



10 DOWNING STREET

LONDON SW1A 2AA

From the Press Secretary

26 September 1988

Mr N. Jackson,

The Prime Minister has asked me to thank you for your paper on the future financing of Channel 4.

As you will be aware, the Government is shortly to publish a White Paper on broadcasting policy. You will be able to pursue your ideas as part of the consultation on the proposals contained in it.

A handwritten signature in black ink, appearing to read 'Bernard Ingham', written in a cursive style.

BERNARD INGHAM

Mike Yershon
Chairman
The Association of Media Independents

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AA - Bouleau
De Saun

21st September 1988

The Right Honourable Mrs. Margaret Thatcher M.P.,
10 Downing Street
London SW1

You should see this, and
I have acknowledged.
It advocates selling C4
on time by a separate
sales force, breaking
ITV's regional monopoly &
reinforcing the complementary
nature of C4

Dear Prime Minister,

The Future Financing of Channel Four

Byron 26/9

Attached is a paper on the above subject, which is of vital concern to independent television and to the advertisers and agencies who support it. Members of the Association spend some £150 million a year on buying television advertising on behalf of their clients

I do hope that you will have an opportunity to read this paper and that you will find merits in its arguments. We would be happy to amplify or explain any aspects of it.

Yours sincerely,



Mike Yershon
Chairman

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OF MEDIA

INDEPENDENTS

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THE FUTURE FINANCING OF CHANNEL FOUR

A Paper Produced on Behalf of the
Association of Media Independents

By

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SEPTEMBER 1988

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THE FUTURE FINANCING OF CHANNEL FOUR

Channel Four has been one of the premier media success stories of the 1980's. In just seven years it has built for itself a distinctive and strongly rooted position within the Public Service Broadcasting system.

During this period Channel Four has brought substantial benefits to a wide range of people and companies. Through its policy of commissioning outside programming, it has provided a valuable stimulus to independent programme-makers; it has given the public a wider and more imaginative variety of choice and so enhanced audiences to commercial television; and it has given advertisers and agencies fresh options, particularly by encouraging advertisers to develop more sophisticated targetting methods for planning and buying.

The IBA deserves credit for the part it has played in Channel Four's success, by overseeing the birth of the new channel and then nurturing it through the difficult early years.

Some ITV contractors also deserve credit. Initiatives such as LWT's audience sub group sales policy and their business package along with the subvention rate card from LWT, TVS and Anglia are notable examples of a fresh and positive approach. Sadly, initiatives have been the exception and the general rule is for each ITV contractor to treat C4 airtime sales as their own commodity which is at variance with the channel's programming policy.

Now the broadcasting map is about to be redrawn. Channel Four was designed to be the final piece in the jigsaw of the old television system; the carefully balanced, strongly-regulated limited access public broadcasting duopoly. As such it has been well protected and has flourished.

But in the 1990's there will be competition from a host of new channels, many of which will not be bound by the duties and commitments laid on those within the public broadcasting system. There will be Channel 5, multi-channel satellite services such as BSB and Astra, along with other foreign DBS satellite systems and any future UK DBS channels that may be licensed by the Government.

In the light of this dramatic change in the UK television system, one must ask whether the present system of funding and selling airtime for Channel Four is the best strategy for the future.

The Association of Media Independents believes that the opportunity exists for an entirely fresh approach to be adopted, which will bring benefits to the viewer, C4, the advertiser and the ITV contractors.

The AMI is the official association of the country's leading media independents, i.e. those companies that specialise in the planning and buying of advertising time and space on behalf of a wide cross-section of UK companies, from large multi-national corporations to small regionally-based firms.

As media independents we are therefore in a unique position. This is our sole business and it is in our interests to help to plan the future of the industry through which we earn our living. Anything which will help to maximise the return companies gain from their advertising expenditure will help our businesses to grow and prosper. In this regard we firmly believe that a strong, successful Channel Four is essential for the health of commercial television in the UK.

However we believe that Channel Four has yet to realise it's full potential as an advertising medium. Some months ago the AMI set up a working party to evaluate the channel's current performance and review its prospects for the future.

The work for this project included reading carefully all the recent reports and papers on the future of broadcasting and an intensive meeting with Channel Four Chief Executive Michael Grade and Head of Marketing Sue Stoessl, in which we listened to their plans and gained a fuller perspective on the aims and potential of the channel.

We also commissioned an independent survey of the views of media buyers who work in AMI member companies carried out by a respected research firm.

Our view on the future of Channel Four is based firmly on the belief that Public Service Broadcasting, and Channel Four's place within this system, should be supported and strengthened so that it can meet any challenge posed by the forthcoming outside competition.

The Home Affairs Committee report on the Future of Broadcasting states that the principles of Public Broadcasting are as follows:

- a. the service should inform and educate as well as entertain;
- b. high standards should be maintained in technical and other matters;
- c. programmes should cover a wide and balanced range of subject matter in order to meet all interests in the population;
- d. there should be a wide distribution for programmes of merit;
- e. a proper proportion of programmes should be of British (now European Community) origin and performance;
- f. a suitable proportion of material should be calculated to appeal specially to the tastes and outlook of the persons serviced by the station, including broadcasting in languages other than English (ie for ethnic minority or Gaelic or Welsh communities).

Within the time frame of the next franchise for land based commercial television there will be competition for viewers from channels outside the control of the UK's existing PSB framework. We believe however that this framework should be retained because it is in the interests of both viewer and advertiser alike.

Within this context, Channel Four as currently funded has produced substantial benefits for viewers, TV contractors and advertisers, but it is clear to us that the regional monopoly, whereby Channel Four is sold in each region by the contractor which holds the ITV franchise, is not the best mechanism for airtime sales.

Previous attempts to conceive a better solution have generally been based on the suggestion that sufficient funds are available from advertisers for Channel Four to fund itself and therefore run in competition with ITV. But if this had been the formula right at the start, Channel Four would never have been able to survive without large public subsidies. It would have had to compete fiercely for sizeable audiences while the principle of complementarity, which derives from the PSB requirement for coverage of all groups and minorities, would have been completely brushed aside. We believe that a change from ITV funding Channel Four would lead to a change in the complementary nature of the Channel and this would not be beneficial.

But we believe that there is an important distinction which has been ignored by all those who have previously looked at this issue. It is perfectly possible for Channel Four airtime to be sold by a separate sales force, without changing the nature of the channel's funding and therefore its remit.

Our proposals are as follows:

- * The Channel Four remit should continue as at present but the station airtime should be sold by a new company appointed by the C4 board and responsible to the board, with effect from January 1990.
- * The ITV companies should continue to underwrite the budget for C4 and receive the balance of funds from the sale of C4 airtime after all its costs have been met, including the new cost and profit of a separate selling organisation.
- * C4 should have to argue for its budget in a similar way to the present method.
- * The new sales organisation and its resources should be of the size and stature similar to that of a major ITV contractor.
- * The IBA should continue to apportion the cost of and allocate the revenue of C4 by individual ITV contractor.

We believe that the merit of these proposals lies in the way they offer a series of additional benefits to all parties without affecting the gains that have been achieved through the present system.

In our view the separate selling of Channel Four would:

- * Protect the strength of the PSB system in the UK and preserve the consequent benefits enjoyed by the viewer.
- * Offer ITV contractors the safeguard of regular income at a time when their revenue base is coming under attack from new and developing channels. Hence there would be two major sources of revenue to maintain the highest programme standards.
- * Give Channel Four the guaranteed funding it requires in order to provide viewers with high-quality service.
- * Enable Channel Four to present a clearer and stronger case to advertisers and media buyers regarding its merits as an advertising medium in each ITV region.
- * Offer advertisers the opportunity of a larger share of the total viewing audience, which would result from closer complementary scheduling of ITV and C4 programmes.
- * Offer advertisers a competitive airtime sales system at the earliest practical date. At the most basic level it would remove the monopoly in each ITV region.
- * Allow the continued selling and placing of commercials according to the current regional system.
- * Allow television advertisers to negotiate national campaigns through one contact point instead of having to deal with several different sales forces.
- * Produce reduced overheads or improved service to advertisers, or a combination of the two, because ITV sales departments would no longer have to sell C4 airtime.

Underlying these proposals it is our belief that now Channel Four is established, it should be allowed to follow the classic marketing strategy of a second brand. Separating the airtime sales for Channel Four will give it a sharper, clearer focus from one sales house rather than the inconsistent and commodity oriented result to date.

This may lead to higher margins which could in turn lead to raised apparent costs for the advertiser. However, there is an analogy that can be drawn from the press. The advertiser pays a higher cost per consumer contact for the Sunday Times than the News of the World. The two publications appeal to complementary groups and that is how we see ITV and C4 developing. There is a critical difference between the commodity price of airtime per thousand heads and the value of reaching specified viewing groups such as businessmen, AB adults and young adults all of whom are light viewers of ITV 1. Complimentary programming and the fact that sales revenue would still be returned to ITV would ensure that it is in the ITV1 and C4 interest to optimise the share of the two brands in audience terms.

Our proposal is not revolutionary. There is another well-established entity whose existence derives from television and which has ITV directors on its board, but which sells its advertising separately - the TV Times.

This is the first of a series of papers on the future of commercial television to be produced by the AMI. Further topics to be covered include Channel 5 and the BSB/Astra satellite TV expansion. We believe that these proposals for Channel Four are a pointer to the future selling of commercial airtime in the UK.

This paper was produced for the Association of Media Independents by its Future of the UK Commercial Television Group. The group comprises the following members:

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