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the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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Date 25 April 1988

Dear Paul

... I am enclosing some key pages from Charles Jonscher's study on the economic effects of the rise in television advertising costs. These show that the price of television advertising in the UK has risen very rapidly in real terms and is well out of line with other OECD countries.

In all other countries (apart from Spain) the percentage of GDP spent on TV advertising and the number of channels correlate closely but the UK supports only two channels despite spending a relatively high percentage of GDP on television advertising.

Instead of more channels, we have high production costs. Channel 4 - with a high proportion of independently produced material - has the lowest hourly production costs but these are in line with the BBC's. ITV by contrast costs about twice as much, even when the figures are adjusted for the slightly different mix of programming. In the past ten years there has been a very little change in the volume of output on ITV or in the mix of programming. But costs have risen by 2.4 times in real terms.

Jonscher estimates that the extra costs to advertisers is about £700 million a year - more than BSB's up-front costs. And media cost inflation has fed through directly into retail price inflation for consumer goods. He concludes that there is plent of room for further advertising-supported channels and that introducing such channels would be of great benefit to the economy. And it would increase viewer choice.

Yours

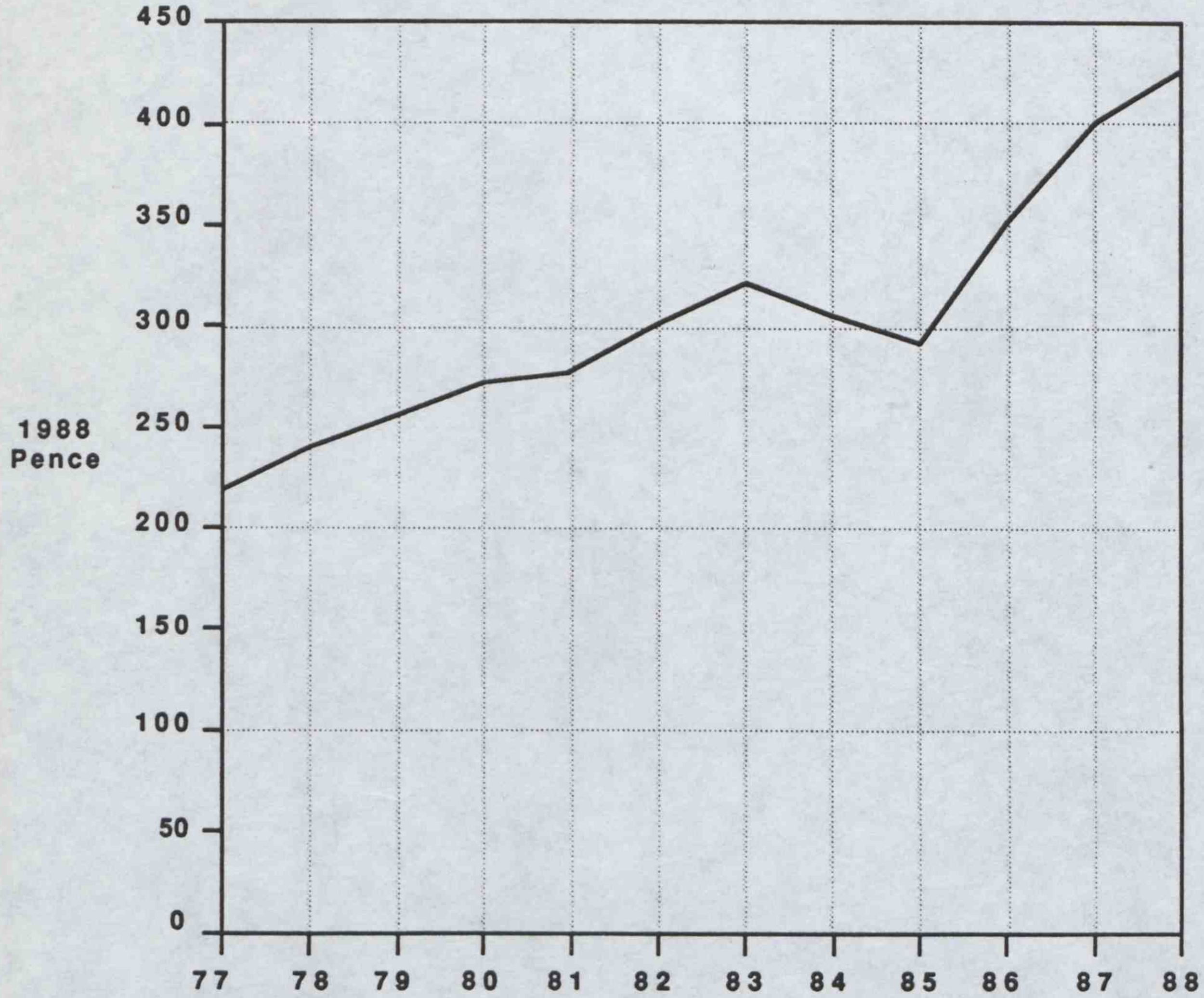
Jeremy Godfrey

JEREMY GODFREY
Private Secretary

THE PRICE OF TELEVISION ADVERTISING HAS RISEN IN REAL TERMS BY:

- 95% since 1977
- 37% in the last 2 years

COST PER THOUSAND INCREASE ON ITV AND CHANNEL 4 (1977-1988)



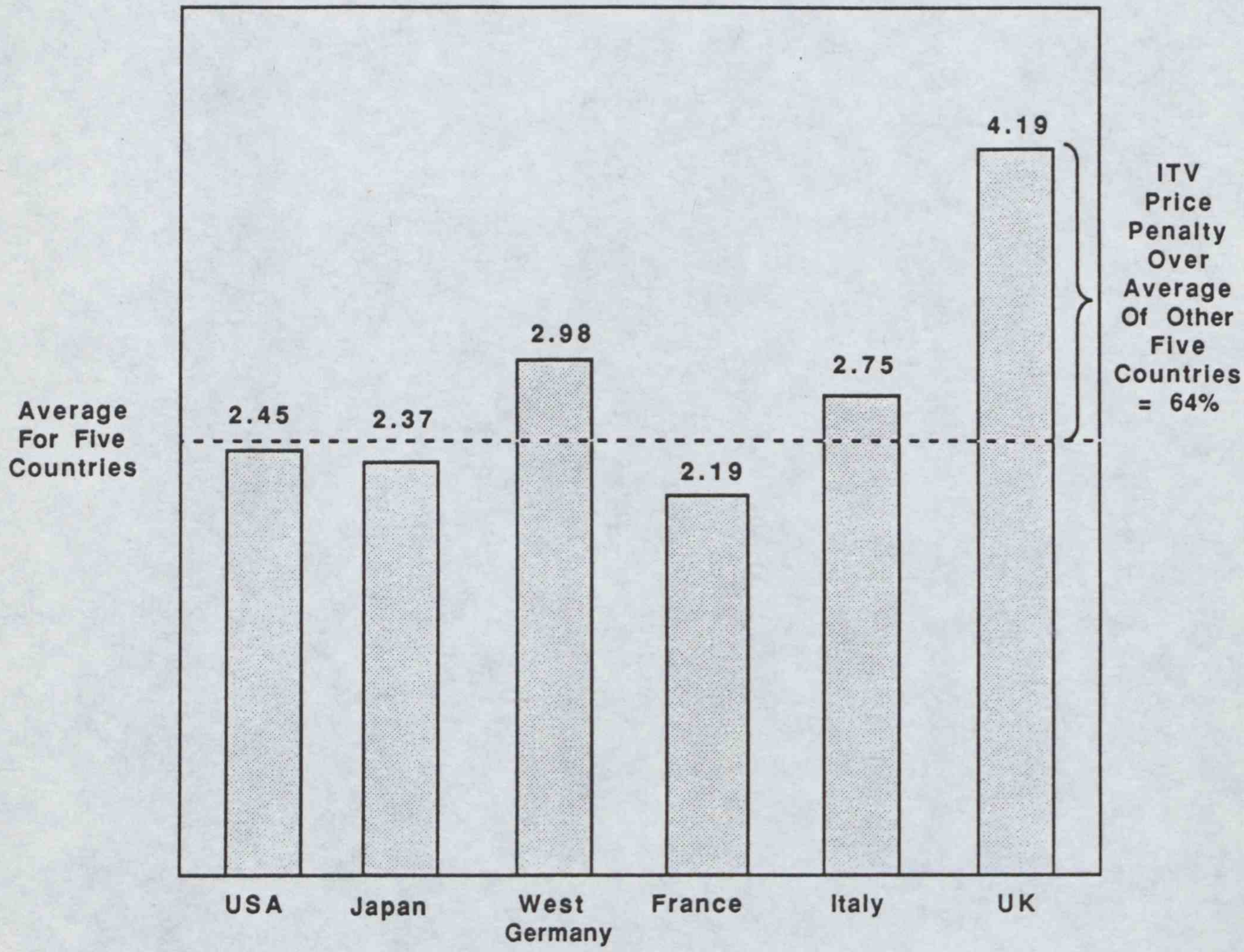
Data derived by dividing television advertising expenditure (in millions of £ 1988) by total volume of commercial impressions (billions of 30 second adult impacts)

Source: AGB/BARB

The Nature and Extent of the Problem...

ITV PRICES ARE 64% ABOVE THE AVERAGE FOR THE OTHER FIVE MAJOR OECD ECONOMIES

- This puts UK consumer industries at a significant competitive disadvantage vis-a-vis their major international competitors



Channels covered by above analysis are:

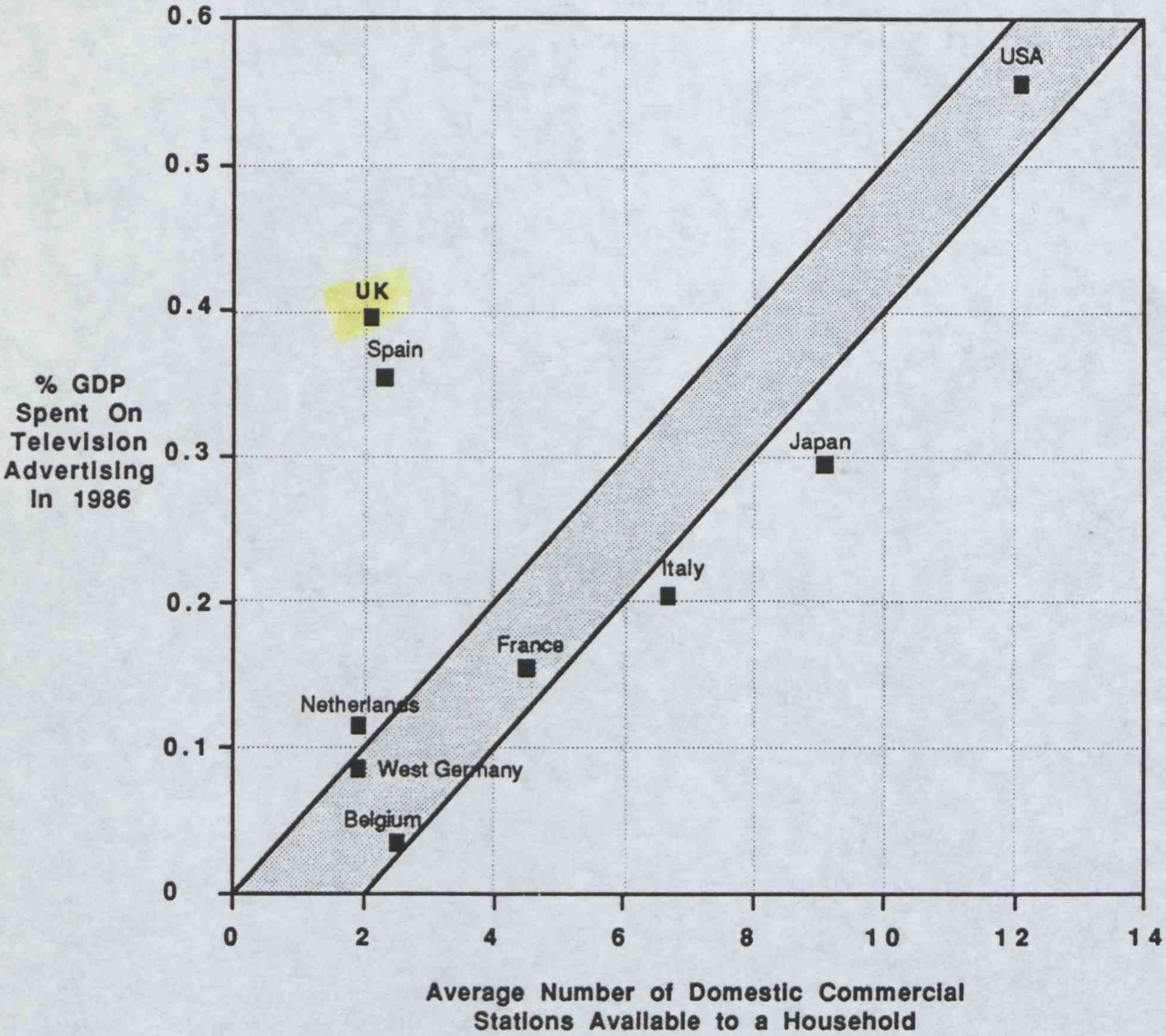
UK: ITV
USA: ABC, CBS, NBC
Japan: NTV, TBS, C X, ANB, T X, MBS, ABC,KTV,YTV

West Germany: ZDF, ARD
France: TF1, A2, FR3, La 5
Italy: RAI-1, RAI-2, RAI-3, Canale-5, Italia-1

Source: (Saatchi & Saatchi Advertising Worldwide) European Market & Media Fact book, 1988 edition; financial data converted at 30 March 1988 exchange rates.

The Nature and Extent of the Problem...

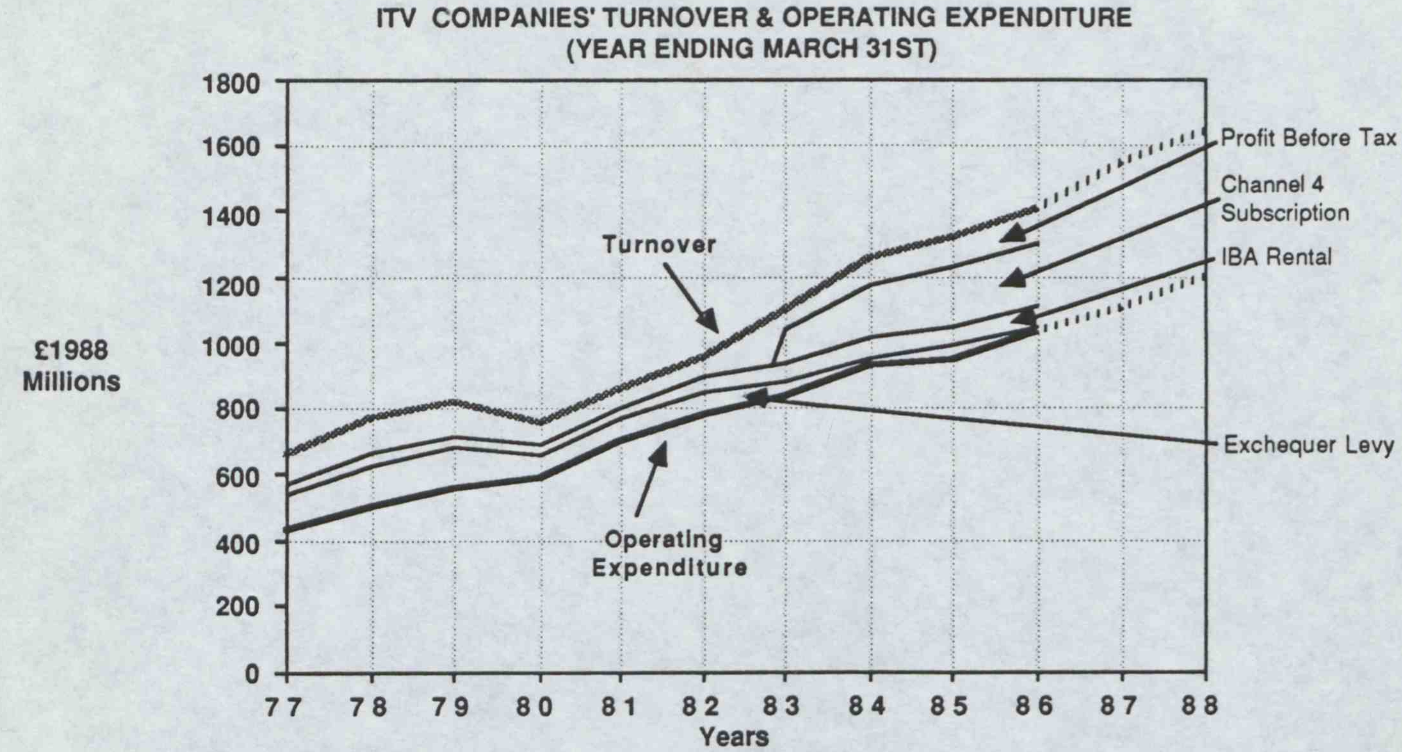
THE INEFFICIENCIES OF THE PRESENT COMMERCIAL TV MARKET STRUCTURE ARE IMPOSING A VERY LARGE BURDEN ON THE ECONOMY, WITHOUT THE CORRESPONDING BENEFIT OF MORE TELEVISION CHANNELS

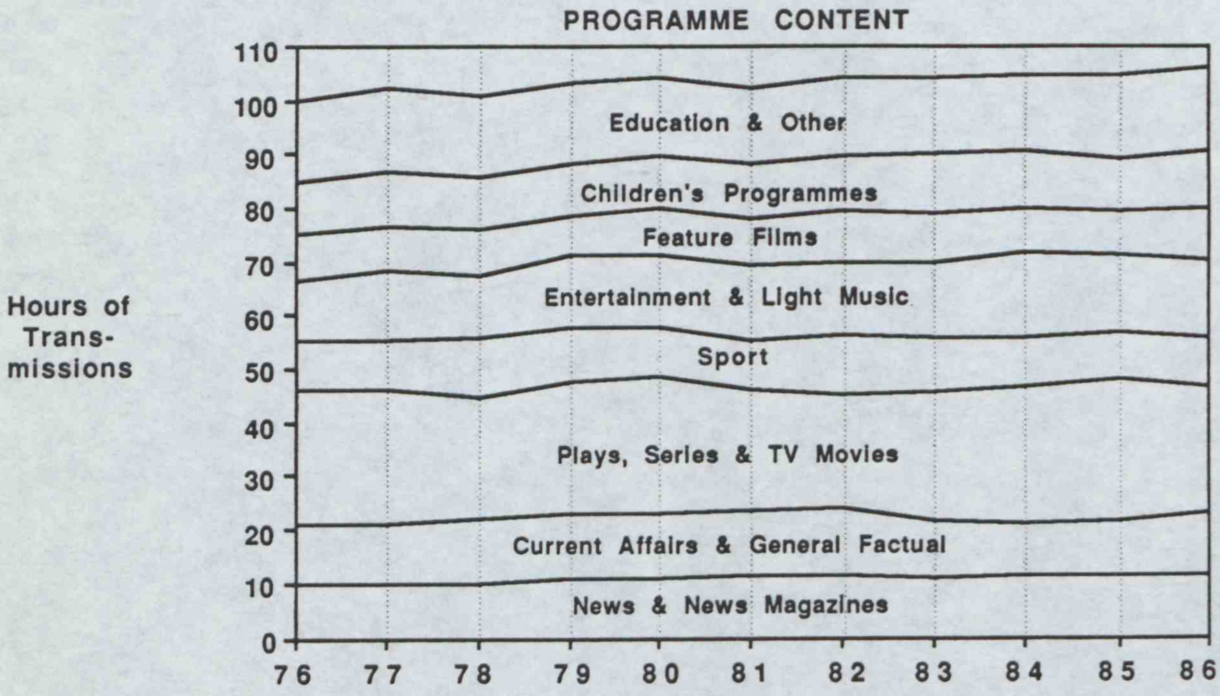


Source: Saatchi & Saatchi, BAH analysis

The Nature of and Extent of the Problem...

INFLATING PRICES HAVE CREATED AN INEFFICIENT COMMERCIAL TELEVISION INDUSTRY. COSTS HAVE RISEN BY A FACTOR OF 2.4 IN REAL TERMS DURING THE PAST DECADE, WITH MINIMAL CHANGE IN VOLUME OR COMPOSITION OF OUTPUT

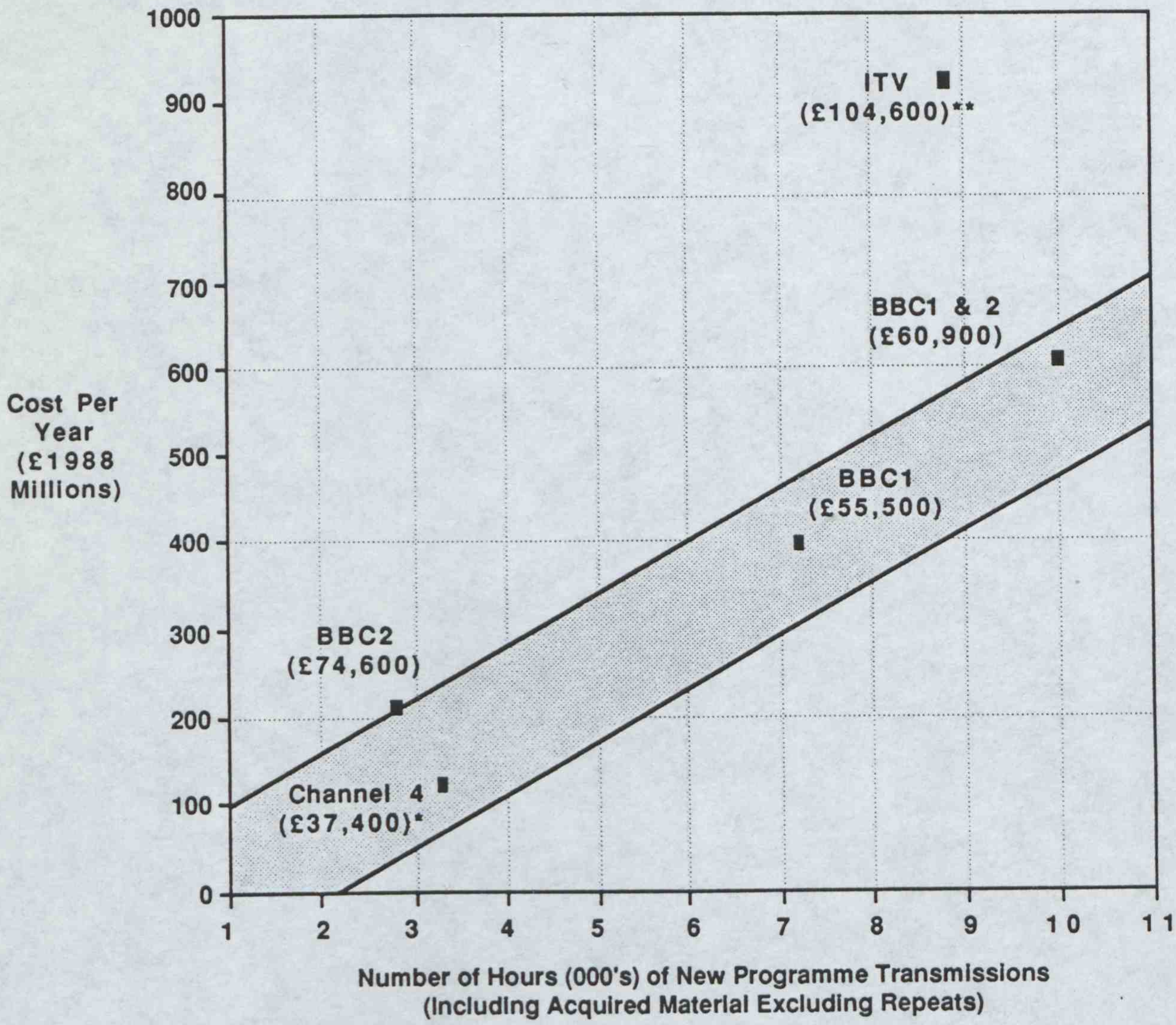




Source: IBA Annual Report and Accounts

INSTEAD, COSTS PER PROGRAMME TRANSMITTED HAVE BECOME WELL OUT OF LINE WITH THOSE OF THE BBC AND OF CHANNEL 4:

AVERAGE HOURLY OPERATING COSTS OF TERRESTRIAL TELEVISION CHANNELS IN THE UK (1986)



* Figure in brackets represents an average hourly cost of the channel (excluding repeats)

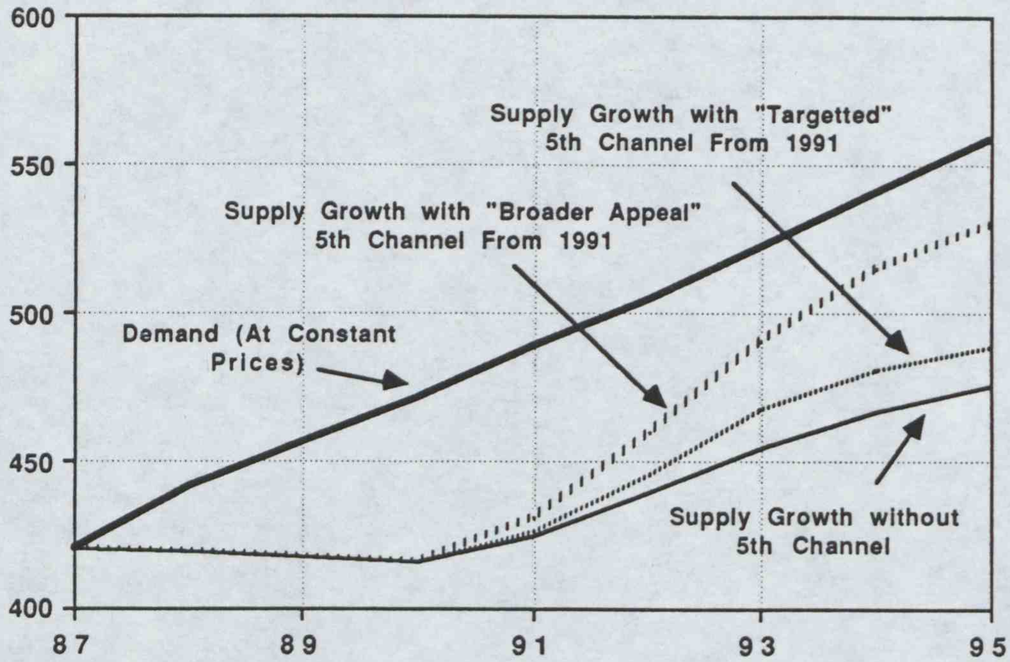
** 10% of total operating expenditure was deducted from the ITV's hourly figure to allow for advertising airtime sales and marketing

Source: BBC Annual Report & Accounts, BBC Facts & Figures, Channel 4 Annual Report & Accounts, ITV Companies Annual Report & Accounts, BAH Analysis

Prognosis for the Future...

CONSIDERING SUPPLY AND DEMAND PROFILES FOR THE PERIOD TO 1995, WE OBSERVE A LARGE SHORTFALL IN SUPPLY UNDER THE RESTRICTIVE SCENARIO, AND AMPLE DEMAND TO ACCOMMODATE A 5TH CHANNEL OPTION

(1) Based on High Growth of New Media



(2) Based on Lower Growth of New Media