

Future Reflections

Four scenarios for television in 2012

A scenario analysis study of the television industry

Led by
Bournemouth Media School

With research support from
The Independent Television Commission
and The British Screen Advisory Council

FUTURE REFLECTIONS: FOUR SCENARIOS FOR TELEVISION IN 2012.

A scenario analysis study of the television industry

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The Future Reflections project was coordinated by:
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November 2002



Participants

Main panel:

Dawn Airey	Tess Alps	Sly Bailey
Daniel Ballin	David Bergg	David Brook
Ajay Chowdhury	Mike Darcey	David Docherty
John Egan	Sue Farr	Alex Graham
Andrew Harrison	Ashley Highfield	Alison Hopkins
Mathew Horsman	Roly Keating	Phil Kirby
Matt Peacock	Simon Rees	Jamie Reeve
Ed Richards	Paul Robinson	Mark Rowland
Matthew Stibbe	Damian Tambini	Simon Terrington

Second panel:

Tom Box	Danny Cohen	Andy Culpin
Lianne Daly	Liz Faber	Miles Jarvis
Olly Lambert	Matthew Stibbe (also on main panel)	

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PART ONE: THE PROJECT

Introduction and Overview

There is no doubt that the television industry in Britain has entered a period of fundamental and unpredictable change. Historical patterns of media consumption are changing and new markets are developing for a variety of entertainment and information experiences. Many of these changes are driven by technological advancements and changing consumer lifestyles. Corporate structures, strategic networks and competitor-collaborator relationships are increasingly characterised by their complexity. Traditional models of revenue generation are under pressure, and there are uncertainties about what will replace them. The present climate of economic instability accompanied by recent, unexpected jolts to the financial markets holds, as yet, indeterminate repercussions over the longer term for investment in the media. On the policy front, the tension between the challenges of an expanding market and the obligations of public service broadcasting suggest the need for an evolving regulatory framework. New contradictions are emerging such as those of globalism and the appeal of localism or even individualism. Paradoxically, forces for convergence appear to be shaping industry dynamics at the same time as pressures for diversity are reinforcing social and cultural differences. All of these have implications for how the television industry will develop over the next ten years.

For policy makers, industry regulators and corporate planners operating in this volatile environment, the usual tools for forecasting and strategic decision making are often less than effective. How do you plan for a future that is shifting, turbulent and characterised by uncertainty? Traditional techniques for planning and modelling require at least a modicum of predictability and stability.

From July 2001 to June 2002, twenty-seven key industry professionals came together to consider these issues with a view to developing ideas about how the television industry might prepare for and respond to the challenges of the next ten years. This report is an outcome of their discussions held over the twelve month period. The project, called Future Reflections, was initiated and facilitated by the Media School at Bournemouth University with research support from the Independent Television Commission and the British Screen Advisory Council.

The aims of the Future Reflections project were to:

- develop a set of scenarios about the future of television, collaboratively with industry experts
- help the television sector define and deal with common future issues
- contribute to public policy and debate concerning the long-term future of television
- contribute to the advancement of a theoretical framework for the scenario analysis approach.

The primary question addressed by the Future Reflections project was:

What is the television industry likely to look like in 2012 and what will be the implications for public policy and the management of companies involved in television?

This report, together with a seminar on 21 November 2002, is a final stage in the project, although it is intended to publish a number of articles in academic journals at a later date. The report presents a set of four possible scenarios for television in 2012 together with the issues and challenges associated with each of the scenarios.

Structure of the Report

Chapter 1 contains an overview of scenario analysis and our approach to the project. The scenarios are presented in Chapter 2, followed in Chapter 3 by the issues and implications to emerge from the set of possible futures. Part II of the report outlines some of the evidence that was used to construct the scenarios. In Part III, Chapter 9, there is a detailed discussion of the methodology. Appendix 1 contains the interview conducted with the participants from the main panel. Appendix 2 contains a complete list of the industry variables that were considered in constructing the scenarios.

Chapter 1

Towards 2012: Exploring the future of television

Outline

This first chapter of the report contains an overview of:

- scenario analysis as an approach to understanding how the future might unfold and how it might be dealt with
- the Future Reflections project participants and context
- the main uncertainties which participants suggested faced the television sector over the next ten years
- some of their more radical ideas about the future
- how the scenarios were constructed.

A fuller explanation of the methodology is presented in Chapter 9 at the end of the report.

The scenario analysis approach

Scenario analysis has been likened to a ‘strategic conversation’ because it involves bringing together groups of experts with a range of different perspectives to mutually develop a set of scenarios about how the future might evolve. Scenarios are not predictions; instead they offer different, plausible versions of a possible future.

Whether scenarios are conventional or extreme in their story lines, few are likely to become reality in all their aspects. Their usefulness lies not in their accuracy but in their ability to encourage participants and users of the scenarios to think “outside the box” about new strategic opportunities and ways of dealing with such possibilities. For participants, the value of scenario analysis lies not only in the final outcomes, but also in the learning that takes place over the course of constructing the scenarios. The process itself offers opportunities to develop new knowledge about the future.

Scenario analysis works well in volatile contexts, where the future terrain is unfamiliar and unpredictable. Policy makers and corporate strategists in a variety of industries and international think-tanks use it to develop and test the robustness of new strategies against different futures. This prepares them to influence the future, rather than respond to events as they arise.

Scenario analysis has been used, for instance, to consider the future of Scotland prior to devolution, and South Africa as it prepared for its new political system under Mandela. In the South African study, political leaders from across the spectrum of constituencies spent time together envisioning different futures and their roles and responsibilities in each. Working at a global level, the Netherlands Central Planning Bureau applied scenario analysis in order to better understand the prospects for the world economy. Following the original initiative of Royal Dutch Shell, commercial enterprises across a wide range of industrial sectors have developed their organisational learning through scenario thinking. In telecommunications, for

example, Ericsson has used the technique to prepare for the convergence of communication and computing and its impact on end-user devices. In the airline industry, British Airways built scenarios to help its various divisions become more aligned to each other and to market changes. Siemens, operating in the business services arena, constructed scenarios so that new visions and opportunities for future business could be identified.

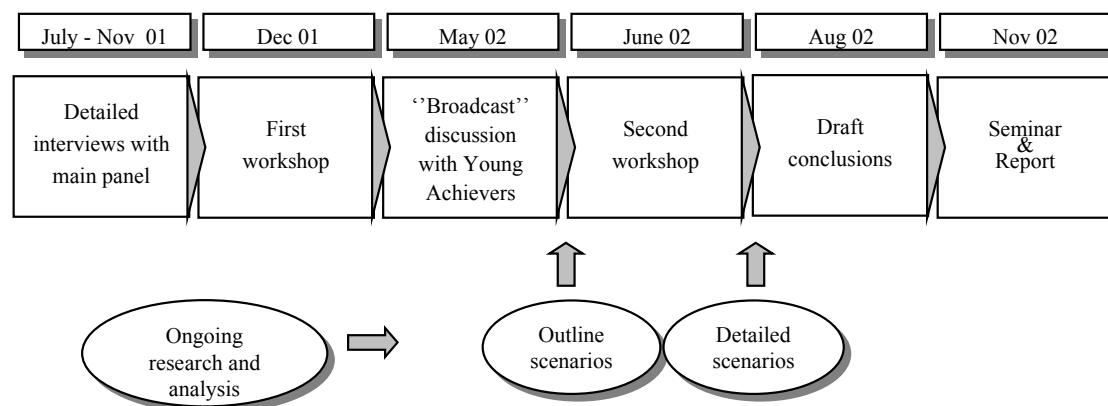
However, despite its successful employment at national and corporate levels, scenario analysis has rarely been used at an industry level where competitors and partners in the same or related sectors have come together to jointly develop narratives of the future - as in the Future Reflections project.

The process

Participants and context

The process of building scenarios for television involved identifying the trends, challenges and possible contexts that might occur over the next ten years, and configuring these into coherent and internally consistent narratives. We did this through interviews, two workshops and a group interview. Along the way, we also fed into the process commissioned research on audiences, consumers, technological uptake and media developments from the ITC, the British Screen Advisory Council, Broadcasting Standards Commission and The Henley Centre.

Stages in the project are outlined below:



A total of 35 participants took part in the project. The main panel of 27 senior executives and other experts were drawn from the terrestrial, satellite, cable, internet and telecommunications networks, programme production companies, interactive gaming, venture capitalists, market analysts, a government adviser, and the public relations, advertising and marketing sectors. A second, smaller panel comprised 8 young, high achievers from terrestrial broadcasting, independent programme making, games development and marketing. One member of the second panel joined the main panel half way through the project because his specialist gaming background was needed to complement the expertise of the main panel. Members of the two panels are listed at the end of this report.

The contemporary context of the project is noted at this point because three key events occurred which may have impacted on participants' perspectives on the industry. Midway through the interviewing process the September 11 tragedy occurred in the USA. This went some way to undermining the already less-than-buoyant financial markets with a resulting decrease in access to capital and investment by the television companies. Arguably, September 11 also served to accelerate the general economic downturn which had been particularly notable in the advertising sector on both sides of the Atlantic since early 2001. From the end of 2001, the broadcasters struggled to reach their advertising targets. On March 27th, a few weeks before the second Future Reflections workshop (which was subsequently postponed), ITV Digital went into administration. It ceased trading on May 1st. This was not entirely unexpected, but it did raise questions about the viability of the digital terrestrial (DTT) platform. Finally, hovering over the project throughout its twelve month gestation, was the new Communications Bill, a final draft of which was released shortly before this report was written. This was intended to create a framework for television in a radically new future and some participants in the Future Reflections project were involved in contributing to the thinking behind it. All participants were concerned about and implicated in its imperatives.

Personal Interviews

We began the project by interviewing all participants on the main panel. The idea was to elicit their hopes and fears about the future, to consider what lessons we could learn from the past as we moved into the future, and to identify the areas about which they had most concern or uncertainty. Interviews were semi-structured and non-attributable, lasting up to two hours. Having fully transcribed each interview, we analysed the data inductively, identifying themes and patterns from the evidence. Some of the themes related to uncertainty are identified next.

Participant views: the main uncertainties confronting television

Participants suggested that the ten areas of greatest uncertainty over the next ten years – and therefore the most difficult to plan around and prepare for – were, in descending order:

Media consumption. Of greatest concern to the majority of participants was how consumers would use their media in ten years' time. The difficulty of making predictions in this area was highlighted by the range of questions raised: how much television will the average viewer watch? To what extent will viewing levels be affected by convergence and/or competition from alternative media such as DVDs, games and fixed and mobile broadband? Will multi-channel households be the norm? Will viewers prefer passive, linear entertainment or will their media consumption be personalised, interactive, and on-demand? Will the UK be demographically polarised - the affluent spending more time on leisure pursuits, while poorer consumers watch more television? Will television become less of a shared experience?

Analogue switch-off. Participants wondered when it would happen and what would be the implications. What needs to happen for switch-off to occur?

TV funding. Will we see the emergence of new revenue streams or will the traditional model of television funding continue relatively unchanged? What will be the balance between advertising and sponsorship, the licence fee, subscriptions, advertiser-funded programming and revenues from interactive services?

Vertical integration and consolidation. To what extent will this have occurred in the industry? Within ten years, who will be the major players? Will the market structure be characterised by large media conglomerates with global connections and multiple platforms – or will there be a proliferation of smaller, niche channels and services? What changes will we see in the value chain?

The scale and scope of the BBC's activities. What will the BBC look like in 2012 and what will be its relationship with and impact on the rest of the industry? Will we see the end of or a reduction in the licence fee? Is there any possibility of the BBC being funded by either advertising or subscriptions?

The future of the internet. What is the real potential of the internet and are its capabilities yet to be seen? How likely is it that broadband internet might become the major platform for accessing TV services within ten years? What impact will broadband have on the broadcast industry?

The future of interactive content and services. What types of services and content will have been developed? To what extent will consumers embrace interactivity and on-demand services at the expense of linear channels? What are the viable business models that will support an interactive environment?

The future of different distribution platforms. In ten years' time, which platform or combination of platforms will dominate the landscape? Will broadband capabilities become the norm? Is there a future for mobile broadband and Fibre to the Home?

Industry regulation. How will the industry be regulated and what impact will OFCOM have? Are we moving towards a more regulated or deregulated industry? How will regulation such as cross media ownership rules develop?

The production of television. How will television be produced, what skills will be needed, and what impact will this have on the design of organisations of the future? How will we nurture creativity and production talent? What impact will the games sector have on TV production?

Participant views: more radical futures

The interview protocol is detailed in Chapter 9 of Part III later in this report. One of the questions asked in interviews was what might a radically different future look like. Some of the responses are outlined here:

The total absence of TV. People lose interest and migrate to other media.

Mobile, personalised ‘myTV’ becomes a mass phenomenon. TV is a permanent, ‘always carry’ accessory in people’s lives as content is consumed on the move.

The TV Butler. The television set works in the conventional sense but also offers a range of other options, such as computing, ordering outside services - supermarket shopping and deliveries, for instance – finding information via the internet, and operating other household gadgets such as the washing machine and home computer.

'Webcam TV'. Individuals broadcast private TV channels, with the programming content being their own homes and lives.

TV as an immersive experience. TV programming develops into virtual reality style content.

Extremely repressive content regulation. There is a dramatic shift in the political climate. Programming is severely hampered by repressive content regulation.

Disintermediation. All intermediaries disappear, and talent and producers provide content directly to consumers.

There was, however, general consensus that the most likely outcome over the next ten years was the further development of existing trends, rather than a major shock to the system. However, because the Future Reflections project was designed to develop the industry's 'peripheral vision' beyond its current focus of attention – to encourage it to pay attention to areas not thought about before – we incorporated some of these more radical ideas into the scenario building process.

Two Group Workshops and One Group Interview

Following the series of interviews, we held two brainstorming workshops with main panel participants, in December 2001 and June 2002. The first of these was held at Chatham House with the aim of debating the issues and ideas arising out of the interviews and generating some rough narratives. These helped to clarify potential relationships between events, issues and contemporary players, outlining the bare bones of possible scenarios.

Because the main panel consisted of primarily senior executives and those with expert opinions, we incorporated into this stage of the project a group interview with a second panel of younger players, whose relative youth offered a critical perspective on our results so far. Broadcast magazine sponsored the event and we used their list of young achievers - the 'Hotshots of 2001' – as the sampling frame. Two issues which this second panel highlighted as areas for further consideration were:

- ***The impact of advertising on editorial content***, especially the blurring of the boundary between advertising and editorial content
- ***The two-way transfer of ideas between gaming and TV content***, and the impact of multi-player gaming on consumption of TV content.

The second workshop took place in June at the Royal Society. By this time, we had constructed a basic set of draft scenarios using the method outlined in the next chapter. Participants from the main panel tested and refined the scenarios for their plausibility and internal consistency. A number of issues and challenges relating to

each scenario were identified and debated in the workshop. These are elaborated in Chapter 3 of this report.

Scenario Building Blocks

We used both inductive and deductive methods to build the scenarios. Drawing on the common themes and patterns which we had identified from analysing the evidence, together with our own knowledge of the industry, we identified 25 key variables. For each we sketched out a range of outcomes. These seemed to capture the main industry developments, key trends and areas of uncertainty. However, when testing out the plausibility of the draft scenarios at the June workshop, we reduced the variables further to a set of 8 to aid the focus of the discussions. The primary variables were:

- Consumer approach to consumption of media
- Audience fragmentation
- Economy
- Political environment
- Market structure
- Market geography
- Revenues
- Rollout of broadband

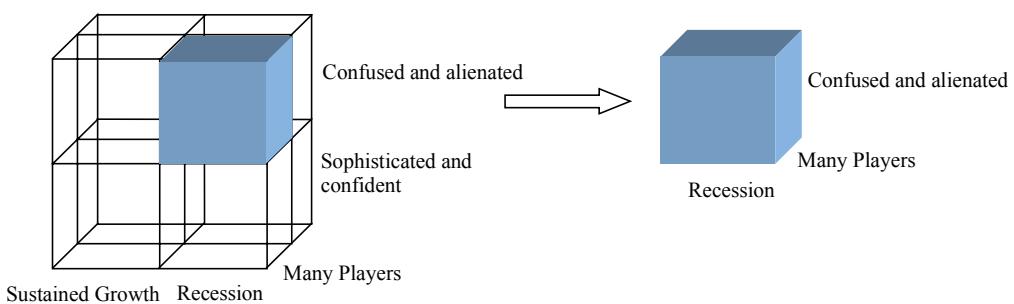
From the above list, we identified three variables as crucial to the building of the scenarios. We set these out below with the range of outcomes for each:

The Nature of Consumers in Their Approach to Media Consumption
 Sophisticated and confident \Leftrightarrow Confused or alienated

The Health of the Economy
 Sustained growth \Leftrightarrow Economic recession

Characteristics of the Industry Structure and Competition
 Concentrated/powerful gateways \Leftrightarrow Many players/open networks

These three variables formed the pivotal axes for a series of 3-D matrices. The scenarios were built by exploring their relationship with all the remaining variables and their various outcomes.



Eight internally consistent scenarios emerged from this process. We selected three which appeared to be the most credible and added a fourth which we derived intuitively through brainstorming in order to enhance the set with a more challenging, 'extreme' version. These were tested and refined at the June workshop.

The scenarios represent a credible range of possible developments in the television market over the next ten years. They are intended to provide a challenging context against which strategic and policy issues can be discussed.

Chapter 2

The four scenarios

Overview

In this chapter, we describe the scenarios in detail. The key factors driving each scenario are set out below. Some aspects of each scenario, however, (for example some policy issues) were deliberately left open for further discussion, and are picked up again in the following chapter.

The four scenarios are:

Digital World: an optimistic view of the world characterised by economic growth and continued technological development, in which consumers adopt a sophisticated and enthusiastic approach to new media, and the full potential of digital technologies is realised.

Back to Basics: recession, unrest and uncertainty, with consumer pessimism, risk aversion, and a significant slowdown in the roll-out of digital media.

Goodbye TV: against a background of economic stability, there is a radical shift in consumer behaviour, with a dramatic decline in the consumption of conventional television, and a shift to new forms of electronic media consumption and leisure activity

Global Challenge: a period of prosperity and consumer confidence, but also of major change in the structure and ownership of the UK TV sector, with the emergence of a few, powerful, vertically integrated and global players.

One thing is certain: none of these scenarios is likely to come true in all its elements. And some aspects of each individual scenario may also apply to others. But the experience of the workshops and subsequent discussions held by the project team demonstrates the value of looking at these possible outcomes, and considering their implications for the steps we might take now and in future years to encourage the positive aspects to develop, and of course to avoid the negatives.

Scenario 1: Digital World

‘The full potential of digital technologies is realised’

- Sustained economic growth
- Liberal, free-market oriented approach to policy making
- Broadband Britain has arrived – Digital switchover achieved in 2010
- Electronic communications grow in importance as a part of people’s lives
- Emergence of a wealthy, more open and tolerant society
- The electronic media sector for much of the decade is open and competitive

The prevailing climate

This is in many ways the most optimistic of the four scenarios. It postulates a world in which, by 2012, we will have seen a quick recovery from the current period of uncertainty, followed by sustained economic growth, which inspires consumer confidence and drives corporate profitability. Government has helped growth in the television sector by pursuing market-orientated policies, in two areas in particular:

- An open market, with inward investment encouraged
- Tough action to ensure fair access to vital networks and gateways, which has enabled many new content and service providers to emerge and reach consumers.

More generally it is assumed in this scenario that there has been a general trend towards deregulation and a reliance on competition to achieve consumer benefits.

Against this background, consumers have become wealthier, better educated, and more liberal in their views. People are confident in their use of new media, and sophisticated in what they demand from both technology and the content that it can deliver. They have welcomed and made full use of opportunities to control their own consumption – viewing programmes when they want to, rather than when broadcasters choose to schedule them. They expect to be able to access content at home, on the move or at work. And they often seek content tailored to their own needs and tastes, rather than to the mass audience. There is strong demand for the latest consumer technology, influenced by style and fashion as well as by technical features.

In support of these demands, there has been a strong flow of revenues into the TV and related media sectors. Consumers are prepared to pay directly for the content and services they most like – direct payment is now the main source of revenues for most service providers. But other commercial revenue sources are still important – ranging from advertising to e-commerce – although “advertising” has been forced to undergo radical change to stay in touch with consumers in the Digital World.

Helped by the overall profitability of the sector, we are now in an “all digital” environment. Everyone has digital TV (switch-off occurred on schedule) and the majority has a broadband communications link – either via their telco/cable company, or via high capacity wireless systems. And these services are used for a wide range of communications and other services, as well as for entertainment. Households have “local networks” which link devices around the house from a local server – ensuring content can be accessed on a range of screens – from the high quality plasma display in the living room, to smaller screens in the kitchen and bedrooms. PDAs (personal digital assistants) are in common use, and can download high quality video over the 3G and 4G mobile networks, or via new mobile DTT services using spectrum released at analogue switch-off. Competing for leisure time are high quality virtual reality systems, which cater for the next generation of games players.

Key developments

Content and services

- Large entertainment “networks” and on demand/interactive services thrive alongside each other
- Overall - an impressive range and volume of quality content is available

Market structure

- A two tier structure exists with few large integrated players and many smaller content producers

BBC and Channel 4

- BBC retains its PSB status but public support is drifting away
- Channel 4 is privatised and becomes part of a global media conglomerate

Content and services

A combination of growth in consumer spend, plus widespread use of digital networks and devices, has encouraged rapid innovation and a proliferation of new content and services. The television market is now characterised by three main segments:

The main **entertainment “networks”** - the equivalent of today’s broadcast networks, but adapted for the new environment - have focused mainly on drama and entertainment. There are four or five main commercial players, broadcasting on all main digital platforms, each with a portfolio of strongly branded channels via which they release their programming in carefully controlled “windows”. They are responsible for a large proportion of investment in new high quality content.

They tap into a mix of revenues – first run drama and entertainment programming is previewed on their pay services, or sponsored as a major free-to-air event on their free-to-air channels. Spot advertising has lost much of its value as a revenue source, as viewers are no longer prepared to sit through the ad breaks, so the free-to-air (FTA)

channels depend increasingly on sponsorship and advertiser-funded programming, and on the revenues earned from linked interactive advertising and e-commerce sites. The networks also each run a few channels targeted at specific audience segments – for example children or young adults – and have incorporated interactivity into many of their entertainment programmes. Although many observers of the market predicted complete audience fragmentation, the networks still bring large audiences together by creating and marketing “must see” event programming. But a significant proportion of viewing to this programming is time shifted (using personal video recorders - PVRs), and the channels themselves repeat blocks of their schedules through the day to increase audience reach. Low cost commodity programming has been dropped from the schedules – it no longer delivers either audiences or advertising.

Niche channels – the offspring of today’s cable and satellite channels. These are much reduced in number, however, and limited to those which serve a clear need. They include channels for specialist live material (for example rolling news channels) and those which can afford to invest in strong new material not catered for by the networks - for example original documentary and arts programming. Many of today’s niche channels have disappeared, as their business models proved unsustainable (advertising income fell, but subscribers were not prepared to pay enough to sustain them).

In some genres, the programming found on the old niche channels has been replaced by **specialist on-demand and interactive services**, delivered over broadband networks. The material these new services provide is often much more interactive in nature – a cross between TV programming and the internet – and it is used and re-used across different media, including new mobile services. These services make full use of e-commerce possibilities to derive revenues.

Finally, there has been some increase in the use of new broadband media to provide community based services, and for individuals to make their own content available to others (peer-to-peer or P2P). In general, though, consumers prefer quality programming produced by professionals, and they are prepared to pay for it.

Overall, this competitive market delivers an impressive **range and volume of quality content**, catering for a diverse range of tastes and preferences. Fragmentation of audiences has not in general led to lower quality: broadcasters have found that investment in good programming delivers a commercial return – hence the high production values of much of the drama and entertainment available on screen. But there is less programming made (investment is spread over fewer hours, and those hours are repeated more), and some types of channel have disappeared, to be replaced by interactive broadband services. For example, interactive food and cookery services have replaced linear lifestyle channels. News and documentaries have largely disappeared from the main commercial networks, but they are available and well made on specialist channels. Again, there may be less volume produced, but standards have been maintained. Some of the peak programming on the main networks is made with an eye to sales in international markets, and co-productions are common, but such programming has higher budgets as a result. UK stories, settings, actors and presenters still attract high audiences, though, and are central to successful networks. Competition has led to innovation rather than risk aversion – partly because the markets have been kept open to new entrants via regulation, but also because

commercial success has been seen to depend on offering content that is new and different.

Market structure and ownership

The market has developed into a two tier structure. In the first tier, there are a few large, integrated producer/broadcasters, some of which also control the gateways to the consumer. It is likely that most, if not all, of these will have some degree of foreign ownership. The economic and strategic advantages of integration and of a global presence have driven this development. These are the companies that can amortise investment costs across different markets, have the scale to fund ambitious new technologies, and seek to secure their market influence by controlling different stages of the value chain.

But there is also a thriving second tier – the content producers who retain a degree of independence, and can reach consumers directly or via alternative distributors, taking advantage of a relatively open access environment. They keep the overall market competitive, and can survive and prosper by keeping costs lower, and by being more innovative than their larger rivals. In a talent-dependent sector, where many prefer to work in the independent sector, their future is assured. The emergence of low cost systems of micropayments from consumers to content providers is also making new forms of broadband-based distribution available, although marketing costs for this material are relatively high.

The BBC and Channel 4

The BBC in this scenario has retained its public service status, although it faces tough competition and public support is gradually drifting away. Its revenues have fallen relative to the market as a whole – as the commercial sector has once more boomed – and by 2012 it is unable to compete on equal terms with major global players for talent. In parallel, many independent content producers are finding new ways to reach their viewers – they no longer have to rely on the BBC as a conduit. Back on the agenda is the future of the licence fee and - given the success of the commercial sector in delivering what consumers seem to want – many now think that its end is in sight. Although the BBC survives the 2006 Charter review unscathed, a much smaller publicly funded BBC seems likely to emerge at the end of the subsequent review.

Channel 4 was forced into radical change at an earlier stage. Ironically, the success of its new ventures in a growing market, and the apparent ability of the channel to prosper in the Digital World, convinced government that it could be privatised and still remain a distinctive service. It is now part of a global media organisation, but still specialises in targeting younger audiences with edgy, off-beat programming.

Observations and issues: Digital World

A number of issues were raised by participants in the workshop concerning this scenario:

- Some felt this scenario was almost too optimistic to be credible, but on balance most were prepared to accept that it was of value to explore how a Digital World might evolve to serve consumers exceptionally well.
- Much was thought to depend on the success a) of the new free to air DTT service in driving digital take-up, and b) the continued improvement in broadband take-up seen recently. A big imponderable, of course, is the economic outlook over the next year or so.
- The balance of small and large players in the market was questioned – some felt that the larger players would be able to prevent the emergence of competition as described in the scenario – or at least raised the need for even tougher regulatory intervention.
- Most felt that this scenario would be accompanied by a significant reduction in content regulation in the commercial TV sector. It would herald the end of positive content obligations, which would no longer be seen as necessary, given the range of commercial services that would be available. The public would no longer support standards regulation (taste, decency etc), as they would prefer to make their own choices about what and what not to watch. This would come to an end, to be replaced by self regulation, filtering systems, and “kite marking” of services.
- A significant minority felt that the BBC would be a winner in this scenario – rather than the more pessimistic outcome portrayed above. In particular, the BBC could emerge as a key driver of digital TV, and a strong player in broadband and interactive. This, it was argued, would secure continued political and public support. Other participants suggested that the BBC might have forced the pace, and changed itself into a successful subscription-funded organisation.
- Some participants were more optimistic about the future for niche channels. On the other hand, others argued that the “networks” described in the scenario would be even less like the channels we know today - and much more like marketing “brands” used to promote and package a few key programmes that would be “released” each week.
- Finally, many thought that key aspects of this scenario were well worth aiming for. They suggested that government policy should be designed to help it emerge – for example by encouraging open access to networks and gateways, and actively supporting broadband roll out and digital switchover.

Scenario 2: Back to Basics

'Uncertainty and risk aversion: consumers remain loyal to conventional media'

- Prolonged recession for a number of years towards the beginning of the period
- Government adopts an interventionist approach in an attempt to support the market
- Broadband Britain has stalled - switchover by 2010 abandoned
- Conventional TV remains a part of people's lives
- Marked social unrest following prolonged recession
- The UK media market is dominated by a few vertically integrated national players

The prevailing climate

Scenario 2, Back to Basics, reflects a much more pessimistic view of economic developments, and their possible impact on the television sector over the next 10 years. In this scenario, the next few years bring a sustained recession, fuelled by tension in the Middle East and by other uncertainties around the world. By 2012, the economy has only just started to grow at trend rates again, and the country is still in a pessimistic mood. Around the world, there has been a backlash against free trade and globalisation, and the media sector has been no exception.

The period has brought marked social unrest, with parts of society badly hit by the prolonged recession. Social attitudes have changed – Britain has become a more inward looking and defensive society, and social divides have if anything become more marked. Many consumers are more worried about threats to quality and standards of television programming, and are also alarmed by what they see their children accessing via the internet. A minority has continued to prosper and demands all the latest technologies. But many just cannot afford to take part in the digital/broadband world, and many of these are alienated and feel disenfranchised.

In response to the above, government has adopted a more interventionist approach to policy and regulation than might otherwise have been the case. In particular:

- Delayed opening of the UK market to non-European ownership
- Offered further support for the independent production sector
- Avoided measures which might affect further the profitability of the main commercial players
- But also renewed interest in content and standards regulation.

Given the economic environment, commercial TV revenues show no improvement for a large part of the decade: advertising is stagnant, and subscription revenues have plateaued. Interactive and e-commerce revenues remain a minor part of the market.

Not surprisingly, digital take-up is slow - the new free-to-air DTT service fails to meet its growth targets, and the pay TV services focus on stabilising profits from their current customer base, especially as some subscribers are trading down to cheaper packages. Broadband also stalls – around 25% of households move into the broadband world, but the rest cannot afford the monthly fees, and neither BT nor the cable companies are prepared to expand their networks further. Although mobile phone penetration remains high, it proves difficult to persuade customers to switch to higher value services. At least a third of households remain in the analogue TV world, and even those who have switched to digital, retain analogue sets in their homes. There is a significant digital divide, which is only partly addressed by government initiatives to fund digital and broadband connections in schools and other public places.

Key developments

Content and services

- Conventional network channels account for a large share of TV consumption
- Shakeout of niche channels occurs as many collapse
- Little demand for new media services

Market structure

- Dominated by BBC and BSkyB
- Independent sector struggling and dependent on a few powerful buyers

BBC and Channel 4

- BBC is the only UK player able to sustain investment and with an international presence
- Channel 4 now receives a ‘licence fee’ but with no commercial ventures

Content and services

In this scenario, conventional network channels still account for a large share of TV consumption, but across all parts of the television market, economic pressures are being felt, and investment in content is being squeezed.

In a stagnant advertising market, competition between the commercial networks is cut throat. Audiences for Channel 3 have continued to decline, while Channel 5’s have increased. The halt in digital take up has prevented the emergence of new commercial networks, but the Channel 3/5 battle has led to a risk averse approach to

scheduling and reliance on old favourites. Audiences, too, are not looking for challenging content – they demand entertainment and soaps to provide relief from the stressful world in which they live. News viewing has declined – the news is too gloomy – and escapist content is in great demand. Some interactivity is delivered around programmes, but the lack of growth in the digital market, and the lack of revenues to support new services, means that very few new initiatives are launched. Betting and gambling services are popular, as consumers look for ways to escape their difficult economic circumstances. Broadcasters are reevaluating previous plans to move into digital channels and services – and there have been several high profile closures of channels and online services.

The niche channel market's precarious economics have also become evident – and there has been a shake out of many of the channels started in the late 1990s. There is just not enough advertising or subscription income to support this range of services.

Investment across all television activities has been under pressure and cut back wherever possible. The commercial terrestrial networks have argued for a cutback in their costly PSB obligations, and regional programming has been targeted for reductions as a result.

Only the BBC has continued to be able to invest, backed by a licence fee which has been set to remain flat in real terms. But even the BBC is facing difficult challenges concerning its investment in digital channels and online – lack of take up means that they continue to deliver poor value for money – and may have to be scaled back.

Market structure and ownership

The market is dominated by the BBC and BSkyB. The BBC is the best funded and most successful broadcaster – its audience share has increased again during the decade. Sky has consolidated its position in the satellite sector, and has benefited from a lack of competition for key sport and movie rights – hence enabling it to cut costs. Given the slowdown in digital take-up, it has forged an alliance with Channel 5 to get the Sky brand into more households. The cable companies have merged, but offer a common carrier platform service only, and have long since given up any ambitions in content provision. Channel 3 is now controlled by a single company. Channel 3, too, expressed interest in acquiring Channel 5 from an early part of the decade – but the competition hurdles were too great.

Non-European foreign ownership of the PSB channels remains prohibited, but in any event, the media sector worldwide is depressed, and there are few investors looking at the UK market for opportunities.

The independent production sector has been struggling throughout the decade, and it is still heavily dependent on a small number of powerful buyers. Given that the BBC is now its main source of funding, government has increased the independent quota imposed on the BBC, with a view to supporting the sector. But in practice, this has simply created more “jobbing” producers, and has failed to provide a foundation for well capitalised and growing companies.

Government has also listened receptively to plans from Channel 3 to cut costs via consolidation and reduced licence payments. The digital platforms have successfully argued for less regulation of their activities, maintaining that they need to generate profits to support future investment.

There has been a second shake-out in the telecoms sector – with the collapse of some mobile phone operators. BT faces few strong competitors.

The BBC and Channel 4

The BBC remains strong in this scenario. It is now the only UK broadcaster capable of sustaining investment and developing an international presence. Constraints on what the BBC can do (e.g. commercially) have been relaxed, and funding via the licence fee has been maintained in line with inflation. The BBC is seen as a key standards setter, especially given the risk that commercial broadcasters might be unable to meet some of their PSB obligations.

Channel 4 faced two choices in the middle of the decade:

- Privatisation – as it became clear that it could not support a PSB remit in a tough advertising market
- Public funding – from a possible top-slice of the licence fee – if it were seen essential to retain Channel 4 as a PSB to provide competition to the BBC.

Concerned about the provision of PSB, government opted for the second of these options, and Channel 4 now receives a small share of licence fee funding, but has withdrawn from other commercial new ventures.

Observations and issues: Back to Basics

Some participants argued that this scenario, while thought provoking, would be unlikely to last for the entire decade, and that even within a recession, there would be some pockets of growth. They were agreed, though, that even a continuation of the current downturn could cause problems for the commercial terrestrial broadcasters, and that the power of the BBC and BSkyB would be enhanced. Some additional developments were suggested:

- While many viewers would no doubt fall back on easy viewing entertainment as suggested, it was also possible that many alienated and disenfranchised people would take a much more demanding approach to media consumption – they would be looking to “alternative” media – perhaps online – to express their own points of view and perhaps their dissatisfaction with the way of the world – new media could provide a tool for a more anarchic and subversive approach to the world and politics, and more P2P activity could develop as a result.
- Alternatively, it was noted that there might be a minority of wealthier individuals who would support the development of some new services – perhaps on-demand or broadband – even though the majority might not be

interested in them. They argued that the development of “Broadband Britain” would be delayed rather than cancelled.

- There could be a dramatic further shake out of market players by the middle of the decade if the recession continued as hypothesised – only BSkyB, it was predicted would survive such a shake out.
- Even if non-European foreign ownership is prevented, it was thought that UK broadcasters would be forced into greater use of acquired material and more use of co-production funds (and hence programmes made for international markets). Lack of funding for programmes would make these trends inevitable.
- Overall, participants were pessimistic about the outlook for quality, range and diversity in this scenario, and considered that it underlined the need for a strong BBC. They also felt there would be a high risk of a backlash on standards regulation, influenced by a fragile social climate – with OFCOM expected to crack down on taste and decency issues. It was noted that we would face a dilemma on standards regulation: while there might be strong political and public will for greater intervention in this area, the commercial PSBs would be increasingly unable to afford major non-commercial obligations. Action might be needed, for example by revisiting the terms on which Channel 3 receives access to spectrum, to provide some form of financial support.

Scenario 3: Goodbye TV

'Radical shifts in behaviour, new media replaces conventional television'

- Moderate economic growth
- Counter-productive interventionist Government
- Broadband expands faster than digital TV
- TV revenues and consumption drop sharply
- Consumers increasingly develop and distribute content using P2P technology
- The media market is fragmented and destabilised

The prevailing climate

In this scenario – perhaps the most radical of the four - the economic climate has been reasonably favourable, and there is strong early consumer support for new broadband services. Society has become more individualistic. We have seen the emergence of a strongly consumerist society, with people increasingly disengaged from the mainstream political process. Consumers have become increasingly sophisticated in their demands and confident in their approach to electronic media. They want services and content that has been designed specifically for them. But at the same time they are increasingly dissatisfied with the services and content provided by the main players in the market. The widespread use of PVRs has revealed to viewers how little TV content there is each week that is worth recording. The “games generation” is becoming the next mainstream – and conventional television is losing ground. For too long, TV in the UK has been supplier/producer-led, rather than demand-driven. Over the decade there has been an increasingly sharp shift of viewers away from the main television networks. Other electronic media and other leisure activities have taken television’s place – and television’s business models are breaking down.

Underpinned by a demand for fast internet access and interactive services, the first half of the decade sees the rapid take up of broadband. Broadband development is further helped by active government support for its roll out, with the result that connection and monthly charges can be reduced and its availability extended – to the extent that it overtakes digital TV take up in the later years. (Digital TV take up is slower than anticipated, as the new FTA DTT service fails to capture the public imagination to the extent hoped). In fact, digital switch-off is only in prospect because, in 2012, government has finally decided to pay consumers to make the switch, in order to release valuable spectrum for new mobile services.

In parallel with its support for broadband, Government has maintained a fairly tight oversight of the television sector; as proposed in the Communications Bill, there continues to be regulation of PSB, and the schedules are still marked by programming which the networks are obliged to broadcast, rather than that which they would choose to transmit if unconstrained. Government has also had second thoughts about

relaxing the ownership rules – as a result, there has been little access to new capital and new ideas over the decade. And there is also an increasing mismatch between what public broadcasters are being asked to show, and what consumers actually want to watch.

On the other hand, in a positive move alongside the support for broadband investment, government has ensured that content and service providers can get fair access to the broadband networks that have been built – so setting the scene for a competitive market in new broadband-based services.

Although the economy is strong, television revenues are less robust. Advertising in this scenario falls more quickly than even the most pessimistic expectations – there is a major structural change, with advertisers realising that TV is no longer delivering value. People do not watch the advertising breaks, and TV programmes are delivering the wrong sort of consumers. Subscription growth also falters – the pay TV services have pushed prices too high and have tried to squeeze too many inadequately funded channels onto their platforms. Viewers are dissatisfied with the quality of the services offered – “200 channels and nothing on”. The churn rate out of multi-channel TV rises sharply. However, new payments systems are allowing broadband consumers to download content of many different sorts in small amounts – for a few cents at a time – from on-line archives in the UK and around the world.

In the home, new technology adoption continues apace. However, the new equipment is not often used for traditional television. In the living room, high quality flat screens are used to show the latest DVDs – or to download movies over a broadband cable connection. Smaller screens are dotted around the house – but they are increasingly used to access games and other services over broadband networks. PDAs and next generation mobile phones are in every pocket or briefcase, but they are used for all sorts of two-way communications – and much less for the download of audiovisual content.

Key developments

Content and services

- Broadband consumption replaces conventional TV
- P2P activity grows in importance

Market structure

- Business models of the traditional broadcasters collapse
- New content providers/producers emerge in line with market changes

BBC and Channel 4

- BBC broadcast services lose public support but BBC online and radio services thrive
- Channel 4 expands online activities successfully to deliver broadband services

Content and services

TV consumption has dropped significantly. Audiences no longer want low budget run of the mill programming. They are not prepared to watch much of the PSB output on the commercial channels (regional programming in particular has suffered a huge drop in audiences) and they feel that the quality of much of the rest is just not good enough. TV companies are finding it difficult to invest in high budget programming as advertising revenue falls, and the programmes they do show are compared unfavourably with high budget DVD quality movies from Hollywood. The conventional news bulletins find it difficult to compete with on demand news on the internet – which offers high speed access to video clips and news services from around the world. TV's factual programming seems slow and old fashioned compared with interactive broadband sites – which also offer an opportunity to buy online. The fragmentation of audiences across many different channels has dispersed budgets and stretched talent too far – meaning that quality has dropped.

What people do enjoy doing is surfing the broadband internet for information and news, playing interactive games, and taking part in online communities of interest, reflecting their own passions and obsessions. When they do this, they come across a whole range of new brand names – not those of the old broadcasters. The “new kids on the block” – new and fashionable brand names from other consumer sectors – are increasingly the main providers of broadband mixed media content. People are also increasingly creating their own electronic content and sharing it with other like-minded individuals. They don't have time for passive viewing of the everyday programming shown by the main broadcasters. While they will stop to watch the occasional high quality drama or new comedy, this is the exception rather than the rule – and generates insufficient revenues to sustain many competing networks.

Market structure and ownership

In this scenario, the conventional commercial broadcasters are now in big trouble. Their business models no longer work. In the first part of the decade, government discouraged foreign investment and ownership. Now, no one wants to buy into the UK market anyway. Even those like BSkyB, who established control of the gateway as well as broadcast channels, face problems – they cannot raise prices to subscribers, their churn rate is rising, and their technology is out of date and lacking in functionality compared with the new broadband networks.

The winners are those who have invested in the infrastructure – the telephone and cable companies. They are now earning revenues from the rapid increase in consumer usage of those networks for communications and other services. And those who have invented new service features for on-demand and interactive use over broadband – whether as portals or guides to the broadband world, or as individual service providers.

Content producers are also experiencing some success – but they have had to change their focus radically, in an increasingly polarised market. At one extreme, there is still some demand for high budget programming – with feature film quality. This

material is increasingly made for the international marketplace, with extensive use of co-production funding. At the other, firms which have developed a real understanding and set of skills in mixed media content for online delivery have succeeded. The in-house production arms of the main broadcasters have fared worst – they remained focused on conventional television programming for too long, and failed to spot the changes in the market place that were occurring.

BBC and Channel 4

Like other broadcasters, the BBC's conventional services have haemorrhaged support. It is increasingly difficult to justify spending large sums of public money on channels that no one wants to watch. In contrast, the BBC's online and radio services are doing better than ever, especially the high speed broadband versions. The BBC's search engine and guide to the internet is seen as the gold standard and essential tool when navigating the sometimes complex broadband world. And the BBC has made access to its vast archive available on demand for a small additional annual subscription charge. Going forward, the most likely outcome for the BBC seems likely to be a subsidised online service, with a basic free-to-use tier, and a charged for on-demand archive service. The BBC's TV channels are scheduled to be closed down over the next 5 years.

Channel 4 also spotted the rapid change in the marketplace, and has its own commercial version of the BBC's online service. It is likely to be awarded a similar subsidy to that suggested for the BBC, so that it can continue to deliver a public service over the broadband networks.

Observations and issues: Goodbye TV

- Participants at the workshop felt that the probability of this scenario occurring over the next 10 years was remote, but that it could not be ruled out over a longer timescale. It did, however, serve to unlock several important behavioural issues which are currently affecting UK television, including important changes in the way consumers relate to broadcasters and broadcast content. It was felt that there could be a series of contradictory developments:
 - On the one hand, fragmentation and a move away from conventional TV, as described above
 - On the other, the use of key TV programmes to create communities of interest which would then be explored further in different media including online.

In other words, while it may be true that people increasingly want to use other media for their information and entertainment, conventional television can still play an important role as a catalyst in creating the interest in the first place. Future success therefore depends on understanding these synergies.

- It was agreed that the BBC is positioning itself cleverly for these sorts of developments with its investment in BBCi, and it was also agreed that telcos/cable companies might emerge as the long run winners in this scenario.

- Finally it was commented that this scenario illustrated the potential risk that over-regulation might have the effect of killing the medium that is being regulated – there was a clear contrast between effective competition regulation, which can keep markets open, and potentially intrusive content regulation, which may squeeze value out of the sector, to the long term detriment of consumers.

Scenario 4: Global Challenge

'The TV sector prospers but big is beautiful and global players dominate'

- Moderate economic growth
- Interventionist Government aiming to support cultural and social values
- Patchwork quilt of digital services - 20% of households still analogue
- Slow change in social attitudes over the period - strongly consumerist society
- Dominated by large, integrated, and globally focused players

The prevailing climate

The fourth scenario focuses on changes in market structure and ownership as its defining characteristic. After a period of economic uncertainty, the UK economy – aligned with the rest of the world – has achieved a moderate rate of growth. There is a new sense of cautious optimism about the future, although the crisis at the start of the decade has not been forgotten.

As a result of economic and political difficulties in the early 2000s, government has proved sympathetic to measures to support and encourage UK-based economic activity in this sector. There is also a strengthened interest in ensuring we protect our social and cultural values, but within an environment which attracts financial and creative skills from around the world.

Consumers too, are less adventurous than they might have been in a less troubled world. They are focused on jobs and money, and are working long hours to pay their bills – the new leisure-based society is still far from reality. At the same time, with the gradual return of economic confidence, consumer spend has been rising, and the latest technical gadgets are disappearing fast from the retailers' shelves. When they do have spare time, people are keen to watch entertaining TV - passive consumption of high quality and entertaining drama, comedy etc is still a big part of their television needs.

The early years of the decade brought continued economic difficulties, in which some of the weaker market players went to the wall, and others survived through cost cutting, consolidation and international collaboration. More recently, though, advertising revenues have started to grow again – TV is still seen as an important advertising medium – and pay TV is expanding once more. Digital TV take up – after a slow start – is now moving forward quickly, with a successful free-to-air DTT platform playing its part. Switch-off of the analogue services looks a possibility within a few years.

Although not all households have yet moved into the Digital World, those that have, now enthusiastically use the new technologies and services provided. Interactive TV has been a hit, and new revenue sources have helped to increase the profitability of

both the platform operators and a few key service providers. Broadband take up has grown more slowly than digital TV. However, it has proved difficult to persuade more than the core one third of households of the benefits of broadband. Hence we have a patchwork quilt of technologies around the UK – with some fully broadband capable households, while others depend largely on enhancements to their digital TV services. Around 20% of households – largely the poor and old – remain in the analogue world.

Key developments

Content and services

- No radical developments in content consumption over the period
- Emergence of a fourth network

Market structure

- Move towards vertical integration
- Globally oriented market - international partnerships/alliances common
- Strong production sector made up of a few large players and a subservient freelance sector

BBC and Channel 4

- BBC a strong player, potentially with increasing opportunities for commercial activities
- Channel 4 privatised and bought out by a global player

Content and services

In this scenario, the nature of the services delivered and the content consumed is surprisingly similar to that seen today.

Viewers still demand linear channels with a mix of high quality entertainment, drama and factual programming – they turn first to the main networks for their viewing choices, and use the other channels for top-ups. Although some viewers are keen on their PVRs and EPGs, and use these to exercise much more direct control over what and when they watch, much viewing is still in the conventional passive mode – “lets see what’s on tonight”. Broadcasters have helped sustain the strength of the networks by clever scheduling and promotion of their programming – viewers still think it is important to catch popular and event programmes on the night they are first broadcast.

With the upturn in advertising revenue and the growth of multi-channel TV, a fourth main network has emerged – and viewing is now more equally distributed between the main commercial channels (ITV has lost its clear lead). As two of the networks are in the same ownership (see below), there is in fact a greater range of programming available, as these two networks are targeted at different audience

segments, and show different types of programming. The main networks have also launched support digital channels, which allow them to extend their key programme brands across those channels and into interactive services – along the lines of today's *Big Brother* and *Pop Idol*. This has been the main use of interactivity so far – although games and gambling have fulfilled their early promise and are generating new source of revenues for the successful players in those areas.

Hit by the economic climate in the early part of the decade, some niche channels closed – and the niche channel market has not really recovered. With increased digital take up, some channels have moved into the free to air sector (but are still taking only small shares of the total advertising cake, and hence cannot afford much in the way of original production). News channels are now all free-to-air – supported by advertising aimed at the slightly upmarket audiences they attract. A few are still subscriber – financed – mainly specialist factual and other specialist channels. They, however, are concerned that further growth of broadband might eventually undermine their economic models.

P2P, community based services, and genuine on demand services are still minority pursuits – broadband has not yet reached sufficient critical mass, and costs are still too high to make these services viable propositions.

Market structure and ownership

As noted above, the early part of the decade brought a shake out across the sector. Economic pressures resulted in a number of developments:

- Further pressure to vertically integrate broadcasting and production – to cut costs, reduce risks, and influence the development of competition
- Consolidation in ITV, and a move to create further concentration in the sector, for example by merging two of the commercial networks
- Partnerships with overseas (mainly US) owners – to spread risk, reduce costs, and improve access to overseas markets.

As a result, the commercial UK television sector now has a very “global” feel to it. All the main networks are owned by non-UK players, and they often use UK networks to showcase material with the potential for overseas distribution. This does not, however, necessarily mean programmes produced in the US – quite often; the main global players have found that UK productions have a distinct advantage in world markets, and they are increasingly building their production activities in the UK to make use of our creative talent base. The UK market has proved to be a lower-cost test market for new ideas and formats, which can then be launched internationally.

Concerned about UK origins, however, government has introduced tough rules to ensure that sufficient UK programming is produced and shown at peak time on the main commercial networks. These rules appear to have been successful – possibly because they are encouraging broadcasters to do what they would have done commercially anyway.

The independent production sector has also undergone huge changes. Now more than ever it is polarised between the few big players who are able to retain their own rights, and attract capital for expansion, and the rest – mainly smaller freelance outfits who provide some flexibility in the market place, but who largely work under contract to the main broadcasters. Overall, however, there is a strong UK production sector, which is now a key growth sector in the UK economy, delivering jobs and export income.

The BBC and Channel 4

The BBC has remained a strong player in this scenario, prompted by government concern about the overall performance of British companies in the media sector. In the early part of the decade, the BBC benefited from its secure revenue stream at a time of economic pressure in the commercial sector. At the Charter review in the middle of the period, it won the case for sustained funding, given the uncertainty in the rest of the market. But it has been forced to focus its main services on a more distinctive offering, and takes a slightly lower share of overall viewing than at the start of the period.

Looking forward, there is still no great pressure to change the licence fee system – but attention is being turned to the BBC's commercial and production arms. Can new structures be found which allow the BBC to operate more flexibly and commercially overseas, and hence compete with the global players who now dominate the world scene?

In this scenario, Channel 4 survives as a niche player for the first part of the decade, but then faces a challenge, given the commercial pressure it faces on the one hand, and the unequal competition from a well funded BBC on the other.

Rather than create a new publicly funded approach to Channel 4's problems, government decides that privatisation is the best option. Channel 4 by 2012 is about to be snapped up by one of the existing global networks with UK operations.

Observations and issues: Global Challenge

This scenario was not discussed in detail at our final workshop, but was seen by those who had read the background material as possibly being a more likely version of events than some of the others:

- It recognises some of the strong economic dynamics in the sector – which may lead to increased concentration and globalisation
- It acknowledges that technology change may be slower than we think, and there could still be wide variations in the level of exposure to digital and broadband services by the end of the decade.

Some participants were more concerned about the prospect of global players in the UK market than others: some would agree with the above hypothesis that UK production and broadcasting would benefit from an influx of investment and creativity; others identified the risk that the main UK networks would show a much

greater percentage of US programming if they were owned by US companies with powerful production studios of their own. It was thought that the role of the BBC would be an important factor here – if the BBC continues to attract viewers by scheduling quality UK production, the commercial networks will have to do the same to compete effectively for audiences.

Finally, the future of the independent production sector was seen as a big concern in this scenario – but participants were not clear about the solutions to the problem. A higher quota, for example, might just mean the creation of more small freelance producers - while special terms of trade could simply benefit production companies already large enough to look after themselves.

Summary of the four scenarios

“Digital World” and “Back to Basics”

Variable	Digital World	Back to Basics
Society/Consumers		
<i>Consumer approach to consumption of media</i>	Sophisticated and confident	Confused and alienated
<i>Audience fragmentation</i>	High degree of audience fragmentation	Little fragmentation – main networks remain important
<i>Role of screen based entertainment in society</i>	Screen based entertainment remains important alongside new media	Conventional TV remains a significant leisure activity
<i>Brand awareness</i>	Reasonable awareness of the stronger brands in a crowded market	Old brands remain powerful
<i>Societal trends</i>	Open, tolerant, individualistic	Defensive , insular, conservative
Economics/Public Policy		
<i>Economy</i>	Sustained growth throughout the period	Recession at some point in the period
<i>Political environment</i>	Largely hands off approach, but with incentives to encourage broadband	Big Govt with hands on approach
<i>Approach to trade</i>	Open economy – inward investment encouraged	Closed economy – to protect UK players
<i>Industrial policy</i>	No UK champions – Policy allows the market to determine the outcome	Attempt to create UK champions to help fight recession
<i>Government's approach</i>	Liberal and free-market approach to policy making	Pragmatic protectionist approach to policy making
Industry structure/Competition		
<i>Market structure</i>	Many players in the market with a high degree of competition – both large integrated players and smaller players	Concentrated market, as smaller companies fail
<i>Market geography</i>	Companies have both a national and international focus	National – global players restricted to margins
<i>Gateways</i>	Open broadband networks allowing many players to enter the value chain	Closed networks controlled by a few large vertically integrated players
<i>BBC</i>	Retains PSB status, but faces tough competition	BBC remains PSB focused and helps sustain creative sector
<i>Channel 4</i>	Privatised and part of a global media player	Remains a public broadcaster, with share of the licence fee
<i>Disintermediation</i>	Control moves to talent and rights owners	Control with broadcasters and producers
<i>Revenues</i>	Direct payments and interactive revenues from consumers grow in importance	Advertising and subscription remain key – but under pressure due to recession
Technology/Content and Services		
<i>Rollout of broadband</i>	Govt goal of Broadband Britain and switchover achieved	Digital Britain stalled
<i>Network infrastructure</i>	Wired homes	Broadcast based
<i>Mobile</i>	Broadband mobile takes with audio-visual content received on 3G/4G devices	Mobile mainly a communication platform
<i>Content distribution</i>	Eclectic mix – main “networks” prosper alongside P2P	Producer-broadcaster driven
<i>Nature of experience</i>	Strong narrative provides catalyst for interactive experience	Interactive services slow to take off
<i>PSB ethos</i>	Market failure	Market defining – PSB seen to have a key economic and social purpose
<i>Packaging</i>	Three main segments – entertainment “networks”, niche channels and specialist on demand/interactive services	Linear channels with little on demand services
<i>Production values</i>	High and well funded – investment in programming delivers a good commercial return	BBC well funded but commercial sector faces funding challenges
<i>Attitudes to risk</i>	Competition fosters risk taking approach to programming	Risk averse

“Goodbye TV” and “Global Challenge”

Variable	Goodbye TV	Global Challenge
Society/Consumers <i>Consumer approach to consumption of media</i> <i>Audience fragmentation</i> <i>Role of screen based entertainment in society</i> <i>Brand awareness</i> <i>Societal trends</i>	Radical shift in attitudes Highly fragmented audience Rejection of conventional TV “New kids on the block” – many new brands Individualistic and disengaged from the political process	Evolutionary change Moderate degree of fragmentation TV retains similar importance in society to today Powerful big brands remain dominant Focus on jobs and material consumption
Economics/Public Policy <i>Economy</i> <i>Political environment</i> <i>Approach to trade</i> <i>Industrial policy</i> <i>Government's approach</i>	Moderate growth Counter-productive intervention – alienates public Closed economy, little access to foreign capital and ideas No UK champions – policy allow market to decide Inflexible and poorly targeted	Moderate growth following a period of economic uncertainty Intervention to support economic activity and social and cultural values Policies to attract financial and creative capital from across the globe UK champions as Govt seeks to support UK market following a difficult start to the decade Pragmatic – working with main players
Industry structure/Competition <i>Market structure</i> <i>Market geography</i> <i>Gateways</i> <i>BBC</i> <i>Channel 4</i> <i>Disintermediation</i> <i>Revenues</i>	Many new players with an anarchic market place Companies have a local and community-oriented focus Open networks supported by Govt policies. BBC traditional services suffer, however, BBC' online and radio services prosper On line activities a success with a subsidy similar to BBC services Infrastructure owners dominate the value chain Collapse of traditional advertising and subscription business models. Growth of interactive revenues	Concentrated market with large, integrated players Market increasingly global in nature Closed networks controlled by large players BBC remains a strong player following Govt support Privatised and bought out by a global network Control with large broadcaster/producers Traditional business models remain with advertising and subscriptions key
Technology/Content and Services <i>Rollout of broadband</i> <i>Network infrastructure</i> <i>Mobile</i> <i>Content distribution</i> <i>Nature of experience</i> <i>PSB ethos</i> <i>Packaging</i> <i>Production values</i> <i>Attitudes to risk</i>	Broadband expands faster than digital TV Wired homes Mobile broadband takes of but mainly as a communications medium Old players collapse, replaced by many new content packagers Interactive, on demand services take off Increasingly seen as irrelevant by the general public On demand content popular – main networks struggle Transformation as new media replaces old Innovation and risk in new media, risk averse in old	Patchwork quilt of digital services with 20% of households still in the analogue world by 2012 Broadcast based Mobile services not a significant sector of the market Broadcaster-producer driven – P2P remains a marginal activity Preference for passive, linear services Govt support for PSB Main networks (with a new fourth player) dominate the market High value, led by co-production funds Risk averse

Chapter 3

Issues and challenges

Introduction

Formulating scenarios is a fascinating exercise, but what does it tell us? The value of scenario analysis arises from the questions it gives rise to. What are the key drivers of developments, and what impact will changes to those drivers have? What are the major “discontinuities” or key changes which will affect the whole nature of the market? How can we avoid the developments we don’t like and encourage those that we do?

In this chapter, we take the four scenarios developed by the project, and examine the following:

- The key factors on which major changes in development seem to depend
- The strategic decisions which might determine success or failure for the main players
- The policy and regulatory actions which seem able to influence the shape of the market.

We do not try to predict which of the scenarios is most likely to occur – the reader is free to do that for him or herself. Neither do we pass judgement on which is the most preferable outcome - this would depend on the priorities given to different objectives, such as economic growth, social and cultural diversity, consumer choice etc.

However, we do hope that we have provided the reader with tools to make those judgements and to assess the different policy and strategic choices that may have to be made to achieve one or more of the different possible objectives.

The key external factors

The first thing to note is that many of the main factors which differentiate the scenarios are outside anyone’s direct control.

The economic context

The overall economic climate will have a big effect on consumer confidence, and profitability of the sector. This in turn will affect the rate of take-up of new technologies, willingness of firms to take risks and innovate, and consumer willingness to experiment with new content and services. In the two scenarios which involve economic uncertainty (2 – Back to Basics - and 4 – Global Challenge), there are significant knock on effects:

- Pressures to cut programming costs
- Consolidation in the industry
- Slower roll out and take up of digital TV and broadband
- Challenges to public service programming.

If we see our sector moving down this path, then the approach to policy and regulation will need to respond, and we would certainly need to adjust expectations regarding analogue switch-off, and progress to Broadband Britain, unless other measures were to be introduced to counter the adverse economic pressures.

Conversely, in the more optimistic scenarios, the market itself may deliver more of the things we want and in parallel there may be more scope to achieve a wider range of policy objectives. In Scenario 1 (Digital World), for example, encouraged by a healthy media sector, we see more innovation, more new services, more investment and an open and competitive environment. Ironically, although in this world it may be easier to ask broadcasters to provide “public service” programming, such requirements may not be needed – with range and diversity being a feature of the competitive market. Scenario 3 (Goodbye TV) , meanwhile, reminds us that is often dangerous to assume only incremental change. A healthy economy, coupled with a major shift in consumer attitudes and preferences, could render irrelevant the more traditional approaches to broadcasting.

Given that the range of possible outcomes is uncertain, policy makers and market players need to watch carefully for signs that we are moving down one or other of these scenarios – and plan their reactions accordingly. We will return to those responses below – but the importance of tracking key indicators is worth underlining here. Whether they are economic indicators (consumer spend, advertising trends etc) or indications of consumer behaviour (clues from the tastes and preferences of market leading consumer groups, for example), such information can give vital early warnings of where developments are heading. As important as major one-off events can be the cumulative effect over time of a trend which gathers pace and moves from the margins of the sector to the mainstream. For example, when digital penetration reaches a certain critical mass (over 50% of target viewers, for example?) broadcasters may need to change their commissioning and scheduling decisions to reflect primarily the needs of those digital households, rather than of the diminishing number of terrestrial only viewers.

Consumer attitudes

Most of our participants noted that the most difficult factor to predict was consumer behaviour. How quickly – if at all – will consumers move from a passive viewing world into one in which they demand complete control over their electronic media consumption? Will they continue to watch some linear TV channels, or will they lose complete patience with the conventional broadcast medium?

Different assumptions about this shift in behaviour have a profound impact on the four scenarios developed – with Digital World and Goodbye TV based around quite

fundamental change, while Back to Basics and Global Challenge imply a much more incremental development in behaviour. Again, market participants need to observe the behaviour of audiences especially carefully over the next few years to determine in which direction we are moving. It will be vital to keep track of leading-edge consumer segments – perhaps younger audiences, or so-called techno-fans – in order to anticipate future trends. Our primary hypothesis is that developments here are closely linked to the overall economic and social wellbeing of the nation – a more prosperous and confident society may be more willing to accept new ideas and experiment with new technologies. However it is also plausible to argue that a troubled and uncertain world could lead to radical – although possibly more destructive – change.

Technology development

In our project, we deliberately avoided mapping out detailed alternative scenarios for technology development. We took the view that in the time frame chosen for the analysis, the direction of technology change was reasonably evident, and that most of what would happen in 10 years time would be based on developments already reaching the marketplace. Given this, key factors to watch out for would be:

- Changes in price of new technology - especially reductions in the price of consumer equipment
- Ease of use – to meet the concern that many consumers still find much new technology difficult to understand
- Business confidence – which would determine the rate of investment in major new projects like broadband
- Government support – initiatives to help achieve fast technology rollout.

Again, much of the technology changes in the 10 years we are considering will be affected by the overall economic and business climate. Participants thought that governments by and large could make little difference to the pace of technology change – with the possible exception of one or two major initiatives like digital switchover. So the factors which separate out our scenarios from the technology perspective are very similar to those which drive the overall economic health of the media sector. A general theme to emerge from our discussions was that this next decade will see a focus on making existing technology cheaper and more user friendly, rather than inventing new technologies. For our participants, the internet age proper is only just about to start, underpinned by high speed access and improved content.

It was also noted that access to radio spectrum could be an important factor in influencing the speed of availability and adoption of some of the new technologies and services. For Digital World to emerge, for example, it would be important for new spectrum to be made available at an early stage to support the increased demand for wireless and mobile services. For Goodbye TV, the greater need was for wire-based broadband to be rolled out rapidly, although spectrum for wireless broadband services could also become important. In any event, participants thought that the

proposed new market-based system for spectrum management would be an essential condition of fast technology development and adoption – allowing spectrum markets to respond flexibly and quickly to need, rather than waiting for spectrum planners to react to changing demands.

Strategic decisions of the main players

This scenario analysis project is different from many others, in that it brought together participants from across the sector, rather than focusing on the strategic choices for an individual organisation. However, a number of interesting themes did emerge during the project, which have implications for the strategies of many of the market players. This section summarises those themes.

Programming strategies

We were looking at prospects for television over the next 10 years – not surprisingly, programming featured heavily in our discussions.

A common theme to three of the four scenarios (the exception being GoodbyeTV) was the importance of high quality programming. Competitive success was seen to result from investment on screen, and most participants felt that competition would drive quality rather than lead to a lowering of standards.

Behind this general theme, though, were a number of different perspectives. In the fully Digital World the expectation was that there would be much less programming produced, but it would need to match the production values of high quality feature films. “Commodity programming” would largely disappear. Programmes would be “released” via digital networks, rather as films are today. In the more conventional world represented by “Global Challenge” the expectation was of high investment in properties that could travel around the world, backed by the main US studios. Some low cost material would survive, and there might be more US-influenced material on screen, but the “middle” would be squeezed. In the pessimistic economic scenario represented by Back to Basics, investment on screen might be threatened, forcing broadcasters to consolidate, merge or cut out under-performing parts of the schedule.

Overall high quality programming with a strong narrative theme was seen as being the key to maintaining audience interest – many argued that TV would have failed if we did find audiences drifting away to other media, as hypothesised in the Goodbye TV scenario. But there was also a strong sense that some genres would more naturally gravitate to new media than others (some types of factual and educational programming for example). We might well see a more varied landscape in future – with different media used for different types of content.

Channels and channel portfolios

TV “channels” were expected to remain important in three of our four scenarios. Although viewing is expected to become more fragmented, and there will be much more use of time shifting via PVRs, the well-branded channel was seen as being an important marketing tool to build loyalty and to attract audiences to new programmes.

Channel brands in 2012 would make statements about the type of person you are and your lifestyle – rather like other fashionable consumer brands.

But it was also expected that brands would be stretched across a portfolio of channels – success might depend on developing a strong image and reputation across a number of different channels, targeted at different audience segments. The BBC was seen as being a successful early adopter of this strategy. Sky was expected to be a similar leading cross-channel brand in 2012. Branding was seen as a major challenge for ITV.

The more we move to a fully Digital World, the more likely it was felt to be that new brands would emerge and take market share away from the existing players. In Digital World and Goodbye TV, for example, (scenarios 1 and 3), it was thought that many new consumer, publishing and fashion brands would try to enter the market, creating exciting interactive content around their core brand values: the “new kids on the block”. Conversely, in Back to Basics and Global Challenge (scenarios 2 and 4), the old guard would be able to use their occupation of spectrum and gateways to protect their entrenched positions. Here the battle for supremacy would be between the existing brands – with the BBC and Sky felt to be in the best positions to win.

Our participants were not optimistic about the future of niche channels. The economics were likely to be against them in some scenarios, while broadband services would replace them in others. Some will move into the free-to-air market quite soon, it was thought, others would evolve into interactive on-demand services. So, in 2012 we could be left with a small number of strongly-branded channel portfolios, supported by a much wider range of interactive broadband services.

Cross media and cross platform

Although the pace of actual development differs, all four scenarios postulate some growth in interactivity and in the emergence of broadband networks. All also expect there still to be three digital TV platforms in 2012 – satellite, cable and DTT.

The implication is that broadcasters do need to continue to develop properties that can be used across media, and which exploit emerging interactive capabilities. The importance of leveraging content across different media was much discussed – for example, delivering news headlines on TV, online and to mobile phones. And the creation of trusted brands which could be used across media was also seen to be essential. Consumers will be confused by the range of options open to them – trusted brands will help guide their use, and cement customer loyalty. In the same way, more direct links with consumers – through e-mails, mailing lists, subscriber lists, and clubs/communities was also seen to be a key potential development.

Just as the BBC and ITV are now committed to an all-platform approach, it was thought that in future, Sky would be seen as a channel/content provider across all platforms (including terrestrial TV and broadband) - not just a satellite service.

The importance of adopting an all platform approach was reinforced, it was felt, by the risks that today’s success stories (e.g. satellite) could be overtaken eventually by platforms with better functionality (e.g. broadband cable).

Revenue sources

A big question mark was identified regarding the future of spot advertising on commercial TV. Some participants warned of the potential decline in the value of TV advertising as viewers become more adept at skipping the ad breaks. But others argued that new approaches could be developed – more imaginative use of sponsorship, development of interactive links which provided added value information to viewers, and which they could access after the programme, advertiser-financed programming and events and so on.

Although some interactive and e-commerce success stories were identified, most felt that their development would not create new revenue sources for television as such – these were different businesses, which might take sales from their high street rivals, but which would not create more cash for programming.

Direct payment for content would continue to increase in importance, it was felt – and perhaps the best strategy for broadcasters is to ensure that they have a piece of the action in all camps – the future prospects for revenue being quite difficult to predict.

One thing was agreed, however – the BBC would continue to do quite well in the near term – and in the more pessimistic economic scenarios, it would continue to out perform its commercial rivals. In the more optimistic economic scenarios, however, the BBC was expected to drop behind the commercial sector towards the end of the decade, as the licence fee failed to match commercial revenue growth.

Given the above revenue prospects, an imperative to exploit other assets was identified. This seemed to suggest that broadcasters need to control their programme assets as well as act as channel providers. They need to squeeze more value from those assets (e.g. in the form of traditional secondary distribution, format sales, merchandising and the like) as a key means of increasing profitability.

Operational issues

Our participants identified the need for clear business strategies in the following areas:

- Attracting cross-media expertise and talent
- Authoring content for cross-media exploitation
- Controlling costs
- Organisational flexibility
- Operating across the value chain.

Cross-media expertise

It was felt that some broadcasters and producers had been slow to recognise the need to attract talent and skills in related media fields. The games market was identified as a prime example, but more generally skills in interactive TV development were thought to be in short supply. Training more generally was seen as a key challenge across the sector.

Authoring for cross-media exploitation

Content needed to be thought about in terms of its cross-media potential right from the early days of the commission, it was argued. This might mean different organisational and funding structures within an organisation, and could mean broadcasters recognising that other media might take priority in the design of the content. Marketing and promotion needed to be designed with cross-media exploitation in mind. As noted earlier, use of broadcast channels to promote and introduce consumers to extended new media content would be an important part of overall strategies in this area.

Controlling costs

The risks from economic uncertainty, especially in the medium term placed a priority on getting costs out of operations, it was thought. This meant looking again at all processes, using new technologies where there were cost gains to be made, and examining ways of re-engineering production processes. Longer runs of programme strands, more co-productions, use of fewer established stars – these were some of the ideas floated in our discussions.

Organisational flexibility

Given the rapid pace of change, and unpredictability of the market, it was suggested that organisations have to be flexible and responsive to prosper. This means less hierarchy, flatter structures, and less central planning. It would be important for those developing new services and content to be close to their consumers, to ensure new market developments were captured and feedback used effectively. Organisations needed to think hard about how to attract and keep creative talent, and how to bring skills from different media together. Imaginative solutions to working with the creative community should be sought – for example, building longer-term relationships with independent producers, rather than making everything in-house.

But the importance of charismatic and strong leadership was also noted – one impossible to predict factor which might determine future winners and losers was the emergence of the next “Rupert Murdoch” or “Greg Dyke”.

Operating across the value chain

Most participants were agreed about the importance of being involved at all stages of the value chain – from the content production stage, to delivery to the final consumer.

This was partly influenced, no doubt, by the success of BSkyB in doing just that, but also could be a recognition of the risks of not being able either to access customers, or to gain key content rights.

In some of our scenarios, too, it was noted that UK-only players may be significantly disadvantaged in future. The major new properties – like *Harry Potter*, for example – would only be available to companies which could offer exploitation across media, and in different international markets.

The BBC

Finally, strategic choices in the commercial sector, it was felt, were constrained to a significant extent by what the BBC chooses (or is allowed) to do. The main concerns raised were the possibility of the BBC's licence fee funded services crowding out private sector investment, and the possibility that the BBC's commercial enterprises would compete unfairly. Given that most scenarios we developed expected the BBC to remain a strong player, the commercial broadcasters would be likely to find themselves reacting to the BBC for some time to come.

Policy and regulation

Regulation can have a big impact on market developments. If the regulatory environment is uncertain and unpredictable, it may reduce overall investment. If it is over-intrusive, it can affect the ability of industry players to deliver the services that consumers want. If it is too relaxed, it could fail to prevent adverse developments in competition and standards. What do the four scenarios tell us about regulatory priorities for the next 10 years?

The regulatory framework

Economic regulation

First, our participants highlighted the existence of strong economic dynamics in the television and related media markets which encourage or cause concentration. Whether it is limited access to spectrum, or the existence of only a small number of gateways and networks, or economies of scale and scope associated with broadcasting and production, big is likely to beautiful. Coupled with this, it was suggested that there is an increasing trend for broadcasters and producers to integrate vertically, and to operate on a global scale.

In three out of our four scenarios, the emergence of a small number of large integrated players was seen as a likely development, with some – if not all – being foreign owned.

Given this, some of our participants saw a need for a tough approach to economic regulation:

- A need for economic regulation to protect consumers and competitors from any abuse of dominant position(s) in the market.

- Where such major players control access to consumers (e.g. via a telco network or a set top box), a role for effective access regulation to ensure that other service and content providers can reach their customers.
- Measures to protect the position of independent producers, who could be squeezed by large vertically integrated companies.

Rather than just one obviously dominant player in a clearly defined market, we are likely to see three or four players in overlapping markets. The regulator may need to develop new approaches to evaluating the impact of such structures on competition and consumer choice, and act in advance to promote competition where there is an obvious risk of market foreclosure.

However, a significant minority argued that the best approach – given the rapid change in this sector, and the need to avoid interventions which hinder innovation and growth – was that these issues were best dealt with by the use of ex-post competition powers.

These are difficult choices for policy makers and regulators. In either case, the existence of a new regulator, OFCOM, with concurrent competition powers should be a positive development. But its success was thought to depend on it having clear objectives and principles, and its ability to build a critical mass of sector expertise.

Global investment

This is not to say that there is something inherently wrong with vertical integration or globalisation. Our participants argued that often this is the most efficient way of organising production and distribution in the television market and – as we have seen – could be the only effective response to a sustained economic downturn. A more concentrated market structure may be the only way of securing the large amounts of investment needed to complete digital developments. The aim of policy makers should therefore be to ensure that the benefits of such structures reach consumers as well as shareholders.

Our scenarios detected a probability that there would be more global alliances and reliance on international co-production finance, whatever the position on non-European ownership of UK broadcasters. Should regulators be concerned?

The optimistic view is that more international involvement in the UK market is a positive development. Access to investment funds, access to effective international distribution systems and channels, access to management expertise – all could flow from a more open market. If we have confidence in our own talent and production skills, great opportunities should arise from more effective exploitation of our products around the world.

Some of our participants were more concerned. They thought that ownership of the UK networks by US producer/broadcasters could lead to more of the schedules being occupied by US programming. And that UK produced material will lose its special UK dimension, as it is increasingly targeted to meet world/US tastes (although few were convinced that it would make business sense for US owners to “flood” the UK

market with cheap imported programming – audiences would just reject it, as they largely do now).

We cannot know for certain what the outcome will be. But the benefits appear worth aiming for, as long as the risks can be addressed. Regulatory attention therefore needs to be given to measures which will secure UK production, and the broadcast of UK programming in sufficient quantities at peak times. OFCOM, it was suggested, could have a clear role to play here in policing new targets. If regional programming and production is still considered to be an important part of the ecology, protective measures might be needed here, too.

Commercial realities

But regulation must also recognise the commercial realities likely to be faced by broadcasters over the next 10 years. In our more pessimistic scenarios, we felt that the commercial PSBs would find it increasingly difficult to fund the various obligations placed on them. The result could be commitments met in name but not in spirit – with investment in non commercial programming cut to the minimum possible. Even in the more optimistic scenarios, the commercial terrestrial networks are seen to face sharp increases in competition and a possible decline in the value of their advertising airtime.

The regulatory regime needs to acknowledge these pressures:

- By focusing PSB obligations where they deliver real value compared with the costs involved in providing them
- By understanding the ability of the commercial networks to fund such obligations, and by adjusting where necessary the financial terms on which they are granted access to the spectrum.

Content regulation

Not only do economic realities need to be understood, but the role of the market in delivering acceptable content needs to be taken into account.

There are two types of content regulation: positive requirements (e.g. for commercial PSBs to show news at peak times, or to broadcast a range and diversity of material) and negative requirements (e.g. to uphold standards in areas of taste decency, fairness etc).

In some of our scenarios, participants felt that the need for positive programme obligations would be much diminished. In a healthy economy, with more scope for competition and new entry (e.g. Scenario 1 – Digital World), it is hard to see what extra could be achieved by imposing positive obligations on a few of the commercial broadcasters. Likewise in Scenario 3 (Goodbye TV), the nature of electronic media consumption has changed so radically, that the current rules would be irrelevant. In the other two scenarios (Back to Basics and Global Challenge), the challenge would be to find a more focused approach to positive content regulation, which recognises

the economic and competitive pressures faced by broadcasters, and also changes over time as the market delivers more choice and quality.

The future role of standards regulation is harder to predict. Our participants tended to take a broadly liberal line here. In those scenarios where consumers exercise more individual choice and control over the content they consume, they argued, the need for standards to be imposed and regulated by an external body disappears. Traditional concepts like the watershed become irrelevant in a world in which most people view programmes time-shifted on their PVRs, for example. A practical response here would be to encourage broadcasters to move to self-regulation, while ensuring that enough information is provided to viewers so that they can make informed choices about what they wish to watch and what they would prefer to avoid. Technology can help – with pin codes to prevent access to services by children, and filter mechanisms which can screen out undesirable content. In a world in which there is no such thing as a widely accepted community standard for such things as taste and decency, this may be the only way forward. The role of the regulator (in the Digital World scenario, for example) might be to establish the framework for self regulation – perhaps setting “gold standards”, and reporting on their effectiveness.

Whatever the preferred approach, it is clear that regulators will need to keep a close watch on consumer attitudes and needs as the market unfolds. Regulation will only work if it is underpinned by consumer support – regular and effective audience and consumer research will be needed to guide each step the regulator takes in this area.

Policy framework

More widely, our participants felt that some key policy decisions would affect the television market over the next 10 years, and could influence which of the four scenarios is closest to the final outcome.

The BBC

All participants in this project identified the future of the BBC as having perhaps the biggest single impact on the way in which the UK television market will develop. The stakes are high. A BBC which continues to grow may protect UK programming and uphold standards, but it could also crowd out important commercial development and hence reduce consumer choice. A weakened BBC might lead to a more general reduction in quality across the sector, and could leave the UK without any national broadcasting champion in 10 years time.

In most scenarios, the BBC was seen by our participants to retain a strong position over the decade – especially where the commercial broadcasters had been exposed to recession and foreign take over. However, in two scenarios, it was felt that 2012 would bring a further re-evaluation of the BBC’s role, with a view either to making it more distinctive and smaller in scope, or to find ways of releasing its commercial and production capabilities to compete more effectively around the world.

The broad implications of our research seem to be that for the next 10 years, the BBC should and will continue to be the cornerstone of British broadcasting, and will provide an important counterweight to big global players and the adverse effect of any

prolonged economic downturn. It should survive the next charter review relatively unscathed, our participants felt, although would benefit from being asked to focus more carefully on its core public service values and remit.

However, in the longer term (i.e. by the end of the next 10 years), it will be important to take a further view of the long term role of the BBC and its funding:

- In a fully Digital World, should its publicly funded operations become smaller and more focused on clearly distinctive programming?
- As support for the licence fee erodes, might the BBC need to move to mixed funding – for example a free basic tier of services, but paid-for additional tiers and on-demand access to the archive and other services?
- To what extent might the BBC’s international operations and production need more freedom to operate commercially – to enable the emergence of a more powerful and successful British champion?

Finally we should not discount more radical approaches – as suggested in our Scenario 3 (Goodbye TV) – a BBC could emerge which in effect becomes a trusted guide to the broadband world, with a reduced scale of in-house content and a much more open approach to providing intelligent links to content made by others from all around the world. This BBC might focus on the provision of online news and education, with a much smaller range of programming made for on-demand viewing from an electronic archive.

Funding of PSB

In our discussions, we also considered a more radical change in the funding of PSB. While the majority expected some public funding of content still to be important in 2012, many asked why should the BBC be the main recipient of the licence fee funds – couldn’t they be spread more widely to broadcasters who are willing to show PSB programmes or services?

It was noted that there are well rehearsed arguments against this approach, including:

- Likely higher transactions costs.
- Difficulty of identifying a body capable of making commissioning decisions better than the BBC, with its experience, culture, scale and expertise.
- Challenge of persuading audiences to watch PSB if it is scattered around many different channels, and possibly scheduled at inconvenient times.

Nevertheless, there may be other variations on this theme that are worth pursuing – for example, funding specific channels or significant tranches of programming on a channel. These could form part of a longer term review of PSB that would be best carried out towards the end of the decade, when it is becoming clearer which – if any – of our scenarios seems to be emerging.

Channel 4

Channel 4 was thought to face significant challenges in all but one of our scenarios, and participants suggested it would face a stark choice between privatisation and access to public funding. Consideration of the future of the channel must be part of any wider thinking on the role and funding of PSB, although it might have to be addressed at an earlier date than the end of the decade used to frame our scenarios.

Digital switchover and broadband

Finally, it is worth noting that in only one of our scenarios was digital switchover assumed to have been achieved by 2012, while in only one (not the same one) was a near universal access to broadband realised.

If this is the case, what are the implications for policy?.

First, the scenarios which did assume switchover/broadband Britain, were those characterised by economic growth, competition from many new and innovative services, and consumer interest in the new technologies. That is, they were market-led, and assumed to succeed because of the content and services available over the new networks. To the extent that the regulatory regime can create an environment in which new content and services flourish, and in which service providers can get fair access to consumers, then faster progress to digital/broadband Britain will be made. The success of the new free-to-air DTT platform was seen to be a vital component of the move to switchover, but views differed among participants on its likely success.

In this context, some participants raised the issue of copyright in the Digital World as being key to unlocking the potential of broadband – they noted the twin risks of either over-rigid copyright laws (that would prevent exciting new developments such a Napster) or of a “free for all” that, ultimately, would dramatically reduce incentives for the creation of intellectual property.

Second, it was agreed that the potential benefits associated with switchover are worth aiming for. This suggests a case for positive intervention eventually to make it happen, if the market is not sufficient to deliver fast take up. A range of policy tools might be available – from creating an environment which encourages investment by the main network infrastructure operators and the main commercial broadcasters, to direct investment – for example to fund the last 10 to 20% of households still to switch from analogue to digital. One option floated was to use a tranche of the licence fee to fund the costs of switchover – perhaps spread over a period of years. The release of spectrum which would follow switchover is also the key to realising the benefits of applying spectrum trading to the broadcast sector.

Concluding observations

Finally, three further points were made by participants in the project in relation to policy and regulation:

- First, the nature of development over the 10 year period will be much influenced by steps taken in the first 2 to 3 years – these will set the scene for the rest of the decade, and hence must be designed carefully, and be flexible enough to be capable of dealing with a range of different scenarios
- Second, the effectiveness of OFCOM could be a crucial factor in influencing development – in particular, it was seen as important in bringing a tough competition-based approach to the sector, and also an integrated approach across the whole communications sector.
- Third, and most vital, policy and regulation would need to steer a careful path between over-regulation (which would hinder growth and development) and “abdication” (which would put at risk many of the positive aspects of UK broadcasting that have developed over the years).

These are big challenges for Government and for the new regulatory body. Both will need to react in very different ways dependent on which of our scenarios, or which combination of them, emerges over time. Likewise, the main players will need to monitor developments carefully, and test their own strategies against the emerging market and policy environment.

We hope that the scenarios constructed as part of the Future Reflections project will be a valuable tool for both businesses and policy makers as they plan for the next 10 years.

PART TWO: THE WIDER CONTEXT

This section of the report presents a synopsis of the secondary evidence we used to inform our thinking. It is intended to contextualise the scenarios presented in the previous chapters. We consider the UK landscape in Chapters 4 to 7 and then explore European and international issues in Chapter 8.

Chapter 4 Society and consumers

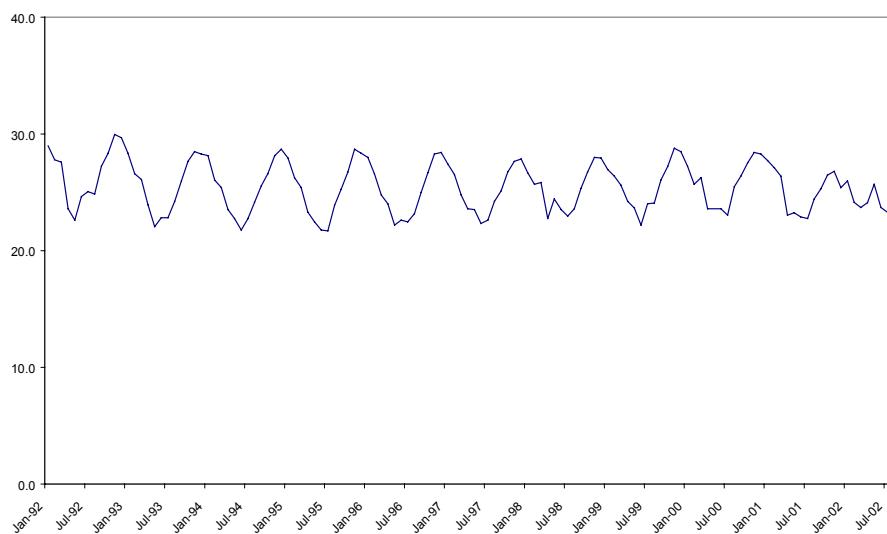
Summary

Despite increasing competition from other forms of media, TV viewing levels have remained relatively unchanged over the past few years. Television continues to be the key media platform in society. However, with more consumer choice available, patterns of consumption are changing. Audiences have continued to fragment as the number of channels available increases. At the same time, consumers have been exposed to new forms of content made available by the arrival of digital TV and broadband. A digital divide has emerged with some consumers resisting the adoption of digital services.

TV consumption

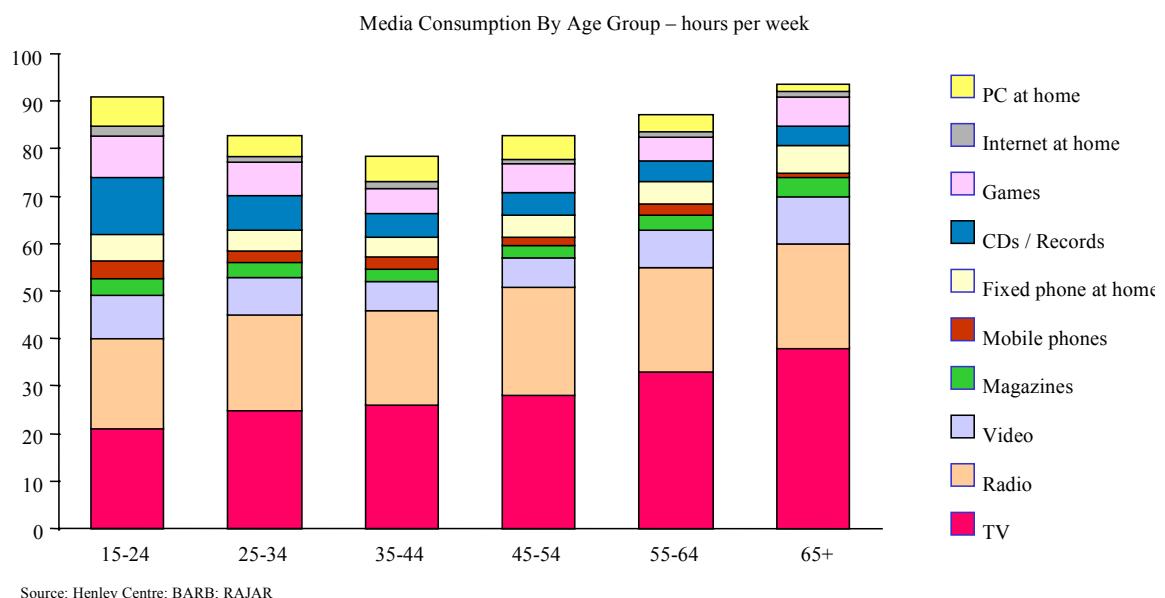
Over the past decade, the average number of hours of TV consumed on a daily basis has remained stable. Since 1992 viewers have spent just over 3 and a half hours a day in front of their sets. Alongside this, the past few years have witnessed a substantial increase in the number of commercial radio stations, magazines, internet sites, news supplements and alternative media sources without an accompanying increase in the time people spend consuming their media. However, none of these other sources of media have cannibalised the time spent on TV to a significant degree. This emphasises the important role that television continues to play in the lives of consumers.

Average hours of television watched per week



Source: BARB

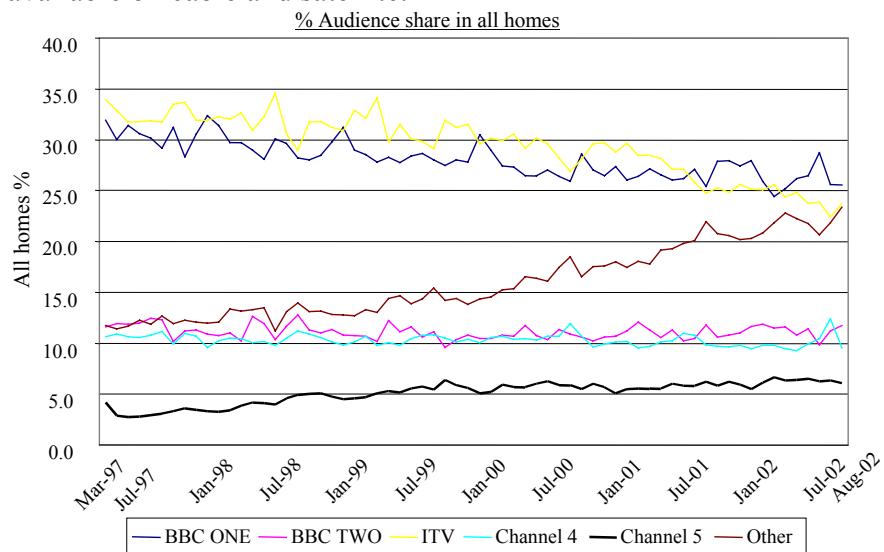
However, TV's role as the main mechanism for delivering mass market audio-visual content could face increasing competition as the younger generation become the key media consumers. The proportion of TV that today's youth watch in relation to their use of other media is much lower than that of older generations. Additionally they are also more likely to adopt broadband services such as video streaming or on-demand programming. These services could become key alternatives to television as a means of consuming audio-visual content.



Audience fragmentation

Over the last few years, the TV sector has witnessed an increasing fragmentation of its audiences. The rapid growth of multi-channel television has meant more choice for consumers. However, the result has been that audiences are spread across a greater number of channels. 5 years ago the main networks (BBC 1 and 2, ITV, Channel 4 and Channel 5) accounted for 88% of the audience, whereas in 2002 their overall

share will be closer to 77%, with the remaining audiences spread over the channels available on cable and satellite.



Source: BARB

Some programmes continue to attract mass audiences: the televising of the Queen's Jubilee, *The World Cup* and major sporting events, and innovative formats such as *Pop Idols* or *Big Brother*. However, in the last 5 years, soaps such as *Eastenders* and *Coronation Street*, which used to guarantee audiences of 15m or 16m, have experienced a decline of 2m viewers on average. Consequently, broadcasters have increasingly focused on genres like entertainment that consistently pull in audiences. The increase in entertainment output in schedules, coupled with the launching of channels such as Sky One, E4, UK Gold are witness to this strategy. The latter cable and satellite channels continue to be the most successful in terms of audience share. Overall, the competition for audiences has increased over the past few years and is likely to intensify over the coming decade.

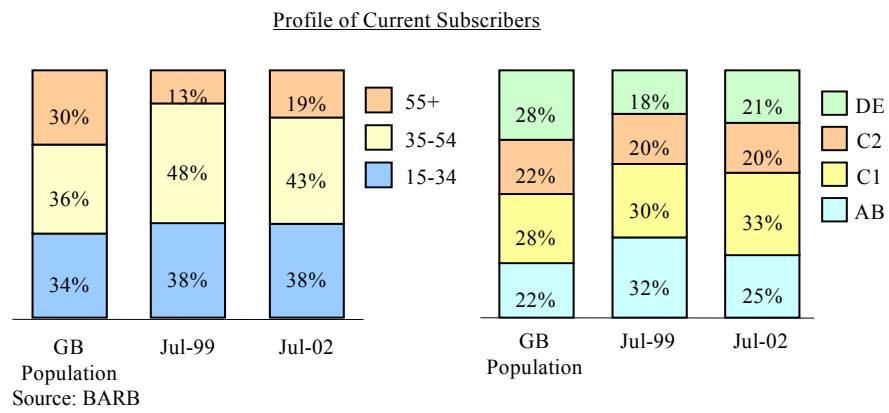
Social attitude data currently show that a majority of viewers retain a strong sense of British national identity, and this is likely to sustain a demand for some media content to express it. Values data suggest that in both fragmented and mass audiences, the present popularity of programme content geared to emotional experience of everyday life, such as soaps and 'reality' TV, will remain strong, and the demand for eroticised material will grow.

Communities and community-based services could also remain an important part of society. But the nature of those communities may vary considerably. They could be regional, for example local broadband community services, they could be global or they could be based around common interests, with services developed around those interests similar to the Napster and DivX models. The identity of the communities may become more fluid, with consumers having multiple identities (defined by age, socio-economic category, religion, ethnicity, hobbies, etc.).

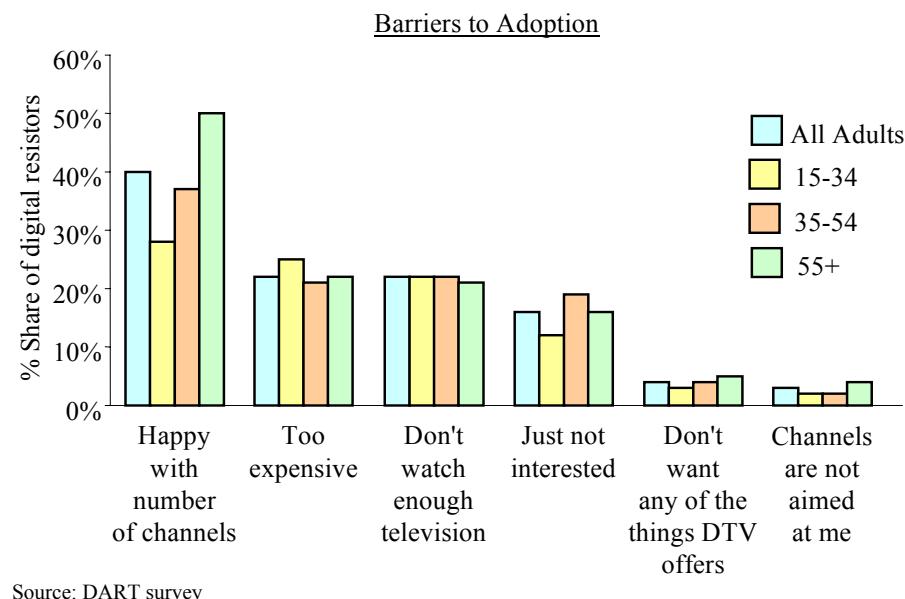
Digital divide

Currently 40% of adults have digital TV in their homes and over 1m adults have subscribed to broadband services (via ADSL or cable modem). These figures indicate that there is still a substantial digital divide. Although there has been an increase in

the over 55s age category subscribing to digital services, the majority of current subscribers are under 34 years old and from larger households. The social class profile of digital viewers appears to be moving more in line with the population as a whole with an increase in take up among the less affluent sections of society.



Out of the non subscribers, approximately 5% claim they are planning to adopt digital services over the next 12 months¹. However, a substantial part of the population, approximately 10%, claim they have no intention of adopting digital, multi-channel services². These “digital resisters” tend to be older, less technologically savvy members of society in smaller households with no children. Reasons given for not adopting digital services are many including cost, lack of relevance and preference for the status quo:



¹ DART survey, July 2002

² DART survey, July 2002

Chapter 5

The economic and political/regulatory context

Summary

The UK TV industry faces economic uncertainty and major regulatory changes over the next few years. The UK economy is beginning to show signs of moderate recovery following the upheavals of last year. However, prospects are unclear in the context of a faltering global economy. The new Communications Bill is set to transform the regulatory regime in line with the converging communications industries. Key features of the Bill such as the creation of a single regulator OFCOM and relaxation of ownership rules will have a significant impact on the industry as a whole over the next few years.

Economic climate

The global economy is currently in the midst of a period of uncertainty. Although fears of a double dip recession have abated, a range of factors continue to fuel doubts about economic prospects. These include concerns over corporate earnings in the wake of high profile accounting scandals, and apprehension over how an impending war on Iraq might lead to soaring oil prices. Towards the end of the third quarter in 2002, the financial markets in Europe and the US hit their lowest levels in five years. Although growth is expected to continue over the last quarter of 2002, the recent falls in share prices have dashed hopes of a speedy recovery. Forecasts for the global economy predict modest growth over 2002/2003. The IMF forecast an expansion of 2.8% in the global economy for 2002, a marginal improvement on last year's 2.2%. Growth in 2003 was predicted at 3.7%³.

In 2001, Britain outpaced all other members of the G7 leading economies for the first time since the mid eighties, despite an economic standstill at the end of that year. Although GDP in the first quarter of 2002 showed minimal signs of growth at 0.1%, there was a slight improvement of 0.6% in the second quarter⁴. The economy continues to be propelled by consumption. To some extent, this has masked the severe contraction in manufacturing output over the past year as well as a slowing in the service sector. However, long-term growth in consumer expenditure is uncertain. Earlier this year lower than expected high street spending triggered fears of a possible extended decline in consumer spending.

³ IMF World Economic Outlook, September 2002

⁴ ONS

UK GDP and Consumer expenditure – HM Treasury forecasts⁵

		%
GDP	2001	$2\frac{1}{4}$
	2002	$2 - 2\frac{1}{2}$
	2003	$3 - 3\frac{1}{2}$
Consumer expenditure	2001	$3\frac{3}{4}$
	2002	$3 - 3\frac{1}{2}$
	2003	$2\frac{1}{4} - 2\frac{3}{4}$

Interest rates have remained unchanged at 4% for 10 consecutive months with the Bank of England holding rates at a 38-year low.

Political climate

The current climate is dominated by centrist politics with all the major political parties more similar in their approaches to key economic and social issues than 10 years ago. However, there are exceptions on key policy issues, Britain's relationship with Europe being the prime example. As Labour continues in its "third phase" of New Labour thinking (the first two involve it becoming a modern centre-left party and laying the foundations for the future in its first term of office) – its "ideologically free" approach has broadly been characterised by free market oriented policies combined with social welfare. The Conservative party is struggling to define its political identity following its defeat in 1997 and subsequent leadership change. At the same time, the Liberal Democrats strive to become the main opposition party in place of what they perceive as a weakened Conservative party.

Meanwhile, the population as a whole is suffering from electoral turn-off (with media coverage possibly implicated in this). However levels of political participation and tolerance of protests continue to edge upwards. Across the country there have been major changes in patterns of political affiliation as the demographic and economic bases of traditional voting patterns have largely been supplanted by greater volatility and by affinities based on social issues such as crime, race and the Europe question.

Regulatory developments

The most significant regulatory development over the next few years will be the Communications Bill, due for Royal Assent in 2003. The goal of the new policy framework is to keep in step with the changes in the technology, media and telecommunications industries, as they continue to converge. The key objectives of the Bill will be to create a dynamic and competitive communications industry, to ensure universal access to a wide range of quality services and to safeguard consumers.

The main features of the new framework include the formation of a single regulator, OFCOM, created out of the five existing regulators. One of its key aims will be to

⁵ HM Treasury, Forecast for the UK Economy, September 2002

provide a unified approach to regulation across the industries for the benefit of consumers. The new regime aims to be deregulatory in its stance – exemplified by the liberalisation of cross media ownership rules, the relaxation of media ownership rules within individual markets (paving the way for a single ITV) and the lifting of the ban on non-EU ownership of UK media assets to encourage foreign investment and an influx of skills into the UK market. Public service broadcasting will be safeguarded in the context of self-regulation by the broadcasters, under clear remits.

Despite calls for change from some quarters of the communication industry, the BBC Governors will continue to oversee its activities, while OFCOM will be responsible for the commercial PSB broadcasters. There also appears to be little possibility of any change in the BBC's funding mechanism at the next charter review which is due to begin in 2004. The Secretary of State, Tessa Jowell described any alternative means of funding to the licence as somewhere "between improbable and impossible". The aim of this was to focus the debate on the delivery of PSB and the protection the BBC's unique role in the broadcasting ecology, as opposed to theoretical discussions about alternatives to the licence fee.

Chapter 6

Industry structure and competition in the UK

Summary

Over the past few years commercial broadcasters have faced increasing competition for advertising revenues. Alongside these pressures, UK broadcasters have been challenged by the implications of radical structural change in the media industries. Large vertically integrated companies and globally-oriented content players are transforming the landscape. Due to their size and access to creative and financial capital, these large players are playing an increasingly visible role, although they have more recently found significant internal management and strategic challenges. Additionally, the UK markets have become more open to foreign investment and future regulatory changes are likely to further this trend.

Competition amongst key players

One of the most significant changes in UK television has been the rise of multi-channel pay TV. The cable, satellite and digital terrestrial platforms have intensified competition for the existing terrestrial broadcasters, capturing viewing share and hence putting pressure on advertising revenues. With the exception of Channel 5, all terrestrial FTA broadcasters have steadily been losing audience share to the cable and satellite channels over the past few years. Further decline seems almost inevitable, although the trend might be delayed as the growth of multi-channel begins to plateau and the platform operators face their own set of unique challenges . These include DTT growing its customer base (following the collapse of ITV digital) or the cable operators completing digitisation, climbing out of financial difficulties and working toward a potential merger.

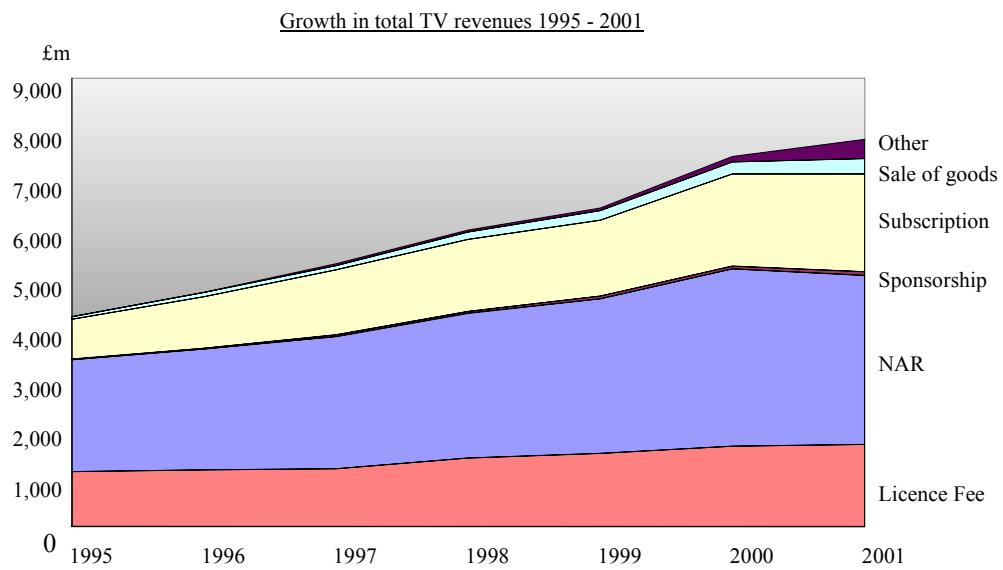
Meanwhile, the non-commercial sector has witnessed a resurgent BBC over the past year, shielded from the recent downturn in the advertising market by an increase in its licence fee in April 2000. During 2001 - for first time since ITV's launch in 1955 - the BBC consistently outperformed ITV1 in its ratings, with increasingly competitive scheduling. At the same time, the BBC enjoyed much success in 2001 and 2002 with the launch of new digital channels and interactive services, the re-branding and expansion of its BBCi online operations and more recently the launch of Freeview.

Regulatory changes could redefine the current set of players that dominate the terrestrial TV landscape. For example the potential relaxation of non-EU ownership of broadcasting assets in the UK is likely to lead to outside investment from foreign companies in order to increase their interests in UK broadcasters.

Trends in television funding

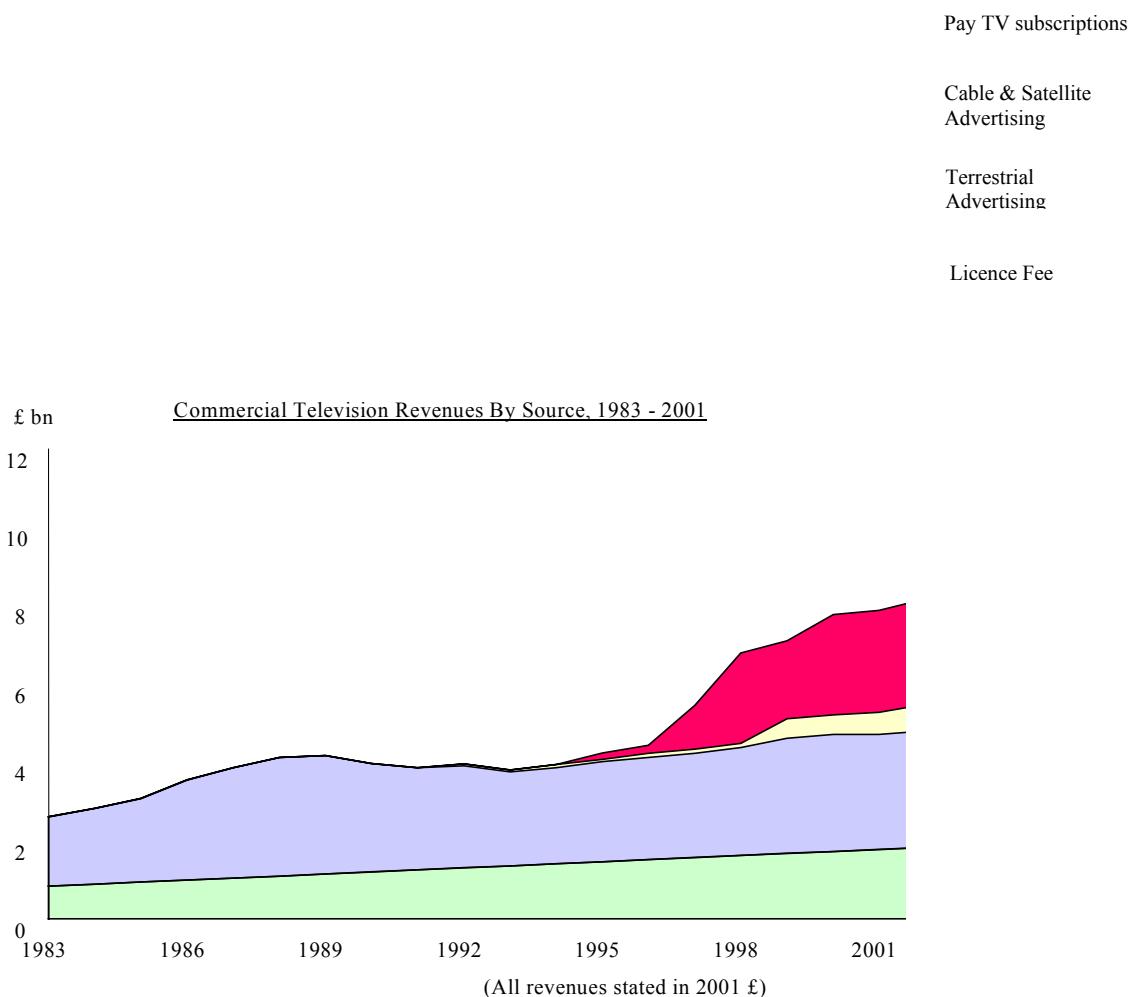
The market as a whole continues to grow from multiple revenue sources and over the next few years subscriptions could overtake advertising as the principal source of commercial TV revenues. New revenue streams from interactive services such as t-

commerce are unlikely to be substantial revenue sources in the near future as these have not yet demonstrated significant consumer demand.



Source: ITC

In 2001, the commercial TV sector experienced the biggest downturn in advertising for decades with some industry observers predicting a recovery as late as 2008. The main casualties were the FTA broadcasters who all saw much lower profit levels in 2001. Total NAR for the industry in 2001 was 12% less than in 2000. Broadcasters or service providers with multiple revenue streams such as subscriptions, e/t-commerce and interactive services revenues were less affected but overall competition for smaller advertising budgets increased.

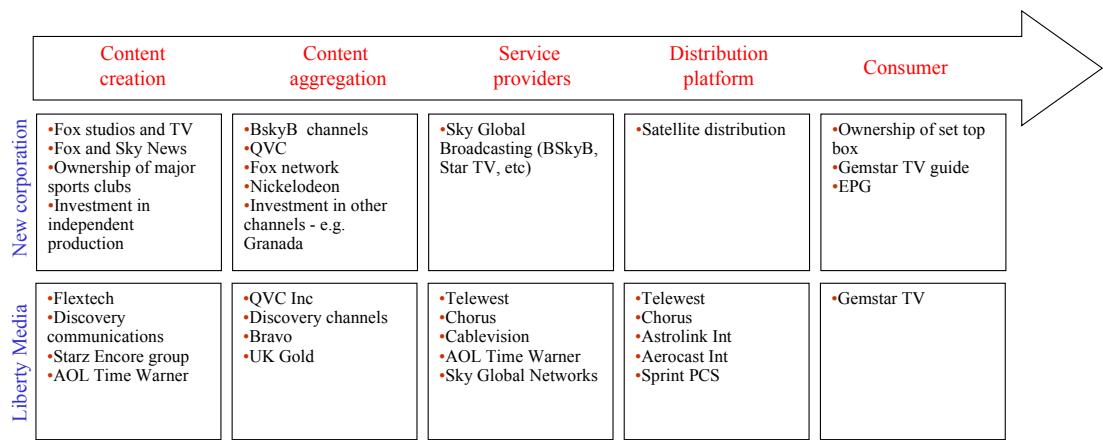


Source: ITC

Vertical Integration

Vertical integration is increasingly a common strategy for many of the larger players. Global media groups such as News Corporation, RTL or AOL Time Warner own companies right across the value chain from content production through to distribution and ownership of the customer relationship.

Industry value chain – News Corporation , AOL Time Warner



Source: ITC/Annual reports

The market is becoming increasingly characterised by large, vertically integrated players. Theoretically, the larger players are able to produce, market and distribute content on a global scale in a way that less extensively integrated or smaller players will find increasingly difficult to compete with. The larger, less vertically integrated UK players, even where they operate as both broadcasters and production houses, may not have the global scale to exploit their content abroad to the same degree.

Chapter 7

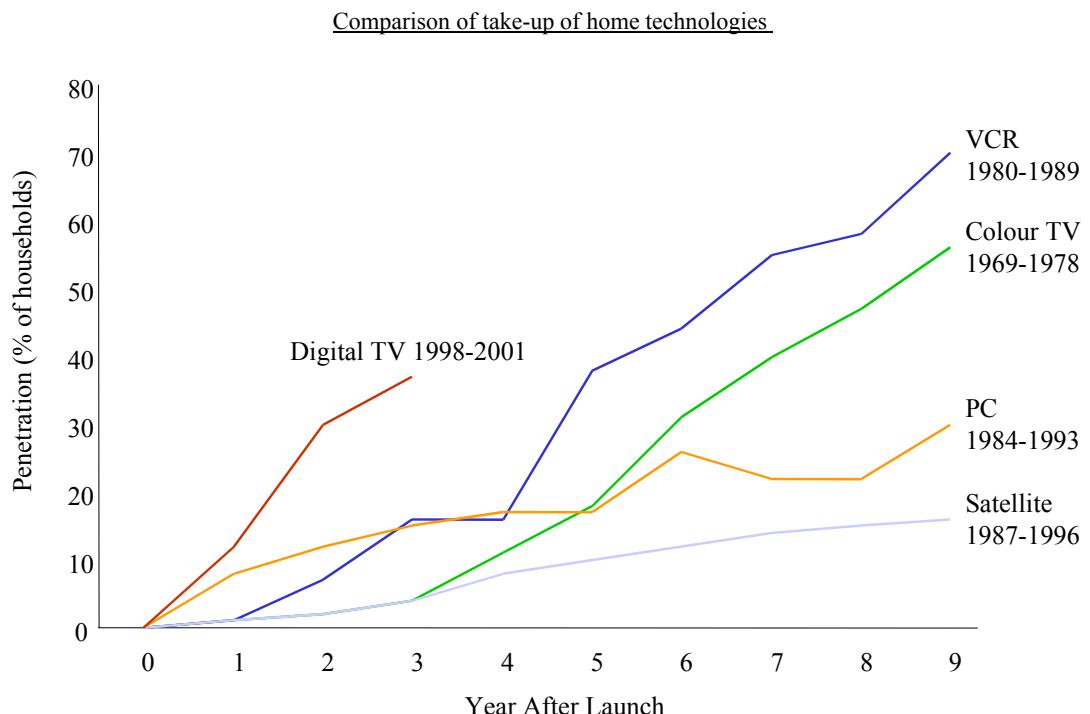
Services, content and technology in the UK

Summary

The most significant technological changes in the industry over the past few years have been the introduction of digital TV and the internet. There have been dramatic increases in the number of channels available and interactive services offered as broadcasters and service providers have capitalised on the opportunities that digital technology and broadband internet offer. Overall consumers face more choice in terms of access to content and the means of consuming that content.

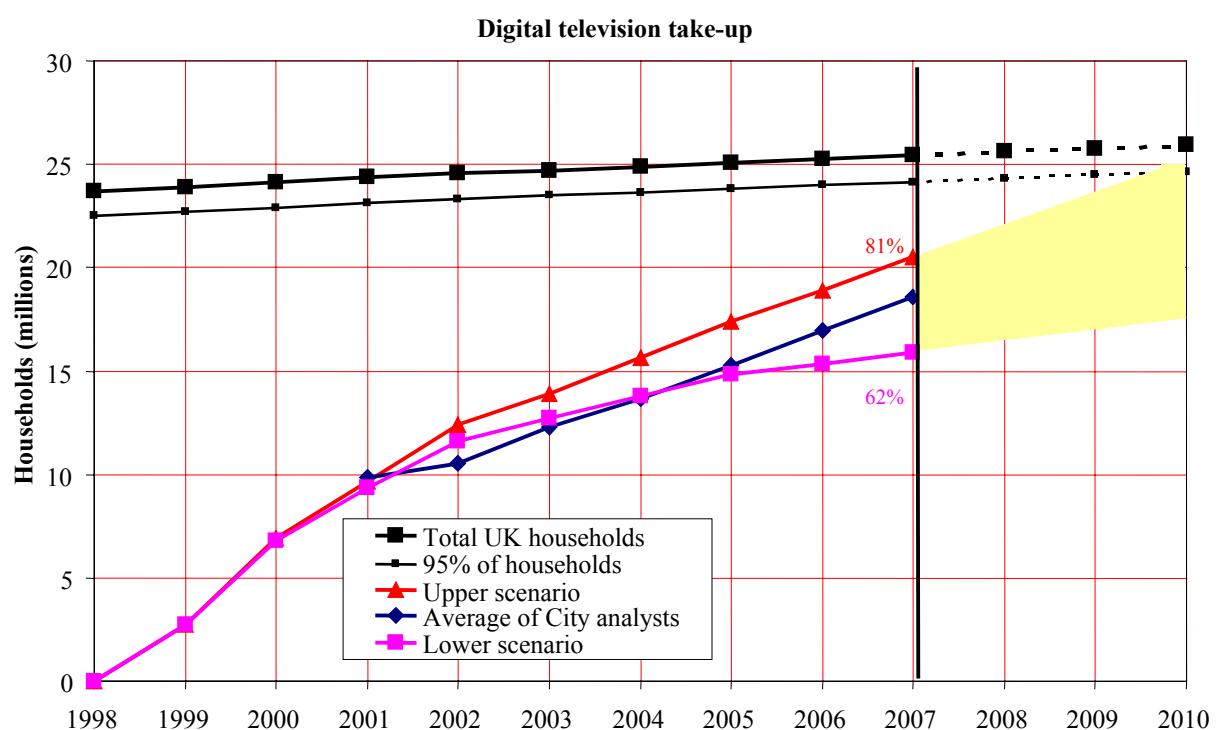
Rollout of digital TV and progress towards switch-off

Since its launch in 1998, rollout of digital TV has made considerable progress. It has been the fastest growing home technology and is already available to the majority of the population (in terms of coverage). As a result of this, the UK is now the world leader in terms of digital TV services, ahead of the US and other European countries.



Source: ITC; NTL; Telewest; BSkyB; ITV Digital

Future progress will be dependent on a number of factors including the success of the Freeview proposition, increased investment in cable to strengthen its contribution and the continued success of Sky. Additionally, there would need to be extensive marketing of compelling and affordable services to persuade customers to adopt digital services, in particular the current “digital resisters”.



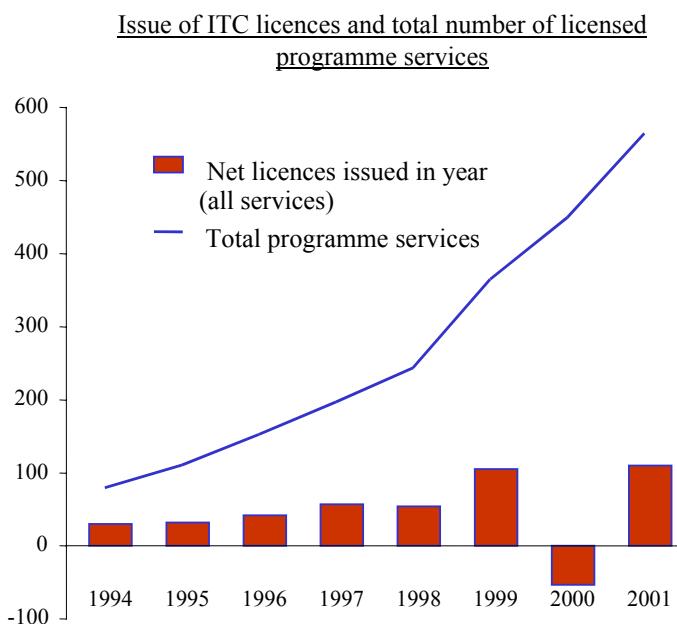
Source: ITC/BBC submission on digital TV for the DCMS (Section 33 , Broadcasting Act 1996)

Programming, content and production

Introduction of multi-channel and digital TV has resulted in new content and new ways of consuming content. The key developments have been a significant increase in the number of channels available, the new interactive services such as enhanced TV and t-commerce, and the additional functionality to manage content such as EPGs

(electronic programme guides) and PVRs (personal video recorders). Additionally gaming is likely to offer new forms of content for the future.

In 1994 the ITC was licensing 80 programming services. Following the launch of digital platforms in 1998, it was licensing 565 programming services by 2001. Most of the major broadcasters launched (or attempted to launch) digital channels – BBC3 and 4, ITV2, E4 and FilmFour. Prompted by falling costs in production and transmission, a large number of specialist channels have been launched by smaller players, targeting an increasingly diverse and fragmented audience – for example B4U, The God Channel, Bid Up TV et al. However, a number of niche channels such as the Carlton Food Network have also closed due to unsustainable business models.



Source: ITC

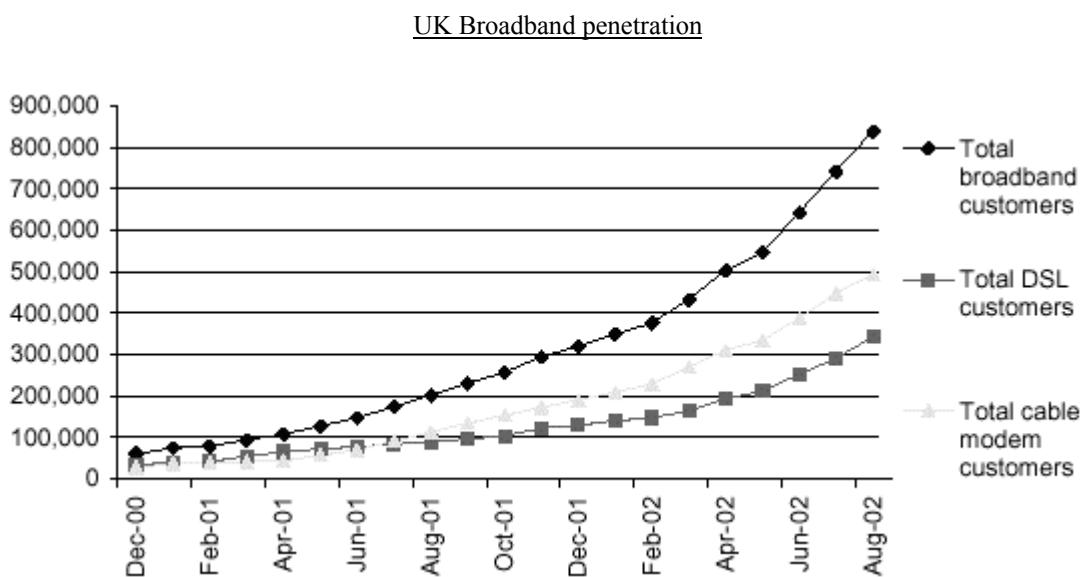
Alongside more channels and interactive services, consumers now have access to more functionality to navigate and manage their content. As the number of channels has proliferated, platform operators have provided increasingly sophisticated EPGs to complement these. EPGs have moved beyond being simple information sources to becoming interactive schedulers. In the middle of 2002 industry observers estimated that approximately 40,000 - 50,000 personal video recorders were in use in UK households, being supplied predominantly by TiVo and the Sky Plus service. These figures are likely to increase as hardware manufacturers such as Sony and Pace begin to bundle DVDs and other storage technology devices into set-top boxes (STBs) used by service providers.

Extensive bundling of games consoles and standard STBs is unlikely due to the higher capabilities of consoles such as their graphics processing power. Hence costs are higher. There have been attempts to retail such products, for example Pace's STB integrated with a Dreamcast console. However, the increasing penetration of consoles is likely to have an impact on consumers' means of accessing content and services

offered. Consoles such as Microsoft's X-box have integrated DVDs players and internal modems. Because these allow broadband access, they provide consumers with another delivery platform for accessing audio-visual content.

Broadband services

The UK market is currently dominated by 2 broadband platforms, ADSL - provided by BT and a number of other ISPs such as Freeserve - and cable modems provided by Telewest's Blueyonder service and ntl Broadband. These are likely to remain the key platforms for the foreseeable future. After a slow start, broadband penetration is finally beginning to take off with a total of 748,600⁶ subscribers (both cable modem and ADSL).



Source: Ofcom

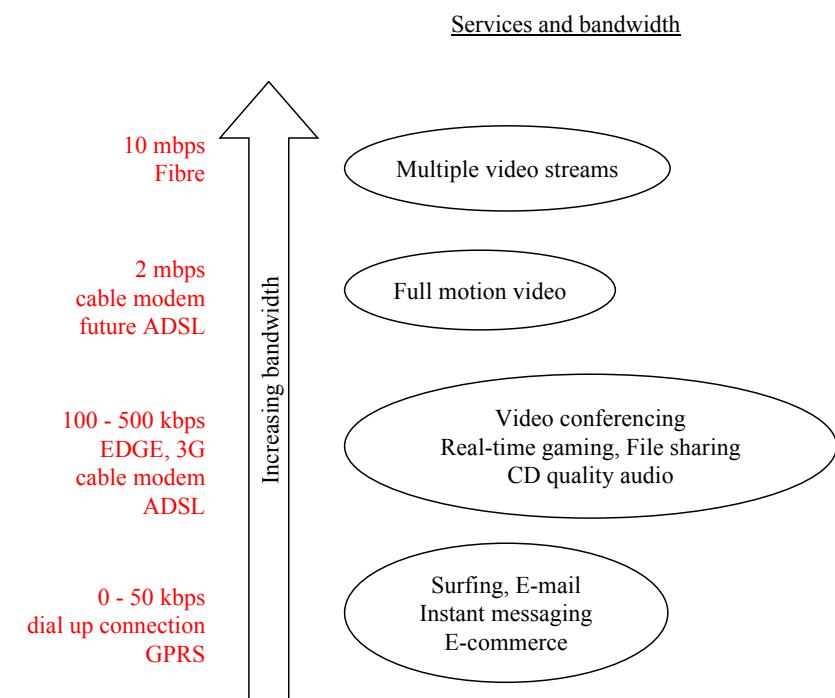
Broadband penetration has been furthered by regulatory intervention such as the unbundling of the local loop or the reduction by BT of its DSL wholesale prices. However, the rolling out of services is still very much focused on urban areas. The cable operators currently pass approximately 50% of all UK homes; ADSL services are constrained by the distance of households from local exchanges in rural areas. Universal access to xDSL or cable modem services is still a long way off. Alternative broadband platforms may establish themselves as more commercially viable options in rural areas. Fibre to the curb or home (FTTH/FFTC) is likely to be restricted to densely populated and hence urban areas, but fixed wireless or satellite, both of which offer always on, high bit rate connections could service areas of the country inaccessible by ADSL or cable modem.

Mobile broadband is likely to become more important with its key differentiating factor being location-specific services using GPS technology. However, the high investment involved in obtaining the UMTS licences, the high cost of completing 3/4G networks and the current telecoms crash may hinder the rolling out of mobile

⁶ As of 1st July 2002

services to consumers. After initial delays, most UK mobile operators are predicting 3G services will be more widely available from 2003 onwards.

As bandwidth available to homes increases, consumers will have access to more services. Currently the majority of broadband homes use ADSL connections that operate at 512K or cable modems with a maximum of 2mbps. Whilst faster connections are technologically possible, at present they are not commercially viable. This biases current broadband usage towards audio applications such as P2P file sharing and networked gaming. However, as higher bandwidth networks are rolled out, consumers will eventually have access to a plethora of high quality video based services such as video streaming, video conferencing and video on demand services that require reliable higher bandwidth connections.



Source: ITC

Chapter 8

The European and international context

Policy background

Introduction

The European Union (EU) has been concerned about the relative weakness of the European television industries within the context of a global marketplace. Throughout a series of policy documents ranging across a variety of EU institutions, most especially the European Commission (EC), a number of weaknesses have been identified within the European television and audio-visual industries. These comprised:

- The fragmentation of television services into national markets (so that the national broadcasters have often been too small to successfully enter the European or global marketplace);
- A low rate of cross-border programme distribution and circulation due to cultural and linguistic barriers;
- Spiralling and chronic deficit, and
- An inability to attract the funding for recovery.

On one hand, the EU's approach to the audio-visual sector has been characterised by its desire to develop a buoyant European television economy. However, the EC has simultaneously sought to preserve the status-quo values of diversity, plurality and dual public/private television systems.

With regard to the EU's role in supervising the European television markets, the key policy areas have been: Television without Frontiers, Media Concentration and Competition policy.

In establishing these three policy instruments for the European Television marketplace, the EU has attempted to facilitate a regulatory framework which would enhance opportunities for expansion within the single-market. To this end, it has employed the fundamental principles of *liberalisation* and *harmonisation* and these goals underpinned the Television without Frontier's (TVWF) Directive. Most especially, TVWF established a series of liberal rules that were aimed to enlarge the European television marketplace

Simultaneously, the EC has sought greater forms of *intervention* in the Community's audio-visual and broadcasting market(s) to redress what have been perceived as undesirable outcomes of the single market. Such 'market failure' logic has led it to develop policies concerning media concentration across the European television industries. As many observers have noted, this imperative has sat unhappily with the demands for liberalisation and created an inherent tension in the EU policy process between 'dirigistes' and those within the Commission who favour market liberation.

This ideological division has been further exacerbated by the expansion of services

and opportunities for new entrants that emerged as a consequence of the digitalisation and convergence of communication services (television, telecommunications and information). Therefore, as Europe's influence has become more important, the EU attempted with limited success to rectify the basic divisions within its position between trade liberalisation and the democratic tradition in the media industries to ensure that coherent policies and regulations emerge.

Services and content in the European context

Introduction

Over the last five years, the major changes that have affected the European television markets have been the on-coming development of digital channels and the broadband delivery of services. Digital television platforms and technologies may allow for a combination of new or different content which include an expansion in the choice of television channels, and interactive possibilities including e-mail, access to the Internet and home shopping.

The major broadcasting organisations and companies have invested in the technology due to the apparent perceived benefits of digital convergence in terms of consumer demand. Moreover, the convergence of television with information and communication systems (telecommunications, broadcasting, personal computing) has attracted a wide degree of speculation and investment due to the perceived economic opportunity for media and multi-media companies.

Rapid growth of Pay TV

In particular, the main characteristic across the European Television sector has been a major commitment of finances and resources into pay-TV services. Many industry specialists have suggested that digitisation will reform the financial nature of communications markets which have been traditionally based on advertising revenue through the introduction of subscription or pay-TV services. Instead, they posit that multi-channel niche audiences will be established, consisting of individuals who will be prepared to exercise their consumer sovereignty in order to purchase the services. This fragmentation of television audiences has given rise to concepts such as 'narrow-casting' and has major implications for both commercial and public broadcasters who have aimed to target their programmes at a mass audience.

In August 1999, it was reported that over seven million households in Europe were receiving a variation of digital television out of a total of 167 million TV homes⁷. More recent forecasts have also suggested a substantive growth in digital penetration:

⁷ William Davis, *The European Television Industry in the 21st Century*, Financial Times Specialist Report: Media and Telecoms, FT Business Ltd., p.1

Major Western European digital television markets

Country	Digital TV Homes in 2003 (m)	Penetration of DTV (%)	Digital TV homes in 2005 (m)	Penetration of DTV (%)
Germany	15.1	40	15.7	42
United Kingdom	12.3	52	19.5	83
France	6.7	29	10.4	45
Spain	3.6	30	4.9	41
Italy	2.7	13	9.1	44
Overall	50.8	33	71.3	47.8

Source: Stylianos Papathanassopoulos, *European Television in the Digital Age*, (Oxford: Polity, 2002)

The financial challenges

In its annual review of 2000-2001, the European Audio-visual Observatory provided a financial analysis of the European television sector, based upon a compilation of the balance sheets and annual accounts of some 350 European Union companies. From this survey, the fragile financial situation of the pay-TV channels was noted. The profit margin of the twenty-one companies in the European Audiovisual Observatory study fell to -4.29% in 1998 and has only slightly improved in 1999 and 2000 (-0.97% and -2.85%). The financial collapse of Premiere Medien in Germany, the difficulties experienced by Stream and Telepiu in Italy and the bankruptcy of ITV Digital in the United Kingdom have illustrated a dramatic financial decline in the situation of some digital platforms. For the nineteen EU digital companies where accounts are available, it has been estimated that the annual net losses have risen from €252 million in 1997 to €1.9 billion in 2000. The profit margin of the whole of this category has fallen from -12% in 1997 to -37% in 2000. This general financial weakness of the European television companies is worrying for the whole of the audio-visual sector. Television companies are effectively the chief source of income for the sector and their poor financial performance threatens to translate itself into a reduced level of investment in production.

Consequently, the European Audio-visual Observatory reached the conclusion that European Television has been 'a strongly growing sector but one which is in ever greater deficit.'⁸ Thus, overall deficits have increased since 1998 and it has been noted that:

- Net losses for all European Union (EU) television companies exceeded €1.5 billion in 2000;
- Apart from private networks financed through advertising, every other kind of television network is in overall deficit, and
- Nine national television systems out of fifteen were in deficit in 2000.

⁸ European Audio-visual Observatory, The Deficit in the European Television Sector Has Been Growing Since 1998 *Press release*, Strasbourg, (<http://www.obs.coe.int/about/oea/pr/deficit.html>) 9.4 .02.

Public Service Broadcasting

Public Service Broadcasters (PSBs) are still a major feature of the television market in Western Europe. The EC's Oreja high-level group on audio-visual policy commented that public service broadcasters have traditionally supported the funding of national and European production. Simultaneously, state and EU policies have sought to open up and expand television markets for commercial competition. These policies also denoted a shift in the European nations political elites' ideological view from a vision of public service to public choice. Further, the growing diversity in the provision of digital channels has made it more difficult for public service television, with its limited number of channels, to fulfil its mission. Thus, the special or unique status for public service broadcasters may be challenged in a multi-channel environment as users fail to differentiate between public and private television stations.

Across Europe, PSBs have suffered a significant decline between 1992-2000 in their audience shares and this general erosion within PSB audiences has had a significant impact on the PSBs funding arrangements. Whilst the financial basis of public service broadcasting funding and the proportion of incomes drawn from licence fees differ from state to state, the problems remain universal: the rising costs in acquiring programming and uncertainty about the level of income in the future. Licence fees remain subject to political pressures, due to their perceived unpopularity with the public and because of the ideological complexion of modern European governments who have been committed to free-market competition or public choice ideologies and policies within the sector.

Within this context, European public broadcasters have responded to these financial limitations by seeking out alternative sources of revenues. The public service broadcasters in the larger countries, particularly within the UK and in Germany, have become active in developing strategies for digital television and new media. Other PSBs have also been active in digital projects and in the Internet, but due to economic or political conditions their strategies have been less fully realised and, as a consequence, their initiatives have been restricted in their scope and ambition (France Television, RaiSat2-Raggazi, and Television Espanola (TVE)). A third group of broadcasters is still at the beginning of a process of reorientation. Their activities in new fields have been limited as the internal restructuring of their organisational systems has yet to reach a critical phase. In particular for the broadcasters in smaller countries, economic conditions play an important role when deciding to launch new initiatives.

Summary

Recently, the development of digital channels and the broadband delivery of interactive services have affected the delivery and distribution of content in the European television marketplace. The major broadcasting companies invested in the technology due to the apparent perceived benefits of digital convergence in terms of economic opportunity and consumer demand.

However, as the financial collapses of ITV Digital in the UK and Kirch Media's Premiere Medien in Germany, alongside the difficulties for Stream and Telepius in Italy, have illustrated the fate of the digital platforms is by no means secure. Despite

their major investments and business track records, the failure of these national champions has led to questioning of some business models. This financial weakness is worrying for the whole of the European audio-visual sector as television companies bring in the majority of the income within the sector.

As methods of service delivery and forms of content are extended, European PSBs (while still dominating the European marketplace) have seen a reduction in their audience share, accompanied by political and economic imperatives bringing into question their unique forms funding and status. To greater or lesser degrees, European PSBs have responded to these financial limitations by seeking out alternative sources of revenues including participation in digital television and new interactive media such as the Internet.

European television industry structures

Introduction

The European television marketplace faces severe financial pressures. The successive withdrawals of capital from digital platforms by major television corporations such as the CLT (now the RTL Group), Carlton and Granada and also telecommunications companies such as France Telecom and Telecom Italia, as well as the difficulties encountered by the Kirch and Canal Plus groups, and by cable groups such as UPC and NTL, illustrate the depth of the challenge.

Moreover these problems have been exacerbated by the sharp decline in advertising revenues. In December 2001, three leading commercial TV players issued profit warnings due to the decline in advertising expenditure. They included: Germany's ProSiebenSat 1 (owned by Kirch) who said its net income would fall 10% this year; France's TF1 which forecasted a similar fall in its annual earnings; and the RTL group which released its fourth profit warning of 2001 on December 7. Whilst European Television has previously suffered from advertising recessions, they have never been as bad as this before.

Media Conglomerates: Consolidation and Diversification

The pressures resulting from the shortfalls in profit from the digital platform markets, alongside the decline in advertising revenue have helped fuel the move to mergers and forms of *consolidation* amongst the media and multi-media conglomerates. In particular, the television business has been seen to lend itself to consolidation, as there are potential economies of scale and scope. As television runs on programming and programming has to be produced, it is almost axiomatic that the greater the proportion of the population that can be reached by the production, the greater the efficiency can be seen in making it.

Simultaneously, the expanding communications marketplaces have enabled major media organisations to *diversify* in terms of cross-media ownership and there have been a number of complex mergers between national, trans-national and global media corporations (e.g. AOL/Time-Warner, Vivendi-Universal) across the commercial European television sectors. The strongest factor that has pushed these European

media corporations together has been the growing corporate power of the American media conglomerates.

However, there are both economic and cultural concerns. In particular, the Competition Directorate has become concerned that too much content may be held in the hands of dominant 'gate-keepers' and that consumer choice will thereby be undermined. Therefore, with regard to the digital economy, the Directorate has sought to employ its merger regulations so that it can investigate any proposed cross-communications alliance or merger before it goes ahead rather than having to consider it retrospectively

Media Conglomerates: Alliances

In response, European media corporations have tended to form a complex web of *alliances*, rather than affect mergers, so that they can match their competitors' strengths.

For example, in 1999, Rupert Murdoch and Leo Kirch negotiated a deal whereby BSkyB, the British satellite broadcaster of which News Corporation has a majority 40% share, took 24% of KirchPayTV from the German media mogul's Kirch Media Group. Canal Plus was also expanding energetically abroad in the 1990s, moving into Belgium, then Spain, Germany and Poland. It bought Nethold, a Dutch pay-TV operator, in 1996, and more recently acquired Kirch and Berlusconi's stakes in Telepiù, Italy's main pay-TV platform. Canal Plus was, itself, bought out by Vivendi in 2000.

As a result of this corporate manoeuvring, Europe's media industry has become characterised by a confusion of alliances of one sort or another.

In the event, these alliances have proved to be difficult to negotiate and to subsequently sustain. Furthermore, with the collapse of Kirch (which became insolvent on April 8th), it appears that the European television marketplace may be entering a period of strategic disentanglement as the media companies weigh up their competitors' assets in preparation for corporate raids and hostile take-overs.

In many respects, the collapse of Kirch Media has been reflective of the trends which have become apparent within the European Television marketplace. They include the consequences of over-stretching the corporate resources to establish a vertically integrated media empire and the inherent dangers which have become associated with the tangled alliances that exist between media corporations.

Vivendi-Universal has also been subjected to a series of major problems concerning its debt burdens. Consequently, Vivendi's investors and credit rating agencies were determined to see that the debt should be drastically reduced through the possible dismantling of its portfolio of media companies. However, industry analysts remain doubtful of whether Vivendi can raise the sufficient monies from these disposals to offset its debts. Instead, they insist that a demerger of Vivendi's US entertainment businesses will be the only way to eventually balance the corporation's books.⁹

⁹ Owen Gibson, 'Vivendi chief tries to reassure shareholders', *Guardian Unlimited*, <http://www.guardian.co.uk>, 19.8.02.

In tandem, the German media company Bertelsmann has sought to return its main focus back to its primary assets such as its television company RTL. This change in corporate strategy was signified by the resignation of Bertelsmann Chief Executive Thomas Middlehoff, whose acquisitional tendencies had fallen foul of the corporation's board in the current climate of uncertainty.

Summary

There has been a general downturn in the European television industry due to the failure of pay-TV services to attract subscribers. In turn, greater financial pressures have been placed on the European television companies through a sharp decrease in advertising revenues. These financial difficulties have fast-forwarded the 'push' toward corporate mergers and alliances amongst the European media companies which own the television stations. Simultaneously, the expanding communications marketplaces have enabled major media organisations to diversify in terms of cross-media ownership.

To meet competition (and sometimes political) concerns European media corporations have tended to form a complex web of alliances, rather than affect mergers, so that they can match their competitors' strengths. Yet, these alliances have proved to be difficult to sustain. Presently, the European television marketplace may be seen to be undergoing a process of strategic disentanglement as the media companies prepare hostile corporate raids and take-overs on their competitors.

Finally, over the last year, the media corporations themselves have exhibited a decline in financial security and have been subject to bankruptcies or divestment. Thus, the collapse of Kirch and the on-going difficulties being experienced by Vivendi-Universal and Bertelsmann would appear to signal that the futures of the vertically integrated media and communications corporations are by no means clear. In effect, it may be stated that the most consistent characteristic within the European television economy may be one of corporate inconsistency.

PART THREE: THE METHODOLOGY

Chapter 9

The research design

Outline

This section discusses the methodology for the study. It focuses on:

- the different approaches we employed: inductive, deductive and qualitative
- the methods used to gather the evidence and develop the scenarios: personal interviews, group workshops, a group interview and document analysis
- the steps in the process of constructing the scenarios, including the variables which acted as scenario building blocks.

Inductive and deductive approaches

Although scenario analysis is now widely recognised as a technique for developing understanding about the future, it is not a universal methodology with a common way of producing results. Certainly it is informed by some general principles, but essentially most of the rules of implementation evolve from day-to-day practice as appropriate for each context. Groups involved in scenario analysis – whether working at corporate, industry or national levels develop their own, unique ways of generating scenarios.

Some take an inductive approach which involves identifying significant future events and then spinning larger stories around them through brainstorming sessions. Others prefer a deductive approach whereby the most critical uncertainties are prioritised and used as the axes of a matrix which then drive the construction of the scenarios in a structured and systematic way. The benefit of the latter is that the scenarios focus on what are considered to be the most crucial and relevant forces. An advantage to the former, however, is that scenarios may turn out to be more creative and radical.

In the Future Reflections project, we used both inductive and deductive approaches. The deductive construction of a set of matrices with fixed combinations of core variables helped us to focus on the most crucial forces and issues. We derived three internally consistent and credible scenarios from this approach: Digital World, Back to Basics and Global Challenge. However, we also wanted to tackle the issues intuitively and therefore used brainstorming methods to identify the relatively ‘extreme’ scenario called Goodbye TV. Thus we ended up with a set of four scenarios, three of which we derived deductively and one inductively.

A further distinction in how Scenario Analysis can be applied is by taking either qualitative or quantitative approaches. The majority of scenario practitioners start with qualitative research because numbers and models can get in the way in the early

stages when charting uncertainties and discontinuities. Some then go on to use quantitative methods in order to rank trends according to their importance or extent of uncertainty. This can help to separate the many parts of a very complex system for closer consideration and is often thought useful for the information it can then input into strategy development. However, large, complex models do have the disadvantage of obscuring more intuitive insights and anyway, arguably, the quantitative approach is too much like a prediction of the future. This detracts attention from the basic purpose of scenario analysis which is open-minded consideration of dramatically different futures. Assigning probabilities distorts the process and certainly in initial analysis, all plausible scenarios, regardless of probability, should be considered. For these reasons, we chose to take a qualitative approach throughout the Future Reflections project.

Non-attributability and confidentiality

In order to protect unorthodox, commercially sensitive or potentially embarrassing views from their source, we did not attribute findings from the interviews to any individual. Furthermore, we operated the two workshops under a variant of the Chatham House Rule whereby the outcome of discussions could be used outside of the workshops but neither the identity nor the affiliation of the participants could be attached to their contributions. The aim of this guarantee of anonymity was to aid free discussion.

Single interview method

A series of personal interviews was carried out through the autumn of 2001. The format was semi-structured with open-ended questions. Interviews usually lasted around two hours and aimed to explore the following:

- key uncertainties over the next ten years
- critical trends, developments, constraints and opportunities likely to impact the sector between now and 2012
- how the past has impacted the present and might act as a route to mapping out how the future might unfold
- ideas about possible futures that were “realistic but optimistic”, “realistic but pessimistic” and “radical”.

We began each interview by asking participants to identify three questions concerning the next ten years to which they would most like to know the answer. This provided us with the main uncertainties facing the sector (these are identified in Chapter 1). We then used responses to the first question to guide the direction of the more detailed discussions. Through the interviews, we intervened with prompts to elicit views on economics and market trends, political/regulatory background, social trends, technology, customers, competitors, suppliers, distributors, organisational and industry structures, brands and marketing.

When the interview data was analysed and synthesised with desk research on industry and consumer trends, the first themes to emerge were clustered into broad categories.

These formed the framework for the workshop discussions which took place at the end of 2001.

First group workshop

The aim of the first workshop, held at Chatham House in December 2001, was to discuss and investigate the issues and ideas arising out of the interviews. One of the benefits of the workshop was the opportunity it provided for a range of expertise and differing views to be applied to the same issue. By working in small groups and then reporting back to the wider workshop, participants were able to uncover and explore divergent evidence and also highlight gaps in the evidence for further research. For instance, participants indicated that we had overlooked societal attitudes to change; in the context of global, political and social upheaval, we needed to take account of the extent to which consumers would be able to accommodate further change because this would affect their responses to innovation.

In the second part of the workshop, we asked participants to create future stories that linked events, issues and contemporary players in a realistic way. Testing out the connections between the categories in our developing knowledge base gave us insights into the importance and uncertainty of some elements and enabled us to identify critical actions that might determine a particular future course for the industry.

Group interview

In order to gain a different perspective on the future, we ran a group interview with 8 younger participants, most of them in their twenties. This second panel was drawn primarily from a list compiled by the trade journal, *Broadcast*, of young, high achievers in television, although we included participants from the related sectors of marketing and gaming. The interview was conducted ‘on the record’ and fully transcribed. *Broadcast* published a feature article on 14th June 2002 based on the findings which we compared and contrasted with those from the main panel interviews and December workshop.

The influence of gaming techniques on how television might be produced and consumed was identified by both main and second panels as an important area of concern. Our sample of senior executives and opinion leaders who comprised the main panel had not, up to this point, included anyone with specific games expertise. Following purposive sampling principles, therefore, we invited one of the young achievers, with a specialist knowledge of gaming, to join the main group of participants. He subsequently took part in the second workshop held in June (see “Second Group Workshop” below).

The building blocks

The December workshop resulted in the identification of 25 key variables which captured the main industry developments, key trends and areas of uncertainty across a range of outcomes (See Appendix 2 for complete list of variables.)

We clustered the variables into four categories:

- Society/consumers
- Economics/Public Policy
- Industry structure/competition
- Content/services/technology

For manageability we needed to narrow the 25 variables further and looked for two or three critical variables to act as the foundations of the scenarios. We decided to omit variables related to technology because we did not consider this a key exogenous category. Over the next ten years, the technological trends and direction of the main developments are arguably fairly clear and the key issues arise around speed of development and adoption. We also decided to omit variables related to content and services as they are considered an output as opposed to an input, driven largely by consumer preferences and industry developments.

This left us with 16 variables in the first three categories. We isolated a single variable in each category which provided us with three core building blocks. These were fundamental to the shaping of the scenarios. They are intended to represent the likely prevailing environment between now and 2012 in the society/consumer, economics/public policy, and industry structure/competition categories:

Society/Consumers:

The Nature of Consumers in Their Approach to Media Consumption
 Sophisticated and confident \Leftrightarrow Confused or alienated

Economics/Public Policy:

The Health of the Economy
 Sustained growth \Leftrightarrow Economic recession

Industry Structure/Competition:

Characteristics of the Industry Structure and Competition
 Concentrated/powerful gateways \Leftrightarrow Many players/open networks

The interview and workshop findings strongly suggested that consumers' usage of media was the most important variable. We interpreted this as 'consumers' approach to media consumption', expressed in terms of sophisticated and confident at one end of the continuum, and either confused or alienated at the other end. The other two variables and their outcomes also emerged from the findings and workshops. With regard to the Health of the Economy variable, participants drew attention to the fact that this could describe either a single economic context over time or a cycle of growth and recession.

The main features of each scenario began to emerge when we produced a series of 3-D matrices based on all possible combinations of the variables, with the consumer, economic and industry variables on alternate axes (see the diagram in Chapter 1, "Scenario building blocks"). Eight basic scenario frameworks were generated and against these fixed combinations we applied - and considered the implications of - the remaining variables. Three scenarios appeared to be consistent, credible and potentially useful. Therefore we included these in our final set.

In critically reflecting on the methodology, we appraised the value of our step-by-step process up to this stage by selecting three secondary variables and trying them out as a different set of 3-D matrices. There was little to differentiate the ensuing scenarios from those that had emerged from using the primary core variables (consumer approach to media consumption, the health of the economy, industry structure and competition) and thus we reverted to the originals.

However, we did derive another, more radical scenario from working intuitively through brainstorming. Our final set therefore comprised four scenarios which we have detailed in Chapter 2.

Document analysis

If scenarios are to be plausible and ‘realistic’ they need to be based on facts as well as new ideas and conjecture. This means that secondary research becomes part of the data gathering exercise. We included reports from the ITC, BSC, Henley Centre, Mindshare Research, British Social Attitudes, The European Audiovisual Observatory and BSAC. The data gathered from analysis of these documents and other secondary sources is summarised in Chapters 4 - 8.

Second group workshop

The second workshop took place at the Royal Society for the Arts in June 2002 and was attended by participants in the main panel. Its aims were:

- To confirm or amend the building blocks for the scenarios
- To explore the plausibility and implications of the draft scenarios
- To develop the dynamics of the scenarios, especially in relation to the topic areas of society/consumers, economics/public policy, and industry structure/competition
- To incorporate some of the findings from the latest consumer research
- To reflect on what might have been left out of our thinking.

We needed to test the rigour and completeness of the scenario structures and dynamics. To do this, participants went Back to Basics and reconsidered the importance and soundness of the key variables by working in small groups with two or three variables from an overall list of eight (as noted above and shown in Appendix 2). We used this condensed version of the original 25 variables because its relative simplicity enabled us to deal more effectively with the fairly complex relationships and interactions involved in each scenario.

This process helped to flesh out the draft scenarios which were subsequently written up and circulated around the main panel for comment and refinement in October 2002. In line with the principles of scenario analysis, this report now offers a set of comprehensive, future stories which have been compiled from a collaborative cycle of mutual exploration, reflection, development and evaluation. The trick now is to watch out for those early warning signals that will tell us how the scenarios might in reality begin to unfold.

APPENDICES

Appendix 1

Interview protocol

1. Introduction

- aims of the project
- methodology
- timetable

2. The next 10 years

- if you could see into the future of the television sector, ten years hence, what would be the three main questions you would want answers to (e.g. technology, consumers, business/other)?
- how would you yourself answer the 3 questions?
 - critical trends, constraints, opportunities?
- it is unlikely that ten years ago we could have foreseen the impact of the Internet on work and home lives and on the television business. Is there anything you can identify today that is likely to have a similar, radical influence on television in 2011?

3. Experience/events so far

- what have been the key events/developments that have changed the industry and your own organisation in recent years?
- what significant events remain in your memory as important lessons for the future?

4. Possible outcomes

- could you describe a ‘desirable future’ (optimistic, but realistic)?
- could you describe a ‘worrying future’ (pessimistic, but realistic)?
- can you think of a radically different outcome to either of the above (if so, describe its features and how it might emerge)?

5. Priority actions/decisions needed now (by others or by you) to help secure a desirable future

- organisational strategies
- public policy/regulation
- other

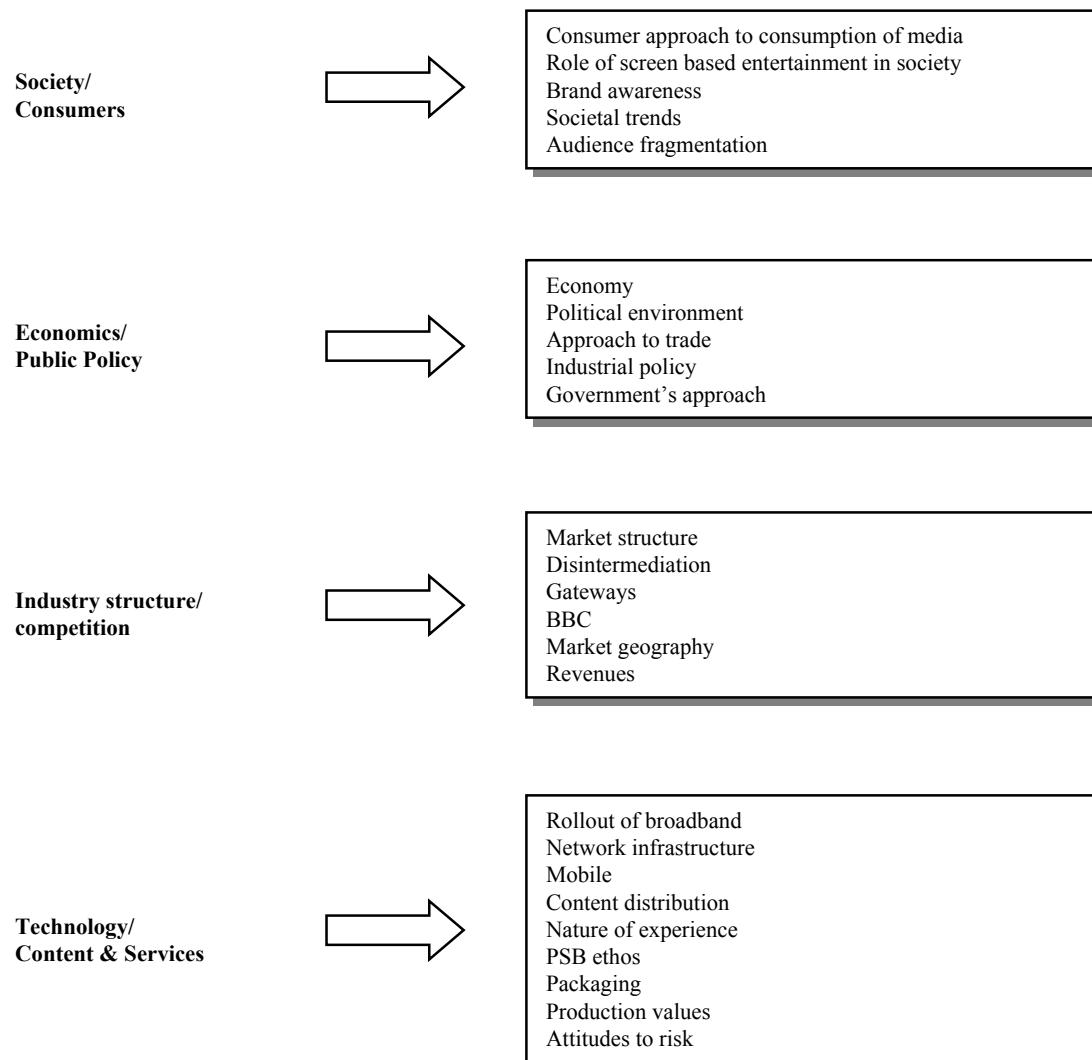
As we discuss the above with you, we will be interested to hear your views on some of the following topics :

- Economics and market trends
- Political/regulatory background
- Social trends
- Technology
- Customers
- Competitors
- Suppliers
- Distributors
- Organisational and industry structures
- Brands and marketing

Appendix 2

Industry variables

25 key variables



8 primary variables

Society/Consumers

Consumer approach to consumption of media

Audience fragmentation

Economics/Public Policy

Economy

Political environment

Industry structure/Competition

Market structure

Market geography

Revenue

Technology/Content & Services

Rollout of broadband

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Future Reflections — Four scenarios for television in 2012



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