

## What If There Were No BBC Television? The Net Impact on UK Viewers

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This independent contribution to the debate on the future of the BBC uses a range of scenarios to compare the current UK television market with what it might be like if there were no BBC TV; this provides a benchmark for understanding the effects of less extreme choices.

It assumes that commercial broadcasters would increase their content investment if they were no longer 'crowded out' by the BBC but nevertheless concludes that if there were no BBC Television:

- Total TV industry revenue would most likely be lower, although there is a wide range of uncertainty about how much.
- Total content investment would be 5–25% lower.
- Investment in first-run UK content would be 25–50% lower.
- The net impact on viewers would vary, but most would suffer a reduction in both choice and value for money.

A 25–50% net reduction in investment in first-run UK content would also be a severe blow to British production companies.

The projections are, if anything, conservative since they assume that the BBC does crowd out some commercial content investment rather than forcing commercial broadcasters to invest more in order to 'compete on quality'.

“*If there were no BBC Television...most [viewers] would suffer a reduction in both choice and value for money*”

None of the BBC's critics argue for it to be abolished overnight but many want it scaled back, without providing any evidence that a smaller BBC would be better for the public. Our analysis suggests the opposite.

Nor is the idea of the market without the BBC just a theoretical abstraction. On the contrary, it is the logical conclusion of the current 'salami-slicing' policy – freezing the BBC licence fee and diverting more and more of it to fund activities and organisations other than the BBC's UK services – while the rest of the market grows. If this policy continues (or even accelerates, as some are advocating) within a generation the BBC will be reduced to a minor sideshow, the UK equivalent of PBS in America.

For the complete Report, please go to <https://reutersinstitute.politics.ox.ac.uk/publications>

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## Executive Summary

Critics of the BBC often argue that, funded by a compulsory licence fee, it distorts the market, making it hard for commercial competitors to prosper and meet consumers' needs. They conclude that viewers would be better served if the BBC were smaller – allowing commercial broadcasters to expand – and showed only public service programmes (valued for 'citizenship' reasons) that the market will not provide.

Although this argument that the BBC 'crowds out' commercial provision has been widely made, none of its proponents has to our knowledge provided any empirical evidence to support it or tested the presumption that a free market without the BBC, funded by subscriptions and advertising, would meet consumers' needs better than the current mixed economy.

An alternative hypothesis is that, far from crowding out commercial broadcasters, the BBC forces them to 'compete on quality', increasing their need to invest in content, especially first-run UK content, in order to attract viewers. In this study, however, we give the BBC's critics the benefit of the doubt, assuming that the crowding out hypothesis is correct and testing its implications using recent market data.

The question we therefore address is: if there is crowding out, what is its extent and what is the net impact on viewers? We do this by creating a range of scenarios showing what the current UK television market might be like if there were no BBC TV and no licence fee, and the resulting net impact on viewers. We conclude that (even if there is crowding out), without BBC TV:

- Total TV industry revenue would most likely be lower, although there is a wide range of uncertainty about how much.
- Total content investment would be 5–25% lower.
- Investment in first-run UK content would be 25–50% lower.
- The net impact on viewers would vary, but most would suffer a reduction in both choice and value for money.

A 25–50% net reduction in investment in first-run UK content would also be a severe blow to UK production companies.

### *The Focus: UK Television from a Consumer Perspective*

To explore the impact of the BBC's potential crowding out of commercial TV provision, we focus on the UK television market and the BBC's net impact on the public as consumers rather than citizens. Issues not addressed include:

- The net impact of BBC Radio, BBC Online, the World Service, and the various other activities funded by the licence fee;
- The BBC's impact on the UK's national culture, society, child development, politics, creative industries, technology adoption, wider economy, regional development, and international standing.<sup>1</sup>

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<sup>1</sup> The projected reduction in investment in first-run UK television content would impact the creative industries and wider economy, but our primary focus here is on the impact on UK viewers as consumers of television services.

The intellectual case for a smaller BBC focuses mainly on television and is based on a hitherto untested economic argument that claims to represent the consumer interest. The aim of this study is to test that claim. We do this directly by exploring the counterfactual of what the current UK television market might be like if there were no BBC.

A possible objection to this counterfactual is that no one is currently proposing that the BBC should be completely abolished. This objection is invalid for two reasons. First, those arguing that the BBC crowds out commercial provision assume that, if there were no BBC, commercial broadcasters would increase their content investment and consumers would, on balance, benefit. That is what we are testing. Secondly, as discussed later, the black-and-white no-BBC scenario provides a strong basis for evaluating less extreme proposals such as that the BBC should be scaled back.

Our counterfactual leads to two questions:

- If there were no BBC TV, how much might commercial TV broadcasters (funded mainly by subscriptions and advertising) expand?
- What would be the consequences for the UK public as consumers of television, i.e. ignoring the BBC's other services and its social, cultural, political, and other 'citizenship' impacts?

### *Method*

The analysis is based on comparing the actual UK television market in 2012 with projections of what the market might have been like if there had been no BBC TV and no licence fee. The net impact of BBC TV is the difference between the two.

There is of course wide uncertainty about what the UK television market would be like if there were no BBC. We therefore develop two very different scenarios, one highly optimistic (from the viewpoint of the industry), one highly pessimistic. The aim is to be able to say that, assuming the crowding out hypothesis is correct, it is very unlikely that the outcome would fall outside the range represented by these two extremes.

### *The Net Impact on Revenue*

The total revenue of the UK television industry was £12.3bn in 2012: £5.3bn from subscriptions, £3.7bn from advertising and sponsorship, £2.7bn BBC licence fee revenue allocated to TV, and £0.5bn other commercial revenue.<sup>2</sup> Our pessimistic and optimistic projections of the percentage changes in these revenues if there had been no BBC give us the following ranges (rounded):

- Subscriptions: zero to +50%
- Advertising: -15% to +25%
- Other commercial revenue: zero to +30%

The net effect of these changes, after allowing for the loss of BBC licence fee revenue, is that (compared with the actual situation in 2012, with the BBC), total TV industry revenue would be reduced by over 25% in the pessimistic scenario and increased by almost 10% in the optimistic scenario. For ease of

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<sup>2</sup> This is using Ofcom's definition of TV industry revenue, which currently excludes revenue from online television (£0.25bn in 2012).

exposition, in the later analysis we use a central 'base case' projection (simply the midpoint of the pessimistic and optimistic scenarios), together with the range of uncertainty.<sup>3</sup> Total industry revenue in the base case is £11.2bn, a reduction of just over £1bn (9%) on the actual 2012 figure of £12.3bn with the BBC (Figure 1).

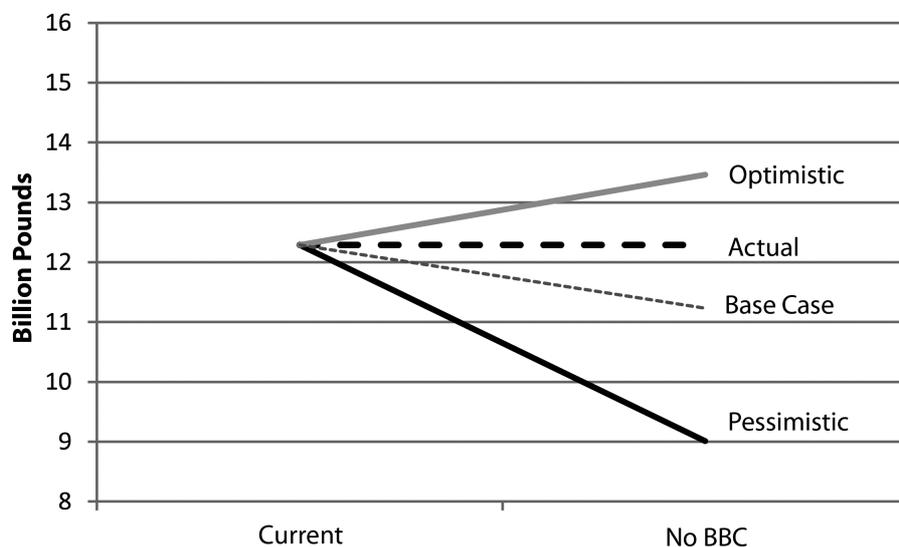


Figure 1. Total TV Revenue in 2012 (£bn)

Finally, we divide the commercial broadcasters into commercial public service broadcasters (ITV, C4/S4C, and C5, including their portfolio channels) and non-PSBs (all others). The commercial PSBs derive most of their income from advertising while the non-PSBs, as a group, derive most of theirs from subscriptions. Because subscription revenue is projected to increase much more than advertising revenue if there were no BBC, the non-PSBs would grow much more than the commercial PSBs: +22% versus +7% in the base case.

“ Overall, if there were no BBC, total industry revenue would be 9% lower in the base case ”

Overall, if there were no BBC, total industry revenue would be 9% lower in the base case (£11.2bn). 72% of this lower industry revenue would go to the non-PSBs, the other 28% to the commercial PSBs.

### Net Impact on Content Investment

From a consumer perspective, what matters is choice and value for money. The main determinant of these is the total investment in content on channels available in the consumer's household at a given price. Almost as important is how much of this investment goes into first-run UK content as opposed to imports and repeats. Therefore, two key measures are the net impact of the

<sup>3</sup> We are not suggesting that this base case is the most likely outcome: we simply lack the evidence to judge what that might be.

BBC on (i) total content investment and (ii) investment in first-run UK content. In 2012:

- BBC TV invested £1.6bn in content, 60% of its £2.7bn revenue. 94% of this investment (£1.5bn) was in first-run UK content.
- The commercial PSBs invested £1.8bn (61% of revenue) in content, 72% of which (£1.3bn) was in first-run UK content.
- The non-PSBs collectively invested £2.5bn in content (37% of their total revenue). 72% of this (£1.8bn) was for their premium sport and movie channels, the rest (£0.7bn) being for their other channels. We estimate that about £450m of the latter (65%) was for first-run UK content.

As a starting-point for projecting the net impact on UK content investment of losing the BBC, we take our base case projections of the commercial PSBs' and non-PSBs' revenues and assume that they would invest the same proportion of these increased revenues in content (and, within that, first-run UK content) as they actually invested in 2012. This implies increases of 7% and 22%, respectively, for the commercial PSBs and non-PSBs. Despite these increases, the net result in the base case is that, if there were no BBC, total content

“ *Total content investment would be reduced by between 5% and 25% and investment in first-run UK content by between 25% and 50%.* ”

investment would be reduced by £0.95bn (15%) and investment in first-run UK content by £1.33bn (40%).

There is wide uncertainty about both the commercial

broadcasters' revenue if there were no BBC and the percentage of that revenue that they would invest in content. Allowing for these uncertainties, our expectation is that, if there were no BBC, total content investment would be reduced by between 5% and 25% and investment in first-run UK content by between 25% and 50%.<sup>4</sup> Figures 2 and 3 show the impact in financial terms under our base case assumptions.

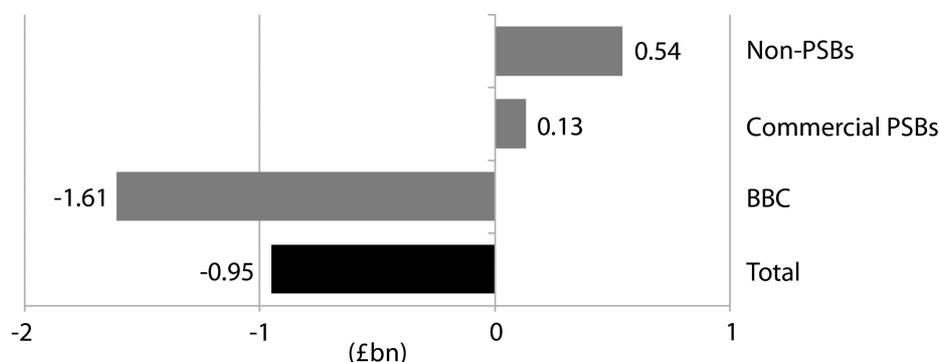


Figure 2. Net Impact on Total Content Investment in 2012, Base Case (£bn)

<sup>4</sup> Note that we are here still conservatively assuming that there is crowding out rather than that the BBC's 'competition for quality' forces commercial broadcasters to invest more in content. If there is competition for quality, the reduction in content investment without the BBC would be even higher than we are projecting.

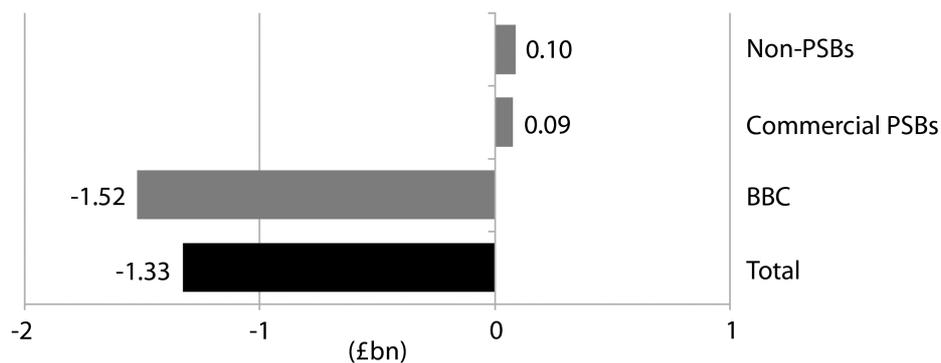


Figure 3. Net Impact on Investment in First-Run UK Content in 2012, Base Case (£bn)

### *The Net Impact on Viewers*

The total consumer cost of UK television services in 2012 (subscriptions, the TV proportion of the licence fee, pay-per-view payments and the indirect cost of TV advertising) was £11.8bn, about £450 per household – £8.70 per week.

This works out at an average of only 13.5p per viewer-hour, much less than for almost all other media consumption. For instance, using the same measures, it costs consumers about 50p per user-hour to access free online products and services, make a fixed-line or mobile phone call, or read a cheap paperback book or a tabloid newspaper. The hourly consumption cost of all other significant media and paid-for leisure activities is even higher, apart from radio, which costs only about 2p per listener-hour (the radio proportion of the BBC licence fee, plus radio advertising).

BBC TV costs each household about £2 per week (just over 70% of the weekly cost of the licence fee, which also funds BBC Radio, Online, the World Service, etc.). The indirect cost of the commercial PSBs is about the same. In contrast, the average cost of the non-PSBs in households with pay TV is almost four times as high, £7.65 per week in 2012. On a per viewer-hour basis, the cost of the PSBs was 8–9p. For the non-PSBs, the equivalent cost was 25p per viewer-hour.<sup>5</sup>

In our base case scenario, if there were no BBC, the cost of television for the average household (assuming pay TV operators did not increase their prices) would be reduced by around 12p per day. But with total content investment reduced by about 15% and investment in first-run UK content by 40% in this scenario, most viewers would in all likelihood have a greatly reduced choice of programmes they wanted to watch.

We conclude that, in our base case scenario, if there were no BBC TV, the impact would vary greatly between different households but most would suffer detriment either because they would be paying slightly more for slightly less choice or because they would be paying slightly less for much less choice. Extending the analysis beyond the base case to the pessimistic and optimistic scenarios does not affect this conclusion.

<sup>5</sup> Within this study we have been unable to separate out the costs and viewing of the premium sport and film channels in order to compute the average cost per viewer-hour of the other, basic pay TV, non-PSB channels. We would expect the latter to be much less than 25p but still significantly more than for the PSB channels.

## Explaining These Results

Many economists (and non-economists) may be surprised by these results, which contradict the widespread assumption that a free market without the ‘distortion’ of the BBC would be best for the public as consumers. General economic theory suggests that the most efficient and effective way of providing choice and value for money is a free market where buyers allocate their purchases to the suppliers that best meet their needs, and suppliers try to maximise their profits by meeting these needs better than the competition.

Further, the BBC is a public sector organisation often accused of bureaucracy, profligacy, and inefficiency. It invests a high proportion of its content budget in first-run UK productions rather than cheaper imports and repeats. It devotes considerable resources to public service content such as regional, children’s, religious, and minority-interest programmes, all of which tend to increase its cost per viewer-hour. Nevertheless, some high-level facts provide an initial ‘sanity check’ on our results.

- The cost of the licence fee (about £12 per month including BBC Radio etc.) is much less than even the entry-level price of pay TV (£21.50 per month).<sup>6</sup>
- BBC TV’s revenue share of only 22% means that it seems unlikely to have a huge crowding out effect.
- Its viewing share of 33% gives it a low average cost per viewer-hour – over 40% less than for commercial TV as a whole. Removing it or scaling it back therefore seems unlikely to improve the overall efficiency of UK television.

Digging more deeply into the economics of television and the specific features of the UK market and the BBC, we find a number of structural factors that help to explain our results.<sup>7</sup>

Another important explanatory factor is that, without the BBC, most of the growth in commercial revenue would have to come from consumer subscriptions. Advertising revenue would increase relatively little and might even decrease.<sup>8</sup> But the cost per viewer-hour of subscription TV is about 25p, 2.7 times the 9.2p cost per viewer-hour for BBC TV. In other words, we would

**“ Once these factors are taken into account, directionally, our results are almost inevitable ”**

largely be replacing a relatively low-cost source of TV content with a relatively expensive one.<sup>9</sup>

<sup>6</sup> The monthly subscription cost of online TV services is less than this if one excludes the cost of broadband but the cost per viewer-hour is significantly higher. Because of the growing significance of online TV, this is an area for future research.

<sup>7</sup> See also Patrick Barwise and Robert G. Picard, *The Economics of Television in a Digital World* (RISJ, Sept. 2012), 19–23.

<sup>8</sup> Although the number of advertising exposures (‘commercial impacts’) would increase by up to 50% if there were no BBC, the price paid by advertisers for each exposure (the ‘cost per thousand viewers’) would fall. We discuss the reasons and evidence for this in Appendix A.

<sup>9</sup> Of course, this is an oversimplification: the cost per viewer-hour is significantly higher for premium pay TV channels than for other non-PSB channels; marginal costs are generally lower than average costs; and the outcome would depend on the extent to which significant new entrants came into the market and the subsequent competitive dynamics (and, perhaps, intervention by the competition authorities). Nevertheless, on a like-for-like basis, it is hard to see how subscription funding could ever match the very low cost per week and per viewer-hour of BBC TV funded by the licence fee.

We believe that the market characteristics discussed here mean that our conclusions should, in reality, not be surprising at all. In fact, once these factors are taken into account, directionally, our results are almost inevitable. The reason, we think, why they run counter to many people's beliefs is that these people have been overinfluenced by generic economic theory rather than focusing on the specific market characteristics and performance of UK television as we have done.

### *Implications for BBC Charter Renewal*

Based on current policy and market trends, by 2016, the last year of the current BBC Charter, total industry revenue, including from online TV, will have grown to £14.4bn, of which only £2.6bn (18.5%) will be BBC income allocated to television. The policy question is what happens after 2016.

The current policy 'salami-slices' the BBC by freezing the licence fee and using it to fund more and more other things (digital switchover, superfast broadband, the BBC World Service, S4C, local TV, etc.). Suppose that this policy continued through another ten-year Charter and that the commercial and online broadcasters, in aggregate, also continued their current growth rate of 4% per annum. By 2026 the BBC's share of TV industry revenue would have been reduced to just 11.5%.

Relative to the market, the size of BBC TV would have almost halved since 2012.<sup>10</sup> Those now arguing for a much smaller BBC would presumably welcome this outcome. Implicit in their view is the idea that, even if complete abolition would be bad for the public, there is some optimum size for the BBC, relative to the market, greater than zero but much smaller than today.

This is not inconceivable in principle, but the onus should now be on those arguing for a smaller BBC to provide some kind of evidence and argument about why they believe it would lead to a better outcome for the UK public than the

current situation: a BBC with only 22% of total industry revenue but 33% of viewing, despite its public service commitments and its market-leading investment in first-run UK content.

**“If our analysis is correct and if the aim is to maximise the overall public benefit of UK television – not just the BBC – the ‘salami-slicing’ of the BBC should be halted”**

In the absence of such evidence, the main implication for Charter renewal is straightforward: if our analysis is correct and if the aim is to maximise the overall public benefit of UK television – not just the BBC – the 'salami-slicing' of the BBC should be halted.

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<sup>10</sup> If the same trends continued beyond 2026, the BBC would disappear altogether around the year 2040, roughly a generation from today.

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