0.34	1.27	–0.93	1.27
SmithKline Beecham	1998	0.97	0.40	–1.39	1.39
	1999	–0.33	–1.43	1.78	1.78
Ford	1998	0.71	–11.37	10.66	11.37
	1999	–0.40	1.06	–0.65	1.06
Peugeot	1998	0.70	–2.89	2.19	2.89
	1999	0.05	–3.79	3.74	3.79
Volkswagen UK	1998	1.70	–1.32	–0.38	1.70
	1999	2.60	0.47	–3.06	3.06
Kingfisher	1998	1.31	2.33	–3.64	3.64
	1999	–1.46	2.80	–1.34	2.80
General Motors	1998	–0.57	–0.17	0.74	0.74
	1999	0.01	1.36	–1.37	1.37
PepsiCo	1998	–2.88	4.25	–1.36	4.25
	1999	–2.65	2.56	0.09	2.65
Coca Cola UK	1998	0.15	4.44	–4.58	4.58
	1999	1.24	–1.20	–0.04	1.24
Renault UK	1998	–1.58	0.78	0.79	1.58
	1999	0.04	0.69	–0.73	0.73
McDonalds	1998	0.15	–0.85	0.70	0.85
	1999	0.56	0.85	–1.4	1.4
J Sainsbury	1998	–1.29	2.42	–1.13	2.42
	1999	1.27	–1.71	0.44	1.71
Average maximum change					2.30

Source: CC, based on data from MMS Monitor supplied by Carlton and UNM.

*Source data exclude Westcountry TV, but include switching between the two London licences.

4.113. Most advertiser buyers also negotiate ‘share deals’ with the ITV sales houses (often on a one- to three-year basis), within which they commit a share of their advertising budget for the year ahead to that sales house, and in return receive a set discount (or more rarely, a premium) on the SAP. The proportion of budget to be allocated to each licensed region (for example, Meridian TV, HTV etc) represented by the sales house may also be specified in the share deal. Discounts agreed are confidential, leading inevitably to a lack of transparency with respect to the realized prices for airtime, although this may be at least partly offset by the pooling of aggregated data by media buyers and media auditors.

4.114. Price transparency is also inhibited, and the price-setting discretion of ITV sales houses increased, by a number of additional features of advertising pricing where the annually agreed discounts against SAP do not necessarily apply. One such area concerns advertising on ‘special’ programmes (as nominated by the sales house), such as major sporting events (for example, European Champions League football games and F1 motor racing), for which prices are negotiated separately and the sales house has a wide discretion as to the level of premium to charge. Others include centre-breaks (ie advertising spots in the middle of a programme rather than between programmes); position in breaks; and being allowed to choose during which programmes advertising is shown. Granada told us that 5 to 10 per cent of airtime was sold with such additional features, outside annual negotiations. While some of these pricing features may be of benefit to the advertisers (and there may also be genuine costs to the sales houses), they nevertheless have the effect of making price comparisons more difficult, and increasing the influence of the sales houses over realized prices.

4.115. Share deals with ITV sales houses, in addition to specifying the shares of TV advertising spend that will go to the regions represented by that sales house, often also include an ‘ITV share of all TV’ clause. Carlton told us that ‘ITV share of TV NAR’ clauses were first introduced into the contracts of Carlton’s sales houses in 1997. This was a direct reaction to the increasing competitive threat to ITV as a whole from the other channels, in particular, because around that time the Channel 4 rebate started to phase out, Channel 5 was launched and BSkyB was gaining audience and NAR share. Buyers approached the sales houses offering to enter into ITV share of broadcast deals. Such share deals are normally for a period of one to three years, reflecting the duration of the ITV audience share campaign. Many of these agreements are up for renegotiation in the autumn of this year. The IPA told us that these clauses were first introduced in 1997/98 as a response to the loss of share (by ITV as a whole) to other TV channels. It added that any attempt by an advertiser to vary the proportion of spend between ITV regions and/or other channels was generally met by a marked reduction in discounts from the sales house for which revenue share was being reduced.

Comparative analysis of airtime charges

4.116. Here, we compare prices of airtime between ITV and other channels, and also within ITV. We begin by looking at differences in the prices charged by ITV and those charged by others, and the reasons for these differences. We then consider how adult CPT SAP prices have changed for each channel in recent years; and compare ITV prices both for other demographic groups and between different regions. Finally we look at the level of discounts available on ITV.

4.117. Table 4.16 shows the average adult CPT for the three commercial terrestrial channels and pay-TV. The ITV price is an average across the three ITV sales houses (and therefore across all ITV licensed regions). While ITV charges the highest price for this target audience at £7.14 (although GMTV’s equivalent price is far lower, at £4.65), Channel 4’s price is only slightly lower at £7.00, in contrast to the prices of Channel 5 and pay-TV channels, which are substantially lower than those of ITV, at £4.38 and £5.09 respectively. Among pay-TV operators, BSkyB is an important exception, charging an average £7.09 per thousand adults on its channels. Average market prices tend to follow ITV prices, as ITV has a 60 per cent share of the market, and as prices of advertising on other channels follow those of ITV (and indeed are usually quoted in the form of a discount against ITV prices; see Appendix 4.3).

TABLE 4.16 **Percentage year-on-year change in average adult CPT**

per cent

	*Average TV**	*Channel 4*	*Channel 5*	*Pay-TV*
1990	–3.6	-	-	–3.7
1991	–5.8	-	-	2.5
1992	1.2	-	-	12.4
1993	10.8	-	-	27.9
1994	7.9	26.2	-	10.1
1995	9.8	11.3	-	–1.8
1996	10.6	10.0	-	–0.5
1997	7.9	5.2	-	10.4
1998	6.3	6.2	–8.6	8.3
1999	4.9	3.3	2.1	7.5
1999 levels	£7.14	£7.00	£4.38	£5.09

Source: Zenith Media.

*Based on ITV and Channel 4 combined CPT from 1987 to 1992.

4.118. Because demand, and therefore price, of advertising is strongly pro-cyclical, the average growth rate of CPT over time varies depending on the initial period chosen. Figure 4.5 compares average adult CPT on ITV, Channel 4 and pay-TV since 1988, in constant 1998 prices. The average CPT on all channels increased in real terms by 2 per cent from 1988 to 1999. However, prices on ITV and Channel 4 increased by 12 per cent, from the combined ITV/Channel 4 price of 1988.

FIGURE 4.5

Average adult CPT, constant 1998 prices

Source: Zenith Media.

*ITV & *Channel* 4 combined CPT from 1987 to 1992.

4.119. Frontier Economics, an economic consultancy working on behalf of Carlton, told us that ITV had higher than average prices because of its unique ability to deliver large audiences quickly. It said that Channel 4 and BSkyB also had higher than average prices because they had an attractive audience mix. In contrast Channel 5, GMTV and pay-TV channels other than BSkyB had relatively low prices due to their smaller audiences.

4.120. ITV's CPT for adults has increased by 33 per cent since 1995, from £5.37 to £7.14 in 1999. (The RPI rose by around 11 per cent in total over this period.) CPT adults is not necessarily typical of other demographic groups, and price discrepancies between channels are greater for narrower sub-groups. For example, the CPT of 16–24 adults in 1999 was an average £77.14 from ITV, but only £52.50 from Channel 4 and £49.59 from BSkyB (reflecting in part the more highly targeted nature of these channels' audiences). In contrast, BSkyB's prices for ABC1 women, and Channel 4's prices for housewives with children, are higher than ITV's prices for these groups.

4.121. Table 4.17 shows that ITV's CPT for other groups has generally risen by a similar proportion over the period. However, ITV's CPT adults fell in 1990 and 1991, and increased by only 1.2 per cent in 1992, partly due to the economic recession in those years (Channel 4 prices are included in those of ITV up to 1992). While ITV and other sales houses may have some ability to encourage a greater level of demand for their advertising airtime, overall consumer demand is a key driver of demand for advertising demand (ie it is income elastic), and therefore of the price of advertising.

4.122. Another key driver of advertising prices is the level of supply available, which is a product of TV commercial minutage (see paragraph 4.57) and TV ratings. We have identified ITV as operating in a separate market segment from other commercial channels because of its unique ability to deliver mass audience ratings (see paragraph 4.24). The increased fragmentation of viewing share in recent years, as viewers have switched to other channels, has led to some decline in the size of the audiences which ITV can deliver, and therefore a decline in supply of impacts on ITV (although Carlton told us that the emergence of new channels had more than compensated for ITV's relative decline in terms of overall supply).

4.123. Inflation-adjusted prices for ITV advertising have risen since 1995, reflecting both price changes and the income effects of economic growth. Separating the two effects is difficult in practice, although various attempts have been made over the years to identify and estimate the price elasticity of demand (ie price sensitivity) for TV advertising. An early study in the mid-1950s by Cave and Swan found demand to be fairly inelastic, although a separate study by Hendry (1986, but updated in 1992) found it to be more elastic, with the price elasticity for TV as a whole estimated at 2.5. UNM drew our attention also to a recent media buyer report (by MindShare, May 1999) which used a similar estimation procedure to that of Hendry, and found a comparable level of price sensitivity. We note that in the context of considering the effects of extra advertising minutage on terrestrial analogue channels, the MindShare report also states that 'advertisers would be prepared to buy any new capacity at more or less existing prices. The market would absorb any new supply within 18 months and with next to no impact on media costs'. Another recent report—commissioned by ITV from Billetts, a media auditor—also estimated demand elasticity for TV advertising. This report (May 1999) also drew on the Hendry analysis but incorporated some additional modelling assumptions. It found that the price elasticity 'is almost certainly greater than 1, is most likely 1.1, but could be as high as 1.7'.

4.124. As discussed in Appendix 4.3, advertising is with few exceptions bought against a specific demographic group, and the relative prices of these groups depends on their attractiveness to advertisers, and the ease or difficulty of reaching them through TV advertising. Table 4.17 compares average ITV CPT for the main demographic groups from 1995 to 1999. The cheapest group is that of adults: because it is a broadly defined market, ITV has a wider range of TV programmes that can deliver this audience efficiently. ABC1 adults command a higher price because they are smaller in number than adults, and generally more attractive to advertisers than C2DE adults. Ratings for 16–24 adults have the highest price, largely because they tend to watch less TV than other groups, causing a scarcity of ratings.

4.125. Prices have increased across all demographics between 1995 and 1999. The greatest increases were for the inherently 'scarce' and more expensive groups: a 57 per cent increase for children, and a 49 per cent increase for 16–24 adults. The smallest increases were 23 per cent for ABC1 men and 24 per cent for ABC1 housewives.

TABLE 4.17 **CPT by demographic group, ITV average**

	CPT (£)		*% change 1995 to 1999*
	1995	*1999*	
Adults	5.37	7.11	32
ABC1 adults	15.19	19.30	27
16–24 adults	51.81	77.09	49
16–34 adults	20.15	26.66	32
Men	13.78	17.93	30
ABC1 men	38.66	47.60	23
16–34 men	50.31	66.34	32
Women	8.80	11.77	34
ABC1 women	25.03	32.45	30
16–34 women	33.61	44.57	33
Housewives	8.82	11.26	28
ABC1 housewives	25.91	32.02	24
16–44 housewives			
Housewives with children	31.78	42.99	35
Children	40.31	63.38	57

Source: Granada.

4.126. Within each demographic group, there are marked differences in the CPT across different regions, and this is due to several factors. One is the different levels of affluence in different regions, which affects the attractiveness to advertisers of viewers in those regions. Another is the difference in viewing habits of particular groups from one region to another.

4.127. Table 4.18 compares prices for the broadest target audience (adults) and the most expensive one (16–24 adults) in each of the ITV regions. The most expensive regions are LWT, Carlton TV (the two London regions) and Meridian TV, while prices in Anglia TV and Central TV are also slightly above average. The price of 16–24 adults is ten or eleven times that of adults, in most regions, although in Meridian TV and Border TV the 16–24 group is 13 times as expensive. Inflation in the 16–24 adults group, at 49 per cent, was higher over the period than that of the adults group, at 32 per cent. Regions with higher than average inflation for adults (LWT, Meridian TV, Scotland and Central TV) also tended to have above-average inflation for 16–24 adults. The Carlton TV region's adult inflation was only slightly above average (34 per cent, average 32 per cent) while its 16–24 adults inflation was below average (39 per cent, average 49 per cent). The CPT data shown in Table 4.18 do not include discounts, however, which also appear to have changed over the period (see Table 4.19). We note that because Carlton has reduced the average discount for 16–24 adults, the average realized price of this group has increased by a significantly greater extent in all Carlton regions than is indicated by Table 4.18.

TABLE 4.18 **CPT by region**

	Adults CPT, £		*% change 1995 to 1999*	*16–24 adults CPT £*		*% change 1995 to 1999*
	1995	*1999*		*1995*	*1999*	
Carlton						
Carlton TV	8.90	11.92	34	83.06	115.38	39
Central TV	5.19	7.27	40	48.13	77.79	62
Westcountry TV	4.54	5.36	18	54.22	53.15	–2
Granada						
LWT	8.69	13.01	50	84.02	148.24	76
Granada TV	4.57	5.32	16	47.98	51.65	8
Yorkshire TV/Tyne Tees TV	3.68	4.69	27	33.78	50.90	51
United						
Meridian TV	6.65	9.59	44	69.58	125.03	80
Anglia TV	6.22	7.81	26	62.28	86.13	38
HTV	4.38	5.62	28	42.83	66.94	56
Others						
Scottish TV and Grampian TV	3.57	5.00	40	34.17	58.40	71
Ulster TV	3.46	4.23	22	27.63	43.64	58
Border TV	2.78	3.46	25	26.79	45.15	69
ITV average	5.37	7.11	32	51.81	77.09	49

Source: Granada.

4.128. All available historical pricing data are based on SAP, which is a notional benchmark price rather than an actual price (as discussed in paragraph 4.111). In practice, most prices are below this theoretical average because it assumes no efficiency gains from the strategic placing of advertisements. The existence of such efficiency gains means that most airtime is sold at a 'discount' to the SAP (see Appendix 4.3). The size of discount offered on a particular target audience will depend on the expected revenue commitment from the individual advertiser and, as previously noted, discount levels are highly confidential. However, Carlton provided data on its average discounts by each target audience, and these are shown in Table 4.19.

TABLE 4.19 **Average discounts by Carlton region**

	Carlton TV		*Central TV*		*Westcountry TV**	
	1995	*1999*	*1995*	*1999*	*1997*	*1999*
Adults	–6.9	–7.1	2.7	0.6	2.0	9.4
ABC1 adults	–7.0	–2.4	–1.0	–5.9	–5.9	–1.9
16–24 adults	–17.1	–9.3	–14.0	–7.5	–12.0	–3.4
16–34 adults	–13.4	–5.7	–10.7	–7.5	–8.1	–5.2
Men	–8.2	–0.2	6.1	–2.2	4.2	6.0
ABC1 men	–9.0	–0.9	2.5	2.3	4.3	5.6
16–34 men	–15.4	3.2	–8.5	–3.1	–5.7	–0.9
Women	–14.7	–13.2	–10.8	–10.6	–18.3	–14.9
ABC1 women	–8.8	–7.0	–8.6	–10.9	–9.9	–3.3
16–34 women	–7.9	–8.2	–8.2	–10.9	–9.6	–6.2
Housewives	–17.2	–16.7	–18.8	–15	–20.8	–19.4
ABC1 housewives	–13.4	–7.1	–5.5	–6.1	–5.9	–2.5
16–44 housewives	–28.5	-	–14.6	0.0	-	0.0
Housewives with children	–16.2	–14.2	–14.2	–12.3	–13.6	–13.5
Children	–73.0	–75.7	–70.6	–71.9	-	-

Source: Carlton.

*1995 Westcountry TV data not available.

4.129. By far the highest discounts available, at around 70 to 75 per cent, are those offered against children ratings. The reason for this is that, while children account for a relatively small proportion of overall ratings, TV programmes for children tend to be watched almost exclusively by children, so it is very easy to achieve an above-average level of children ratings for an advertisement by placing it in these programmes. The next largest discounts are available against housewives and women, because of the ease with which they can be reached. By contrast ABC1 men and 16–34 men ratings are often sold at a premium, because these groups watch less TV than average and because, for the programmes they do watch, they generally make up a relatively smaller proportion of the total audience. As a result, there is a higher opportunity cost to the sales house of selling this airtime against these groups.

4.130. The Carlton region has reduced the discounts offered on ABC1 adults, 16–24 adults, 16–34 adults and ABC1 housewives, each by around half. It has reduced the average discount on ABC1 men from 9 per cent in 1995 to 1 per cent in 1999, while 16–34 men ratings, sold at a 15 per cent discount in 1995, now command a premium of 3 per cent on the SAP. Commenting on this, Carlton told us that on a weighted basis, average discounts for the Carlton region have fallen by only 2.4 per cent.

4.131. Central TV has increased its average discount for ABC1 adults and men, but reduced discounts for several others, while Westcountry TV has reduced its discount, or increased its average premium, for all demographic groups. Commenting on this, Carlton told us that on an average weighted basis, discounts for the Central region had risen by 1.1 per cent. There is some similarity across regions, in that all three have reduced the average discount for 16–24 adults, 16–34 adults and 16–34 men. The IPA told us that all three ITV sales houses had reduced their discounts in recent years, and that all three had begun to do so at around the same time, in 1997/98. Granada told us that the reductions in discounts were made independently by each sales house as a consequence of the move to selling advertising on a share of broadcast basis (see Appendix 4.3, paragraph 25).

4.132. The extent to which individual advertisers receive a higher or lower discount than the average is a reflection of the degree to which a sales house can differentiate prices between its customers. This may be due to differences in the airtime portfolios received by different customers (for example, day-parts, specials, or centre-breaks), or differences in the negotiating ability of the advertiser or its media buyer. UNM told us that 42 per cent of its 1999 revenue was from advertisers receiving a discount within five percentage points (above or below) of the average discount for the audience they were buying. A further 31 per cent were between 5 and 10 percentage points of the average, 19 per cent were between 10 and 20 percentage points, while advertisers representing 8 per cent of UNM's revenue received a discount/premium that was more that 20 percentage points above or below the average for that audience.

Programme production and supply

4.133. The following section considers the market for TV programmes at the production level. Most of the major TV broadcasters are also producers of programmes, largely for broadcasting on their own channels (or, in the case of ITV, for distribution through the Network Centre), but also for other UK and overseas channels. The BBC is the largest producer of programming in the UK, which it supplies to BBC1, BBC2, and its digital channels and pay-TV joint ventures. ITV broadcasters produce programmes both for ITV and other channels, as discussed below. Channel 4, which was set up partly in order to encourage the growth of the UK independent production sector, does not produce its own programmes. Channel 5 does not produce its own programmes as such, but commissions and acquires programming from the companies that own it: Pearson, UNM and CLT-UFA.

4.134. Granada estimated that the programming budgets of the major UK broadcasters (BBC, ITV, Channels 4 and 5, BSkyB and cable) added to £3,941 million in 1998. The BBC accounted for 37 per cent of this (£1,459 million). BSkyB's budget accounted for 20 per cent (£787 million), a large proportion of which was for expenditure on sports and film rights acquisition. The ITV Network Centre, at £626 million, was 15.9 per cent of the total while ITV regional budgets summed to £186 million (4.7 per cent). We understand that ITV spends more on programming than any other individual commercial TV channel in Europe. Channel 4 had a budget of £352 million in 1998, around two-fifths that of ITV, while Channel 5 had a budget of £204 million, around one-quarter of ITV's budget.

4.135. The BBC, ITV, Channel 4 and Channel 5 are required by their licences (and in the BBC's case by the Broadcasting Act 1996) to commission 25 per cent of the time allocated to qualifying programming (all programmes except acquired programming, news, repeats and party political broadcasts) from independent producers. In addition, Channel 4's remit (see paragraph 4.61) requires it to support the independent sector, and the majority of its originally commissioned programmes are from independent producers, although it also commissions programmes from ITV companies and purchases programmes in the international markets.

4.136. The UK currently has a significant trade deficit in TV programming, largely due to the popularity of US programmes (such as *Friends* and *Frasier*) and feature films. UNM estimated the value of UK-produced programme exports in 1999 at £318 million (imports were around £600 million in 1997, the most recent year for which data are available). The BBC accounted for around 39 per cent of exports in 1999, Pearson for 24 per cent, Carlton for 11 per cent, and Granada and UNM each for around 10 per cent, including sales on behalf of other programme producers.

4.137. As explained in paragraph 4.37, the main programming activities of relevance to this inquiry are programmes of all genres that are made to be shown on ITV. Most ITV licensees produce programming both for broadcasting by the ITV Network Centre and for regional broadcasting. They also provide programming to the BBC, Channels 4 and 5, and pay-TV channels, in competition with independent UK producers and overseas producers. Details of the production operations of the parties are given in paragraphs 3.30 to 3.32 (UNM), 3.48 to 3.51 (Carlton) and 3.67 to 3.72 (Granada).

4.138. The majority of original programmes made for ITV are broadcast over all ITV regions, and these programmes are commissioned by the ITV Network Centre. While the actual commissioning of individual programmes is carried out by the Network Centre independently of the regional licensees, the

ITV Network Council controls a number of key aspects of the running of the Network Centre, which may indirectly influence its choice of programmes. These include the appointment of Network Centre staff, determining criteria for commissioned programmes and allocating a budget to the Network Centre. As discussed in Appendix 4.5 (paragraphs 15 and 16), such issues are determined by a vote requiring a 60 per cent majority (although the size of this required majority could be modified by agreement between the licensees). On the basis of 1999 data, a Carlton/Granada or Carlton/UNM merger is likely to exceed this majority without divestment, while a Granada/UNM merger would have around 57 per cent of the vote, giving it the ability to veto decisions. Carlton told us that on the basis of the most up-to-date figures, a merged Carlton/UNM would have 59.86 of the vote. The Producers Alliance for Cinema and Television (PACT), the independent producers' trade association, told us that the Network Centre was under increasing pressure from the three main parties to ensure that their programmes are commissioned. Pearson, writing in the context of the proposed Carlton/UNM merger, said that it believed the combined Carlton/UNM group would be able to influence the commissioning process in favour of its own production companies. Pearson said that, although the ITV Network Centre mandate is to select programmes on merit, the merged entity would be in a stronger position to exert pressure on Network Centre executives to favour commissions through ITV broadcasters, or to ensure that the 25 per cent independent quota comprises low-value productions. The ITC told us that it believed the ITV companies did not currently use their position to ensure that independent producers received lower-value commissions.

4.139. On the production side, Granada currently contributes almost half (46.8 per cent by value, and 47.4 per cent by hours) of original programming to the ITV Network, as shown in Table 4.20. Independent producers account for 35.7 per cent of original programming by value (and 32 per cent of the value of qualifying programming, as discussed in paragraph 4.135), while Carlton accounts for 10.7 per cent and UNM for 6.8 per cent by value. A merged Carlton/Granada would have a share of 57.5 per cent, Granada/UNM would have 53.6 per cent, while a merger between Carlton and UNM would result in a 17.5 per cent share of programming for ITV. In this context, Granada argued that the post-merger shares of ITV programming were uncertain, since about 60 per cent of ITV's programmes are subject to recommissioning each year, so that programming shares can easily change from one year to the next.

TABLE 4.20 **Programme production sales of ITV companies, 1999**

£'000

	Production for ITV		*Share of original production for ITV*	
	Network	*Regional*	*Network only*	*Network and regional*
Granada TV	95,853		21.3	
LWT	59,590		13.2	
Yorkshire Tyne Tees TV	54,917		12.2	
Total Granada	210,360		46.8	
Carlton TV	19,903		4.4	
Central TV	28,213		6.3	
Westcountry TV	-		-	
Total Carlton	48,116		10.7	✄
		✄		
Anglia TV	17,715		3.9	
Meridian TV	11,103		2.5	
HTV	1,975		0.4	
Total UNM	30,793		6.8	
SMG	9,579		2.1	
Independent producers	160,501		35.7	
Original ITV programming	449,770		**-**	**-**
Sport	114,287		-	-
Other acquired material*	50,253		-	-
News and weather	45,612		-	-
Other	6,495		-	-
Total ITV Network	666,417		-	-

Source: Carlton, Granada and UNM.

*Includes feature films and foreign (eg US) TV shows.

4.140. Carlton told us that GMTV only very occasionally produced programmes for ITV, and that this was contracted for under the same arrangements as for independent productions.

4.141. All three parties also have revenue from regional productions, shown in Table 4.20, and from non-ITV programme sales. Granada in particular has a number of pay-TV channels, which it owns with BSkyB through the joint venture GSkyB (see paragraph 3.65*(e)*). Granada told us that in 1998, total production and programme sales were valued at £296.2 million for Granada, £150 million for Carlton, and £100 million for UNM.

4.142. Participation in the UK programme production market is possible on a large scale, as with companies such as Pearson, which makes programmes across all genres and has recently increased its shareholding in Channel 5 to 30 per cent (as a result of which it has lost its status as an independent producer under the 1996 Act (see paragraph 4.135)), or a small scale: PACT told us that it currently represented over 1,000 independent production companies, some producing only one programme in a year. Around 70 independent producers had programmes commissioned by the ITV Network Centre in 1999. Granada also said that ease of entry to the market was assisted significantly by the provisions of the 1990 Act which required all terrestrial broadcasters to ensure that not less than 25 per cent of the total amount of time allocated to the broadcasting of original programmes was allocated to a range and diversity of programmes made by independent producers. Granada told us that the ITC defined 'range' in terms of cost of acquisition as well as with reference to types of programme.

4.143. UNM agreed that certain barriers to entry were low and that new channel entry had provided entry opportunities by increasing the demand for programming. It said that equipment, camera operators, sound engineers and post-production facilities could easily be hired on an hourly basis. Programme funding could be obtained privately or through commissions from broadcasters, and a large number of companies offered distribution both within the UK and abroad.

4.144. However, UNM also told us that, while all ITV programmes must be recommissioned on a periodic basis, there were considerable risks to the ITV Network Centre in replacing existing successful programming with new content, particularly in peak viewing hours. It said that Granada programmes had an average share of 62 per cent of audiences of original commissioned programming in peak hours (weighted by duration of programmes). UNM told us that programmes such as *Coronation Street*, and to a lesser extent *Emmerdale* (see Table 4.7), placed Granada in a strong negotiating position against the ITV Network Centre, due to their importance in delivering mass audiences, and therefore advertising revenue, to ITV. UNM told us that Granada had used this bargaining power to increase its prices in recent years. In response, Granada told us that this was not the case: in 1993 *Coronation Street* was under-priced relative to its costs, and also in comparison with similar programmes, such as *Emmerdale* and *The Bill*. Although its price has increased slightly since then, it is still priced lower than *The Bill*. *Emmerdale* was not a Granada production until 1997, since when its prices have changed very little.

4.145. We note the difficulty in comparing prices due to the wide variation in costs between different programme genres. Table 4.21 shows the range of cost per hour of ITV programming, from £397,000 for drama to only £18,000 per hour for daytime TV (original programming broadcast between 6.00 am and 9.30 am). Granada's share (by hours) of drama, at 50 per cent, is slightly above its average ITV share of 47.4 per cent. It also has an above-average share of entertainment (60 per cent) and factual (56 per cent), while it is below average for religious and children's TV. Even within genres there is a wide variation in costs depending on the quality of content. For example, within drama, a costume drama may be considerably more expensive to produce than a soap opera.

TABLE 4.21 **ITV Network average cost per hour of programming, 1999**

Genre	*Cost per hour* *£*
Drama	397,651
Entertainment	236,002
Documentaries	163,396
Arts and education	135,309
Children's	79,305
Night time (10.30 pm to 5.59 am)	51,285
Religion	36,716
Daytime (6:00 am to 9:30 am)	18,143

Source: UNM, from ITV Network Centre figures.

4.146. We note that the success of programmes such as *Coronation Street* does not preclude others from gaining a large audience share (such as Carlton's *Peak Practice*, which has around 10 million viewers (see Table 4.7) and *Who wants to be a millionaire*?, produced by Celador, an independent production company). UNM told us that it and Carlton had a limited stock of 'must have' programming.