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Subscription Television

Next Thursday's MISC 128 deals with the subject of Pay-TV. This is a background note dealing with Pay-TV in Europe and America, the Jonscher Report. We set out some questions regarding the Home Secretary's proposals which follow closely the recommendations of the Report.

Overview

1 From the experience of the US and France, the introduction of premium programmes through Pay-TV on existing or new channels is likely to be highly profitable.

2 Widespread use of Pay-TV has very important implications for public service broadcasting.

3 The introduction of subscription television to the BBC raises crucial questions regarding its future.

4 The Jonscher Report recommended introducing Pay-TV on existing channels using the night hours: far more important in the long term is another of Jonscher's recommendations - introducing Pay-TV through new channels such as MMDC or a 5th or 6th channel.

5 The worst of all worlds would be to grant existing channels the right to use subscription and allow them to cream off some of the unsatisfied demand, so making the introduction of subscription via new channels not very profitable.

Pay-TV in Europe and America

Pay-TV started in the US as a commercially viable service with the introduction of the Home Box Office channel in 1972, showing mainly feature films. In the US, the success of pay-TV is closely related to the growth of cable. Pay-TV in Europe by contrast has been slow to develop: the only exception is Canal-Plus in France which has reached 1.7m subscribers in just three years, thus accounting for the great majority of the 1.8m subscribers of all 5 major pay-TV services currently operating in Europe.

A number of lessons can be learned from these experiences:

* Over the past decade the United States has experienced rapid growth in pay television - a sure sign of unsatisfied demand. By the end of 1986, 43% of the homes passed by cable were subscribing to basic services and 34% to pay services. One quarter of all US television households now subscribe to pay-TV. Pay-TV in Europe is less well developed than in the US, although in France it has achieved a 12% share of television in under three years.

* Television can tap additional revenue sources due to the willingness of consumers to pay for extra premium services and the higher rates of revenue that can be earned by carefully defined premium programming compared with the relatively low rates earned by advertising.

* The US pay television market supports four major and four minor premium film channels, which is the equivalent of one premium pay channel for approximately 2.7 million subscribers. This indicates that the UK market might support two or more premium film channels given 5 million subscribers over the next 5-10 years.

* On average the pay channels in the US raise £6.95 per month per subscriber (or approximately £83 pa), although Home Box Office, the largest premium film channel, charges £8.63 per month (or £104 pa).

* Pay per view generates relatively high revenues from a limited audience size. It accounts for less than 0.5% of total pay cable revenues and only 2.7 million subscribers, but each subscriber spends about £9.50 per month - over one third more than is spent on ordinary pay cable services.

The Jonscher Report

On the basis of several independent sources of evidence the Report identified considerable consumer demand for extra television programming, backed up by willingness to pay for such material:

- an average household without any of the new technologies (cable, video-recorder, satellite dish) spends £130 per year on TV (including licence fee and cost of purchasing/renting receivers): but if people own a VCR or receive cable, expenditure rises to £250-300 per year.

- experience from the US and France suggests that a simple pay-TV channel selling for about £10 per month could attract subscription from approximately 30% of households to which it is offered. (Willingness to pay for existing BBC services would raise only £3-4 per month);

- but to attract these audiences, programming would need to show 60-70% of premium material (recent films, major sporting events) and no informative programming (news, documentaries). Each of our existing four TV channels broadcast roughly 90% light (serials, chat and quiz shows) and informative programming and 10% premium material.

The conclusion of the Jonscher Report's research therefore is that the UK television industry is under-financed as a leisure activity and that consumers are prepared to spend an increasing amount on screen-related capital equipment and programming, especially if it offers them a wider choice of material than is available on existing BBC and ITV channels.

<u>**Introducing Pay TV on UK terrestrial channels**</u>

Jonscher examined the desirability of introducing pay-TV on existing UK terrestrial channels and reached the following conclusions:

(a) collecting the licence fee by subscription would incur more costs than benefits;

(b) if subscription was introduced on BBC channels, they would not be able to cover costs because of their current programming mix;

(c) if all four terrestrial channels were to be put on subscription they would not cover costs, once again because of their present programme mix: if however this were to change and they showed greater premium material and introduced some advertising, then they could cover costs;

(d) subscription should be introduced on a progressive basis - to avoid administrative chaos and to enable consumers to benefit from the fall in equipment costs.

On the basis of these research findings Jonscher made three proposals for introducing pay-TV into the UK.

<u>Step 1</u>

- The currently unused hours on one BBC channel and one IBA channel could be set aside for the use by pay television services; BBC 2 and Channel 4 are the preferred channels.

- The BBC could be invited to operate the service which uses its channel; this would run as an independent profit-making activity under the management of BBC Enterprises, with profits being retained by the Corporation.

- The IBA could invite applications for use of the Channel 4 frequencies, or could allow Channel 4 to launch such a service.

<u>Step 2</u>

As the number of households with suitable reception equipment grows, some evening and weekend transmissions of BBC 2 could be scrambled and used to provide premium material on a pay basis.

Step 3

Broadcasting organisations could be permitted to set up pay television channels in one or both of the following ways:

1. Local or regional services using transmitters located within the present UHF television allocation, but not interfering with the network of transmitters providing national coverage of the four existing services.

2. A regional or possibly national television service using spectrum in part of the former VHF television band.

The Home Secretary's Proposals

The Home Secretary has accepted the major thrust of the Jonscher Report and has put forward nine separate proposals.

Questions for MISC 128 meeting

Some questions for the meeting, however, are

1. **What is the implication of subscription for public service broadcasting?**

   The paper envisages subscription playing a major role in broadcasting including subscription to the BBC as a major replacement for the licence fee; but, with widespread subscription, public service broadcasting as we know it would no longer be possible. It would have to be funded by alternative monies such as the method used by the Arts Council. Is this what we want?

   Broadly speaking there are two approaches a) and b).

   a) Is to reserve public service broadcasting for certain channels, for example BBC and Channel 4, without subscription: allow subscription to be commercially determined for all other channels?

   b) Fund public service broadcasting like the Arts Council: allow or enforce subscription throughout all channels.

   These approaches would have very different significance for UK television. If the proposals from the Home Secretary are a step in the direction of the second then this needs more discussion.

2 **What is the implication of Pay-TV for the BBC?**

- Do we share the Home Secretary's view that subscription might/should replace the licence fee?

- If we grant the BBC the right to use the night hours for subscription, what do we need to tell them now regarding our future intentions? Even if we do not raise the issue this is certain to be raised by them.

3 **How do we allocate the night hours?**

These are a very valuable asset.

- Should they be given to the BBC?
- Why not put them out to tender?
- Will they be tendered for by the ITV companies?
- Are we treating the BBC and ITV companies fairly in the way we propose to allocate the night hours?
- Will the night hours be subject to the same regulation as terrestrial channels?

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