



GUARDIAN MEDIA GROUP RESPONSE TO OFCOM CONSULTATION: A NEW APPROACH TO PUBLIC SERVICE CONTENT IN THE DIGITAL MEDIA AGE

OVERVIEW

GMG welcomes Ofcom's invitation to comment on proposals for the establishment of a Public Service Publisher (PSP)

We are owned by the Scott Trust, and as such we are committed to the maintenance of journalistic freedom, liberal values and have an enduring commitment to promoting citizenship. Therefore we agree with the broad stated purpose of the PSP - to promote the public interest in the new world of digital media.

We recognise the drift of consumer behaviour beyond linear TV into the on-demand, online digital space and see that accelerating as penetration of broadband Internet access increases. And we share Ofcom's concern that the public benefits delivered hitherto from television public service broadcasting should be secured and developed for the future as we move into digital new media world.

We also recognise that in some respects digital interactive participative media may well prove better suited to delivering some public service content – and therefore public benefits – than traditional linear TV. That content might be personalisable, location-sensitive, interactive and offer huge potential for networking and civic engagement.

In this respect we agree with Ofcom that the PSP concept should be centrally concerned with promoting public purposes in the arena of digital interactive participative media and not be primarily focussed on television.

However, whereas the case for intervention in the traditional linear television space is well made – on the basis of market failures that do or would exist without such intervention – it is less so in the case of the new media market place.

Indeed given the apparent vitality of new media markets and the significant amounts of private and public investment in what might be called “Public Interest” online content, the very notion of “Market failure” might appear questionable.

To this end we propose that Ofcom should commission a major piece of market analysis on the rapidly developing digital media market.. This would be akin to that done on the television marketplace as part of their last review of public service broadcasting.

This analysis would cover, market structure, costs, revenues barriers to entry, market dynamics and so on. This would enable a clearer and more focused exposition of any case for public intervention and allow for a more productive debate on the likely consequences of any specific proposed intervention.

Nevertheless the idea of a PSP to sponsor, develop and invest in the creation of a “public realm” in the new media space remains attractive to us and we look forward to contributing in whatever ways we can to the development of the concept and the market analysis necessary to underpin it.

What follows are some more detailed thoughts on issues associated with the PSP concept.

IS THERE EVIDENCE OF MARKET FAILURE?

Anything approaching a definitive answer to this will require the sort of quantification of the digital media market that we have recommended above.

However, as publishers with more than a decade of experience in this new market, and with activity that spans online communities, digital publishing and local TV we feel more than qualified to make a number of observations.

At the time of writing the digital media economy is experiencing something of a boom.

We have one of the healthiest digital advertising markets in the world. According to Group M, last year the digital media took a 17.6% share of the UK's display advertising market - more than any other developed economy (the comparable figure was 7.4% for the US). The PwC figures for the UK digital advertising industry are again expected to show dramatic (50% +) growth.

And given the growth in online advertising and the fact that advertisers are continuously looking for more innovative digital solutions, any digital property with a significant, engaged audience - whether it has a public service remit or otherwise - can be commercialised, and potentially survive without public funding.

Traditional media owners within the UK - ourselves included - are collectively spending tens of millions on digital activity. Increasingly this involves going beyond the flat publishing of text and pictures into social networks, participative media, audio and video.

On Guardian Unlimited for example, our stated priorities are precisely in these areas. Almost all innovation over the last year has focused on participative media. Notable examples include our comment site, Comment is Free (<http://www.guardian.co.uk/commentisfree>) and our user-generated travel site, Been There (<http://travel.guardian.co.uk/beenthere>). Over the next year we will invest heavily in video.

In addition to this, there is considerable entrepreneurial/ venture capitalist activity in the market.

Red Herring Magazine recently listed the 200 most promising technology start ups in Europe, of these, the largest number (45) were located in the UK. These companies are scattered across the broad spectrum of technical innovation - and represent a clear indicator of the general level of health around digital entrepreneurship within the UK.

Some are squarely in the area focused on in Ofcom's consultation document. For example, Mind Candy, the start up responsible for the Alternate Reality Game Perplexcity recently received \$7m funding from Accell Partners and Index Ventures (previous backers of Skype among others).

Further away from our direct experience, in the public, cultural and heritage sectors, there seems to be a variety of sources of funding for institutions with a public service remit to develop their digital presences.

However, we have four observations that challenge this overall picture of health.

- * The lion's share of UK online advertising revenue (estimated to be c. 80%) goes to a handful of US organisations: Google, Yahoo, MSN and AOL. In all cases, these organisations have relatively small UK operations, often focused primarily on sales and marketing. As a result, their investment in UK digital creativity is marginal.
- * The BBC has also achieved a position of dominance in terms of audience attraction for its online activity. However, it is primarily a broadcaster and a significant proportion of its digital efforts (and therefore of the UK digital creative economy) is there to support and enhance BBC programming, rather than pursue a purely digital public service remit. It is notable that the BBC's largest single investment in digital media is currently the iPlayer, effectively a redistribution mechanism for linear programming.
- * As close observers of the cultural and heritage sector we see relatively few organisations (Tate being a notable exception) with a sustained digital strategy that is helping these institutions truly fulfill their digital potential. Anecdotal evidence (as supported by Ofcom's consultation document) is that funding for digital activity is often quite haphazard, and not necessarily the priority of many such organisations.
- * Successful digital properties take time to develop. They require sustained investment over a period of years - often with meagre returns initially. Craigslist, for example, took six years before anyone started to notice it. Wikipedia was only made possible by the continued financial support of the founder Jimmy Wales, before eventually achieving funding stability by acquiring trust status. This is counter to the short-term returns (including audience) that are often expected with traditional media investments.

As a result of these factors, there may be a case for public intervention to ensure there is a steady stream of digital content and services that satisfy a public service remit and that are high quality (being well funded and produced), UK originated, innovative, challenging, engaging and widely available.

WHAT COULD GO WRONG WITH PSP INVESTMENT?

Any intervention in such a rapidly growing market carries a variety of risks.

If poorly executed, a PSP might stifle innovation and entrepreneurial activity, replicate the activities and ambitions of those in the private sector, and simply compete with existing sources of funding for investment in digital activity in the public, cultural and heritage sectors.

Even where the economics of a digital venture might be initially fragile, there are many, such as ourselves, who are willing to take the risk. For example, we have made a pioneering investment in local, community focused television in Manchester with Channel M.

It would be counter-productive if intervention of the type and scale conceived for the PSP were to reduce the private sector's appetite for such innovation and risk taking.

SO HOW SHOULD A PSP OPERATE?

Given the early stage of PSP development, we again offer the following as broad observations based on available information. GMG would be happy to engage with Ofcom and other potential stakeholders to address these and other issues.

In our view any PSP type body should be independent of any existing broadcaster. This we regard as vital if it is truly to develop the potential of the new world beyond broadcast television.

It should not produce its own content or applications but commission from (or invest in) third party operations.

It should seek to work in partnership with other public, private and commercial organisations that currently are (or might choose to become) involved in creating and/or disseminating public interest content.

There should be clear market impact assessments against proposed activities.

Where practically possible, the PSP should operate on an open source basis and encourage others to take up, use and if they so wish commercialise its creations where appropriate.

We imagine that it might, at least in part, operate as a VC style investor in projects and/or companies and organisations - with potential returns measured not in cash but in terms of public purposes served.

It should develop terms of trade that promote its broader “share aware”, open source positioning whilst protecting the rights of commercial and other partners.

HOW MUCH SHOULD IT HAVE TO SPEND?

Various figures have been suggested ranging from £50 million to £300 million.

We acknowledge the need for PSP activity to be well funded. As bandwidth and processing power continue to improve, so will the investment required to provide truly rich, participative experiences.

However, given that the BBC currently reports spending some £100 million on its whole new media effort it seems reasonable to suppose that a PSP spending £300m per annum would simply swamp the market.

And given that this figure appears to originate from the estimated likely deficit in public service television provision it is hard to see how it might be relevant given the new iteration of the PSP as a proposition focussed on digital, interactive participative media. In our estimation, even £50m p.a could make a significant impact on the market.

Equally important as the total annual expenditure is the management of investment.

As we have stated above, successful digital ventures often require steady, sustained investment over a period of years, rather than the dramatic up-front investment that characterised the dot com boom. Many VCs for example now have a maxim that they will not invest in something unless a live product has been delivered for less than \$500K, and this sort of mindset might be suitable for the PSP.

In addition, at various stages in a project's development, a route either for commercialisation or funding from other public sources might become clear. We believe this should always be considered as a complement or alternative to continued PSP funding.

IN SUMMARY

GMG recognises the importance of the “public realm” in the new media space and the significant potential of digital interactive participative media in meeting public interest purposes.

However in order to underpin future debate on the need for and likely consequences of PSP style intervention, GMG proposes that Ofcom commission a major piece of market analysis along the lines of that conducted into the television marketplace as part of the last PSB review.

GMG welcomes this opportunity to contribute to Ofcom’s thinking on the PSP and would be keen to work with Ofcom and other potential stakeholders on further developing the concept and the analysis necessary to underpin its foundation and operations.

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