

Doyle, G. (2015) Resistance of channels: television distribution in the multiplatform era. *Telematics and Informatics*, 33(2), pp. 693-702.

There may be differences between this version and the published version. You are advised to consult the publisher's version if you wish to cite from it.

<http://eprints.gla.ac.uk/107992/>

Deposited on: 08 January 2016

Author Final Version of Article for special issue in *Telematics and Informatics* on Television Distribution: Economic dimensions, emerging policies.

Resistance of Channels: Television distribution in the multiplatform era

Gillian Doyle

Author's contact details:

Professor Gillian Doyle

Director, Centre for Cultural Policy Research

Director of MSc in Media Management

University of Glasgow

13 Professor Square

Glasgow

G12 8QQ

Telephone: 0141 330 3806; Fax: 0141 330 4142;

Email: Gillian.Doyle@Glasgow.ac.uk

Resistance of Channels: Television distribution in the multiplatform era

Abstract

This article focuses on distribution of television and, using BBC Three as a case study, provides an in-depth examination of how broadcasters' strategies for packaging and distributing content are being re-considered in response to newly emerging patterns of audience behaviour and demand. It considers the extent to which the role of the broadcast channel – traditionally the main vector via which audiences have enjoyed television content - may now be threatened by the rise of online rivals and accompanying pressures to adjust to a digital multiplatform environment. Drawing on the experience of BBC Three, the research question it asks is: to what extent is there an economic justification for switching from 'the channel' as the distribution format to an online-only service? The original findings presented are based on analysis of the finances of BBC Three, on evidence gathered through a series of in-depth interviews carried out with senior executives at the BBC, and on analysis of secondary source data and public policy statements and performance reviews. They provide an empirically based contribution to knowledge about how growth of the internet is prompting public service suppliers of media to reconsider and adjust their strategies for distribution of television content and, more generally, to understanding of contemporary strategies for re-invention and survival in the television industry.

Keywords: Television distribution; broadcast channels; public service media; multiplatform; digital delivery

Resistance of channels: Television distribution in the multiplatform era

1. Introduction

In the television industry, channels have long been the established and main avenue via which audiences consume television content. However, the advent of digital distribution platforms has significantly affected consumption habits with an ever-growing proportion of time devoted to non-linear viewing, especially amongst the young. Many broadcasters have responded by developing their online presence and placing ever-greater emphasis on digital platforms as the key touch points where audiences can engage with content. Such changes have prompted questions about the longevity of ‘the channel’: Netflix CEO Reed Hastings recently declared that broadcast television is like a horse and ‘the horse was good until we had the car’ (Hastings, 2014). Are broadcast channels becoming a thing of the past?

In 2014, the BBC for the first time in its 92-year history announced the closure of a television channel. Senior management put forward proposals to stop distributing the corporation’s youth-oriented service, BBC Three, as a broadcast channel on terrestrial, cable and satellite platforms and instead to reinvent it as an online and iPlayer service from Autumn 2015 onwards. In suggesting that BBC Three will cease as a channel and go online only after 2015, BBC Director of Television Danny Cohen hailed this move as ‘transformational for both the BBC’s relationship with young audiences and the BBC’s approach to the digital age overall’ (BBC, 2014d). To what extent does this landmark proposal support Hastings’ suggestion (cited in Atkinson, 2014) that channels are destined to disappear by 2030?

This article considers the shifts in technology and consumption behaviour which have encouraged television companies to migrate towards multiplatform strategies for distribution of content. It focuses on the BBC and its decision, taken against a background of wider competitive and financial pressures, to adopt a radically altered strategy for distribution of its flagship television service for younger audiences. Drawing on original research findings gleaned from interviews with senior BBC executives, examination of documents and analysis of BBC financial statements, the central question this article asks is: to what extent does discontinuation of distribution via linear broadcasting make economic sense for an established channel such as BBC Three?

Earlier research has considered the ways that digital convergence and growth of the internet are affecting distribution strategies in the media industry (Küng, Picard and Towse, 2008). A drift towards online consumption of content has encouraged many newspaper and magazine publishers to become increasingly reliant on online subscriptions and some, including for example newly launched international editions of *Cosmopolitan*, to switch to ‘online-only’ models of distribution (Bond, 2015), a trend reflected in earlier scholarly research on print publishing which investigates shifts from traditional to online only models (Westlund and Färdigh, 2011). However few earlier studies have broached this sort of strategic transition in the context of the television industry.

Even so, changes in the television industry have been the focus for an abundant body of literature, from early seminal work on the effects of convergence by Negroponte (1995) and Jenkins (2006) to more recent studies of how digitization and internet-delivered television are transforming production and consumption of television (Alvarez-Monzoncillo, 2013; Dwyer, 2010; Turner and Tay, 2009). Some earlier work has focused specifically on how the rising popularity of the internet is affecting distribution strategies (Curtin, Holt and Sanson, 2014; Evens, 2012). A number of authors have highlighted how increasing use of digital distribution platforms is fundamentally changing the relationship between suppliers of television content and audiences (Duncan, 2006; Ulin, 2014).

Many television companies have responded to digitization by moving to become, rather than broadcasters, multiplatform entities fit for and focused on making and assembling content for distribution across the multiplicity of digital platforms available (Doyle, 2010; 2015). Several authors have examined how multiplatform approaches are changing delivery and consumption of audiovisual material (Guerrero, Diego and Pardo 2013; Roscoe, 2004; Ytreberg, 2009). Some have centred specifically on how public service broadcasting organisations such as the BBC have adjusted to become suppliers of public service content across multiple platforms (Bardoel and Lowe, 2007; Bennett, Strange, Kerr and Medrado, 2012; Enli 2008; Sørensen, 2014).

As distribution of television has migrated onto web-connected platforms, growing competition from on-demand sites (such as Netflix and YouTube) and a progressive empowerment of viewers to assert their own choices has raised questions about the ongoing role and relevance of ‘the channel’ as a format for content delivery. Channels, where content is packaged into a linear transmission schedule, have traditionally played a key role in bundling and packaging television content for audiences and in enabling broadcasters to engage in strategies of segmentation, marketing and positioning of their wares (Barwise, 2004: 24).

Although the television industry is still dominated by conventional broadcast channels, the online television industry is growing rapidly with new entrants deploying a range of business models (Waterman, Sherman and Ji, 2012). As Sørensen's research suggests, UK public service content suppliers are responding to the rise of on-demand sites by increasingly using the term 'curation' to describe their approach to content delivery across multiple platforms (2014: 35). Sørensen argues that, as viewers are faced with an ever-growing 'morass' of audiovisual content offerings, channels now 'function like curators of specific types of high-quality programmes' (2014: 35).

Using BBC Three as a case study, this paper provides an in-depth examination of how strategies for packaging and distributing content deployed by television companies are being re-considered in response to newly emerging patterns of audience behavior and demand. It considers the extent to which the role of the broadcast channel – traditionally the main vector via which audiences have enjoyed television content - may now be threatened by the rise of online rivals and accompanying pressures to adjust to a digital multiplatform environment. Drawing on the experience of BBC Three, the research question it asks is: to what extent does switching from 'the channel' as the distribution format to an online-only service make economic sense for established television broadcasters? To what extent is it likely to facilitate more economical or more cost-efficient provision of the service in question? BBC Three provides a suitable and timely case study to examine this issue because this is the Corporation's flagship television service for younger audiences and BBC Management recently announced controversial changes in how the service will be distributed in future involving closure of the linear channel.

The findings presented in this article are based on original research involving analysis of the BBC's emerging strategy for digital multiplatform distribution of its television services. Evidence was gathered through a series of in-depth semi-structured interviews carried out with senior strategists and executives at the BBC from October 2013 to March 2014. Interviewees included the Channel Controller for BBC Three and the Head of Scheduling and Planning for BBC Three who were able to provide extensive insights into both strategic and operational aspects of the case study. This paper also presents and analyses evidence concerning the costs and finances of the BBC's television services drawing primarily on data from the BBC's annual Report & Accounts and on BBC statements and reports. Additional secondary source material used in the analysis includes public policy statements and performance reviews produced by the Department of Culture, Media and Sport (DCMS) and the BBC Trust which oversees the BBC and audience data from BARB and from UK communications regulator Ofcom. Findings form part of a wider research project¹ funded by the UK Economic & Social Research Council which investigates how growth in digital

and multiplatform delivery has affected media content and the economics of supplying media. They provide an empirically based contribution to knowledge of how growth of the internet is prompting public service suppliers of media to reconsider and adjust their strategies for distribution of television content and, more generally, to understanding of contemporary strategies for re-invention and survival in the television industry.

2. Changes in consumption

One of the most significant changes that media content suppliers have struggled to adjust to since the 1990s has been growth in the numbers of individuals and households who are ‘web connected’ via fixed broadband and/or mobile infrastructures and devices. For example in the UK, data assembled by UK communications regulator Ofcom confirms that 82% of UK households had internet access in 2014 up from 65% in 2008 (Ofcom, 2014: 276). However, notwithstanding a drift in consumption towards the internet, audiences for audiovisual material have generally increased in recent years and watching linear scheduled television, as an activity, has been on the rise in many countries including the US and the UK. An increase in the time that consumers spend watching television owes much to the phenomenon of multi-tasking or ‘media stacking’ whereby watching television is carried out in conjunction with some other media and communication activity on a second screen such as texting (Ofcom, 2013: 33).

Audience data provided by Ofcom shows that watching live television on linear scheduled channels is and remains by far the media activity that UK adults spend most time on (Ofcom, 2014: 60). Generally, some 90% of viewing is accounted for by channels either in the form of live TV (69%) or recorded versions of earlier live television (16%) or online catch up (5%) – see Figure 1 below. The remaining 10% of viewing which is not accounted for by scheduled television channels is made up by viewers watching DVDs or Blu-rays (5%) or other streamed services that convey long form television such as Netflix (3%) or short videos such as YouTube (2%). In other words, consumption habits are completely dominated by television channels and the media activity most UK adults say they would miss most is watching live television (Ofcom, 2014: 62).

Figure 1 – Television viewing habits by age group

However behaviours and preferences vary by age group (ibid: 106). As Figure 1 shows, when time spent watching audiovisual material by day is analysed according to differing age groups, what emerges is that younger audiences – the 16-24 year old category in particular -

are much more inclined than their elders to watch on-demand content. Of course, it is too early to say whether the variance in behaviour described in Figure 1 which has become increasingly manifest over the last few years represents a permanent shift or whether, as current teenagers mature and become more sedentary, they will become as keen as their forbears on watching linear television. But the fact that, overall, online-distributed services such as Netflix and YouTube account for only around 5% of television viewing confirms that channels continue to enjoy a position of predominance and immense popularity.

Even so, broadcasters have little ground for complacency. In the US, the phenomenon of ‘cord cutting’ – i.e. discontinuing monthly subscriptions to cable television services in favour of low-cost internet alternatives – is widely evident (Crow, 2014). In the UK and across Europe, the pace at which paying viewers are migrating towards the internet is less pronounced but growing interest in services such as Netflix and Amazon Prime Instant Video is reflected in the fact that, in the UK, online television revenue increased rapidly ‘from £50m in 2008 to £364m in 2013’ (HIS data cited in Ofcom, 2014: 130). Not surprisingly then, television broadcasters are under pressure to think about how to adjust their offerings accordingly.

3. Transition to Multiplatform Distribution

A tendency to move beyond linear broadcasting in favour of a digital multiplatform approach to content delivery is widely evident internationally and across both the private and the public sector alike (Enli, 2008; Doyle, 2010; García-Avilés, 2012). This is driven by a steep rise in the number and popularity of online distributors of television content which has changed how broadcasters perceive the competitive environment and encouraged a new more online-facing approach both to production and distribution (Crow, 2014). As BBC Director of Television Danny Cohen (BBC, 2014d) explains:

I don’t see BBC television’s competitors now as simply ITV, Channel Five and Channel 4 and Sky... The BBC’s competitor set is all of that *plus* Facebook and YouTube and Twitter and Vice ... [it] has grown massively and if we are going to survive ...we need a broader range of content that includes more linear but also more digital.

The strategies of multiplatform expansion which many broadcasters, including the BBC, have embarked on are partly a response to competitive threat but also they are driven by hopes of exploiting two sources of economic opportunity (Doyle, 2010). First, strategies of re-versioning of content into new outputs and of re-use of it across new platforms enables greater value to be extracted from content. As confirmed by the BBC’s Controller of Research & Development, Matthew Postgate,² on account of changing to multiplatform

distribution, broadcasters such as the BBC are able to generate more hours of output from their intellectual property assets (Interview, Postgate, London: December 2013).

A second area where digitization and multiplatform distribution provide opportunity for innovation and improved efficiency relates to the unprecedented ways that new technology allows media suppliers to get to know their audiences and to match up content more closely to their needs and desires. On digital platforms, the return path yields abundant data about television audiences (Napoli, 2012) thereby enabling suppliers to trace, analyse, monitor and cater to shifting and specific tastes and interests more effectively. In addition, because of the more pro-active or 'lean forward' nature of digital media consumption, distributing television on digital platforms allows the potential for suppliers to build a much more intensive relationship with audiences which can be a source of both creative and commercial opportunities. For BBC Television's Finance Director Kevin O' Gara, this improved means of understanding and connecting with audiences which, in turn provides a more informed basis for prioritization of investment, is one of the chief benefits of distributing on digital platforms which involve two-way connectivity (Interview, O'Gara, London: March 2014).

A commitment to multiplatform delivery has been a substantial aspect of the BBC's response to digitization over the last decade (Bennett and Strange, 2014). This approach has permeated all aspects of strategy, including commissioning of television content. The Head of Corporate Affairs at BBC Scotland summarises the approach thus: 'Normally we would have said "let's commission a TV series" whereas now with 360° [multiplatform] we are much more likely to say "let's commission an idea"' (Small, Interview, Glasgow: 2009). In recent years, the BBC has retreated somewhat from the term 'multiplatform' (Bennett, 2012) and from an initial impetus to provide webpages or other online materials for almost every television programme which, as BBC Television's Finance Director concedes, was not always well used and cost-effective (Interview, O'Gara, London: March 2014). Instead, the BBC's current approach to distributing across digital platforms places primary emphasis on its online on-demand service for television and radio, the iPlayer.

Victoria Jaye, Head of Television Content on the BBC iPlayer describes iPlayer as the BBC's 'principal vehicle' for distribution of the organisation's television content portfolio on the internet and 'so far has been the vehicle through which we are punching through' in a much more crowded and competitive environment for content supply (Jaye, Interview, London: December 2013) For Jaye, the success and popularity of the iPlayer 'has ensured that the BBC's relevance, reputation and reach is still absolutely front and centre of the audience experience in a [web-]connected world' (ibid). At present, this on-demand service is mainly used by audiences to catch up on programmes missed on linear television but it is hoped that this will change. Eventually, instead of providing a 'complementary' service

where audiences can catch up, the iPlayer will become ‘the primary way people come to the BBC’. For Jaye, the broad strategic aim is:

To transform iPlayer from this sort of catch-up utility, if you like, into a primary televisual entertainment environment which, for many audiences, will become their key way into the BBC in the future. The journey we are on is from long form catch-up to primary entertainment destination across the full range of our content, not just long form television. That’s where we are going.

(Jaye, Interview, London: December 2013)

The case in favour of building greater prominence for an online on-demand service is highly compelling, bearing in mind both the changes in audience behaviour discussed in section 2 and the promising opportunities that a more globalised environment for television distribution hold out for such a powerful television brand owner as the BBC. The case in favour of greater investment in online vehicles for distribution of content is strong. However, it does not follow that such investment should be funded by discontinuing the services which audiences currently derive greatest value from: linear channels. Seeking to migrate audiences to online platforms, particularly at a stage where it is premature to do so, poses challenges and potentially costly implications for welfare.

Managers at the BBC interviewed for this study concede that the convention of parceling television content into linear channels provides broadcasters with a set of scheduling tools (such as hammocking, tent-poling etc) that, when deployed effectively, can promote wider consumption of a range and diversity of content outputs. This is useful not only in terms of achieving commercial objectives but also public service goals. As others have noted, personalized consumption can cut across the ability of PSBs to deliver on commitments to pluralism and diversity (Kant, 2014). In an on-demand environment where content is unbundled and choice is personalized, fewer methods are at hand to manage, optimize and direct flows of audiences and replicating this key advantage enjoyed by channels remains a considerable challenge, as Jaye suggests:

[the iPlayer] wasn’t designed to be a first step entry point into the BBC’s entire televisual offer. It was designed to be a kind of distribution mechanism. And it’s becoming more than that... [W]e want to be able to deliver to our audience [on iPlayer] the full service of the BBC, not just the big hitters... to still create the possibility of serendipitous discovery... The service we deliver will always want to surprise which is what broadcast [channels do] brilliantly through the strategic role of a schedule. We want to do something similar in on-demand with an approach that is authentic to the platform

(Jaye, Interview, London: December 2013)

Jaye's words point to one of the dangers posed by transition from a 'push' to a 'pull' environment for distribution of television content. Dispersion of demand for downloads on the iPlayer is heavily skewed towards hit shows such as *Dr Who* and *Eastenders* (Duggan, 2014: 11). Indeed the experience of the television industry thus far does little to support Anderson's claim that the rise of online distribution disproportionately benefits niche as opposed to mainstream products (Anderson, 2006). Rather, one potentially challenging corollary of an online on-demand environment is a tendency towards 'cherry picking' of hit programmes both by audiences and by distribution intermediaries (e.g. Netflix) at the possible expense of 'the brave and the new' or 'hidden gems' (Jaye, Interview, London: December 2013). According to the BBC's Controller of Research & Development, when it comes to finding new mechanisms that promote discovery in a multiplatform distribution environment:

we don't have answers yet... But somewhere in there is this new role for a broadcaster which balances taste-making, editorialisation and managing serendipity with this much more active audience base that can do it for themselves.

(Postgate, Interview, London: December 2013)

4. Proposed closure of channel BBC Three

In March 2014, the BBC announced plans, subject to approval of the BBC Trust, to shut down BBC Three, the corporation's flagship youth-oriented television service, as a broadcast channel and make it an online-only service from Autumn 2015 (BBC, 2014a; 2014b). This move takes place against the background of a government-imposed obligation for the Corporation to achieve sizeable annual cost savings up until 2017 but, according to BBC Director General Tony Hall, it is also 'strategically right' to re-invent BBC Three, with its young audience profile, as an online only service (cited in Plunkett and Sweeney, 2014). For Hall (BBC, 2014c: 48):

[T]he iPlayer is a key part of our future and with our proposal to the BBC Trust to move BBC Three fully online we aim to keep the best from the linear world but also bring new formats, different durations, and more individualised content to an audience most ready for an online world.

Director of Television Danny Cohen concurs with Hall that, in view of the 'financial necessity' of achieving savings, the best approach is, rather than 'salami-slicing' budgets for all of its existing programme services, to take a 'bold decision' to radically change the distribution strategy for BBC Three (BBC, 2014c: 55). The iPlayer is central to this (BBC,

2014a) but, by way of promoting universality of access to BBC Three content after the switch to online, some long form programmes may be shown on other BBC channels and, subject to negotiating commercial agreements, the BBC hopes that suitably tailored content may also be accessible on relevant third party distribution platforms including Sky, BT, Virgin and YouView (BBC, 2015: 5).

In elaborating the strategic case for switching BBC Three rather than any other channel to an online-only service, Project Lead Damian Kavanagh argues that ‘people who watch BBC Three are more likely to be online and want new content and new forms of content’ (Kavanagh, 2014). The proposal to axe the channel and re-invent BBC Three as an online service makes strategic sense because ‘what millennials and Generation Z want and expect from the BBC has changed’ (ibid). The fact that its youth channel is at the vanguard of the BBC’s efforts to keep abreast of changing audience habits is perhaps not surprisingly. As former Channel Controller of BBC Three Zai Bennett³ notes:

BBC Three is a 16-34 targeted offering...The editorial mission is to never be afraid to try new things. It is about innovation and Britishness. We are also charged with being a pathfinder for other television services in a multiplatform world. Ours is naturally an audience who are far more tech savvy and willing to experiment...

(Bennett, Interview, London: January 2014)

BBC Three has forged a strong reputation for youth oriented programmes and especially comedies such as *Little Britain* and *Gavin & Stacy*. It is also associated with piloting material online and cultivated new short form content suited to distribution on the iPlayer and other web-based platforms and on mobile devices and tablets, through initiatives such as *Comedy Feeds* and *Fresh Online*. For BBC Three Head of Scheduling and Planning Jamie Morris:

That [young] audience isn’t in one place. They are in multiple places...They are happy to watch on television, on a tablet, on a mobile phone, happy to go online... happy to embrace all forms. So as a brand aimed at 16-34s, we have to act in a similar way.

(Morris, Interview, London: March 2014)

BBC Three has been active in engaging audiences via Facebook, Twitter, Instagram, Tumblr and other social media which Bennett regard as primarily marketing tools and also research tools that facilitate piloting and testing out of new content (Interview, London: January 2014). Bennett’s view is that although the television channel is and remains very much the main avenue for reaching even younger audiences, effective use of alternative formats and of additional digital distribution platforms has grown in importance and is:

about creating an active community of people who enjoy your brand and engage with it.. And it's a great place to experiment... Also, we have to go where our audience are.

(Bennett, Interview, London: January 2014)

Figure 2 – Weekly reach for BBC Television by age group

Figure 2 above provides an analysis of the reach achieved by the BBC as a whole amongst different age groups and it reveals that, whereas the appeal of BBC television for those aged 55 and above is high and has remained stable over time, attracting younger viewers has proven increasingly difficult for the BBC. Not only is BBC Three markedly more successful than other BBC television channels in targeting young audiences but also, whereas BBC One and BBC Two are seen by some as under-representing black, Asian and minority ethnic audiences, BBC Three is regarded by viewers as ‘the BBC channel that best represents and serves a wide range of groups in contemporary society, in terms of ethnicity, religion and sexuality across a range of its programmes’, according to a recent review of BBC television (BBC Trust, 2014: 30). To what extent is the proposed overhaul of BBC Three’s distribution strategy likely to leave these relatively under-served segments of the audience better off?

Although Director General Tony Hall has argued that BBC Three’s audiences are ‘more ready’ to go online (Plunkett and Sweeney, 2014), analysis of viewing for BBC Three confirms that, for the most part, viewers of BBC content actually rely primarily on the broadcast channel rather than alternative modes of distribution. Figure 3 below which shows the composition of audiences for different BBC channels demonstrates how, for BBC Three as for the BBC’s other television channels, there is still a heavy reliance on linear television viewing.

Figure 3 – Composition of viewing for different BBC Television channels, Q1 2014

This was confirmed by Jamie Morris who says ‘we have got to be where the viewers are’ but even so ‘a lot of viewers are still watching in linear so we must, at the BBC, certainly never forget that’ (Morris, Interview, London: March 2014). Channel Controller Zai Bennett, interviewed two months ahead of the announcement by senior management of proposed

changes in how BBC Three will be distributed in future, summarised the relative weight and value of the channel as a distribution mechanism as follows:

Don't exaggerate the death or the speed of the death of television. Ninety percent of our consumption, for a fairly front-foot television/media brand, is still via our linear television channel. Yes, we get loads of iPlayer consumption - loads. But it's dwarfed by the consumption via the linear channel.

(Bennett, Interview, London: January 2014)

The audience data in Figure 3 and the perspectives offered by senior managers responsible for running BBC Three in recent years call into question to what extent closing the channel and transferring to an online only service is liable to result in an improved experience for audience. Even though, as Figure 1 above suggests, trends in the consumption behavior of the young involve a marked drift towards the internet, audience data for the BBC's main television services demonstrates the ongoing predominance of 'the channel' as the main conduit for television viewing, both across its portfolio as a whole and amongst younger audiences. It is possible that this will change in future but at present, discontinuation of the channel poses 'a real risk that viewing of BBC3 as an online service will be significantly down on current levels' (Hewlett, 2014). Even for a youth focused service, axing an established channel in favour of an 'online only' distribution strategy simply does not accord with the aim of maximizing audience reach, engagement and consumption levels.

5. Economics of supplying content

If, based on audience welfare, the case in favour of suggested changes in distribution strategy for BBC Three is somewhat unconvincing, can the proposals nonetheless be justified on economic grounds? As noted above, the BBC is obliged, on account of government-imposed real term reductions in its licence fee income, to find significant costs savings annually up to 2017 (ibid). To what extent will discontinuation of distribution via linear broadcasting of an established channel such as BBC Three help the BBC to achieve necessary cost savings?

The closure of the BBC Three channel is expected to yield total cost reductions of some £50m annually (BBC 2014d). However, it is important to note that, of these savings, few if any arise specifically from discontinuing distribution of BBC Three as a channel. Marginal expenditure on transmissions have never been a significant cost item for BBC Three relative to the service's content costs. By way of illustration, in 2013/14, distribution costs for BBC Three including the channel and all other platforms were £5.8m, compared with content costs of £81m (BBC, 2014c: 122). It is worth noting that distribution of television content via the internet is by no means free of expense – the per-viewer marginal distribution costs

associated with online streaming are generally much higher than for conventional broadcast transmissions. In addition, the proposal to discontinue the BBC Three linear service involves at the same time reallocating the channel to a new BBC1+1 offering (i.e. a new channel that repeats transmission of the BBC1 schedule one hour later than the standard time) (BBC, 2014f). So discontinuing *distribution* of BBC Three as a linear channel will not, in and of itself, produce any cost savings for the BBC. However, by cutting back BBC Three's *content* budget from some £80m to £30m per annum, it is expected that the organization will make annual cost savings of £50m.

Claims that switching BBC Three from a channel to an online only service provides 'a wonderful creative opportunity to develop new formats with new programme lengths and to reach young audiences in an ever-growing number of ways' (Cohen cited in BBC, 2014c: 57) are, to some extent, in danger of obscuring the point that the savings expected to result from changing BBC Three's distribution strategy stem purely from cutting back on investment in content. Not only will the core budget for BBC Three content be reduced but also, in its new incarnation as an online-only service, some 80 percent of BBC Three's reduced budget will still be spent on conventional long form programmes while only a relatively modest 20 percent (i.e. £6m) will be available for investment in more innovative non-traditional short form content such as micro videos (BBC, 2014e). Some critics have argued that a strategy of diverting content investment to the BBC's mainstream services at the expense of a service that currently successfully reaches out to more ethnically diverse and youth audiences is out of step with the BBC's obligations to serve minority segments of the audience (Hewlett, 2014). In addition, it is questionable to what extent a strategy of reduced investment in BBC Three content is consistent with the BBC's world-beating ambitions to extend the creative frontiers of the television industry and to future-proof the appeal of the service for young audiences. Former channel controller for BBC Three Zai Bennett (cited in Holmes, 2014) argues that '[g]oing online is a strategic smokescreen, because all of its content already is online. It's just a big cut, that's all it is.'

Setting aside the question of how much money a switch to 'online only' for BBC Three might save the BBC, another way of assessing whether or not discontinuation of distribution of BBC Three as a linear channel makes economic sense is to weigh up how cost-effective this channel is compared with other BBC television channels. This may be analysed by looking at the per-viewer programming costs of each of the BBC's main channels over time.

A report commissioned in 2004 by the then UK Secretary of State for Culture, Media and Sport, Tessa Jowell, was critical of BBC Three which, with costs per viewer hour in 2003-04 that averaged some 35p (pence) compared with 11p and 14p for BBC1 and BBC2

respectively, was seen as lagging behind in terms of value for money (Barwise, 2004: 56). It recommended that, as a corrective, BBC Three ought to stop targeting a narrow audience group and instead become more mainstream (ibid: 5), a suggestion that the BBC subsequently rebuffed on the basis that serving diverse segments of the audience is part of its remit. However things have changed considerable since the early days of BBC Three and, as evidenced by Figure 4 below, the channel has become progressively much more cost-efficient.

Figure 4: BBC Analysis of Expenditure and Per User Costs, 2007-2013

Helped along both by tighter budget management and by increased audience levels for the channel, the per-viewer costs of BBC Three have decreased over time and, at 6.6p in 2012/13, were broadly in line with those of the significantly larger BBC One channel where costs were 6.2p per viewer hour. BBC Three's success in increasing its audience on reduced budgets is largely accounted for by the 'old fashioned' management methods of choosing the right programmes and 'boxing clever' with scheduling, according to its Channel Controller (Bennett, Interview, London: January 2014). As Figure 4 shows, on a like for like basis, BBC Three is more cost-effective than BBC Two or BBC Four.

Therefore, purely on grounds of value for money, there is little obvious justification for altering the way BBC Three is distributed nor for targeting cost savings at this particular service. More generally, since the per viewer costs of BBC Three are now largely the same as those of BBC One, it is difficult to see how closing this channel and/or transferring investment in youth-oriented content from BBC Three to BBC One would result in an improved use of resources. The conclusion which this analysis points to is that proposals to reduce content investment in a BBC Three service that already, on a per-user basis, is as cost-efficient as the mass audience BBC One service make little economic sense.

6. Conclusions

As the findings presented above show, for any established television service such as BBC Three, although changes in how that service is packaged and delivered will naturally have a bearing on costs, discontinuation of distribution via a linear broadcasting channel, *ceteris paribus*, will yield only relatively modest cost savings on distribution. Such a strategy might be attractive on financial grounds because altering the nature of the service to 'online only' may also justify a reduction in investment in content. But if, as is inevitable where cutting

the linear channel involves loss of most of the audience for that service, the net effect is that, despite a reduced content budget, the cost of the service on a per viewer/unit of consumption basis increases upon switching to an online only-model of distribution, then this strategy will result in false economies.

The broader point – one which is of significance not just to the BBC but will have resonance for suppliers of television content around the globe – is that, notwithstanding changing consumption habits and the myriad opportunities and competitive threats occasioned by the internet and digital delivery, the linear channel remains the key and crucial touch point for delivery of television content to mass audiences and, this article would argue, will remain so well into the future. As suggested by the audience data and interview evidence considered above, the supremacy of channels as a vehicle for distribution of television content stems from their unrivalled ability, through bundling and branding, to make choices easier for viewers in an environment of ever greater abundance and choice.

Whether or not the BBC Trust, which oversees the Corporation's activities and which is conducting a public consultation about BBC Three in Spring 2015, will in due course approve BBC Management's proposal to stop the channel and move to online-only remains to be seen (Hewlett, 2014). Senior managers at the BBC are clearly well aware that, despite changes in the consumption behaviour of audiences, channels will remain important for the foreseeable future. As Danny Cohen concedes 'we are going to be living in a hybrid world for a significant amount of time' with audiences, including the young, watching plenty of linear television while also engaging with alternative online formats and services (BBC, 2014d). Therefore, as Cohen puts it, the BBC wants to be 'great in both' – great in both conventional broadcast delivery and in alternative online formats (ibid). But the impetus to straddle both objectives has resulted in a strategy which, according to BBC Television's Finance Director:

can appear slightly schizophrenic ... on the one hand, we need to innovate online and, on the other, reassert the primacy of our linear channels.

(O' Gara, Interview, London: January 2014)

The case of proposed changes at BBC Three provides valuable insights into the dilemmas facing broadcasters in analyzing how best to adjust their strategies for packaging and distributing content in response to newly emerging patterns of digital consumption. Catering to the bifurcated demands of 'a hybrid world' is as much a challenge for commercial as for public service television operators and, albeit that distribution of youth-oriented content is at the vanguard, presents challenges both for generalist and niche content suppliers.

Earlier research has argued that while digitisation, in allowing television to be re-shaped and re-imagined, poses a threat traditional modes of delivery, broadcasters still reign supreme (Meikle and Young, 2008). Despite the pace at which technologies for distribution of television are changing, this remains true. Based on the evidence considered in this article, it would appear that, in the current transitional stage, rather than discontinuing linear channels – a move which risks running too far ahead of emergent changes in audience behaviour - a more appropriate strategy would be to focus investment on developing new and imaginative forms and formats that work alongside conventional channels as part of a coherent and integrated digital multiplatform distribution strategy. Channels still retain significant power, a point highlighted by Sørensen who has argued they retain a competitive edge over and above internet-based television content services thanks to their ability ‘to curate and brand and commission as much as to distribute and circulate’ (Cosgrove, cited in Sørensen, 2014). So rather than jettisoning the channel, a conduit whose power to deliver mass reach and to promote public service aims remains unrivaled (Kant, 2014), broadcasters need to adhere to the challenge of re-inventing each of their content services as a ‘multiplatform brand proposition’ that makes cost-effective use of the full range of digital distribution forms and formats available. Within this, channels are certain to play a key role, as this sentiment from Matthew Postgate suggests:

Channels are great. I have always felt channels will be a big part of the future. I think we have to redefine to a degree what we mean by ‘channels’, so moving to this concept of a multiplatform brand proposition. But as an organizing principle – as an actively curated long-standing collection of information goods, [channels] are very effective. It's what you are crying out for in a world where ... the problem is information abundance.

(Postgate, Interview, London: December 2013).

Acknowledgments:

With grateful thanks to all interviewees who participated in this research. This article draws on a three-year research project entitled 'Multiplatform media and the digital challenge: Strategy, Distribution and Policy' funded by the Economic & Social Research Council (ES/J011606/1).

References:

Alvarez-Monzoncillo, J (2011) *Watching the Internet: The Future of TV?* Formalpress, 2011,

Atkinson, C (2014), 'Netflix CEO: Broadcast TV will only last another 16 years', *New York Post*, Business section, December 10 2014, Last accessed on January 8 2015 at <http://nypost.com/2014/12/10/netflix-ceo-broadcast-tv-will-only-last-another-16-years/>

Bardoel, J and Lowe, G (2007), 'From public service broadcasting to public service media, the core challenge' in Lowe, G and Bardoel, J (Eds), *From public service broadcasting to public service media*, Göteborg: Nordicom, pp. 9-28.

Barwise, P (2004), *Independent Review of the BBC's Digital Television Services*, London: DCMS.

BBC (2014a), 'BBC Three: From digital first to online first' *BBC Press Release*, 5 March 2014. Last accessed on March 23 2015 at: <http://www.bbc.co.uk/news/entertainment-arts-26452235>

BBC (2014b), 'BBC announces plans to close BBC Three as a TV Channel in 2015', *BBC Press Release*, 18 March 2014. Last accessed on January 8 2015 at: <http://www.bbc.co.uk/mediacentre/latestnews/2014/bbc-three-tv-closure.html>

BBC (2014c), *BBC Annual Report and Accounts 2013/14*, London: BBC.

BBC (2014d), 'BBC Plans for the future of BBC3', *Media Show*, broadcast on 10 December 2014, London: BBC Radio 4.

BBC (2014e), 'BBC Three proposal announced' *BBC Press Release*, 10 December 2014. Last accessed on January 8 2015 at: <http://www.bbc.co.uk/mediacentre/latestnews/2014/bbc-three-proposal>

BBC (2014f), 'BBC Three proposals are unveiled' *BBC Press Release*, 10 December 2014. Last accessed on March 23 2015 at: <http://www.bbc.co.uk/news/entertainment-arts-30409171>

BBC (2015), *Public Value Assessment of the re-invention of BBC Three online and related proposals*, Submission to the BBC Trust, January 2015, London: BBC.

BBC Trust (2014), *Service Review of BBC Television: BBC One, BBC Two, BBC Three & BBC Four*, July 2014, London: BBC Trust.

Bennett, J (2012), 'Is multiplatform a dirty word?' (02.05.12), *CST Online*, Blog at <http://cstonline.tv/james-bennett>

Bennett, J., Strange, N., Kerr, P and Medrado, A (2012), *Multiplatform Public Service Broadcasting: The Economic and Cultural Role of UK Digital and TV Independents*, Royal Holloway, University of London.

Bennett, J and Strange, N (2014) 'Linear legacies: Managing the multiplatform production process' in Kompare, D., Derek, J and Avi, S. (eds.) *Making Media Work: Cultures of Management in the Entertainment Industries*, New York: New York University Press: 63-89.

Bond, S (2015), 'Cosmopolitan to launch online-only editions in Europe and Africa' *FT.com*, Posted 11 January 2015. Accessed at: <http://www.ft.com/cms/s/0/e615b456-978f-11e4-be9d-00144feabdc0.html?siteedition=uk#axzz3PxDuydLn>

Crow, D (2014) US regulator plan could unlock internet TV, *FT.com*, 28 October 2014, Last accessed at: <http://www.ft.com/cms/s/0/f34b3d26-5ef5-11e4-be0b-00144feabdc0.html?siteedition=uk#axzz3PehRBGym>

Curtin, M., Holt, J. and Sanson, K (Eds) (2014), *Distribution Revolution: Conversations about the Digital Future of Film and Television*, CA: Univ of California Press.

Doyle, G (2010), From Television to MultiPlatform: More for less or less from more? *Convergence*, 16 (4): 1-19.

Doyle, G (2015 – in press), Multi-platform Media and the Miracle of the Loaves and Fishes, *Journal of media Business Studies*, 11(2).

Duncan, A (2006) 'Maximising Public Value in the "Now" Media World' in Sinclair, C (ed) (2006), *Transforming Television: Strategies for Convergence*, Glasgow: The Research Centre, pp18-29.

Duggan, C (2014), *BBC iPlayer Performance Pack*, October 2014, BBC Marketing and Audiences, London: BBC.

Dwyer, T (2010), *Media Convergence*, New York, NY: McGraw-Hill.

Enli, G (2008), 'Redefining Public Service Broadcasting: Multi-Platform Participation', *Convergence: The International Journal of Research into New Media Technologies*, 14 (1): 105–120.

Evens, T (2013), Platform Leadership in Online Broadcasting Markets, in Friedrichsen, M and Muhl-Benninghaus, W (Eds), *Handbook of Social Media Management*, Berlin Heidelberg: Springer-Verlag.

García-Avilés, J (2012) 'Roles of audience participation in multiplatform television: From fans and consumers, to collaborators and activists', *Journal of Audience & Reception Studies*, 9 (2): 429-447.

Guerrero, E., Diego, P. and Pardo, A (2013) 'Distributing Audiovisual Contents in the New Digital Scenario: Multiplatform Strategies of the Main Spanish TV Networks', in Friedrichsen, M and Mühl- Benninghaus, W (Eds), *Handbook of Social Media Management*, Berlin Heidelberg: Springer, pp 349-373

Hastings, R (2014), 'Netflix Long-Term View', CEO statement, Updated October 15, 2014, Last accessed on January 8 2015 at <http://ir.netflix.com/long-term-view.cfm>

Hewlett, S (2014), 'Closing BBC3 cuts content for young but doesn't sort efficiency issues', *theguardian.com*, Media blog: Steve Hewlett, posted 9 March 2014. Accessed at: <http://www.theguardian.com/media/media-blog/2014/mar/09/closing-bbc3-cuts-content-efficiency>

Holmes, J (2014), "'Perverse decision" to cut BBC is a "massive mistake" says former channel controller, *RadioTimes.com*, Posted at 22 August 2014, Accessed at: <http://www.radiotimes.com/news/2014-08-22/perverse-decision-to-cut-bbc3-is-a-massive-strategic-mistake-says-former-channel-controller>

Jenkins, H (2006) *Convergence Culture: Where Old and New Media Collide*, New York and London: New York University Press.

Kant, T (2014), Giving the "Viewer" a Voice? Situating the Individual in Relation to Personalization, Narrowcasting, and Public Service Broadcasting, *Journal of Broadcasting & Electronic Media*, 58:3, 381-399.

Kavanagh, D (2014), 'Blazing a trail for new BBC Three', *About the BBC Blog*, 10 December 2014. Last accessed on January 15 2015 at: <http://www.bbc.co.uk/blogs/aboutthebbc/entries/fa632091-9a8c-304e-a479-e054dc368c47>

Küng, L., Picard, R. and Towse, R (2008) *The Internet and the Mass Media*. London: SAGE.

Meikle, G and Young, G (2008), 'Beyond Broadcasting? TV for the Twenty-First Century', *Media International Australia*, 126: 67-70.

Napoli, P (2012), 'Program Value in the Evolving Television Audience Marketplace', *Time Warner Cable Research Report Series*, Washington: TWC Research Programme on Digital Communications.

Negroponte, N (1995), *Being Digital*, New York: Vintage Books.

Ofcom (2013), *Communications Market Report*, August 2013, London: Ofcom.

Ofcom (2014), *Communications Market Report*, August 2014, London: Ofcom.

Plunkett, J and Sweeney, M (2014), 'BBC closure confirmed for Autumn 2015', *Guardian*, March 6 2014

Roscoe, J (2004), 'Multi-platform Event Television: Reconceptualizing our Relationship with Television', *The Communication Review*, 7: 363-369.

Sørensen, I (2014), Channels as Content Curators - Multiplatform Strategies for Documentary Film and Factual Content in British Public Service Broadcasting, *European Journal of Communication*, 29(1): 34-49.

Turner, G and Tay, T (2009), *Television studies after TV: Understanding TV in the post-broadcast Era*, London, UK, and New York, NY: Routledge.

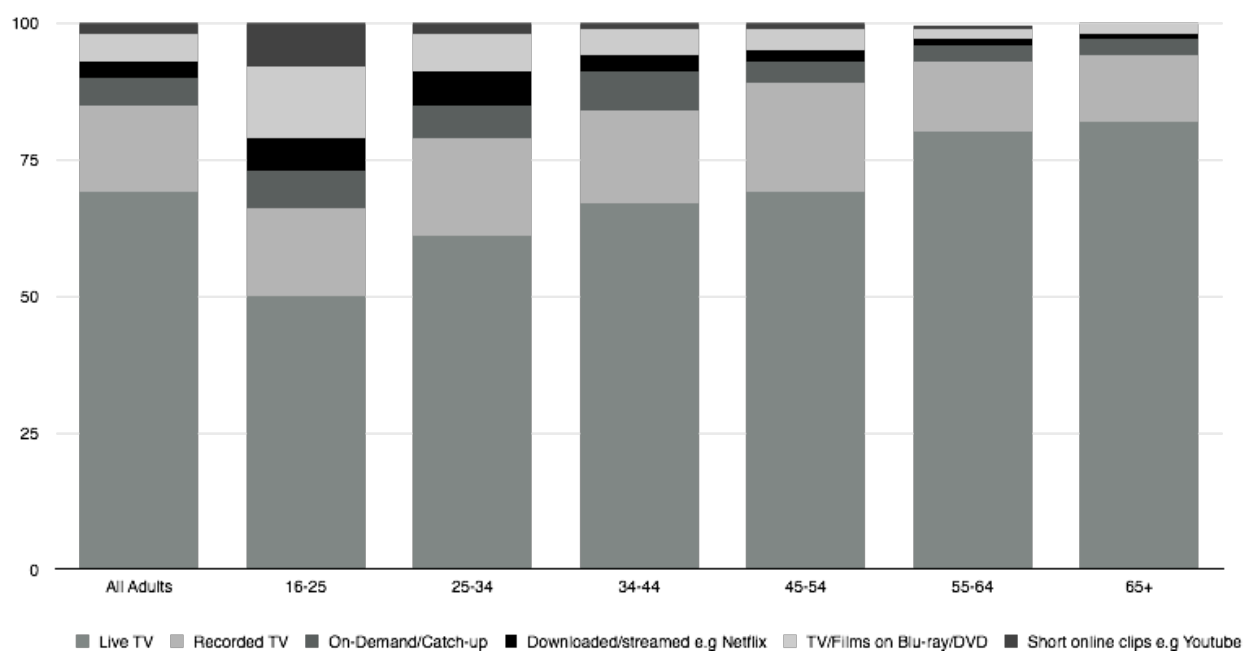
Ulin, J (2014), *The Business of Media Distribution* (2nd Ed), Burlington, MA: Focal Press.

Waterman, D., Sherman, R, and Ji, S. W. (2012), The economics of online television: Industry development, aggregation and "TV Everywhere", *Telecommunications Policy*, 37: 725-736.

Westlund, O and Färdigh, M (2011), Displacing and complementing effects of news sites on newspapers 1998-2009, *International Journal on Media Management*, 13(3), 177-194.

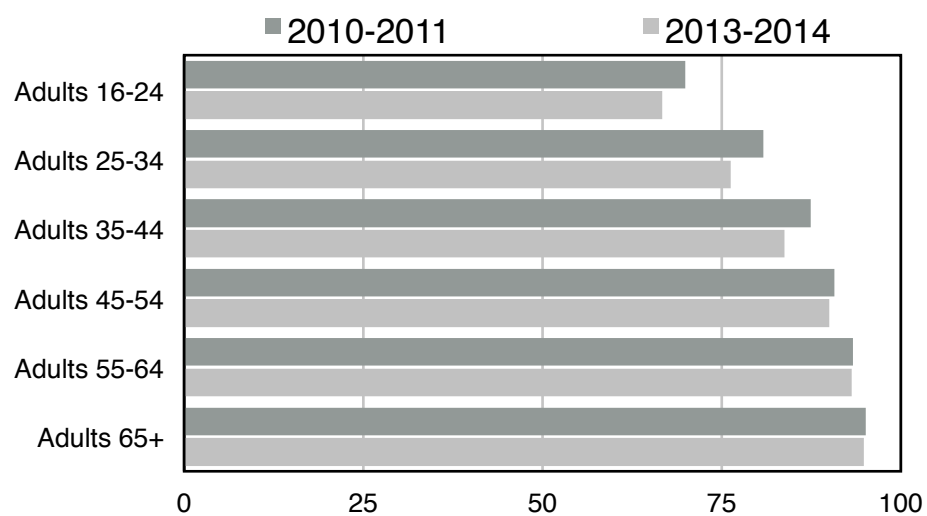
Ytreberg, E (2009), Extended liveness and eventfulness in multi-platform reality formats, *New Media & Society*, 11: 467-485.

Figure 1 – UK television viewing habits by age group



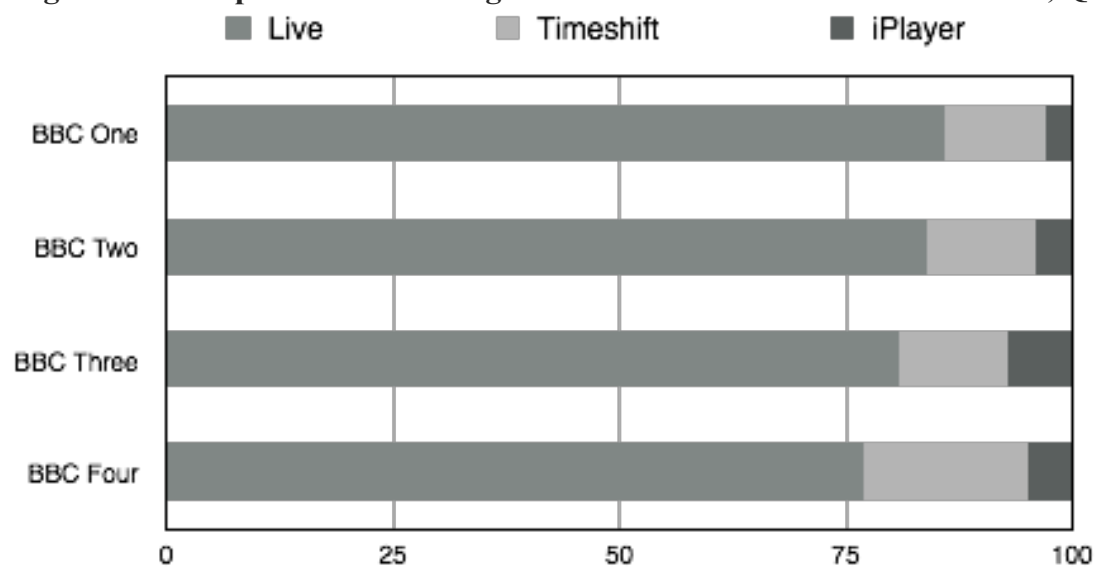
Source: *Communications Market Report 2014* (Ofcom 2014: 106).

Figure 2 – Weekly reach for BBC Television by age group



Source: BARB data in *Service Review of BBC Television* (BBC Trust, 2014: 13).

Figure 3 – Composition of viewing for different BBC Television channels, Q1 2014



Source: BARB data in *Service Review of BBC Television* (BBC Trust, 2014: 11).

Figure 4: BBC Analysis of Expenditure and Per User Costs, 2007-2013

BBC				
Year to 31 March	2007	2009	2011	2013
Expenditure:	(£m)	(£m)	(£m)	(£m)
Online	154	177	194	177
Television & Radio	2,883	2,924	3,010	3,141
Online as % of total BBC spend	5.1%	5.7%	6.1%	5.3%
Cost per user hour:	(p)	(p)	(p)	(p)
BBC One	7.0	6.8	6.4	6.2
BBC Two	7.0	7.5	7.4	8.3
BBC Three	16.0	10.6	7.0	6.6
BBC Four	21.0	16.8	9.8	6.8
Cost per user reached:				
bbc.co.uk	16.0	9.7	8.5	8.4*

Source: Based on figures from BBC Financial Statements for 2006-07, 2008-09, 2010-11 and 2012-13.

*Basis of calculation changed from cost per user hour to cost per browser hour.

¹ This is an ESRC-funded project (ES/J011606/1) entitled 'Multi-platform media and the digital challenge: strategy, distribution and policy'.

² Matthew Postgate was promoted to the Chief Technology Office at the BBC in July 2014.

³ Zai Bennett took a new post as Director of Sky Atlantic at BSkyB in July 2014.